Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

page

Community: New Efforts to Simplify Customs Rules......1

No Major Changes Foreseen in Agricultural Policy......2

Britain: Plan for Taxation of 'Stock' Dividends.......3

France: Aid Measures - A Slight Shift in Course?......3

Italy: Rome Repays Credit Portion, Spurs Economy......4

Germany: Monopoly Unit Criticizes Cartel Office.......4

Netherlands: Corporation Tax; Fiscal Audits...........5

Switzerland: Defeat for Economic Policy Proposal......6

Euro Company Scene....................................7

Community: New Efforts to Simplify Customs Rules

The European Commission has launched a new drive to cut red tape in intra-Community and third-country trade (*Common Market Reports, Par. 9598*). The program, supported by the national customs administrations and now before the Council of Ministers, provides for the simplification of customs procedures and formalities, including the rules of origin and the common customs tariff. Also included are proposals to reduce administrative interruptions in the flow of trade within the Common Market.

Bringing down administrative barriers to trade still represents a genuine problem for the Community, according to Commissioner Finn Gundelach, even though the classic obstacles to trade, including tariffs, have been eliminated among the original Six and are now being eliminated within the enlarged EC. Gundelach conceded that, in the administrative field, Community regulations have failed to dislodge national requirements, so that an exporter or importer may still have to file two sets of forms, for national and Community customs.

Administrative costs now amount to 7.5% of the value of goods cleared through customs in international trade. A reduction by one percentage point could mean an annual saving of 130 million units of account, Gundelach said, pointing out that a great deal of the existing administrative

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Customs Rules *(contd.)*

burden has been due to the increasing complexities of joint arrangements such as the common agricultural policy, the monetary compensatory payments system, and the great variety of the EEC's international trade agreements.

The Commission sees its program not only in terms of reducing administrative costs to ease trade but also with a view toward competition: in a couple of months it will present proposals to harmonize national rules on matters such as the repayment of customs duties and drawbacks of agricultural levies. Since the national customs administrations are behind the program, Gundelach believes that the Council will act favorably on most of the proposals this year and that half of them could be enacted by mid-1976.

No Big Changes Foreseen in Farm Policy

The Commission has now reaffirmed the basic philosophy that has underlain the common agricultural policy (CAP) since its creation in 1964: price guarantees for the Community's farmers should remain the guiding principle for the future, though there could be some marginal policy improvements.

This reaffirmation is contained in the Commission assessment of CAP that was requested by the Council last October upon Germany's insistence. The German government finds something basically wrong with a policy that is unable to cope with such market imbalances as huge surpluses of butter and beef and shortages of sugar. Also, only a few can understand the workings of CAP because of the thousands of regulations and decisions issued every year. Though the Commission has found no way to simplify CAP, it points out that some of the admitted shortcomings of the policy are due to the lack of other common policies in the monetary and regional development areas. For instance, the introduction in 1969 of compensatory payments to farm exporters was necessary to offset currency fluctuations within the EC as well as toward third countries. A common monetary policy could have avoided this setback.

According to the Commission, the common agricultural policy has not fared so badly when regarded in the perspective of the Treaty's objectives: balancing supply and demand, providing fair farm incomes, stabilizing agricultural markets, and ensuring fair treatment of consumers (Treaty Article 39 - *Common Market Reports, Par. 406.03*) without impairing the "harmonious" development of world trade (Article 110 - *Common Market Reports, Par. 3802*). In 1974, EC farm prices rose by only 10.4% as against 14.5% in the United States and 29% in Japan.

Chances for radical changes in CAP as proposed by the Commission in late '73 are virtually nil because of the Council's reluctance to enact them. The Commission believes that producers should assume some financial responsibility for surpluses (in '73 the proposal had been for

Farm Policy *(contd.)*

cost sharing). Farmers could be asked to contribute to storage charges whenever production exceeded certain quantities. The Commission is also toying with the idea of long-term supply contracts with third countries as a way of containing fraud involving the expanding export rebate system.

Britain: Plan to Make Stock Dividends Taxable

In a written answer in the U.K. House of Commons on March 4, the Chief Secretary of the Treasury stated that the next Budget would include provisions to tax "stock" dividends, i.e., dividends taken in the form of extra shares and in lieu of straightforward cash payment. Shareholders who exercised such an option would henceforth (that is, as of the next financial year) be subject to a higher-rate income tax and to the investment income surcharge on the amount or value of the dividend "grossed up" at the basic rate of tax.

The Secretary noted also that this new levy would not be limited to direct cases such as those described above, where a shareholder elects to take "scrip" in place of a particular cash dividend, but would extend to other "arrangements" that achieve a similar result (notably the issue of a separate class of shares carrying a right to a stock dividend).

The move is seen as a device to counteract a growing trend among shareholders toward recognizing the tax-saving element by exercising an option to accept scrip rather than cash.

France: Aid Measures - A Slight Policy Shift?

Farm subsidies totaling FF 2.7 billion, higher minimum pensions, and increased family allowances have been announced by the French government as measures to shield certain groups of the population against the effects of the official austerity policy and the most recent Community agreement on agricultural prices. Each French farmer, with the exception of those with higher incomes, is to receive a direct FF 1,200 subsidy to offset rising prices of fertilizers, fuels, etc., while cattle farmers are to get "non-slaughter" bonuses for up to 15 head of cattle. As explained by President Giscard d'Estaing, these aids will help maintain French farm incomes this year even though last month's EC decision provides for increases of only 10%. In other actions, old-age pensions as of April 1 will be raised from FF 17.30 to 20 per day, and family allowances - originally to be reviewed on Aug. 1 - will also go up on April 1 (by 7%).

With these steps, the government apparently is preparing to adopt a slightly more reflationary course, particu-

Aid Measures *(contd.)*

larly since the Bank of France has also gotten into the act by lowering the discount rate by a full point to 11%.

In other news, the legal minimum wage (SMIC) was lifted by 2.9% to FF 6.95 per hour as of March 1. Based on a 40-hour week, this corresponds to a monthly wage of FF 1,209. Thus, the SMIC has risen nominally by 28% and in real terms by 13% within a one-year period.

Italy: Rome Repays Credit Portion, Spurs Economy

A major improvement in Italy's balance of payments during the latter half of 1974 has enabled the government to repay 25% of the $2-billion loan obtained from Germany last summer, the Treasury Ministry in Rome has announced. It is no secret, however, that the largest part of the first repayment, effected on March 5, had to come out of the final ($375-million) portion of the International Monetary Fund credit line extended to Rome. Thus, financial observers dismissed the partial repayment to the German Bundesbank as being largely "symbolic" and merely designed to demonstrate Italy's credit worthiness to its international partners.

Earlier, the Aldo Moro cabinet - taking encouragement from the healthier payments balance and higher revenue intake - voted to allocate nearly 1,000 billion lire to boost the economy and to ease some credit restrictions. The newly revised Budget foresees additional revenue of 998 billion lire, which will not be used to narrow the expected 7,373-billion deficit but is to be rechanneled into the economy. About 50% of the money is to be in the form of investment credits to the export industries and for investments in agriculture, education, and scientific research. The remainder would be spent on reducing the public debt, improved pay and bonuses for the police, higher public service pensions, and other measures. To reduce the Post Office deficit, various postal rates will be raised - the standard letter rate, for instance, is to be doubled immediately from 50 to 100 lire and is to increase to 150 lire as of 1976.

Germany: Monopoly Unit Critical of Cartel Office

Germany's Federal Cartel Office, often praised for its zeal in trying to safeguard freedom of competition, has come in for criticism from an unexpected quarter - the newly created Monopoly Commission. In its very first report, the five-member Commission declared that the Cartel Office should restrict itself to enforcing the law and refrain from using its powers to pursue other objectives, such as rolling back price increases. Established under the 1973 amendment to the Cartel Law, which introduced preventive merger controls, the Commission has been given the job of advising the government on concentration of economic power, controls over market-dominating enterprises, and merger

Monopoly Unit *(contd.)*

controls (*Doing Business in Europe, Pars. 23,501; 23,509; 23,510; 23,510D*). Bonn had specifically requested this report to encourage discussion of the Cartel Office's function of checking abusive practices of market-dominating businesses.

With enactment of the 1973 amendment, the government had hoped that the Cartel Office's job would become simpler, but this has not been the case. Interpreting any substantial price increase by a dominating enterprise as an abuse has exposed the Office to charges that it has assumed, or inadvertently been pushed into, the role of a price control agency, which the law did not intend. Its actions against auto makers - including government-controlled Volkswagen - and against drug producers have proved futile, largely because market domination is characterized by the absence of substantial competition or none at all (and no one could seriously say that VW has no competitors). The Monopoly Commission believes that any attempt by the Cartel Office to use its powers as a short-term means of controlling inflation must fail because this must necessarily collide with the long-term objectives of antitrust policies - maintaining effective competition by curbing restraints and allowing structural changes in industry.

Netherlands: Corporate Tax Cut Demanded; Fiscal Audits

Sustained by the business community's sharp criticism of the government's latest 550-million-guilder program to contain unemployment, Holland's Christian Democratic parties have renewed their demands for an immediate reduction of the corporate tax as a way to stimulate investment and thereby create new jobs. Two of the parties, the KVP and the AR, both represented in the Socialist-led cabinet, in fact have now drawn up their own bill providing for a 1% cut of the 48% tax rate, at least for a one-year period. The bill's backers are convinced that a temporary reduction, though slight, would give Dutch industry the necessary psychological encouragement for new investments.

The Christian Democrat move is meeting with resistance from Prime Minister Joop den Uyl and the left-wing members of the cabinet, not only because such a tax cut would mean a revenue loss of some 100 million guilders. The Socialists' main argument against the proposal has been that an across-the-board cut would benefit all companies, including those with comfortable profits.

The corporation tax and the evident efforts of many Dutch companies to keep payments as low as possible are, incidentally, an area of intensive concern to the fiscal authorities. Finance Minister Willem Duisenberg last month told Parliament of his hopes that a major staff expansion of the revenue service's auditing division may help to

Fiscal Audits *(contd.)*

counter the widespread evasion of corporate tax. This year's budget, he said, provides for the addition of 430 agents. Duisenberg's statement was related to parliamentary inquiries on an earlier official report complaining of inadequate government auditing of corporate tax returns. According to that report, a 1971 audit of 59 companies had shown that only 15% of them had correctly declared their earnings, while the remainder had to submit to upward corrections averaging 380%.

Switzerland: Cantons Reject Bern's Bid on Economic Policy

A proposed constitutional amendment that would have given the Swiss central government a more solid legal base for its economic and monetary policy was defeated by national referendum on March 1 and 2 (*Doing Business in Europe, Par. 30,635*). Although the proposal was accepted by popular vote, 543,000 to 485,700, it was rejected by 11 of the country's 22 cantons and thus failed to succeed, because any measure decided by referendum must win both a cantonal and popular majority in order to pass.

The narrow defeat of the proposed amendment has come as an obvious disappointment to the Bern administration, which has long been campaigning for more power to guide the development of the national economy and to control budgetary and monetary policy and external trade. Both the central government and the Swiss National Bank must now continue asking the consent of Parliament and the electorate for virtually all significant measures in the economic realm, mostly by way of temporary "emergency" legislation (*dringliche Bundesbeschlüsse*).

After the referendum setback, the Bundesrat as a next step must decide on seeking approval for extension of existing emergency decrees (involving mainly monetary and credit restrictions and price controls) that were to expire at the end of this year.

Although many observers agree that the government eventually will try to resubmit the proposal in a modified form and at a more opportune time, the fact remains that the cantons once again have succeeded in blocking Bern's bid for broader, more centralized powers.

In earlier developments, wide publicity was given to a statement by the president of the National Bank, Fritz Leutwiler, ruling out a two-tier market for the Swiss franc and suggesting as a possible alternative a participation in the European joint currency float led by the German D-mark. The recent strength of the Swiss franc particularly vis-à-vis the dollar and the D-mark has been of great concern to Switzerland's export industries, which fear for the competitiveness of their products on the world markets (Germany is the most important foreign customer by far). By joining

Bid Rejected *(contd.)*

the float, perhaps initially on an unofficial basis, the Swiss authorities could hope to achieve some stabilization of the franc, Leutwiler said, even though probably not at a level below the current high conversion rates.

EURO COMPANY SCENE

Air France

French Finance Minister Jean-Pierre Fourcade has warned Air France to "buy French" or face a change in management. The state-controlled airline is seeking to replace 52 Caravelles and Boeing 707s with more economical aircraft and is said to favor Boeing 737s and McDonnell Douglas DC-9s. Dismayed by the steady decline in value of the dollar, which is boosting the competitiveness of U.S. manufacturers to the detriment of the French aerospace industry and the payments balance, the government for its part wants Air France to buy Mercure medium-range jets, produced by a European aircraft consortium headed by Dassault-Breguet. Up to now the only customer for Mercure, which reputedly has had its technical problems, has been the French domestic airline Air Inter, which bought 10. Last year Air France had losses of about FF 575 million.

CII/ Honeywell Bull

Final preparations for a merger between France's partly state-owned Cie. Internationale pour l'Informatique (CII), French partner in the tri-nation Unidata computer grouping (with Philips and Siemens), and Honeywell Bull, which is 66% owned by Honeywell, Inc., of Minneapolis, Minn., and 34% by Cie. des Machines Bull of France, are under way, according to reports circulating in Paris. Honeywell Bull is said to have commissioned a major consulting firm to work out a reorganization plan that would pave the way for eventual "rapprochement" or fusion with CII. The state would then become majority owner of the new combine.

Singer/ Tealtronics

The Dutch government has intervened to prevent the shutdown of Singer Co.'s office equipment manufacturing plant at Nijmegen by arranging a deal with Tealtronics of Switzerland, which is to take over the facilities. The electronics firm reportedly will form a new company in which The Hague will take a 40% interest in addition to contributing further operating subsidies. Tealtronics is said to have guaranteed employment for the next three years to 400 of the original Nijmegen work force of 800.

Litton/ Royal Imperial

In related developments, Litton Industries, Inc., of Beverley Hills, Calif., has completed the shutdown of its unprofitable Dutch typewriter component subsidiary Royal Imperial. The closure entailed dismissal of some 370 employees. A buyer for the plant facilities and site reportedly is still being sought.

United Canso/ Deminex

The U.K. government is expected to approve the acquisition of United Canso Oil & Gas (U.K.) by the German consortial company Deminex (whose major shareholder is the Veba-Gelsenberg group). The acquisition is of considerable significance in the light of the government's majority state participation plans for North Sea oil: in effect, Deminex has made a declaration to "negotiate in principle" government participation, thereby becoming the first company to concede this point "voluntarily" (Burmah Oil's acquiescence was prompted by a crisis and a subsequent state rescue operation).

BSN/ Glaverbel

The Boussois Souchon Neuvesel Gervais Danone (BSN) concern of France, which controls Belgium's Glaverbel glass group, has concluded a "historic" agreement with the Belgian government and the two regional and national labor union federations to maintain the present level of employment in the Charleroi region and to cooperate in future with a joint committee made up of state and union representatives. The pact ended the occupation of Glaverbel's Gilly plant by the work force of 600. Among other things, BSN has promised to provide new assignments for Gilly employees affected by the termination of smelting operations there and to establish a compensation fund to pay those for whom substitute positions cannot immediately be found.

ICI

The U.K.'s Imperial Chemical Industries (ICI) has announced that it will sanction capital investment projects amounting to £415 million spread over the next two to three years. Commenting on the program, the company's chairman stressed ICI's view as to Britain's Common Market membership, a continuation of which - he noted - was essential to export expansion. If Britain should withdraw, he implied, then ICI, the country's major exporter, would probably switch more of its investment to the Continent and away from the home market. ICI exports to EC member countries rose by 62% in 1974.

Swiss Credit Bank

Swiss Credit Bank of Zurich has become the last of the country's "big three" banks to announce measures to insure continued Swiss control of its share capital. Following the lead of Union Bank of Switzerland and Swiss Bank Corp., directors of Swiss Credit Bank plan to request shareholder approval of an increase in the bank's capital from SF 550 million to SF 700 million through the issue of 1.1 million registered shares nominally worth SF 100 each. The remaining SF 40 million of the increase, in the form of 400,000 registered shares at SF 100 each, is to be reserved for later use, such as the issue of convertible bonds or warrants. Current shareholders, including foreigners, would be able to subscribe to the new shares on a 1:1 par basis, while resale to foreign buyers could be barred.

Common Market Reports

EUROMARKET NEWS

Issue No. 322 *March 18, 1975*

IN THIS ISSUE

page
Community: Final Consent on Environmental Measures....1
Brussels Seeks Policy on Supply of Raw Materials......2
In Brief: Co-determination, Company Law, Unesco.......2
Denmark: Parliament Backs Economic Program............3
Netherlands: Mass Dismissals Bill; Gas Price Law......4
Germany: Searching for a Raw Materials Concept........5
Britain: Wilson Expected to Recommend 'Staying In'....5
Greece: Minimum Wage, Annual Leave, Work Week.........6
Euro Company Scene....................................6

Community: Approval for Environmental Measures

The Council of Ministers has now formally adopted several measures representing concrete steps toward environmental preservation. The actions, on which basic agreement was reached last November and which are bound to have some impact on national policies and on the EC's international relations, concern the following:
- a resolution on energy and the environment;
- a recommendation on cost allocation and public intervention in ecological matters (the "polluter-pays" principle); and
- confirmation of the Community's readiness to adhere to the Convention for the Prevention of Marine Pollution from Land-based Sources (Paris Convention).

In the resolution the Council affirms the necessity to reconcile the need for sufficient energy supplies with that of environmental protection even in the face of difficulties (for example, those that might arise from the operation of coal-fueled power plants built to minimize the effects of oil embargoes). But also emphasized is the obligation on the part of the Community and the member states to promote the conservation and economical use of existing resources.

Although the recommendation on costs and intervention is not binding on the states (*Common Market Reports, Pars.*

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Environment *(contd.)*

4901 and 4902.31), it nevertheless carries some implications: the Commission certainly can be expected to act if the principles and rules governing application of the polluter-pays principle, the core of the recommendation, are ignored. Brussels would bring action against any state that aided domestic industry in bearing pollution control costs instead of letting industry pay for them, on the premise that such aid is liable to distort competition.

Adherence to the Paris Convention, drawn up under the auspices of the OECD and signed a year ago, means that the Community will take part in the preparation and implementation of programs intended to eliminate or reduce pollution in the northeast Atlantic.

Brussels Seeks Joint Policy on Raw Materials

In a report recently sent to the Council and the European Parliament, the Commission has stressed the need to develop a common policy and strategy to safeguard the Community's supplies of raw materials. The paper outlines the current supply situation for all of western Europe, not just the Common Market, and offers possible EC solutions.

Although Europe always has relied heavily on raw materials imports (the percentages vary from 70 to 100%, depending on the individual countries), such events as the oil crisis, the formation of producer cartels, and last year's United Nations declaration on raw materials exploitation have led to a growing awareness of this dependence. The Commission believes that there is still enough time to formulate and implement a long-term EC policy in this field, particularly since the member states are giving serious thought to taking individual action (*see page 5*). The Commission is convinced that the dimensions of the problem are simply too great for any one member state to handle alone and it favors a determined effort to prevent national efforts from creating additional difficulties.

In its report, the Commission goes to great length in evaluating possible solutions such as recycling, use of alternative resources, prospecting in developing countries, long-term supply contracts, and international agreements. But it is also aware that a lasting solution can be found only in an approach that takes account of the trend toward raw materials processing in producer countries and aims for an increasing share in ownership, profits, and management of foreign-owned mining and manufacturing operations, aid to producer countries, and improved guarantees for foreign investments there.

In Brief...

Except for a few minor points, the Commission's Green Paper concerning participation of labor in corporate management is virtually completed. Essentially an inventory of national rules and views, the document is designed to revive co-determination discussions in Brussels. The issue has

In Brief *(contd.)*

blocked progress on the draft European company statute as well as on the proposed fifth company law directive on the structure of corporations. . . The Council Working Group has completed its second reading of the proposed Council directive on company law coordination for the benefit of shareholders and creditors. Aside from some 100-odd specific problems for which solutions are shaping up, there are several issues of general interest that have yet to be resolved: the overall impact of the proposed directive on employee shares, the relationship to other proposed company law directives and national rules governing groups of companies, and transitional rules for the amendment of a stock corporation's articles of incorporation. . . The Community is prepared to accede to the Unesco-sponsored convention on the (duty-free) importation of educational, scientific, and cultural materials. The Council has authorized the Commission to negotiate the necessary steps.

Denmark: Parties Back Government on Economic Plan

Denmark's Social Democrat minority government, after negotiating the support of four non-socialist Opposition parties, has won parliamentary passage of an economic program that includes a partial incomes freeze for all sections of the population. The agreement, which features some political concessions on the part of the Anker Jörgensen administration, staves off a strike wave that the unions had called for March 22 following the collapse of national collective bargaining talks. The employers had threatened to retaliate with a lockout campaign. The new government could hardly have risked open labor conflicts and economic paralysis that would have caused the 7% unemployment rate to rise even further at a time when bankruptcies and insolvencies have reached unprecedented levels, it was felt.

The four parties that backed the economic plan include the Liberals of Jörgensen's predecessor Poul Hartling. The Hartling cabinet earlier had been forced to quit after its own similar, but more drastic crisis program failed to win a majority. This had led to new elections in January. In negotiating the current package, Jörgensen did not include the far-left parties (the People's Socialists, Left Socialists, and Communists) and Mogens Glistrup's Progress Party, knowing that he would not be able to overcome their opposition.

The agreement extends all existing wage pacts by two years but does not include abolishment of the wage indexation system as the Hartling government had proposed to do. In the future, all employees will receive the same, though somewhat higher "inflation bonuses," a procedure that will avoid percentage adjustments. Considering that the cost-of-living index has already triggered upward adjustments as of March 1 and that further increases are expected in the

Economic Plan *(contd.)*

fall, this year's nominal wage rises should easily top 10%, despite unchanged collective bargaining terms. Next year the lowest wage brackets are to receive raises in two installments. On the other hand, incomes of the professions and self-employed will be frozen through a toughened price law, a stop on profits at current levels, and a limit on dividend payments.

The purpose of the agreement is to return to Danish business and industry - which by international comparison bears an extremely heavy wage burden - its competitive standing, at least in part, reducing the number of company failures and the national payments and trade deficits.

Netherlands: Draft Bill on Mass Layoffs; Gas Price Law

The Dutch Ministry of Social Affairs reportedly is preparing draft legislation that would make it more difficult for companies to carry out mass dismissals. This law would be regarded by the government as an additional means of containing unemployment. According to reports from The Hague, the legislation would require employers to give local labor exchange offices at least three months' notice if layoffs of 20 or more employees were planned. Another obligation would be to negotiate projected dismissals in advance with the company works council as well as with the unions involved.

The labor authorities, it was reported, would have to let at least one month elapse before processing employers' applications for authorization of mass dismissals. In the interim they would have to investigate the possibility of preventing these layoffs entirely or at least of curtailing the period of unemployment for the workers affected. Also, in the case of ailing enterprises, the public authorities would be called upon to determine whether direct financial assistance to the employer would ensure continued employment for the work force.

In other developments, the European Commission has informed the Dutch government that it has no direct legal objections to the provisions of Holland's new Natural Gas Price Law. However, in a letter to The Hague, Brussels warned of the possibility that violations of Community competition rules could result during its application. According to EC legal experts, the law could lead to quantitative restrictions (if minimum prices were changed too often) and to price discrimination. Negative effects on a common energy policy could not be discounted either. The Commission asked to be notified two months in advance of each minimum price change, during which time it would ascertain whether or not the planned actions conform to EC rules.

Germany: Search for Raw Materials Concept

Despite the Community's warning about individual state actions on the securing of raw materials sources, the German government last year had entrusted an interministerial group with the task of searching for ways to minimize the danger of a sudden embargo or drastic price increases for industrial raw materials. The group has now submitted a preliminary report and has made several general recommendations (details were to be included in a subsequent document). The report proposes essentially two approaches: a change in the conditions for granting government guarantees to importers of raw materials and improvement of general trade conditions in this area. The business community had hoped for somewhat more substantial aids: in addition to the guarantees, it had counted on generous tax advantages for stockpiling, easier credit terms for financing the opening of new supply sources in developing countries, and tax incentives for the research and development of recycling methods.

Though the Schmidt administration is not expected to make up its mind about what action to take until later this year, several concepts are being evaluated. A statutory solution making the stockpiling of specific quantities mandatory (similar to the system applying to oil companies and importers) would have no budgetary consequences but would bring up the constitutional problem of equality. Stockpiling by the government, as is practiced in the United States, would place an almost prohibitive burden on Bonn's budget. A solution entailing only tax savings along the lines of Section 51 of the Income Tax Law (which allows the taxpayer to reduce taxable income by forming a reserve to absorb price increases for imports) would be less costly to the treasury and more consistent with the free-enterprise philosophy. A system of contracts between the government and private firms that provides for credit aids plus sharing of storage costs had been discussed as early as 1970 but was abandoned for budgetary reasons, which carry even more weight now than then.

Britain: Wilson Expected to Recommend 'Staying In'

After returning from the Dublin summit meeting with "an improvement" on the original terms of U.K. membership in the European Community, Prime Minister Harold Wilson was expected to make a positive "stay-in" recommendation regarding the June referendum. Following the assertion that every renegotiation issue contained in the Labour Party's preelection manifesto had been covered, it was virtually inconceivable that Wilson would report that his year of "renegotiation" had not procured definite advantages for Britain beyond those inherent in the country's original membership.

Aside from this, the other major issue that Britain had "required" to be settled in Dublin concerned U.K. con-

'Staying In' *(contd.)*

tributions to the Community Budget. The formula eventually accepted by the two sides was that a maximum of 250 million units of account would be refunded from the Budget when any one country paid an "unfair share" compared with its "economic weight" in the EC. The member states nevertheless would have to contribute toward their own possible reimbursement in proportion to their contributions to the Budget as a whole (some 17% in the U.K.'s case). At an earlier stage in the negotiations, Britain had rejected a proposal that a state could qualify for a refund only if it showed a balance-of-payments deficit. Largely at France's insistence, a compromise was reached to make refunds apply to the total Budget contribution when a member state runs a current-account deficit but to limit them to value-added tax contributions as soon as that account moves into a surplus.

Greece: Athens Okays Wage Contract, 'Frees' Drachma

The Greek government has approved a "national work tariff agreement" regulating the minimum wage, annual leave, and the work week. The contract provides for a 12% raise in minimum pay as of March 1 and another 8% raise on Aug. 1. As of the latter date, the minimum wage for an 8-hour day will be 219 drachmas for male workers and 190 for females. Minimum monthly salaries for white-collar employees will then range from 3,050 to 4,550 drachmas. Women's pay (wages and salaries) is to be raised in steps to equal that of men by March 1978.

By 1977, annual leave will be increased to between 18 and 26 days. Effective July 1 this year, the work week will encompass 45 hours (actually, the present 48-hour week will be retained, but the extra three hours will be paid on an overtime basis). Also as of July 1, the five-day work week may be introduced on a trial basis, though at the discretion of the employers.

In other news, the government has decided to detach the exchange rate of the drachma from the U.S. dollar as of March 8 (the rate had been fixed at 30 drachmas per dollar since 1953). The Ministry of Planning and Coordination declared that this action does not amount to a devaluation or revaluation of the national currency but merely permits Greece to follow an independent policy in accordance with the national interest and the international monetary situation.

EURO COMPANY SCENE

Empain-Schneider/ De Wendel/ Marine-Firminy

Subject to various conditions, the European Commission has approved the plan for reorganization of France's Marine-Firminy steel and nuclear engineering holding put forward by the Franco-Belgian Empain-Schneider group and De Wendel

Marine-Firminy *(contd.)*

steel of France. According to the proposals, Schneider will sell off some 12% of its 32% interest in Marine-Firminy to De Wendel's central holding Cie. Lorraine Industrielle et Financière (CLIF). A new CLIF-Marine holding company, controlled by De Wendel and in which Schneider would have a 10% stake, would then be formed to include the steel interests of both De Wendel and Marine-Firminy. The Schneider group would run the Creusot-Loire nuclear offshoot, however. The Commission stipulated that the new combine must divest itself of certain French packaging interests and could not acquire more than 10% of any other steel company without Brussels' prior authorization. Management or personnel links with other steel firms would not be permitted. In addition, the Commission reserved its right to intervene in any mergers arising from the CLIF-Marine fusion in other than the iron and steel industry sector.

BICC/ Standard Telephone/ Pirelli/ GEC

Four major U.K. manufacturing groups - British Insulated Callender's Cables, Standard Telephone & Cables, Pirelli General, and GEC affiliate General Electric Co. - are under direct investigation by the Director-General of Fair Trading. The probe follows indications uncovered in the course of a routine Monopolies Commission reference that they have been operating an unregistered (and therefore illegal) price ring in respect of cable supply contracts with certain U.K. state-owned industries, notably the Post Office. The companies face the possibility of a formal request for the Restrictive Trade Practices Court to issue an order to register.

Renault

A major confrontation between France's Régie Renault SA, its employees, and the leading French labor unions looms larger than ever, now that the auto maker has put some 35,000 of its 100,000 workers on short-time schedules. According to Renault, this step was taken as a result of wildcat strikes that had blocked production at various plants during the past weeks. Labor dissatisfaction is said to have grown despite the company's agreement to a pay increase for some 3,600 employees at the Paris Boulogne-Billancourt plant last month and a promise to open new general wage negotiations by the end of April.

VW/ Audi NSU

The likelihood that Volkswagenwerk AG will decide to shut down its Audi NSU plant at Neckarsulm has unleashed waves of protest from the local citizenry, the unions, and members of the Baden-Württemberg state government and the German parliament. Should the ax fall, some 10,000 workers stand to lose their jobs, jeopardizing the economy of the entire region. Although a decision was not expected before April 25, when the Volkswagen supervisory board is to meet again, the company already seems committed to the step in

VW/Audi *(contd.)*

view of its continuing sales slump and the need to eliminate all nonessential operations. VW acquired Audi NSU in 1969 but has not been able to make it profitable, especially in recent months.

INI/ Sperry Rand/ Fujitsu

The Spanish government's National Institute of Industry (INI) reportedly has signed agreements for the manufacture of computers in Spain with Sperry Rand Corp. of the United States and Fujitsu of Japan. Together with a group of Spanish banks, Sperry Univac has contracted to set up a company that will build large and medium-sized computers and peripheral equipment, while Fujitsu, INI, and the Spanish telephone utility CTNE are to form a joint venture to produce and market computer equipment and systems. The value and terms of the new contracts have not been disclosed.

Veba/ Gulf

Germany's partly state-owned Veba AG, which includes the Gelsenberg oil group, and Gulf Oil Corp. of Pittsburgh, Pa., have signed a letter of intent covering cooperation in the international energy sector. Under discussion are participation by Veba in Gulf's European activities in the areas of crude oil exploration and production, refining, distribution, and petrochemicals, as well as collaboration in the search for other hydrocarbons and minerals. The firms are also contemplating licensing and know-how agreements. The move is expected to benefit Veba especially in terms of access to major new sources of crude oil.

AAF Greece

American Air Filter Co., Inc., of Louisville, Ky., has announced it is forming a new Greek subsidiary, AAF-Environmental Control EPE, in Athens. The company will market AAF air filter and air pollution control products and systems in Greece.

Hoechst/ Rochas

German chemicals producer Hoechst AG is acquiring one of France's leading perfume manufacturers, Parfum Rochas SA of Paris. Roussel-Uclaf SA, in which Hoechst gained a majority participation last year, is to take 51% of Rochas' capital, while the rest will go to Sté. Centrale Roussel Nobel, Hoechst's French holding company. Details of the transaction, for which Roussel-Uclaf and Rochas had concluded a preliminary agreement in 1970, have not been revealed.

Morgan/ Cofiber

J.P. Morgan Overseas Capital Corp., a subsidiary of Morgan Guaranty Trust Co. of New York, has purchased 50% of Cofiber SA of Madrid, a merchant banking firm. The sale was made by a company associated with the Bemberg group for an unspecified sum. The remaining 50% of Cofiber will continue to be held by Sociedad Iberica de Cartera SA of Spain, a holding company controlled by Spanish investors.

Common Market Reports

EUROMARKET NEWS

Issue No. 323 *Report No. 261, March 25, 1975*

IN THIS ISSUE

page
Community: Partners Fear Further British Demands......1
Central Bankers Reject 'Contact Committee' Plan.......2
In Brief: Turnover Tax, Procurement, Regional Fund....2
France: Relief Action; Short-time Compensation........3
Germany: Business Urged to Exploit Investment Aids....4
Britain: Government Publishes Sex Equality Bill.......4
Portugal: Nationalization Drive Worries Foreigners....5
Finland: Price Freeze; 15% Surcharge on Imports.......6
Euro Company Scene....................................7

Community: Partners Fear More Demands by Britain

The circumstances of the Dublin summit meeting, which had been hailed as a 100% success for Britain by Prime Minister Harold Wilson, are still leaving a bad aftertaste at Community headquarters and in the other national capitals. Although no one is actually saying so, EC and member state officials had viewed the U.K. demand for "renegotiation" of accession terms as a form of blackmail. Britain's partners, primarily Germany and France, had relented only because departure by the U.K. could have serious consequences for the Community and repercussions for the NATO alliance as well. There are many who fear that a hard-pressed British government might try to extract further concessions at a later date, although Wilson had claimed that - with the changed contribution system and the concession on extended duty-free butter imports from New Zealand - the demands of his administration had been met. An imponderable factor is the outcome of the June EC referendum in Britain, even though Wilson's Cabinet has "collectively" recommended that the country remain in Europe.

The Dublin formula has yet to be put into a formal agreement, which the Council of Ministers is expected to draw up at an upcoming regular meeting in Brussels.

This issue is in two parts, consisting of 120 pages. This is Part I.

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Central Banks Veto 'Contact' Unit Plan

The European Commission's proposal to coordinate national banking rules has run into a major roadblock with the decision by the chairmen of the nine central banks to reject the establishment of a "contact committee" made up of officials of the national banking control authorities and the EC executive (*Common Market Reports, Par. 9702*). Apart from providing for the supervision of solvency and liquidity margins of credit institutions, the proposed directive was to be no more than an outline for a later course of action. Here, the Commission had counted on the committee as a means of fostering further coordination to achieve a maximum of cooperation with the national banking control authorities. The committee was to have helped in specifying the methods, priorities, and timetable for any necessary future action. It was assumed in Brussels that, after adoption of the directive, the Commission would have asked the committee to discuss placing limits on foreign exchange speculation by banks along the lines of the German rules decreed in the wake of the Herstatt bank collapse.

In opposing the creation of the contact committee, the central bank chairmen stated that there is no need to establish a Community institution to foster coordination. They prefer to keep the banking controls in their own hands, arguing that the central banks already have achieved a great measure of coordination in the areas the proposal covers. Observers believe that in view of the powerful position of the central bankers, the Commission might consider withdrawing its proposal. The draft directive got off to a poor start anyway, since the two preceding proposals were far too comprehensive to have had a chance of adoption by the Council.

In Brief...

The Commission is determined, if necessary, to take the Belgian government to the European Court of Justice for allegedly having violated EEC rules by charging value-added tax on secondhand car transfers between private individuals. These transactions are exempted from VAT by Articles 2 and 4 of the second draft directive on turnover tax harmonization. . . Discussions on the 1973 proposal to liberalize rules governing public supply contracts are expected to start up again when the Commission submits a compromise to the Council working group. The rules on public works contracts have already been liberalized considerably. Different views on the extent to which third-country products should benefit from the liberalization had stalled progress on the measure for more than a year. . . U.K. government officials object to even the limited accounting method for the Regional Development Fund. A once-and-for-all settlement might be reached through the Court of Justice, whose word could be more acceptable to London than that of the Commission. The compromise for limited ac-

In Brief *(contd.)*

counting was written into the Council minutes but not into the draft regulation.

France: Relief Action; Short-time Compensation

The French employers and unions have both reacted coolly to the latest government measures designed to stimulate investment, prop up the slumping construction sector, and alleviate unemployment. The critics allege that the measures fail to mark a departure from the administration's restrictive economic policy, which - they charge - should alone be blamed for high unemployment and the mounting number of workers on short-time schedules. The Paris-based OECD, in its latest survey on France, also advocates "a moderate and gradual relaxation" of the strict stability policy, though to a far lesser extent than that demanded by domestic industry and labor. (The OECD report basically takes a pessimistic view of the probable performance of the French economy this year and forecasts a maximum growth rate of only 2.5-3%, well below past averages.)

The relief measures unveiled by Finance Minister Jean-Pierre Fourcade on March 17 include full reinstatement as of April 1 of the standard depreciation allowance on purchases of capital equipment. This allowance had been drastically curtailed last June, and the restriction was to have been applied for a whole year, i.e., until July 1, 1975. The premature return to the previous depreciation terms is expected to reduce state revenue by some FF 300 million this year. Costlier will be two other major actions: the expansion of loan facilities to export industries from FF 4 to 7 billion this year and special aids to the construction and housing sectors totaling FF 850 million in lost revenue. About FF 550 million alone is to be earmarked for the erection of 25,000 social housing units, and an additional 300 million will be necessary as home financing conditions are relaxed. For industry, the government intends to withdraw credit curbs now applying to certain capital investments.

In other news, the administration has declared its basic willingness to upgrade compensation for employees placed on short-time schedules (now estimated to number 500,000). Compensation paid for hours lost would be raised by 19% to FF 2.50 plus family allowances, if any. This would mean that a married worker with one child would receive FF 4.18 for each hour he was not allowed to work. The government has limited its offer to maximum monthly earnings of FF 2,500 and to 470 hours lost per year (so far 320), subject to approval by both the industry federation and the unions. The employers previously had agreed to supplement the state aid with FF 3.50 (so far 3.00), which means that an unmarried employee would be receiving combined compensation of FF 6 per lost hour. The unions are

Compensation *(contd.)*

virtually unanimous in their opposition to these offers, primarily because the legal minimum wage now stands at FF 6.95. The employers, on the other hand, fear that an increase in the legal minimum would completely blur the difference between unemployment and short-time work.

Germany: Business Urged to Exploit Investment Aid

The German government has been urging businesses to take advantage of the investment grant program introduced last December (*Doing Business in Europe, Par. 30,757*) and not to miss the deadlines for application. So far, the program has not perceptibly stimulated the inclination of businesses to invest and take advantage of the premium. The system provides for a 7.5% premium on investments in fixed and movable assets that are ordered after Nov. 30, 1974, and before June 30, 1975.

In a 25-page pamphlet the government points out the various deadlines that taxpayers must observe in order to qualify for the grant. There are two basic deadline categories - one concerning the ordering of new qualifying assets and the other for filing applications for the grant. Since the grant is given after the end of the taxable year, taxpayers who purchased or ordered assets in December must submit the grant application form by March 31. A business that made a down payment when placing a December order for large machinery to be delivered later this year must also file an application by March 31 if it wants to take advantage of the pro-rata grant. The same applies where the investor manufactures the asset in his own plant. Here, the grant would be based on the manufacturing costs incurred during December '74.

A business will qualify for the grant only if the asset has been ordered by June 30; March 31, 1976, '77, '78, and '79, are the deadlines for filing grant applications for assets completed or delivered in 1975, '76, '77, and '78, respectively.

Britain: Draft Law on Equal Chances for Women

The U.K. government's Sex Discrimination Bill published on March 12 is designed to put an end to discrimination and "victimization" of women on grounds of sex or marriage. The Bill, which should pass into law this fall, echoes with some amendments the proposals set out in the White Paper of Sept. 6, 1974 (*Doing Business in Europe, Par. 30,735*). Generally, it aims at creating equality of opportunity based on an individual's ability and merit. In practical terms, the main force of the proposed legislation is to establish an Equal Opportunities Commission that would have powers (analogous to those of the existing Race Relations Board) to investigate, bring suits, order redress, and stamp out "discriminatory advertising."

Equal Chances *(contd.)*

In the White Paper, the government had maintained that sex discrimination was "too pervasive and entrenched" to be dealt with without proper statutory authority. It is clear, however, that the proposed legislation will, in itself, contribute to only a minor extent to any changes. There are many ambiguous situations that will have to be clarified through "test cases" in the courts before the real impact of the proposals is felt. This applies in particular to situations where it can be shown that a person's sex is in effect "a genuine occupational qualification." Under the terms of the Bill, however, individuals will have recourse to the courts for damages in such situations where discrimination is alleged (borrowing money, access to consumer services, house purchase and mortgages, etc.) or to an industrial tribunal where employment is concerned.

One of the significant changes from the White Paper relates to exemptions on grounds of company size: the Bill provides for exemption in the case of companies with five employees (original proposal, 10) and of partnerships with five persons (originally, eight). It is the larger company with a predominantly male or female labor force that will, however, be most seriously affected. Except in narrowly defined situations, for example, a "traditional" employer of female labor would no longer be permitted to gear his recruitment program to women or refuse a man's application purely on the grounds of sex. Similarly, employers of "male work forces" would no longer be allowed to block women from individual jobs, promotion, or specialized career training. Inevitably, however, employers are expected to devise methods of circumventing some of the recruitment restrictions: although this would be, strictly speaking, illegal, the lines of demarcation would be difficult, if not impossible, to draw.

Portugal: Nationalization Drive Worries Foreigners

The nationalization of Portugal's banking and insurance sector and the likelihood of further acts of seizure in other industries have not only had a dramatic impact on the domestic economic scene but have also led to considerable apprehension on the part of foreign investors and business partners within and outside the country. These could not be dispelled by "business as usual" assurances wired abroad by the newly nationalized Portuguese banks, since the state takeover also covered foreign-owned banking operations. Nor did the foreign-held insurers (which are said to account for about 10% of the domestic market) take much hope from official promises that they would not suffer the same fate as the banks - they were not immediately told what would happen to their participations in domestic insurance companies. The latter initially had to operate without their deposed top managements pending the appointment of government-selected commissions.

Takeovers *(contd.)*

These drastic measures have been billed as merely the first step of an "antimonopolistic policy" by the head of the High Council of the Revolution, Premier Vasco Gonçalves, who predicted that an acceleration of the land reform would be among the new government's next major economic measures. This would mean the expropriation of the country's big private landowners, who are being held responsible for having kept large sections of the rural population in a state of poverty and dependence.

The fervor of the left-leaning military regime in Lisbon must be seen, of course, against the background of Portugal's peculiar political and economic structure. The takeovers automatically ensure the state of a firm grip on much of domestic industry, which has been controlled via the major banking and insurance groups by wealthy family dynasties, the privileged "One Hundred." Among them, for instance, is the Espirito Santo clan which, through the identically named bank, oversees some 200 major companies. Another is the Melo family, whose "Companhia da Uniao Fabril" holding accounts for 7-8% of Portugal's total industrial turnover and forms the roof for 250 or so companies.

Following the takeover by the High Council, foreign companies in Portugal reported that they had not been subjected to any pressures by the authorities but that the attitude of the labor unions and their representatives had become more militant and their demands more insistent. By most accounts, the least friction has been experienced by foreign subsidiaries or branches managed by Portuguese personnel. At the same time, several multinationals reportedly have withdrawn plans for large investment projects.

Finland: Price Freeze; 15% Surcharge on Imports

The Finnish government on March 12 introduced a blanket price freeze and imposed a 15% levy on all imports. The new restrictions are to prevail until the government obtains parliamentary authorization for imposition of a 30% import cash deposit to be held by the Bank of Finland for a six-month period. The administration was hopeful of having that authorization within two weeks, but others doubted whether the draft law would get the required five-sixths majority in Parliament. In that case, the 15%, non-interest surcharge (as well as the price stop) would apply for at least one year.

Helsinki's action immediately followed the announcement of a record trade deficit of 1.73 billion finmarks for the January-February period. Last year the trade gap had risen to about 5 billion finmarks from 2 billion in '73, and it would double this year should the current trend continue. The government did not immediately list those imports expected to be exempted from the surcharge (fuels and

Surcharge *(contd.)*

other essentials) nor did it reveal what other steps it plans in order to consolidate the country's trade and payments balances.

EURO COMPANY SCENE

Commission/ Hoffmann-La Roche

Both the European Commission and Hoffmann-La Roche have basically confirmed an Italian newspaper story reporting that a former senior official of the Swiss drug manufacturer had supplied the antitrust division of the Commission with confidential information on the company's pricing of vitamin preparations. The ex-employee, identified as Stanley Adams, was arrested by Swiss authorities in December 1974 and is now being held in Basel on suspicion of having engaged in industrial espionage. Adams, said to be a British citizen, is alleged to have stolen the documents prior to termination of his employment and to have passed them to Brussels in September '74. The Commission reportedly then asked and received from Adams supplemental information, on the basis of which it initiated a formal investigation against Hoffmann-La Roche.

Swiss business sources regard the case as a serious blow against Hoffmann-La Roche, which is involved in legal proceedings both at EC and national levels over its pricing policies. On the other hand, the Commission's part in the Adams incident also has raised questions, at least as to its propriety. Corriere della Sera, the Italian daily that uncovered the case, reported that some members of the Commission's antitrust division could face arrest if they entered Switzerland.

Badische Stahlwerke

The question of extending co-determination in the German coal, iron, and steel industries to companies not covered by existing regulations is at issue in a "model" case pending before a Mannheim district court. National officers of the German Labor Union Federation (DGB) and other labor representatives are seeking to win co-determination rights for the workers at Badische Stahlwerke AG, a subsidiary of Germany's Korf steel group. The company was set up in 1968 and consequently not included in the list of firms named in the Coal, Iron, and Steel Industry Co-determination Law of 1951 (*Montanmitbestimmungsgesetz*). The court must now determine the intention of this legislation: whether the original list of companies should be regarded as "exhaustive" or merely as "exemplary" for all coal, iron, and steel enterprises. In the latter case, criteria applied to the enumerated firms, such as the type of production, legal form, size of work force (over 1,000), could also be applied to companies established subsequently. A decision is not anticipated until summer.

Montedison

Eugenio Cefis, chairman of Italy's Montedison SpA chemicals group since 1972, has tendered his resignation, which was not expected to be accepted by the board of directors. He explained that he could not simultaneously represent the interests of the company and those of its major shareholders and chief competitors - i.e., the state-owned ENI energy group and Nino Rovelli's Società Italiana Resine (SIR). Since the formation of the Montedison controlling syndicate two years ago, the composition and function of this board have been a steady source of frustration for former ENI boss Cefis. Private and public shareholder blocks are equally balanced in the syndicate, which accounts for 37.4% of Montedison capital, with the deciding vote in case of deadlock going to the state credit institute IMI. One issue here has involved the suspicion that ENI and SIR are secretly the owners of Nicofico and Euramerica, two private trust companies that control 57 million Montedison shares. Then, last fall, when unidentified foreign buyers acquired about 100 million shares (11-12%) in Montedison, speculation likewise centered on ENI, SIR, or both. To further complicate matters, IMI is known to be one of SIR's principal backers. Cefis' latest move is accordingly seen as an attempt to force the government to clarify the Montedison ownership question and define the company's role within the Italian chemicals sector, where domestic firms are hotly vying with one another for state investment subsidies.

Upper Clyde Shipbuilders

In a postscript to the 1972 collapse of Upper Clyde Shipbuilders (UCS), U.K. Secretary for Industry Anthony Wedgwood Benn has informed the company's creditors - some 2,500 firms and individuals - that the government is not prepared to meet the company's debts and will disclaim both "legal and moral" responsibility (although it holds a 48% stake in UCS). The creditors charge that they have continued to supply the company primarily because successive ministers in both Labour and Conservative governments gave "assurances" about the yard's continued support by the state and its eventual recovery. Aside from being an embarrassment to both parties, the Secretary's position is also of significance in the light of the present government's plans to take control of nearly all of the U.K. shipbuilding firms.

Philips/ Signetics

Philips of the Netherlands is negotiating a $43.8-million deal to acquire Signetics Corp. of Sunnyvale, Calif., a 70% subsidiary of Corning Glass Works. The takeover of Signetics, reportedly the fifth-largest U.S. semiconductor producer, would place Philips among the European and American leaders in this sector. Details of the sale have yet to be worked out and approved by the principals.

Common Market Reports

EUROMARKET NEWS

Issue No. 324 *April 1, 1975*

IN THIS ISSUE

page

Community: Parliament on Workers' Rights Proposal.....1

Legal Questions in Hoffmann-La Roche 'Spy' Affair.....2

In Brief: Pharmaceuticals, Workweek, Annual Leave.....3

Italy: Rome Drops Deposit Rule, Eases Credit..........3

Britain: Community Land Bill; Nationalization.........4

Continued Labour Controversy over EC Membership.......5

Belgium: Steps against Tax Avoidance; Jobs Program....5

Germany: Work to Resume on Supervisory Boards Bill....6

Euro Company Scene....................................7

Community: Workers' Rights Proposal Backed by Parliament

The European Parliament in principle has come out in favor of the Commission's draft directive to harmonize member state laws on the retention of employees' rights in case of mergers, takeovers, and amalgamations (*Common Market Reports, Pars. 9657 and 9684*). Parliament agrees with the Commission that harmonization is necessary because of gaps in national rules on the preservation of workers' rights. Particularly welcome is the principle of automatic transfer of "existing employment relationships" to the new owner and of consultation with workers' representatives prior to any change of ownership. However, while it generally endorses Brussels' aims, the parliament has doubts whether the means of achieving them are sufficient. Thus, the Commission is urged to prepare a directive aimed at harmonizing national rules on individual dismissals in addition to the one on mass layoffs adopted by the Council last year.

Most of the criticism, voiced by the parliament's Legal and Social Affairs and Employment Committees, centers on the proposal's lack of definitions vital for harmonization and, subsequently, for enforcement. Sometimes the proposal simply refers to national legislation, although such legislation either does not exist or is open to various interpretations. For instance, Italian and German laws differ as to what constitutes "pressing business reasons"

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Workers' Rights *(contd.)*

(Article 4 of the draft directive would prohibit the acquiring company from laying off employees of the acquired company, except for pressing business reasons). Parliament recommends an amendment to the effect that where no national rules exist in this context, "pressing business reasons" should be determined during negotiations between workers' representatives and the present and future owners of the enterprise. The draft also lacks a definition of "unfair dismissal" and contains no practical guidelines the member state lawmakers could use for transforming the concepts of the directive into national law.

Legal Questions in EC-Swiss 'Spy' Case

The Hoffmann-La Roche "industrial espionage" affair has raised so many intricate legal problems that the European Commission has chosen to refrain from commenting beyond confirming that it had received information from a former executive of the Swiss drug maker and is investigating possible violations of competition rules with respect to pricing certain vitamins used in animal feed. Still, antitrust lawyers in Brussels see several major issues in the case, which has no direct bearing on the Commission's investigations of Hoffmann-La Roche's pricing policies for the tranquilizers Librium and Valium.

One of these issues involves interpretation and application of the 1972 Swiss-EEC Free Trade Agreement (*Doing Business in Europe, Par. 29,117*). Among other things, th agreement bans acts undermining freedom of competition through restraints, abuse of a market-dominating position, and state aids apt to hamper Swiss-EC trade. The Swiss-EC "Mixed Committee," made up of an equal number of officials representing both partners, plays a major role in enforcement. If it decides unanimously that the market behavior of the Swiss company is not in keeping with the agreement, Switzerland would be required to take remedial steps. Otherwise, the Community could take measures of its own, one of which could be revocation of part or all of the tariff concessions for Swiss products. To the Swiss in particular, another issue concerns the way the Commission has obtained the evidence. If it is true, as Commission officials say, that the former executive forwarded the information on his own and without any prodding or encouragement from Brussels' antitrust division, this too could have a bearing on any future action by the Commission and a possible challenge in the Court of Justice.

Meanwhile, the Commission has scheduled a post-Easter meeting of the Mixed Committee, without publishing an agenda for it. There was speculation that Brussels already has enough evidence to move against Hoffmann-La Roche in the matter of Librium and Valium pricing. But it was also thought that the meeting could be confined to discussing the case of the company "spy" and the alleged Swiss threats

'Spy' Case *(contd.)*

to detain certain Commission officials should they try to enter Switzerland. In the opinion of one Commission lawyer, a person who transmits to a foreign official agency confidential information about company activities that turn out to be in violation of the Swiss-EC agreement should not be arrested and brought to trial in the first place. Swiss authorities in Bern, for their part, have declared that the agreement does not interfere with the application of Swiss law in case of industrial espionage on behalf of a foreign agency.

In Brief...

Now that Denmark has given its consent, formal adoption of the two directives on pharmaceuticals is expected at the end of this month. By then, the language and legal experts of the Council of Ministers will have completed editorial polishing of the six versions. No predictions are as yet possible regarding the two directives on physicians because of continuing Danish reservations (the Council had reached basic agreement on these directives in February). . . Before expiration of its Council presidency on June 30, Ireland wants the Council to adopt the recommendations on the 40-hour week and four-week annual leave. Although they would be nonbinding on member states, both measures would have considerable impact on labor-management relations throughout the EC.

Italy: Rome Drops Deposit Rule, Eases Credit

The Italian business community has taken encouragement from the government's decision to abolish entirely the controversial import deposit system that had been in force since May 1974. Previously, the percentage of the import value to be deposited interest-free for a six-month period already had been successively lowered from 50 to below 30, and farm products had been exempt as of last fall. Abolishment of the entire system became effective on March 24 as part of a reflationary economic package approved by the government's credit and savings committee. In itself, the measure was expected to improve banking liquidity to the tune of about 1,200 billion lire over the next six months.

In doing away with the import deposit requirement, the government and the monetary authorities took account of the consistent improvement of Italy's payments balance and the accumulation of an actual surplus in the non-oil trade balance over the last few months. This recovery, however, has coincided with an economic slump, compelling Rome to go a step further by removing the 15% limit on bank credit expansion and by "recommending" that the commercial banks lower their loan interest rates. (Treasury Minister Emilio Colombo did emphasize, though, that credit expansion would be held to the limits agreed upon with the EC and the International Monetary Fund.) Both the import deposit abolishment and the relaxation of the credit squeeze had been

Deposit Rule *(contd.)*

more or less anticipated in reaction to persistent business complaints. In fact, the abnormally high interest rate levels - the prime rate still stood at 17.25% as of mid-March - had exposed the banks to industry charges of "profit-mongering."

Britain: Community Land Bill; Nationalization

Because of the stormy developments on so many other domestic fronts, one of the most significant and controversial pieces of legislation introduced to date by Britain's Labour government has received remarkably little attention. The spectacular aspect of the Community Land Bill (House of Commons Bill 108) is that it is designed to curb and eliminate property speculation by transferring to the Exchequer any profits deriving from change of land use for development. Should the legislation be enacted in its original form (which many doubt), local authorities would be under a statutory obligation to purchase at its "current use value" any land designated for development within the next ten years. This means, in essence, that new construction would take place only on land that is publicly owned or that has passed through public ownership. During the "transitional period," local authorities would buy at market prices, but sellers would incur a new liability in the form of a development land tax on the "gain from change of use" starting at 80% and working up - as the Act comes into operation - to a full 100%.

The proposals, which are being bitterly opposed, are part of the government's broad program of state ownership: what is feared is that landowners (counting on the repeal of the legislation by a future Conservative government) will not volunteer land for development. Central to the issue is the question of whether local authorities are capable of coping with such new responsibilities.

In somewhat related news, the government has now announced - as promised - the nationalization of virtually all the country's aerospace and shipbuilding companies. Rather unexpected, however, was the widening of the "nationalization net" to include a firm such as Scottish Aviation, which has an annual turnover of only some £7.5 million: originally, nationalization was to be determined by a turnover criterion of "over £20 million." On the other hand, companies with major aerospace interests such as Plessey, GEC, Fairey Aviation, or Westland seem to remain untouched.

It appears that the Secretary for Industry intends to permit the newly nationalized firms in both sectors to retain their individual identity under the aegis of state ownership. However, both the U.K. aerospace and shipbuilding industries are now in such a bad way that, as one critic noted, state ownership "can hardly make things worse."

Continued Labour Row on EC Issue

As predicted, the U.K. Cabinet has recommended to the electorate, poised for the June EC referendum, that Britain remain in Europe, now that "renegotiations" have been completed. Following the "collective" Cabinet recommendation, however, Labour parliamentarians were free to go their own way on the Common Market issue. This they are now doing: at last report, the Cabinet was said to be split 16 to 7 in favor of staying - with the seven opponents the more vociferous or more widely quoted. To the annoyance of Prime Minister Harold Wilson, Labour's policy-making National Executive may decide to vote on a resolution calling for the use of the party machine to campaign against the Cabinet's recommendation - a possibility that Wilson regards as so intolerable that he has threatened to resign. Labour members of Parliament, both for and against continued EC membership, have stressed that the dissent within the party is not divisiveness but a reflection of "democracy in action." The outcome of the referendum now hinges on whether Labour supporters - guided by the National Executive and a possible special party conference - will swing against the recommendation of a Labour cabinet.

elgium: eps against x Avoidance; bs Program

Belgian government experts reportedly are working out details of draft legislation aiming for more efficient controls on bank activities that could have a bearing on instances of capital flight or tax avoidance. To the administration, the need for such legislation apparently has emerged following allegations of illegal foreign exchange speculation by employees of the Banque de Bruxelles in Switzerland and an official investigation of alleged tax avoidance involving the Luxembourg branch of Banque Lambert. In both instances, it was reported, it has not been definitely established whether only individuals are concerned or whether charges can be brought against the banks themselves.

In preparing the draft legislation, the government reportedly is thinking of strengthening the powers of the Banking Commission, whose supervisory role thus far has merely extended to the general business conduct of the banks but not to individual accounts. On the other hand, the new legislation is to be constructed so as not to infringe on the principle of bank secrecy.

Finance Minister Willy de Clercq has reported to Parliament that the intensified clampdown on tax evasion and avoidance produced an additional BF 17 billion in revenue last year, encouraging the government to continue on this course. The closer surveillance primarily concerned turnover and income tax payable by automobile repair shops and restaurants, De Clercq said. Lately, the fiscal authorities have broadened assessment procedures generally by also

Tax Avoidance (contd.)

taking into account taxpayers' demonstrated living standards - a practice hitherto unknown in Belgium.

In other developments, the government has reacted to a union memorandum on unemployment and inflation with a commitment to safeguard 20,000 endangered jobs by allocating this year an additional BF 125 billion for investment in social housing and in public transport and health. Beyond this, there will be efforts to place some 20,000 jobless persons on public payrolls, giving preference to younger people. Furthermore, the government is seeking broader interventional powers in the energy sector and is proposing establishment of an energy commission to ensure national supplies. These and other topics are to be taken up again at a meeting with the union federations on April 15. The industrial associations, which have voiced strong complaints over the effect of inflationary wage costs on their competitiveness abroad, have been promised a review of interest rates for export finance and possible credit concessions.

Germany: Work to Resume on Supervisory Boards Bill

Immediately following the Easter recess, Germany's government coalition parties were expected to resume work on their bill providing for the equal representation of labor on supervisory boards of large companies (*Doing Business in Europe, Pars. 30,695 and 30,700*). The measure had been held up not only because of doubts on the constitutionality of some of the bill's features (*Doing Business in Europe, Par. 30,749*), but also because the Free Democrat minority partners have retreated from the earlier compromise reach with the Social Democrats and are now pressing for severa changes in order to improve their political position.

Bonn observers believe that the bill will be changed on at least two points: direct election of the labor repr sentatives on supervisory boards and the composition of t boards. Under the current version, representatives would not be elected directly by the individual employees but electors chosen by employee groups - wage-earners, salaried employees, and executives. This approach has been criticized as being contrary to the government's promise bringing more democracy into business enterprises. As composition, the present proposal provides that the siz supervisory boards would depend on the size of the comp but labor and shareholders would always be equally repr sented. And although the revised draft has reduced ch for a deadlocked supervisory board, it does not elimin them entirely and, at any rate, provides for a settlem procedure that business leaders have called "clumsy" detrimental to efficient management. Bonn observers the concept of a neutral chairman (similar to the sy applied in the coal and steel industry) a good chanc

Labor Bill *(contd.)*

becoming law since top union leaders would no longer object to this.

EURO COMPANY SCENE

Volkswagen

While spokesmen for Germany's Volkswagenwerk AG denied press reports that the company had decided not to establish production in the United States, Arthur R. Railton, vice-president of Volkswagen of America, Inc., has declared in Germany that unless Volkswagen sets up American manufacture within the next five years, it stands to lose the U.S. market entirely. Citing growing competition in the compact car sector and VW's relatively poor sales standing following repeated dollar/D-mark revaluations, Railton pointed out that U.S. auto leaders GM and Ford will be in a position to market their own economy models incorporating European technology within the next three to five years.

Sabena/ KLM/ Luxair

The governments of Belgium, the Netherlands, and Luxembourg and officials of the three major state-controlled Benelux airlines are undertaking exploratory talks regarding a possible cooperation between Sabena, KLM, and Luxair. Belgian Minister of Communications Joseph Chabert denied that any outright fusion is contemplated, although many business and political leaders in the respective countries are said to favor such a move, especially in view of increasing U.S. pressures on European airlines to cut back their transatlantic flight schedules. Last year Sabena showed a record deficit of over BF 2 billion, which it attributed mainly to the oil crisis. KLM, which has also been forced into the red by inflated fuel and personnel costs, is about twice the size of the Belgian airline, employing 16,800 to Sabena's 9,845. Together they would represent a commercial carrier on the order of Air France. The smaller Luxair, which is not an IATA member, concentrates primarily on economy and charter travel between Europe and the United States.

[illegible]ison

As anticipated, the board of directors of Italy's Montedison SpA has asked president Eugenio Cefis to withdraw his resignation and has appealed to the government to take whatever steps are necessary for restoring autonomy of management to the chemical concern. Cefis, who has been urging reorganization of Montedison's control syndicate, was not available for comment, while government spokesmen indicated that a policy statement would soon be forthcoming.

Salgado oils of Spain has canceled its planned merger with the Lesieur group of France because of objections by minority shareholders in the French concern. The deal was first announced in January but was opposed by Lesieur rival Uni-

Salgado/Lesieur *(contd.)*

pol, which has substantial stakes in both the Lesieur holding and operating arms.

Merck

The Berlin Court of Appeals has in essence confirmed a Federal Cartel Office order of last spring requiring German drug producer E. Merck to lower its prices for certain vitamin B-12 compounds. While the court ruled that Merck had abused a "superior" rather than a "dominant" market position, charging prices 300-400% higher than those of domestic competitors, it ordered the company to reduce prices by 14.5-43%. In February, Merck had already voluntarily dropped its B-12 prices by an average of 22% in what was generally regarded as a ploy to influence the court. The latest decision sets a precedent for future Cartel Office action insofar as it widens the interpretation of Germany's cartel law to include consideration of a company's pricing policy as an index of restrictive marketing practices. The tribunal was careful to point out, however, that this does not give the Cartel Office carte blanche to function as a price control agency; it may set limits only within a specific case. Merck was expected to appeal the judgment to the German supreme court.

Mann/ Fed-Mart

German furniture and department store magnate Hugo Mann is making an agreed takeover bid for Fed-Mart Corp. of San Diego, Calif. According to the U.S. retail chain, Mann is offering $25 a share for 500,000 of the 1.32 million outstanding Fed-Mart shares. At the same time he is to acquire at least 300,000 newly issued shares and may increas this amount until he obtains 51% of Fed-Mart capital. Th offer reportedly hinges on acceptance by holders of at least 400,000 shares.

Swiss Credit

With the opening of a Luxembourg subsidiary by Swiss Bank Corp. of Basel in January and the announced plans of Swi Credit Bank, Zurich, to set up a wholly-owned offshoot i Luxembourg soon as well, all three of the major Swiss ba will have moved to establish themselves in the Grand Duc The Zurich-based Union Bank of Switzerland already foun a Luxembourg subsidiary in August 1973. These developm have been welcomed in local financial circles as eviden of Luxembourg's continuing importance as an internatio banking center.

Touche Ross

The U.S. accounting and auditing firm of Touche Ross & has opened a new office in Athens, Greece.

Common Market Reports

EUROMARKET NEWS

Issue No. 325 *Report No. 262, April 11, 1975*

IN THIS ISSUE

Page

Community: EC Economies Further Apart than Ever........1

Low Hopes for Progress at Maritime Conference.........2

In Brief: Excise Taxes on Tobacco; Migrant Workers....3

Britain: Employment Protection Bill in the Commons....3

Denmark: Budget Features Aids for Businesses..........4

Germany: Plans for Curbs on Share Sales Shaping Up....5

Finland: Parliament Passes Import Deposit Law.........6

Greece: Draft Budget; Probe of Contract Terms.........7

Euro Company Scene....................................7

Community: EC Economies Further Apart than Ever

The economic policies of all the EC member states have largely failed to achieve the degree of convergence to which the Council of Ministers had committed itself early last year, the European Commission has concluded in its 1974 review on this subject. To some extent, according to the report, this failure can be blamed on external factors such as the prohibitive increase in oil prices and related developments, but a large part is also due to domestic causes, particularly the reluctance by the governments to adopt the necessary measures or the tendency to take measures weaker than those recommended. According to the Commission, each country underestimated either the force of recession and speed with which the economic situation would deteriorate or the seriousness of inflation. This explains the delay by the surplus countries (Germany and Holland) in adopting policies to expand domestic demand and the foot-dragging by some deficit countries (Italy, for instance) in controlling the growth of this demand.

The Commission takes the position that discrepancies between the economic situations and policies of the various member states have never been so pronounced as at present. Rates of inflation still vary widely from country to country, partly because the governments have not been acting with the same degree of promptness or effectiveness.

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

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EC Economies *(contd.)*

Throughout 1974, budgetary policy in most deficit countries was not sufficiently restrictive or was even reflationary, according to the report.

For 1975, the Commission forecasts a Community growth rate of slightly under 1.5%, compared with just under 2% in 1974. No basic change is seen in the unemployment rate, which currently stands at 3.5%. As for priorities, the Commission recommends that the Community partners should continue to concentrate on fighting unemployment and inflation while seeking to reduce payments deficits as well as any divergent trends in the economic and monetary sectors.

Low Hopes for Progress at Maritime Meet

Most European observers of the U.N.-sponsored Maritime Conference at Geneva doubt whether the delegates from 140 countries will be able to come up with a first draft aimed at amending current international maritime law. However, by the May 10 closing date of the parley - which was preceded by a similar conference in Caracas, Venezuela, in 1974 - it should be known whether both the developing and the industrialized nations will support at least in principle future maritime rules covering, among other things, the exploitation of resources beneath the sea. For once, the EC member states are following a joint approach at the conference: agreed upon by the Council of Ministers in June 1974, it applies both to matters subject to Community authority and to economic issues or questions likely to affect common policy.

A failure of the Geneva conference could mean that the strongest of the industrialized countries could take advantage of the "freedom of the oceans" and start to exploit seabed resources. This is why virtually all of the new U.N. members, the "77 Group," are backing a resolution declaring these resources to be "for the common good of all mankind" and curtailing the freedom of the oceans. A U.N. agency would be given the sole exploitation rights through companies of its own or by contracting firms from U.N. member countries. The returns would benefit primarily the developing countries. The agency would also have the power to curtail mining and to stockpile extracted minerals and metals in order to forestall unwelcome price fluctuations.

The industrialized nations basically support the "common good" concept and concede that some of the profits should be diverted to the developing countries. But, at the same time, they strongly favor nondiscriminatory international rules giving every country access to the resources. The U.N. agency would merely assume administrative functions by issuing licenses to applicant companies and countries. Furthermore, knowing full well that they alone have the financial and technological means, the industrialized nations do not wish to be put into a position in which they, in turn, would be at a disadvantage. It is

Maritime Meet *(contd.)*

felt that the tremendous financial investments required for maritime exploitation can be justified only if the resources to be gained are a freely marketable rather than a "political" commodity.

In Brief...

The Commission's first draft directive on the harmonization of excise taxes on manufactured tobacco is not making headway in the Council's working group because of strong German resistance. Bonn, whose annual budget is fattened by some DM 7 billion in revenue from excise taxes on tobacco (4.5% of the total), stands to lose most through this harmonization. . . Migrant workers would benefit from several amendments to existing Community legislation that are to be proposed soon by the Commission. The object is to make the member states or national labor unions remove discriminatory barriers established by law or by union charters to prevent migrant workers from other member states from attaining union offices. Another proposal, also to be sent to the Council soon, would seek to end yet another discriminatory practice by some states (particularly France), namely, paying lower children's allowances to those migrants whose dependents have remained in the home countries.

Britain: Employment Protection Bill in the Commons

The Labour government's ambitious plans to change the face of labor relations in Britain have been given a boost by the March 25 publication of the voluminous Employment Protection Bill (House of Commons Bill 119), which offers comprehensive safeguards to U.K. employees and imposes wide-ranging obligations on employers.

The bill proposes establishment of a statutory body - the Advisory, Conciliation, and Arbitration Service (ACAS) - charged with the general duty of promoting improved industrial relations and, in particular, of encouraging development and improvement of collective bargaining machinery. In addition, a Central Arbitration Committee would be constituted to which disputes could be referred. For the ACAS, the stress would be on promoting consensus by "agreed procedures," but, where this should fail, employees in particular would have access to the Service and the Committee. As a rule, employers would be obliged to disclose more information to labor unions for collective bargaining purposes. More important, any layoff plans would have to be notified well in advance to the union involved and to the Secretary of State.

Of the rights of employees covered in Part II of the Bill, the most significant concern "guarantee payments" (in the event of an employee's not being "provided" with work on a day when he normally would be required to work), suspension on medical grounds, pregnancy and maternity leave, Employment Bill *(contd.)*

union membership, time off for union activities, priority in debt payment in the case of an insolvent employer, coverage from a redundancy fund in respect of arrears of pay, occupational pension obligations, stricter dismissal procedures, and entitlement to itemized earnings statements.

A feature of the Bill is the "prophylactic" steps the employer would have to take to minimize his liability: where he wished to deny liability to make a "guarantee payment," for example, the Bill stipulates that he must formally communicate to the employee(s) concerned an "employer's refusal." Complaints under the proposed legislation are to be referred to an industrial tribunal: if no "employer's refusal" was communicated, the tribunal would consider complaints up to three months after the day in question; otherwise complaints would have to be entered within 14 days.

Detailed provision is given for dismissal procedures, especially that employers would be required to furnish employees on request with a written statement of reasons for dismissal. Allegations of unfair dismissal could be taken to an industrial tribunal, in which case compensation would be awarded or a reinstatement or reengagement order issued. The Bill's pro-employee approach is evidenced by the power of the tribunal to specify in a reengagement order, for example, the terms on which rehiring would take place, including the nature of the employment, remuneration, amount payable in arrears of pay, any rights or privileges (including seniority and pension rights) to be restored or incorporated, and the date of compliance. Furthermore, the tribunal would not take into account for purposes of reinstatement or reengagement whether the employer had subsequently hired a permanent replacement for the dismissed employee. Compensation for unfair dismissal would be calculated on a "basic award" together with a "just and equitable compensatory award" established by the tribunal.

Denmark: Budget Features Aids for Firms, Employment

For the 1975-76 fiscal year, which began on April 1, the Danish government will operate with a Budget that provides for total expenditure of 67.8 billion kroner and, for the first time ever, allows for a budgeted deficit (of 5.8 billion). Parliamentary passage of the Budget by a solid majority had been preceded by lengthy bargaining among the parties. The Conservative opposition factions were able to insist on at least some of the expenditure cuts that had been worked out by the previous Liberal government. Yet the Anker Jörgensen administration professed to be "relatively satisfied" with the outcome of the Budget debate.

The new Budget will enable the Social Democrat government to make good on its preelection promise of establishing a special credit fund to aid companies that are suffer-

Budget *(contd.)*

ing a liquidity crunch but are otherwise healthy. The 200-million-kroner base allocation later might be built up with the cooperation of the National Bank and the commercial banks. Another 375 million has been budgeted as a reserve to safeguard employment. Here, the administration is facing what continues to be Denmark's most serious economic problem: unemployment still hovers at 150,000, corresponding to a jobless rate of 7% for the national work force and 12% for those persons covered by unemployment insurance.

The 1975-76 Budget allows for the effects of the tax reform, which took effect on Jan. 1 and will result in annual revenue shortfalls estimated to total 7 billion kroner. But administration spokesmen were confident that price and wage increases in 1975 would not approach last year's levels when the country suffered an inflation rate of 15.2% and when unemployment steadily became a heavier burden on state finances.

Germany: Plans for Curbs on Share Sales Take Shape

The Schmidt administration's plans to curb sales of German company stock to nonresidents whenever the change of ownership is contrary to the national interest are taking on concrete form: a first draft designed to amend the 1961 Foreign Trade Law (*Aussenwirtschaftsgesetz*) and defining the term *Überfremdung* ("foreignization") would give the government the power to prohibit planned transactions of which it has been notified or to curtail voting rights of shares where a sale to nonresidents was not notified or where the real identity of the new nonresident owners was concealed through intermediaries. The legislation would go a long way toward calming public apprehension over the prospect of the uncontrolled reinvestment of petrodollars in major German industries following the pattern of Kuwait's Daimler-Benz engagement, Iran's Krupp participation, and other (unsuccessful) investment attempts.

Bonn's approach would combine a voluntary notification system with government controls. The seller as well as the buyer would be expected to notify the central bank of any contemplated change in ownership exceeding 10% of the German company's stock. This percentage may change by the time the proposal has become applicable law. Following notification, the government would consider four major factors: whether the planned foreign investment would be 1) in the national interest, 2) welcome to the particular industry, 3) acceptable from the overall economic viewpoint, and 4) not in conflict with security aspects (defense work).

Government attorneys admit that defining "national interest" poses the biggest problem. They do have something to go on regarding the other criteria, because the Foreign Trade Law already empowers Bonn to impose curbs on trade

Share Sales *(contd.)*

and capital imports that pose a threat to security or monetary stability.

It has been emphasized that resorting to mandatory controls does not change the government's favorable attitude toward the voluntary notification procedure proposed by German industry leaders and the banks. Administration officials also welcome the approach used by several major companies in having the shareholders themselves restrict voting rights by amending the articles of incorporation accordingly. The proposed amendment may be looked upon as a sort of reserve weapon since even industrialists and bankers admit that the voluntary notification system may not always work and that stock sales may be handled through an intermediary to conceal the buyer's identity.

To avoid political repercussions, the government plans to inform the Arab countries of its intentions prior to sending the bill to Parliament. Also, there is still some hope for coordinated action within the OECD.

Finland: Parliament Passes Import Deposit Law

A compromise between Finland's Social Democrat government and the major opposition parties has resulted in the speedy passage of the Import Deposit Law, which immediately superseded the blanket 15% deposit rule that had been imposed less than two weeks earlier. The new law - which will apply for a 12-month period starting on March 24 and may be extended by another year - requires deposits ranging from 5 to 30% of import value depending on product classifications. Basically exempt are raw materials and goods essential to export production. The 30% maximum deposit primarily affects consumer goods such as apparel, foodstuffs, and automobiles but also drugs and other items. To be held by the central bank for six months without earning interest, the deposits are estimated to cover about 50% of Finnish imports subject to duty. The government hopes that the new regimen will slow down imports by 1 to 2 billion finmarks this year (1974 imports totaled 25.7 billion, leaving a foreign trade deficit of nearly 5 billion).

To prevent importers from passing the higher costs on to their markets, Parliament at the same time approved tighter price controls. A special government commission will process applications for exemption from the deposit. The importers will have to show that the goods for which exemption is sought are essential to production for export.

In order to secure the necessary five-sixths majority for the legislation, the government had to make a number of concessions. The Conservatives prevailed with their demand to limit the law to two years at most. The Communists forced a parliamentary order to favor imports from those East Bloc countries with which Finland maintains a trade

Deposit Law *(contd.)*

equilibrium. This mostly benefits the Soviet Union, which provides Helsinki with a large percentage of its energy and raw material supplies.

Greece: Draft Budget; Probe of Contract Terms

The Greek government has submitted the 1975 Draft Budget to Parliament. While the Ordinary Budget would be balanced at 140 billion drachmas, the public investment portion would show a 31-billion deficit that is to be financed through domestic and international bond issues. Direct taxes will account for 25.6% and indirect taxes for 70.7% of total budgeted expenditures. Defense spending makes up the largest single item at 31.7 billion drachmas, a 46.5% rise over 1974 and a reflection of the government's intention to strengthen the military forces following Greece's withdrawal from NATO.

In other developments, Athens has announced an investigation of private investment contracts with the state that were concluded during the eight-year period of the colonels' régime and which contain terms that may work against the national interest. A first target is an agreement with Switzerland's Nestlé foods group for the production of milk products and another with a domestic company concerning establishment of a paper pulp plant. In the case of Nestlé, a state commission is now reevaluating contract terms pertaining to voting rights on the supervisory board, licensing fees, interest on loans, and exclusive 20-year production and distribution rights, all of which are said to favor the Swiss company to an unacceptable degree. Another, much-criticized deal (which so far is not being officially investigated) involves the Peugeot-Renault consortium that is to build an automobile assembly plant at Volos, in central Greece. The contract signed with the French auto makers reportedly contains terms whereby the Greek government guarantees retail prices 25% below import prices, minimum profits, and export prices not higher than French production costs.

EURO COMPANY SCENE

Montedison

Following a reshuffle of Montedison SpA's control syndicate to exclude the private trust companies Nicofico and Euramerica, both of Liechtenstein, Eugenio Cefis has agreed to stay on as president of the concern and has also been named head of the syndicate. Partly in place of the two "mystery" holding firms, the state's Mediobanca credit group has moved onto the syndicate, which represents some 37% of Montedison capital, and will offer private shareholders the opportunity to buy more stock in order to restore the equilibrium between public and private groups. The identity of the buyer of 100 million shares of Montedison last fall

Montedison *(contd.)*

still remains unknown, but this block is not represented on the syndicate anyway. Cefis was successful on another front as well: Montedison reported a consolidated profit of 123 billion lire for last year, up 372.7% from the previous year's 33 billion. For the first time since Cefis took over four years ago the Montedison board plans to declare a dividend, amounting to 33 lire per share.

American Enka

American Enka, a subsidiary of the Akzo chemicals group of the Netherlands via its U.S. Akzona offshoot, plans to close its 60 million-lb.-per-year rayon filament manufacturing plant at Enka, N.C. A slump in fiber sales resulting from high raw materials and energy costs was blamed for the decision. The 46-year-old operation reportedly incurred a pretax deficit of $4 million in '74 and has been losing about $900,000 monthly so far this year. Not affected by the shutdown will be Akzo's nylon plant at Enka.

Banner

Banner Pharmaceuticals, the European division of Banner Gelatin Products Corp. of Los Angeles, is completing a new BF 150-million manufacturing plant at Herentals, Belgium. The facilities, representing the company's first foreign investment, will produce soft gelatine capsules for the pharmaceutical and related industries in Europe. By its own estimate, Banner is the world's second-largest manufacturer in this field.

Bruxelles-Lambert

The proposed merger of Banque de Bruxelles and Banque Lambert into Banque Bruxelles-Lambert is expected to be ratified shortly by shareholders of both groups. However, the considerable foreign exchange losses suffered by Banque de Bruxelles as a result of the unauthorized forward deals discovered last fall have put a dent into the second stage of the fusion plans: establishment of a new joint holding company for all the banking and nonbanking interests of both groups and the formation of a separate financial company to handle the combine's nonbanking operations. These steps have now been postponed for at least a year, according to word from Brussels.

Union Bank/ Control Data

Union Bank of Switzerland, Zurich, has announced it is suing Control Data Corp. of S. Minneapolis, Minn., for damages arising in connection with an order for EDP installations. Last September Union Bank decided to revoke a major contract for computer equipment from Control Data because of "unsolved technical problems and serious delays." In subsequent negotiations, the U.S. company and Union Bank failed to agree on settlement of the bank's claims, which reportedly total almost SF 100 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 326 *April 15, 1975*

IN THIS ISSUE

page

Community: More Changes for Company Draft Statute?....1

First Court Proceedings in Sugar Cartel Case..........2

Belgium: Employers Complain of Wage Cost Burden.......3

Britain: Split Widens over EC Membership Issue........3

Germany: Proposals on Rules for Sales Conditions......4

Switzerland: Agreement on Foreign Exchange Deals......5

Austria: Parliament Passes Alien Employment Law.......6

Euro Company Scene....................................6

Community: More Changes for European Company Draft?

On April 23 the European Commission will decide whether the revised European company draft statute needs additional changes or will be returned to the Council for further consideration. The modifications made by Commissioner Finn Gundelach's internal market directorate as well as his soon-to-be-published Green Paper should revive discussion of the draft statute and the fifth draft directive on company law coordination (*Common Market Reports, page 6902 and Pars. 1350.25 and 1401*), which had bogged down over the issue of labor representation on supervisory boards.

For the most part, the revised draft statute reflects the European Parliament's recommendations on the make-up of supervisory boards: one-third representing shareholders, another third employees, and the final third consisting of "independents." (Under the original proposal, shareholders were to elect two-thirds of the supervisory board members and labor the other third.) The independents would be chosen by both the shareholders and labor representatives from candidates named by the annual shareholders' meeting, the works council, and the managing board. A candidate would need a two-thirds majority of the combined shareholders and labor representatives.

Commission officials concede that the new version is **noncommittal about the extent to which outsiders (union officials, for instance)** could join the other employee repre-

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Company Draft *(contd.)*

sentatives on the supervisory board: at this point, the proposal merely indicates that a minority of outsiders would be acceptable, but it does not state how many. This omission could be intentional since it leaves some flexibility for the coming discussions in the Council's working group.

Union leaders are expected to find fault with the provision that works councils, instead of including shop stewards only, would be directly elected by the work force. Management representatives may not be happy with the provisions giving works councils not only the right to be informed and consulted on matters affecting working conditions and employment but also of having to consent to any subsequent changes. Here the Commission closely followed German rules (*Doing Business in Europe, Pars. 23,442-6*).

On one major point, however, the Commission simply could not make any changes: like the first draft, the revised version lacks rules on taxation, since harmonization of direct taxes has not as yet produced tangible results.

Sugar Cartel Case before EC Court

Oral proceedings opened on April 14 in the biggest case ever brought before the European Court of Justice: 16 Belgian, Dutch, German, French, and Italian sugar producers and distributors are appealing a 1973 Commission decision (*Common Market Reports, Par. 9570*) imposing fines totaling nearly $10 million for violations of EEC competition rules (Case Nos. 40 and 42/73). The Commission had charged at the time that several firms engaged in concerted practices to control and protect their respective domestic markets, violating Treaty Article 85(1). Though the firms' tactics varied somewhat, depending on the market and season, the concerted practices are alleged to have consisted for the most part either of selling sugar to producers in countries in short supply, refusing to sell to anyone but cartel members, selling to other buyers with the cartel members' consent, or charging higher prices. Four sugar producers also were accused of having violated Treaty Article 86 by exploiting their market-dominating position in bringing pressure on some exporters in one country to limit their exports and on importers in another country to reduce their imports. The Commission said it had further established that some of the producers cut off supplies to certain buyers and threatened to drive others off the market.

Commission attorneys are confident about winning the case. They point out, for example, that the plaintiffs' denial that they violated Article 86 appears to be repudiated by precedent: in *Commercial Solvents*, the Court of Justice held that refusal to sell by a market-dominating enterprise constitutes an abuse within the meaning of Article 86 (*Common Market Reports, Pars. 8209 and 9644*).

Sugar Cartel *(contd.)*

Court of Justice officials believe that evaluation of last month's two-day expert testimony and the extent and volume of briefs submitted by counsel for both sides make a ruling before December unlikely.

Belgium: Employers Want Action against Wage Inflation

Following the government's announcement last month of a program to safeguard employment, the Belgian Employers' Federation (FEB) has complained that the administration is not moving decisively enough against inflation and, specifically, continues to ignore the devastating effects of rapidly rising wage costs on industrial competitiveness at home and abroad. The Federation's chairman, Raymond Pulinckx, insisted that wage restraint must be essential to any effort to protect jobs - the high pay increases extracted from employers over the last years, he said, can no longer be compatible with a sound policy to safeguard employment. According to FEB figures, Belgian wage costs rose by 49% in 1973 and '74 - the highest percentage in all of Europe. More than two-thirds of the 25% boost recorded last year was due to the automatic effects of the cost-of-living indexation - a system that in itself must be viewed as a major inflationary factor, the FEB said.

The employers are appealing for state aid for those sectors that are dependent on minimum manpower levels in order to maintain their productivity and for others that could provide new jobs and thus help contain unemployment. Also demanded are assistance for the export industries - which have been hurt by Belgian franc/dollar revaluations totaling about 24% last year - and some tax incentives to stimulate investments.

Britain: Split Widens over Issue of EC Membership

The three-day debate in the House of Commons over Britain's continued EC membership served only to widen the split in the governing Labour Party over this issue. In the end, Prime Minister Harold Wilson's plea to "stay in Europe" was supported by a vote of 396 to 170, but the majority of Labour MPs chose to defy the government, 145-138, and Wilson was even forced to fire Industry Minister Eric Heffer for an "unauthorized" anti-EC speech.

Earlier, Labour's crisis had been acerbated by publication of the government's "Report on Renegotiation" (Cmnd. 6003, HMSO London), which was discreetly introduced as the House retired for the Easter recess - thereby postponing debate. The White Paper immediately provoked protests from anti-Marketeers who alleged unequivocal pro-Market bias. In particular, their ire was aroused by the chapter on "Wider Considerations," which contained no reference at all to any division within the party or the Cabinet. Instead, the government expressed the view - for the

EC Membership *(contd.)*

first time - that withdrawal from the EC would spell unmitigated disaster for Britain by adversely affecting investment confidence, the payments balance, and employment levels. Furthermore, the U.K. would be forced to instigate protracted negotiations with the Community and other countries (notably in the Commonwealth) to establish or reestablish trade relationships. The controversial issue of "loss of sovereignty" was virtually ignored, inasmuch as Britain was "only at the start of its relationship" with the EC, which had "shown itself to be a flexible organization."

Somewhat surprisingly, the Referendum Bill itself (House of Commons, Bill 121, HMSO London, March 26) added further fuel to the controversy. Although it only sets out practical arrangements for the conduct of the upcoming June balloting, it does usher in a constitutional innovation and as such has been criticized as setting a dangerous and "open-ended" precedent. The Opposition has attacked the referendum mechanism as being a license for Labour "to disagree on central issues but still stay in power." Liberal Party leader Jeremy Thorpe charged that the government seems to be saying that the question of continued EC membership is a "sufficiently important issue on which to have a referendum - (but not) a sufficiently important issue on which they should resign."

Germany: Proposals on Rules for Sales Conditions

Consumer organizations, unions, and a yet-to-be-established federal consumer protection agency should be given the right to take businesses to court to have sales conditions declared invalid. This, among other things, has been recommended in the second report of an expert group that is aiding the German government in drafting consumer legislation. The first report, submitted last year, contained legislative guidelines for the content of sales conditions and standardized contract forms that already have been reflected in a first draft bill, still in preparation. According to this draft, sales conditions or standardized contract forms would be invalid if they contain clauses that are irreconcilable with the principle of equity or lack a fair balance of interests.

Since statutory rules on the content of sales conditions or standardized contract forms will not preclude instances where clauses are obviously contrary to those rules or where their validity may be doubtful, legal action against the manufacturer, wholesaler, or simply the seller would subject the question of validity to a decision by special three-member panels at several courts of appeal. Once the court had established that the sales conditions were inequitable, it could declare them invalid and could enjoin the business from applying them or, in the case of a

Sales Rules *(contd.)*

manufacturer, from recommending them to wholesalers and retailers. But under certain conditions, the manufacturer or seller himself could approach the court to obtain a ruling that the sales conditions were valid.

Rulings by the appellate courts would be binding on all lower courts in any subsequent action brought by a buyer against the seller. This would be an innovation for German law, which presently holds that a court decision on the validity of sales conditions is binding only on the parties directly involved in the litigation.

Another major recommendation concerns the drafting of model sales conditions and standardized contract forms. The experts suggest establishment of a commission made up of three legal experts plus two individuals representing manufacturers and consumer organizations. Though they would lack statutory character, these model sales conditions nevertheless would be satisfactory from the consumer's viewpoint, and a seller patterning his sales conditions on them would not face the prospect of having his fine-print clauses voided by an appellate court.

Switzerland: Agreement on Exchange Deals; Joint Float

The Swiss National Bank has concluded a gentlemen's agreement with the country's domestic and foreign banks that will give the monetary authorities a better overview of the volume and kind of foreign exchange transactions. The principal point of the agreement is that the banks (as well as corporations and finance companies with substantial foreign exchange business) will report to the National Bank on a daily basis any deal valued at $5 million or more. The central bank could, if it so desired, request more detailed information on such transactions and issue warnings whenever their volume was deemed to endanger Swiss monetary or economic interests. The Bank could, moreover, participate in foreign exchange deals on its own account. Also, it was agreed that market dealings will not begin before 9 a.m. This is to avoid the Swiss banks' starting up before their European counterparts elsewhere are open for business and so reduce a "Swiss influence" on exchange rate fluctuations. Finally, the agreement provides for the banks to balance daily their positions in each currency traded.

In related news, Holland's Finance Minister Willem Duisenberg has confirmed Switzerland's official application to join the European joint currency float. The finance ministers of the five EC participant countries - Germany, Denmark, and the Benelux states - were to discuss the application at their next meeting on April 21 in Brussels. While basically willing to approve the Swiss bid, the other partners reportedly are seeking some assurances from Bern that the inflow of foreign money into Switzerland will be

Joint Float *(contd.)*

contained in efforts to keep a lid on pressures that have been forcing the value of the Swiss franc steadily upward.

Austria: Passage of Law on Employment of Foreigners

The Austrian parliament has unanimously passed the government-sponsored Alien Employment Law (*Ausländerbeschäftigungsgesetz*), which generally is designed to protect the jobs of Austrian citizens and which obligates employers scheduling dismissals to reduce their alien work force first. The law also subjects the issuance of permits for the employment of foreign workers to a number of conditions, of which the most important are

- the employer's obligation to provide for housing that is adequate by "local standards";
- a medical examination followed by certification that the alien worker to be hired is free not only of contagious diseases but also of physical afflictions that could considerably impair his job performance; and
- strict adherence to labor and social regulations on the part of the employer. The authorities may, for instance, cancel a permit already granted when the alien worker agrees to perform specific work for lower pay than an Austrian employee.

The new law supersedes a German decree that took effect in 1941 during the Nazi occupation of Austria and had remained in force since then. It incorporates a quota system limiting the number of aliens employed in geographical regions and industrial sectors. Established annually by the Austrian employer associations and the labor unions, this quota system may now be incorporated into implementing rules (*Rechtsverordnung*) by the Minister for Social Administration. The law furthermore provides for procedures necessary whenever permit applications exceed established quotas: in these cases, permits may be granted only for "very important reasons" and when failure to grant permits could endanger the jobs of Austrian citizens.

Passage of the Alien Employment Law comes at a time when the employment of foreigners in Austria actually has receded from previous peaks. At the end of February, there were 23,100 fewer aliens on domestic payrolls than a year earlier, even though the national work force had expanded by 22,500. The unemployment rate currently stands at 2.7%, only fractionally higher than a year ago.

EURO COMPANY SCENE

General Dynamics

If the conclusions of the defense ministers of Belgium, Denmark, the Netherlands, and Norway are seconded by their respective governments, the "arms deal of the century" - a $2-billion order for some 350 fighter aircraft - should go

General Dynamics *(contd.)*

to General Dynamics Corp. for its YF-16 jet. At a final meeting in Brussels for the purpose of selecting a replacement for the Starfighter fleets still flown, the U.S. company's YF-16 was pronounced to be cheaper and more efficient than its remaining competitors, Sweden's Saab Viggen and - more important - France's Mirage F-1/M-53, built by Dassault-Breguet. However, the ministers indicated that other factors, such as the economic and industrial consequences of the choice, would also have to be weighed. A decision was expected by the end of this month. Orders for the YF-16 are thought almost certain to come from Denmark and Norway, which have favored this model for some time, but there is still doubt about the Dutch and Belgian positions. Although the four nations, all NATO members, have emphasized the importance of a "common choice," Belgium in particular may still opt for the Mirage because of existing ties between the Belgian aircraft industry and Dassault-Breguet and so as not to prejudice relations with France, a prime trading partner.

PAL/SECAM

A 37-member technical commission appointed by the Italian postal ministry has recommended adoption of the German-developed PAL color television system in Italy. If approved by CIPE, the state's interministerial economic planning committee, the decision could end an eight-year contest between PAL supporters and advocates of France's SECAM color system. Spokesmen for Italy's electrical industry have long been lobbying for PAL as a means of opening important European markets to Italian manufacturers, and domestic producers have been exporting PAL equipment for some time. The costly compromise of establishing dual PAL/SECAM broadcasting in Italy had seemed likely for a while, in view of continued pressure from France, but the current "wine war" between the two countries is thought to have tipped the scales in favor of PAL. The question of when Italy would begin color programming is still subject to intense debate, however. RAI, the national radio and television network, reportedly estimates it will require as much as 30 billion lire and nine months' time to make the necessary adjustments.

Deutsche Babcock/ Iran

The Iranian government will acquire a 25.02% participation in the DM 126.5-million share capital of Deutsche Babcock & Wilcox AG, one of Europe's leading producers of industrial boilers, which anticipates a group turnover of DM 3.4 billion for the current business year. According to a letter of intent, Iran will pay DM 173.3 million for the stake now held by Britain's Babcock & Wilcox Ltd., the former parent of the German group. The other major shareholder in the Oberhausen-based Deutsche Babcock is Germany's BHF-Bank with an equity "in excess of 10% but of less than 20%."

Deutsche Babcock *(contd.)*

The remaining stock is widely distributed among small shareholders.

The German company's management has welcomed the Iranian participation, since it will open further foreign markets and at the same time help safeguard the jobs of the firm's 29,000 employees. The announcement by Teheran was accompanied by another letter of intent giving a consortium formed by Deutsche Babcock and Brown, Boveri & Cie. AG a DM 1.2-billion order for the construction of a 1,760-megawatt power plant complex on the Caspian Sea. This is the largest contract won by Deutsche Babcock in its 77-year history but must be seen in conjunction with the Iranian participation, which follows an earlier one in Krupp.

Ford/ Volvo

An offer by Ford Motor Co. to sell one of its U.S. assembly plants - probably the one at Norfolk, Va. - to Volvo has been rejected by the Swedish auto maker. Volvo is building its own U.S. manufacturing facility at Chesapeake, Va., at a cost of about $100 million. This plant will have an initial capacity of 30,000 units, to be expanded to 100,000 by 1980. Volvo's American sales have grown rapidly, totaling almost 17,000 for the first quarter of 1975, up 48% from the comparable period last year.

Renault

The explosive atmosphere enveloping the management and work force of France's state-owned Régie Renault SA has cooled off considerably since employees have agreed to return to their jobs in exchange for the promise of new wage talks. Wildcat strikes involving estimated production losses of 50,000 cars and the resulting layoffs and shortened work schedules had punctuated the eight-week dispute, said to be the longest in the company's history. Labor has been demanding thoroughgoing job reclassifications and pay increases, while Renault officials have argued that market conditions do not permit such extensive concessions.

Kabelmetal/ CSI/ Phelps Dodge

Germany's Kabel- & Metallwerke Gutehoffnungshütte AG (Kabelmetal), a majority holding of the Gutehoffnungshütte engineering group, has increased its 50% stake in Cablewave Systems, Inc. (CSI), of North Haven, Conn., to full ownership by buying out partner Phelps Dodge Corp. of New York for an unspecified price. CSI, capitalized at $4.7 million, was set up in 1972 and produces high-frequency cable and waveguide systems and coaxial systems for radio, television, and electronic equipment.

Nationale-Nederlanden/ Wisconsin Life

Nationale-Nederlanden NV, the Dutch insurance group that recently gained control of Peerless Insurance of Keene, N.H., has succeeded in acquiring 95% of the 1 million outstanding shares in Wisconsin Life Insurance Co. of Oshkosh, Wis. The offer was pegged at $24 per each share nominally valued at $2.50.

Common Market Reports

EUROMARKET NEWS

Issue No. 327 *Report No. 263, April 23, 1975*

IN THIS ISSUE

page

Community: Against Public Contracts Discrimination....1

Council Compromise Aids French, Italian Vintners......2

Netherlands: Chamber Warning on Investment Shifts.....3

France: Bill on Establishment of Foreign Banks........3

Germany: Detailed Rules on Working Conditions.........4

Britain: Healey's 'Hard' Budget Raises Tax Burden.....4

Austria: Program to Stimulate Lagging Economy.........5

Spain: Pay, Profits Freeze; Higher Company Taxes......5

Euro Company Scene....................................6

munity: e against Public Contract Discrimination

The European Commission has called on businesses to report to Brussels any discriminatory experiences they may have encountered in being denied public works and supply contracts. Although the Commission has the legal instruments for eliminating discrimination, it nevertheless requires the active participation of companies to apply these instruments effectively.

A 1971 directive now in force in all member states provides for alignment of national practices governing the awarding of public works contracts (*Common Market Reports, Pars. 1349.71 and 1349.713*). There are three kinds of contract awards - open, restricted, and private - but all prohibit the use of national technical specifications. The directive defines common criteria for selecting bidders and requires all tenders to be published in the Official Journal.

The Commission currently is attempting to persuade the nine member states to adopt a similar directive applicable to public supply contracts. In the meantime, though, its own 1969 directive does bar discrimination and it is this that has enabled the Commission as well as private companies to apply some leverage in influencing public authorities to award contracts to nonnationals as well.

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Public Works *(contd.)*

As concerns public works contracts, it is believed in Brussels that companies have not yet made enough use of the redress procedure provided through the Consultative Committee. Created by the '71 directive and made up of member state officials and a Commission-appointed chairman, this committee is meant to be the forum for reaching amicable settlements to contract disputes. But instead of approaching this body on matters of alleged discrimination, many firms have been carrying grievances to their governments.

In future, the Commission would like company managements to submit written complaints to its internal market directorate, specifying the alleged discrimination on the part of the respective national authorities. If warranted by the apparent evidence, a further investigation will be conducted by the Commission in cooperation with management (with full regard to maintaining secrecy wherever necessary). If an arguable case against an awarding authority can be established, the Commission may bring up the matter in the Consultative Committee. If no amicable agreements can be reached there, the Commission may then bring legal action against the member state involved under Treaty Article 169.

Compromise Aids Winegrowers in France, Italy

The Council of Ministers compromise on April 15 allowing French and Italian winegrowers to distill up to another 132 million gallons of low-quality wine may serve to avoid further violence in the French-Italian "wine war" as well as major repercussions for the entire Community. This settlement does not necessarily mean that the European Commission will no longer pursue its legal action against France, however. Brussels may well have an interest in obtaining a declaratory ruling from the European Court of Justice to the effect that France breached Community rules, especially in view of the diversity of facts surrounding the dispute. In that sense, it does not matter whether French authorities tolerate violent acts directed against Italian wine imports by French winegrowers or quietly accept the importers' voluntary agreement to stop bringing in Italian wine until April 28: either attitude is clearly in violation of Treaty Articles 30-31 and 38 and the common wine regulations (*Common Market Reports, Pars. 321-26, 401-2, and 613-17*).

While the latest Council move may help to alleviate the situation for the moment, it nevertheless must be seen as merely a stopgap measure. For years the European Commission has been trying to obtain Council action to reduce the Community's wine surplus. In September 1974 it submitted a proposal containing a number of amendments to EC wine rules. A balance between supply and demand was to be achieved by altering intervention arrangements, encouraging improvements in quality and seeking curbs on vineyard acre-

Winegrowers *(contd.)*

age. In addition, a modified intervention policy was to permit distillation of wine at the start of the season as well as the storage of surplus wine. In the absence of such measures, however, EC wine production over the last few years has increased at a rate four times higher than that of consumption.

Netherlands: U.S. Chamber Warns on Shift of Investments

The president of the American Chamber of Commerce in the Netherlands has warned the Dutch government that further substantial impairment of the country's free enterprise system could result in a shift of foreign and U.S. investments elsewhere. Speaking at the Chamber's annual meeting, Daniel J. Piliero, who also heads Chevron Oil activities in Holland, said that "we can forget about economic growth" if insufficient earnings prevent industry in the Netherlands from raising investments to higher levels and if wages continue to increase. "Now, in Holland," Piliero said, "new investments are difficult to materialize. Many new factories or extensions of existing plants have been lost to the Netherlands because of more attractive facilities being offered by neighboring countries."

The Chamber president said that the American Chamber would like to see The Hague adopt pricing standards that permit a "reasonable return," adding, "we still have not yet lost confidence that the government will take proper action to control the inflation and wage pressures and that they will resist further unrealistic demands for more wage increases from labor unions."

Echoing similar sentiments, the Eindhoven Chamber of Commerce and Industry has issued a list of companies that "emigrated" to neighboring Belgium. The Chamber president said that with conditions steadily worsening at home, he could not blame Dutch companies "for going abroad, having suffered losses for several years." The Dutch central bank, in its last quarterly report, said that direct foreign investments of Dutch companies rose by 100% to more than 4 billion guilders last year.

France: Draft Law on Establishment of Banks

The French Council of Ministers has approved draft legislation that in future would permit businesses or individuals from any other EC member state to provide banking and financial services in France. At the same time, it was announced that the establishment of banking institutions in France by foreigners no longer is subject to separate registration with the French government. The draft law conforms to the provisions of a European Council of Ministers directive dated June 28, 1973 (*Common Market Reports, Par. 1349.10*), seeking to abolish discriminatory restrictions in the banking and finance sector.

Banks *(contd.)*

Meanwhile, the Bank of France for the third time within this year has lowered the discount rate by a full percentage point. This latest cut from 11 to 10%, on April 10, was interpreted as a sign of the government's willingness to further ease its restrictive credit policy in order to stimulate economic growth and investment. Earlier this month, Paris reports had suggested that the administration was planning some tax concessions, but Finance Minister Jean-Pierre Fourcade, in a magazine interview, merely mentioned small businesses and newcomers to the labor market (school graduates) as beneficiaries of possible government action. He gave no indication that, for instance, value-added tax rates would be cut - a step not only recommended by the OECD in its latest economic survey on France but also demanded by the political Opposition.

Germany: Detailed Rules on Working Conditions

Detailed rules on working conditions, work safety, and health requirements will go into effect in Germany on May 1, 1976, and are expected to require substantial outlays by businesses. In addition to raising standards of job environments for factory and office workers, the legislation (*Arbeitsstättenverordnung*) would repeal some 20 old regulations and administrative circulars now applying to specific industry sectors or containing scattered provisions for various jobs. These regulations, some of which date back to the turn of the century, have sometimes made it difficult for management to establish, for example, just what is legally required to protect employees against injury. (However, their repeal would not render moot current litigation, such as the case of a union local against a large department store involving a 75-year-old regulation requiring a chair for every female clerk behind a counter.)

The new rules even go so far as to prescribe what kind of floor coverings are required for certain jobs and what must be done to improve the job environment through heating, ventilation, and reduction of noise, vibrations, and gaseous emissions. Each employee must have at least 1.5 square meters (about 14.5 square feet) of floor space in order to move around freely. Although this is relatively little, government officials claim that a number of jobs do not meet the requirement, particularly for women on assembly lines. Every business employing more than 10 people must have a separate room where employees can take their work or lunch breaks. Pregnant women or nursing mothers must have separate rooms where they can lie down and rest.

Britain: Budget Calls for Tax Boosts, Spending Cuts

Scorned by the Conservative opposition as distributing "equal shares of misery for all" and termed a disappointment by the trade unions, the new U.K. Budget presented on April 15 brings higher direct taxes for all but the poor-

Budget *(contd.)*

est, stiffer consumer taxes, and curtailed public spending next year. The tax increases - which basically spare corporation tax - are to total some £1.2 billion, while the proposed cuts in state expenditure could amount to another £1 billion.

In presenting what he called a "hard" Budget, Chancellor of the Exchequer Denis Healey minced no words in identifying wage boosts averaging nearly 30% as the main cause of Britain's continuing economic ailments. Addressing himself directly to the unions, Healey said that "with lower wage settlements and a consequential improvement in the balance of payments, we could have the same standard of living with lower prices, lower taxes, and more jobs." This undisguised challenge by a cabinet member of a Labour government obviously invited sharp reactions from labor representatives, who had hoped for an expansionary Budget. Business leaders were equally disappointed, inasmuch as the Budget failed to provide for tax incentives that would be needed to stimulate investments. (Further Budget details will be reported in next week's issue of *EUROMARKET NEWS*.)

Austria: Vienna Moves to Stimulate Economy

The construction, electrical, automotive, and textile industries will benefit most from a 12.7-billion-schilling program with which the Austrian government intends to stimulate the domestic economy as well as foreign trade. The foremost aim is to ensure an economic growth rate of at least 2.5% in real terms this year as well as to maintain full employment. Specifically, the program is to provide interest subsidies on the order of 5 billion schillings for credits that would serve to boost flagging industrial investment. Another 1 billion would be in the form of export guarantees. Some 4.5 billion would come from spending cuts in the current Budget, whereas a further 2.2 billion are to be contributed by a special stability fund.

Business and industry in Austria have been demanding an investment promotion program since late 1974, but it apparently took still another pessimistic report by the Austrian Institute for Economic Research to prompt the government action. Last fall the Institute had forecast a real growth rate of 4%, but in December this was revised downward to 3.5%, and now to 2.5%. Despite the economic slack, the Austrian inflation rate has remained steady at 9.5%, and unemployment (at 2.7%) likewise has not yet become a problem, even though some sectors are now beginning to experience a serious slump in orders.

Spain: Wage, Profits Freeze; Higher Company Taxes

The country's worsened economic condition compelled the Spanish government earlier this month to introduce a bundle of measures that includes a virtual freeze on wages and profit margins, stricter price controls, and curbs on capi-

Freeze *(contd.)*

tal income. Wages this year will be permitted to rise only 3% above current levels (in real terms). Profit margins will be frozen until the end of the year. Capital income must be held at levels corresponding to the average of 1973 and '74, which - in view of Spain's 20% inflation rate - actually means a reduction. Interest from bank deposits will be taxed at a 15% rate at the source, the tax burden on stock corporations will be boosted, and tax collection procedures will be toughened. More systematic state controls on prices also were announced - prices of industrial products will be linked to wage and raw material costs. Finally, the planned increase in social contributions originally scheduled for April will be postponed for one year.

In explaining the reasons for the program, Finance Minister Cabello de Alba said that Spain's 1974 payments balance closed out with a $3.1-billion deficit as compared with a $535-million surplus the year before. The oil imports alone, the minister said, accounted for about $3 billion, which more or less corresponds to the shortfall.

EURO COMPANY SCENE

Volkswagen

Following the long-awaited meeting of its supervisory board last week, Germany's Volkswagenwerk AG has announced plans to reduce its work force by 25,000 to about 115,000 by the end of next year. However, according to company spokesmen, it should be possible to hold the number of actual dismissals to well under 10,000. Normal attrition, early retirement, and voluntary departures encouraged by special bonus settlements should account for the bulk of the cuts. The radical measures, which are nevertheless considered a compromise between business and social considerations, will be most telling for the Audi NSU plant at Neckarsulm. There, 4,700 jobs are to be eliminated, although the factory will not be closed. In this regard, the state government of Baden-Württemberg has proposed a DM 130-million aid program to promote industrial development in the affected area. In addition, German Economics Minister Hans Friderichs has announced that federal officials and representatives of the various state governments will meet early next month to work out a three- or four-year plan to relieve the regions hardest hit by the layoffs. Although the VW supervisory board did not take up the question of possible U.S. production, company chief Toni Schmücker confirmed that Volkswagen does not wish to lose the American market.

Ferranti

The U.K. government's industrial adviser, Sir Don Ryder, has personally intervened in the negotiations over the size of the government's proposed stake in electronics manufacturer Ferranti, which encountered liquidity trouble some seven months ago. Since the company will require an injec-

Ferranti *(contd.)*

tion of some £25 million to pay off its overdraft and meet running costs for the next year, it would appear that a 40%-plus state holding is feasible. This is not to the liking of the two Ferranti brothers, who would then be in a "minority" position vis-à-vis the government. Above all, however, the size of the government's stake may indicate just how far the new National Enterprise Board's financial powers extend: resolution of the Ferranti question could result in a "formula" keying such factors as share price, loan interest payments, and equity capital considerations to the amount of cash injected or according to which the amount of cash injected dictates the size of the holding.

USSR/ Iran/ Ruhrgas

Following over a year of negotiations, representatives of the Soviet Union, Iran, and the German public utility Ruhrgas AG have signed an agreement in principle covering the supply of natural gas from Iran to Germany via the USSR. According to official news sources in Moscow, the pact provides for the delivery of 13 billion cubic meters of gas annually, starting in 1981. Some of the fuel will be earmarked for other European countries as well. Details - including the price of the gas and technical questions - have yet to be worked out.

McAuto/ Aquitaine Systems

McDonnell Douglas Automation Co. (McAuto), a division of McDonnell Douglas Corp. of St. Louis, Mo., has contracted to supply France's Sté. Nationale des Pétroles d'Aquitaine (SNPA) with the technical and business know-how for a new commercial EDP venture. The SNPA subsidiary, Aquitaine Systems, has been set up to offer data-processing services throughout France, Spain, and Portugal from computer facilities in Paris and Pau, in the French Pyrenees. McAuto has trained Aquitaine personnel, installed computer programs, and provided general advisory assistance. Eventually, the French firm is to handle McAuto's entire range of engineering and commercial EDP services.

Henkel/ Textiliana

Henkel, Inc., of Teaneck, N.J., subsidiary of Germany's Henkel chemicals group, has acquired Textiliana Corp. of Los Angeles, a producer of organic chemicals, for an undisclosed price. The purchase conforms with Henkel's reported decision to expand its U.S. activities to the West Coast after concentrating on markets on the Atlantic seaboard and in the Midwest.

VEW

In line with plans first announced almost two years ago, the Austrian government has prepared draft legislation providing for the merger of domestic special-steel companies into "Vereinigte Edelstahlwerke AG" (VEW). As a subsidiary of the VÖEST-Alpine AG steel group, with which it would be coordinated, VEW would include VÖEST's special-steel offshoots Gebr. Böhler & Co., Schoeller-Bleckmann, and Steie-

VEW
(contd.)

rische Guss-Stahlwerke. The draft bill has been referred to the various state governments and relevant authorities for comment.

VÖEST/
Armco

In other news, VÖEST-Alpine has concluded a license agreement with Armco Steel Corp. of Middletown, Ohio, and Foster Wheeler engineering of New York. The contract grants the Austrian concern rights to Armco's direct-reduction steel process for the planning and construction of steel plants internationally.

Chase/
Standard &
Chartered

Bowing to U.S. banking regulations that forbid domestic banks to engage in retail operations in more than one state, Chase Manhattan Bank is selling its 11.9% interest in Standard & Chartered Banking Group of London. The U.S. Federal Reserve Board had stipulated that Chase could retain its 7.2-million-share stake, reportedly worth $67 million, only if Standard & Chartered practically terminated its U.S. activities, which involve a branch banking network in California. The U.K. bank was unwilling to comply, and Chase was unable to find an alternative solution.

Matesa

After repeated delays because of the illness of the defendants, the trial of eight key figures in what has been termed the biggest financial scandal in Spanish history has finally begun in Madrid. Four former directors of the Matesa textile machinery company and four former officials of the state's Industrial Credit Bank are charged with fraud, bribery, falsification, and misappropriation of 10 billion pesetas worth of state export credits. The case, which first came to light in 1969, involves loans and tax credits for equipment that Matesa never manufactured or exported. The affair has significant political overtones, since preliminary investigations are said to have produced evidence of collusion in high government circles. Three former cabinet ministers, who had been indicted for criminal negligence in the case, were pardoned in 1971 by General Franco, however.

Common Market Reports

EUROMARKET NEWS

Issue No. 328 *April 30, 1975*

IN THIS ISSUE

page

Community: Council Adopts Consumer Resolution.........1

Producers Attack Brussels' Approach in Sugar Trial....2

In Brief: Company Statute, Insurance, U.K. Labour.....2

Belgium: Taxes on Foreigners; Indexation Woes.........3

Germany: Bonn Introduces Apprentice Training Bill.....4

Britain: More Details on a 'Gloomy' Budget............4

Norway: White Paper on Prices, Incomes Policy.........5

Portugal: Nationalization Spreads to Industry.........6

Euro Company Scene....................................7

Community: Council Adopts Consumer Resolution

With the adoption of the Commission's preliminary program for consumer protection and information, the Council of Ministers has committed itself to improving the quality of life in the Community. The primary aims of the program, embedded in a resolution, are effective protection against risks to the consumer's health and safety and against threats to his economic interest; compensation for damages and appropriate aid and advice in obtaining it; education and information; and consultation and representation in the decision-making process for consumer legislation. The Council basically followed the Commission's guidelines in establishing priority areas for consumer health protection and safety: food, cosmetics, detergents, tools, consumer durables, automobiles, textiles, dangerous substances, objects that come in contact with food, drugs, fertilizers and pesticides, and hormones used in animal feed.

The program provides for harmonization of national rules on conditions governing consumer credit, including installment contracts. Also included is protection for the consumer against misleading advertising and certain abusive trade practices - in these two areas the Commission has already prepared first drafts that are being discussed with national government experts. As for aid and advice, the program provides for studies that would also cover member

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Consumers *(contd.)*

state systems on assistance and compensation and would seek judicial avenues for redress, arbitration, and out-of-court settlement of disputes.

In implementing this program, the Commission need not start from scratch: it will utilize work previously begun by the member states, international organizations, and consumer organizations both within and outside the EC. A great deal has already been done in several fields, though largely from the angle of removing obstacles to trade. The Commission is expected to continue here. This is particularly true for Community legislation approximating member state rules on coloring additives and preservatives as well as approximation of veterinary rules, both of which are of interest to consumers (*Common Market Reports, Pars. 3341, 3345, and 3347*).

Counsel Claim Weak Approach in Sugar Case

In oral proceedings of the "sugar trial" before the European Court of Justice in Luxembourg (Case Nos. 40 and 42/73), the attorneys for the 16 plaintiff sugar producers have claimed that the Commission's approach leading to its 1973 antitrust decision imposing nearly $10 million in fines could not be reconciled with the rule of law. Not only had the decision (*Common Market Reports, Par. 9570*) been preceded and followed by undue publicity, they alleged, but this publicity campaign had actually been nourished by the Commission's antitrust directorate itself. Further, plaintiffs' counsel claimed that the sugar producers had not really engaged in concerted practices as alleged by Brussels.

Some neutral trial observers also tend to agree that the Commission's decision was founded on weak evidence in some respects. But counsel for the Commission have argued that concerted practices need not necessarily depend on the parties' prior agreement on an overall pattern of conduct - it is sufficient that the parties' acts complement each other. Under these circumstances, a clarifying word by the Court on what does constitute a concerted practice could be a harbinger of the trial outcome, although there are few who believe that the Commission will lose the case on a substantive basis.

At least there was agreement by the opposing sides that oral proceedings could have easily taken up another week had the Court not restricted the available time from the start.

In Brief...

Because of Commission President Ortoli's visit to India, the Commission was to vote on the amended European company draft statute on April 30 instead of April 23 as originally planned. . . The Hoffmann-La Roche affair has produced a negative side effect in that Swiss and Community officials have not met to negotiate on an agreement that would, for

In Brief *(contd.)*

example, enable Swiss insurance companies to underwrite risks (except life) in the Community without meeting the special requirements applicable to third-country insurers. . . Britain's Labour Party Conference has voted almost 2-to-1 for Britain to leave the Common Market.

Belgium: Taxes on Foreigners; Indexation Woes

Acting on massive threats by multinational companies and other foreign businesses that they would leave the country rather than submit to stiffened tax rules for foreign executives and personnel (*Doing Business in Europe, Par. 30,755*), the Belgian government on April 20 announced a decision to retreat from its earlier position, which would have meant an end to most of the tax concessions granted so far. Brussels reports indicated that the 30% standard deduction will be allowed for another five years starting on Jan. 1, 1975, and that those eligible foreign taxpayers who already have paid the higher tax bills since the tougher rules were applied (from September '74) will be receiving refunds plus interest. Tax bills yet unpaid will be revised by the fiscal authorities, according to the reports.

But aside from the tax situation, it has been Belgium's wage indexation system - i.e., the automatic monthly adjustment of pay to the rising cost of living - that is having the most serious impact on wage costs and, consequently, on the investment inclinations of both domestic and foreign businesses. The Belgian employers' federation FEB has reported that the indexation currently accounts for no less than two-thirds of the monthly increases in hourly industrial pay. As a result, hourly wage costs are now about on par with those of the United States, slightly higher than in Germany and Holland, 30-35% higher than in France and Italy, and twice as high as in the U.K.

The side effects of wage indexation are also being confirmed officially: investments approved for the first quarter 1975 by the Secretary of State in charge of the regional economy of Flanders totaled only BF 3.5 billion as compared to an average BF 7.5 billion for the corresponding periods of the past five years. Foreign companies - particularly American firms, which for years had paced the Flanders investment boom - have joined domestic businesses in investigating the possibility of moving elsewhere, with northern France a preferred area.

Deeply concerned by the effects of wage indexation on both investment activity and export competitiveness, the FEB is now trying to begin negotiations with the unions in efforts to find a more flexible system, possibly patterned on that practiced by the collective bargaining partners in Germany. But the chances for modification are slim: labor leaders show no inclination to retreat from a practice that has served the unions well, and the government has little

Indexation *(contd.)*

leeway in changing a system that was first introduced in the Belgian mining industry in 1909 and expanded to all other sectors in the postwar years.

Germany: Bonn Introduces Apprentice Training Bill

After months of controversy between Bonn's government coalition partners, caused when the Free Democrats backed out of a compromise reached last November, the Schmidt administration has introduced legislation that would ensure training and sufficient job openings for apprentices through a new federal agency and a levy system. The bill (*Berufsbildungsgesetz-Entwurf*) provides that, whenever openings fail to exceed by 12.5% the number of school graduates wishing to learn a trade, all businesses and public employers with annual payrolls of more than DM 400,000 would have to pay a levy of 0.25% of the payroll. Normally, then, businesses with fewer than 20 employees would not have to pay.

Although the levy would be collected by the various workmen's compensation funds, a yet-to-be-established federal agency would administer the program and would offer premiums averaging DM 5,000 (per apprentice over the period of training) to those businesses that accepted apprentices in addition to the average number they had employed over the previous three years. The agency would also compile the statistics needed to determine whether the number of openings had dropped below the statutory requirements. Both employers and union organizations would have a voice in committees established at local chambers of commerce.

The bill already has drawn fire from several sides. For business leaders the proposal would mean more red tape. Union leaders believe it does not go far enough. And, the Opposition-controlled state governments, which also control the Bundesrat (Parliament's upper house), have raised several constitutional issues, among them one concerning vague clauses in the bill that would give the government the power to issue regulations. Thus the controversy may not be over after all - it might just involve different participants.

Britain: Highlights of Budgetary Measures

Reaction in Britain to the "merciless" budgetary measures introduced in mid-month by the Chancellor of the Exchequer (as reported in last week's issue of *EUROMARKET NEWS*) could have been predicted: the inevitability of the proposals was long acknowledged and the decision "to spread the gloom evenly" provoked anger only on the political left. The overriding consideration was to reduce the U.K.'s inflation rate (running well over 20%) and eliminate the payments deficit. And the approach was standard, too: an increase in taxation and a cutback in public expenditure, with acceptance of the possibility that unemployment would rise to one million.

Budget *(contd.)*

Some of the Budget highlights:

Income Tax - Basic and higher rates up by 2% to the new basic rate of 35%. Higher deductions for pay-as-you-earn taxpayers as of the week beginning May 25. Allowances for single persons up from £625 to 675, for married couples from £865 to 955.

Value-added Tax - 25% rate (previously applied to gasoline only) to be levied as of May 1 on most electrical household appliances and on consumer durables such as radios and television sets, hi-fi equipment, cameras, furs, jewelry, plus aircraft and camping trailers. Basic VAT rate remains unaltered (8%).

Revenue Duty - Increases on beer, spirits (by 65p), wine (24p), and cigarettes (5.5 to 10p per pack).

Automobiles - Road tax on private cars up from £25 to 40. Commercial vehicles: Rates up by one-third, with a minimum of £40 for "general goods vehicles." Increases effective as of April 14.

Companies and Investment - No advance corporation tax supplement or change in corporation tax announced. Price Code: Extended scope for investment relief for exporting via a rate increase from 17.5 to 20%. Export finance: Loan guarantees for preshipment finance of "large-scale" projects. Oil companies: Measures to prevent offsetting of losses by artificial pricing and profit manipulation. Capital gains: Clampdown on "bed and breakfast" (by which shareholdings that have fallen in value are sold to establish a loss for capital gains purposes and repurchased the next day) and on "double banking," whereby in the past relief was given on a capital loss on gilts held for more than one year. Industrial incentives: Selective assistance under the Industry Act 1972 for "viable investment projects" to be intensified. Scrip options: Issue of stock dividends as alternative to cash to be charged to income tax. Gold coins: Import curb, to include Krugerrands.

Public Sector - Borrowing requirement reduced by £1.2 billion to 9.1 billion (1975-76) and by £3 billion in 1976-77. Public expenditure to be reduced by £1.1 billion at present prices. Defense budget trimmed by 3% (approx. £110 million). Food subsidies to be cut (£150 million), and reductions in housing subsidies (£65 million), together with general capital cutback in housing programs. Nationalized industries: Subsidies to be phased out by April 1976 (additional £20 million earmarked for manpower training programs designed to produce incentives for job mobility).

Norway: White Paper on Price, Incomes Policy

While the White Paper on price and incomes policy presented by the Norwegian government on April 18 contains no major surprises, it does deviate on some important issues from the recommendations of the official Skanland Commission made in 1973. Oslo has not followed the proposal of creat-

White Paper *(contd.)*

ing a general framework for measures to be taken in the prices and incomes sector nor does it favor the establishment of a new Prices and Incomes Council, whose decisions would have been binding on the administration, employers, and unions alike.

The government instead wants to pursue an ad hoc approach, though with better cooperation between the authorities, management, and labor. The forum for these cooperative efforts would be the existing "Contact Committee," which includes the Prime Minister and representatives of the government, industry, labor, and the farming and fishing sector. The chances of coming to mutually acceptable solutions would be improved by the increased availability of comprehensive statistical and other information. The underlying premise would be that the state would be obliged "to keep its use of real resources within fixed limits," while employers and the unions would assume an obligation to negotiate pay increases within definite bounds.

Portugal: Nationalization Spreads to Industries

The continuing nationalization drive in Portugal - which so far has brought some 30% of the country's production industries under state control - is being accompanied by official assurances that existing foreign investments in that country will not be touched. And, among domestic business leaders at least, there is quiet agreement that the future development of the Portuguese economy will to a large extent depend on foreign capital and initiative. But there is also no doubt that international investors want to see first what the future will bring: only projects that have proceeded too far to be halted without major loss are being continued; others, in the planning stage, have been either temporarily shelved or entirely withdrawn.

As of April 16, nationalization was formally extended to the following industries: steel, electric utilities, chemicals, and transport (the railroads, the major shipping lines, and the TAP international airline all are now under state control). Concerning these sectors, Prime Minister Vasco Gonçalves said that Portugal would "fully honor" its commitments to foreign investors. But at the same time he did announce a "review" of foreign holdings in the oil industry, where the four major domestic companies already have been nationalized.

As future targets for state ownership Gonçalves named tobacco and beer production, petrochemicals, pharmaceuticals, cellulose, and shipbuilding. Also imminent was the takeover of the country's largest industrial concern, Companhia Uniao Fabril (CUF), which alone accounts for about 20% of the country's total industries, with its largest stakes in chemicals, textiles, and foodstuffs. Concrete plans have emerged for the pursuit of the agrarian reform

Nationalization *(contd.)*

as well: land holdings of up to 50 hectares are not to be expropriated, those of between 50 and 500 hectares only if badly managed. All other land holdings will come under state control; the large farms in the south of the country are to be run along the same lines as at present, though under the administration of "farm workers' councils."

EURO COMPANY SCENE

Linoleum Cartel

Action by the EC Commission has led four leading European producers of floor coverings to dissolve their "Linoleum Manufacturers Export Convention." Nairn Floors Ltd. and Barry Staines (Sales) Ltd. of the U.K., DLW-AG of Germany, and Forbo AG of Switzerland had formed the export cartel in order to set unified prices and discounts and coordinate payment terms, fees, and size norms. Although the group had centered its export activities on Belgium, Luxembourg, Denmark, and Ireland and on other non-EC states, Brussels found that the limits on competition imposed by the cartel affected companies throughout the Community, since the linoleum manufacturers already occupy such strong market positions there. An exemption from EC antitrust regulations was out of the question because the convention did not function in the interests of improved quality or better distribution, the Commission said.

Dassault-Breguet/ McDonnell Douglas

The government of Spain has purchased 15 Mirage F-1C fighter planes, built by Dassault-Breguet of France, for about $75 million after canceling an order for 24 McDonnell Douglas Phantom F-4s, according to reports from Madrid. Spanish military experts are said to have rejected the Phantoms as uneconomical. The deal does not, however, rule out the possibility of Spain's also buying the General Dynamics YF-16, the aircraft now competing with the Mirage F-1/M-53 for $2 billion worth of NATO defense contracts, at a later date.

Renault

Acceptance of the offer of a monthly FF 140 across-the-board pay raise by 76% of the 6,000 workers at its key Le Mans component plant has brought to a close the longest and most expensive strike in the history of France's state-owned Régie Renault SA. Despite ongoing labor-management negotiations, production losses reportedly had continued to mount until they totaled some 70,000 cars, about 13% of the year's projected output. As a result, Renault has been forced to throttle its current investment program by 40% and has announced it will postpone the introduction of several 1976 models.

Comotor

Comotor AG, a joint venture set up in Germany by Citroën of France and Volkswagen's Audi NSU subsidiary to develop and

Comotor *(contd.)*

build Wankel engines, has announced the termination of production and the planned dismissal of 150 of its 180 employees. The remainder will continue to work on development of new Wankel types. The closure of the DM 50-million assembly plant, in operation for only two years, is taken by most as a sign that Citroën and Audi NSU see little chance for the Wankel engine under present market conditions.

Tealtronic Nederland

British-owned Tealtronic SA of Geneva has completed the takeover of Singer Co.'s Dutch office machinery plant at Nijmegen through the newly established Tealtronic Nederland BV. The government of the Netherlands reportedly put up 40% of the 2.08-million-guilder capital required to revive the operation and has provided for an initial credit underwritten by the state investment bank.

Krupp/ East Germany

East German government officials and representatives of the Krupp steel group of Essen have signed a skeleton agreement covering long-term technical and economic cooperation. Worth several hundred million D-marks, according to Krupp, the contract involves plant construction projects and is the first of this kind ever to be concluded between a West German concern and East Germany.

Alcan/ Baco/ DNN

The Norwegian government has agreed to pay $35 million to Alcan of Canada and British Aluminium Co. Ltd. (Baco) for their joint (50:50) subsidiary DNN Aluminium A/S in Tyssedal, western Norway. The purchase will include DNN's production plant and rights to hydroelectric power supplies. Oslo had previously rejected proposals by Alcan and Baco to double DNN's present annual capacity of 25,000 tons by building new facilities or, alternatively, to construct a second plant to produce silicon. Instead, the government hopes through its takeover to maintain employment in the area and induce other forms of industry to settle there.

Interpublic/ Troost

As of April 1, the Interpublic Group of Companies in New York has acquired complete ownership of Troost KG advertising, Germany's ninth-largest agency group, with branches in Milan, Brussels, and Amsterdam. The price of the deal was not disclosed. Troost will operate as Troost Campbell-Ewald and will have headquarters in London. Interpublic also owns McCann-Erickson, the German advertising leader, which is to continue fully independent of and in competition with the Troost group, according to Troost spokesmen.

Mister Donut

Mister Donut of America, Inc., of Westwood, Mass., a division of International Multifoods Corp., is seeking to expand its franchise operations to Europe. The company, which licenses a line of coffee-and-doughnut shops, is already active in Canada, Mexico, Panama, and Japan as well as in the United States.

Common Market Reports

EUROMARKET NEWS

Issue No. 329 *Report No. 264, May 9, 1975*

IN THIS ISSUE

page
Community: Attack on Cost Insurance Subsidies.........1
25 Years Ago - Schuman's Idea for Europe..............2
In Brief: Employment; Binsbergen; Council Agenda......3
France: FF 15 Billion to Encourage Investments........3
Netherlands: Shot in the Arm for Building Sector......4
Germany: Voluntary Bank Fund to Protect Depositors....5
Switzerland: Abolishment of Credit Growth Limits......5
Euro Company Scene....................................6

Community: Cost Insurance Subsidies Come under Attack

In a complete turnabout from its earlier position, the European Commission has asked its competition and market directorates to find ways to end the system whereby France, Italy, and the U.K. subsidize the cost of insurance taken out by exporters to protect themselves against exchange rate fluctuations and cost escalation. Although, back in 1971, the Commission had been opposed to the system as such, it chose to propose harmonization among exporting countries to avoid distortions in competition.

While Commission lawyers do not rule out the possibility of the Commission's initiating legal action on the basis of the experts' eventual findings, the primary object of Brussels' move must be seen in the context of current negotiations by the EEC, the United States, and Japan on a gentlemen's agreement on export credit restraints. Even though a successful conclusion of these talks has often seemed imminent, new problems have kept arising so that the final outcome is still uncertain (the next meeting has been scheduled for May 12-13).

Commission efforts to coordinate the policies of the member states on export credit insurance, export guarantees, and export financing started nine years ago but failed to produce tangible results in the Council of Ministers because France and Italy challenged the Commission's authority to harmonize these policies. Both countries,

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Insurance *(contd.)*

whose generous credit terms had given their export industries a competitive edge even prior to recent "escalation coverage" subsidies, have refused to relent in their policies, which are clearly contrary to Treaty of Rome intentions (*Common Market Reports, Pars. 3591 and 3872.01*).

The Commission's reversal means that France, Italy, and the U.K. no longer may count on Brussels' support in the discussion for retention of the systems. But it also means a concession to the other parties, primarily the United States, which has warned that it might insist on the inclusion of a ban on escalation coverage systems in the agreement.

25 Years Ago - Schuman's Idea for Europe

The idea of European integration will be celebrated quietly on May 9 to commemorate the proposal by French Foreign Minister Robert Schuman a quarter century ago to pool the coal and steel resources of the European countries and to set up a high authority whose decisions would be binding on the governments concerned. This idea, out of which grew the much broader concept of the European Economic Community, took account of the U.S. and British governments' desire to relinquish postwar controls over German heavy industry and of France's fear of uncontrolled survival of Germany's rearmament potential. Schuman saw the European Coal and Steel Community with common institutions (High Authority, Court of Justice, and Parliament) not as an end goal but the beginning of a gradual process of European integration.

Though many of the grand designs, such as that for an economic and monetary union, may be as far as ever from realization, the EC institutions take pride in what has been accomplished so far in extending Schuman's idea to virtually all economic fields by eliminating tariffs and discrimination and by removing legislative barriers throug harmonization. The Commission has been unrelenting in its work of proposing legislation and, in its watchdog function, of seeing to it that businesses do not interfere wit free trade through restraints of competition and of makin sure that the member states fulfill their obligations. Tl Council and national government officials, on the other hand, have often demonstrated their persistence and ingenu ity, which have rescued many proposals from oblivion and eventually turned them into Community law. Finally, a sub stantial share of the credit must go to the Court of Justice, a truly independent institution that not only has grown in its role as supreme guardian of the Treaty of Ro but also has gained status in molding the national economies into a genuine common market.

The May 9 commemoration will be overshadowed by the uncertainty of the outcome of the British June 5 referen dum. Britain's withdrawal would be a blow to the Europe idea and the Community, but there is enough optimism no

Schuman's Idea *(contd.)*

that the Common Market will survive and continue, though perhaps at a slower pace.

In Brief...

Council of Ministers officials believe that there is a good chance for the directive on equal opportunities in employment to be adopted by the end of June, at the latest. Ireland, which holds the Council chairmanship up to that time, has been keeping the discussions going in all committees and institutions concerned. . . Contrary to earlier statements by the Commission's legal department, there will be no memorandum assessing the effect of the Court of Justice's Binsbergen ruling on proposals pending before the Council. Actually, the ruling affects only the draft directive on lawyers, but an evaluation of the ruling would inevitably compel the Commission to take a position on an intricate problem confronting the U.K., where English and Scottish solicitors have been arguing for many years over representation in their respective courts. . . The Council's Secretary-General has told the nine member state governments that, "with some good will," the Council could adopt 15 to 20 directives prior to the summer recess (July 31). Most of these would remove national legislative barriers to trade by harmonizing technical specifications, among other things.

[illegible]nce: FF 15 Billion to Encourage Investments

Under the heading of "a very concentrated and massive effort," the French government has announced a FF 15.5-billion program to lift the domestic economy out of its doldrums by encouraging public and private investment and spurring employment. However, the six-point program, first announced by President Giscard d'Estaing on April 23, received a less than enthusiastic welcome from industry: while acknowledging the need to stimulate sagging investments, the Patronat Français employers' federation nevertheless wondered whether the measures had not come too late and whether the incentives offered will actually overcome business reluctance to borrow money at a time of slow demand, strict price controls, and a general undercapitalization on the part of many companies. Similar questions are being raised by the trade unions, which have dismissed the plan as probably producing only a minor effect on unemployment.

The program, to be submitted to the National Assembly in the form of a Budget supplement, includes the following measures:

- State-controlled enterprises will receive a direct infusion of FF 1.25 billion toward the purchase of capital equipment.
- Small and medium-sized enterprises are to benefit from a total of FF 5 billion in subsidized loans for such pur-

FF 15 Billion *(contd.)*

chases. At a guaranteed interest rate of 8.5% for the first five years, these funds will come from a bond issue floated by the quasi state organizations that generally provide financing for these purposes (Crédit National, Crédit Hôtelier, etc.). They will be available for investments effected before Sept. 30, 1975.

- The preferential 8.5% interest rate also will apply to special credit facilities extended to exporting industries.
- Placement of capital equipment orders between May 1 and Dec. 31 this year will entitle businesses to deduct 10% from the value-added tax payments due on these orders.
- Some FF 240 million will be made available to regional development companies in certain areas, particularly in the western and central parts of the country.
- Finally, the government has decided to sink FF 4.2 billion into a build-up of the national telephone system within 1975 and '76. The money is to be spent on establishing 900,000 additional telephone lines and improving automatic exchange facilities.

Netherlands: Shot in the Arm for Building Industry

Both the Dutch construction industry and the unions have registered unanimous displeasure over the government's decision to provide only 1 billion guilders in additional aid to the ailing building sector despite joint pleas for at least 2.5 billion. As revealed by Social Affairs Minister Jaap Boersma on April 22, this assistance will be in the form of a one-time subsidy to home owners undertaking major renovation and repair work. The subsidy, to be granted this year and next, will equal 25-30% of costs ranging from 5,000 to 25,000 guilders. In addition, the government will promote construction activity in regard to municipal and regional projects.

The building industry and labor have long been demanding direct help from the state - in early April, some 57,000 workers in this sector were out of work, representing nearly 30% of total unemployment in Holland. Boersma was optimistic that the latest government steps would help create 10,000 jobs, but union spokesmen reduced this figure to 4,000 at most and claimed that, in any case, the impact of the program would come too late in the year to bring relief when it was most needed.

The Hague's most recent measures - which supplement the broader 3.5-billion-guilder program and a smaller 550-million package announced so far this year - have not quieted criticism of the government's alleged inability or unwillingness to deal decisively with unemployment. Some observers have accused the Den Uyl administration of dragging its feet intentionally in hopes that an economic recovery expected toward the end of the year would take care

Building Aid *(contd.)*

of most of the problem. But the difficulties extend beyond economic factors - it is no secret that the serious depression in which the Dutch construction industry finds itself stems in large part from overcapacities built up during earlier boom periods and that a rigorous restructuring of the entire sector would be the only lasting solution.

Germany: Voluntary Bank Fund to Protect Depositors

Under a voluntary system proposed by the German banks and now accepted by Finance Minister Hans Apel and the government, a bank collapse similar to that of Herstatt last year would no longer spell disaster for most depositors: they would be certain to recover all their money. All banks joining the system would pay into a central fund 0.03% of liabilities incurred annually in transactions with their customers. This would raise about DM 50 million a year - money that would be administered by a tax-exempt fund and be used to bail out member banks in financial difficulties.

Savings accounts and other deposits would be insured against loss for up to 30% of a bank's liable assets, which generally means that deposits of up to DM 1.8 million would be safe in the event of a bank failure. An institution facing collapse would not have to close its doors, since it could count on a statutory respite to meet its obligations, avoiding a rush by concerned depositors. During this grace period, negotiations with the bank's creditors could continue.

Though the system is voluntary, both government officials and representatives of the banking community are confident that all financial institutions will join, including the foreign-owned banks and the investment funds. A system comprising all members of the banking community would, of course, forestall any distortions of competition between joiners and non-joiners.

In addition to the ceiling on banks' speculating on foreign exchange markets, which the government decreed at the end of 1974, an amendment to the banking law now before Parliament also would help prevent bank failures and thus maintain public confidence. The proposed amendment would, for instance, reduce the credit risk banks presently are allowed to assume in that any single loan could not exceed 75% of a bank's assets. This provision has been criticized as being discriminatory and prejudicial to smaller banks, and the government is apparently prepared to show flexibility here (*Doing Business in Europe, Par. 30,762*).

Switzerland: Abolishment of Limits on Credit Growth

With effect as of May 1, the Swiss government has abolished the ceilings on credit volume expansion that had been imposed at the end of 1972. These limits initially amounted to 6%, later to 7% of commercial bank lending. At the same

Credit Curbs *(contd.)*

time, Bern has loosened restrictions governing consumer loans and installment purchases. All these measures originally had been introduced to cool off demand and slow down inflation. Meanwhile, however, the Swiss economy has been showing increasingly recessive tendencies, and the central government must now give more attention to the stimulation of investment and possible provision of liquidity aids.

The removal of the lending curbs nevertheless does not indicate an abrupt about-face in official credit policy. The regulations on minimum reserves and on emissions (bond issues) remain in force, and the National Bank further has warned the banks to stay clear of "excessive" credit expansion so as not to risk a reintroduction of the credit volume restrictions. The banks have been told to give preferential treatment to well-managed and competitive businesses that are encountering liquidity problems through no fault of their own. Priority also should be given to the financing of public and private investments that would directly benefit the economy and employment.

In related news, the question of whether Switzerland is to join the European currency "snake" will be brought up again at the next meeting of the EC finance ministers, on May 20, after a decision on the issue was postponed at the April meeting.

EURO COMPANY SCENE

British Leyland

After considering a report by Sir Don Ryder, its chief industrial adviser, the U.K. government announced its intention to take a majority holding in British Leyland Motor Co. as part of an ambitious 10-year, £1.5-billion investment program that would inject much-needed cash into the automobile giant. Whereas the company's board was likely to accept, at least in broad terms, the conclusions of the Ryder report (which called for a total restructuring of BLMC's management, administrative procedures, production policies, and finances), the government's plan was by no means a *fait accompli*. The extraordinary general meeting, scheduled for May 7, was expected to be a genuine test of the viability of the government's proposals: without the support of BLMC's private and institutional shareholders, the company would be unable to increase its borrowing powers to take up the £50-million loan that is to keep the company running in the short term. Shareholder approval also was necessary to implement the government's long-term plans for financial restructuring.

Much as the company may need the cash, there is widespread rejection of the state participation concept. Furthermore, there remains the vital question of how much the

BLMC *(contd.)*

government will pay for Leyland shares, the trading of which was suspended: the government suggested 10p, but there was a strong lobby for 15p. The £50-million, short-term injection is also subject to parliamentary approval under the Industry Act 1972.

British Steel

Crucial talks are taking place between the U.K. Secretary for Industry, Anthony Wedgwood Benn, and British Steel Corp. chairman Sir Monty Finniston, who reportedly had angered Benn by suggesting that BSC's work force of 220,000 be reduced. Labor union considerations have now prompted the Secretary to ask BSC to indicate how it sees government's role in the review of recent plant closures, how many lay-offs will be necessary at individual plants and when these would be scheduled, how it views the interrelationship between the corporation and government, and - most significantly - in what way BSC thinks the government can "best realize" its policy of "socializing existing nationalized industries."

Gelsenberg/ Veba

In a report to the German Economics Ministry, the Monopolies Commission has approved the merger of the state-controlled Gelsenberg and Veba energy groups with some reservations. While endorsing the fusion from the standpoint of securing the nation's crude oil supplies, the commission has suggested that the combine divest itself of certain non-petroleum interests for the sake of free competition on the domestic market. According to the panel, Economics Minister Hans Friderichs should have imposed conditions to this effect when, in February 1974, he exempted the fusion from a Cartel Office veto by virtue of his special powers under the German Cartel Law (*Doing Business in Europe, Par. 23,510C*). Specifically, the commission recommended the detachment of Preussen-Elektra AG, an electric power supplier, and of other holdings in the areas of retailing (e.g., service stations) and transport (shipping). Although the government is not bound by these findings, it has agreed to study the Monopolies Commission critique in detail.

rdar/ lliez

The European Commission has invalidated a selective marketing agreement between Sirdar Ltd. of the U.K. and France's Les Fils de Louis Mulliez, two leading EC producers of woolen yarns and knitwear. In 1964 the companies had pledged not to sell wool under their respective trademarks "Sirdar" and "Phildar" on each other's domestic markets, although the brands competed openly elsewhere in the Community. When the French firm in 1973 decided to end the arrangement and applied to British authorities for registration of its trademark, Sirdar objected. The Commission has found the original sales restrictions to be in violation of EC competition law and has upheld the French compa-

Sirdar/Mulliez *(contd.)*

ny's right to introduce its Phildar label in the U.K., a decision that has been seconded by a British court. By the same token, Sirdar may use its own brand name in France. The Commission concluded that even though it might be true that the two trademarks were similar and could be confused, this would not justify a territorial market division. Sirdar has appealed the case to the European Court.

Société Générale/ Crédit Lyonnais

French state-owned banking groups Société Générale and its offshoot Société Générale Alsacienne and Crédit Lyonnais are planning to open representations in East Berlin. According to reports from Paris, Crédit Lyonnais has already received official permission to do so, while Société Générale is awaiting approval of its application. These will be the first western banks to establish offices in the East German capital.

Bruxelles Lambert/ Jennison

Cie. Bruxelles Lambert of Belgium reportedly has purchased a 20% nonvoting stake in Jennison Associates, New York investment managers, for an undisclosed sum.

Ramada/ Ladbroke

Ramada Europe, Inc., of the U.S. Ramada Inn group, has signed a 20-year contract with British hotel concern Ladbroke Ltd. Through a new joint venture, Ladbroke-Ramada Ltd., the partners are to purchase and operate hotels in the U.K. and elsewhere. Financial details have not been released.

Occidental Life/ Futura

Occidental Life Insurance Co. of California, a Transameric[a] holding, has set up a new German subsidiary in Wiesbaden, Futura-Lebensversicherung AG. With paid-in capital of DM 4 million and additional funds of DM 2 million, Futura is to handle life, accident, property, and other forms of insurance and is said to be negotiating possible cooperation agreements with several German firms.

Common Market Reports
EUROMARKET NEWS

Issue No. 330 *May 14, 1975*

IN THIS ISSUE

page
Community: Approval Due on Outward Processing.........1
High Court Again Dismisses Suit by EC Union...........2
Belgium: Price Freeze; Alarm over Indexation..........3
Britain: Industry Objects to Nationalization Terms....4
U.K. Insurers Fear Too Much State Intervention........5
Germany: Bonn Determined to Push Energy Program.......5
Switzerland: Few Plaudits for Environmental Bill......6
Sweden: Central Pact Sets High Pay Increases..........7
Euro Company Scene....................................7

unity: on Due on Outward Processing

Adoption of the directive on outward processing by the Council of Ministers is only a matter of time now that the permanent representatives have recommended this action. The member states would then be compelled to bring their statutory, regulatory, and administrative rules into line with Community provisions in order to remove distortions in competition and deflection of trade.

Community-based firms increasingly have been exporting products to third countries for processing or repair there before reimporting them into the Common Market. Sometimes lower wages prompt companies to resort to such arrangements and sometimes the move may be necessitated by an international division of labor. Often, however, an EC-based firm chooses a company outside the EC because it has the needed technical facilities or the exclusive use of a patent for carrying out processing operations. Harmonization would eliminate discrepancies in national procedures (the conditions for recourse to outward processing differ substantially) and would close one of the few existing gaps in the customs union. The other major gap is in the area of inward processing, where complete harmonization has not materialized (*Common Market Reports, Par. 313.37*).

Outward processing would be wholly or partly exempt from import duties. Only individuals and businesses domi-

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Processing *(contd.)*

ciled within the EC would benefit, though the temporary exportation for processing outside the EC would be subject to authorization by national customs. Authorization might be denied where customs could not identify the processed products after reimportation. An authorization would have to specify the conditions and circumstances under which outward processing might take place, especially the profit realized (taking into account the technical aspects of the operation to be performed), arrangements for identification, and the time limit for reimportation.

All member states except Ireland would have six months to make the necessary legislative and administrative changes. Ireland, which would have until July 1977, was favored with this extension because its industry could not cope in such a short time with the total or partial exemption from duties in third-country trade and free intra-EEC trade.

Court Again Dismisses Suit by EC Union

The European Court of Justice has again quelled a union attempt to take Community institutions into court on behalf of members who claim to be disadvantaged by acts of the institutions. The EC court has dismissed a suit (*Union Syndicale et al v. Council*, Case No. 72/74) on grounds that an organization established to pursue the collective interests of a group of individuals cannot be deemed to be directly and individually concerned by a measure affecting the general interests of the group. Direct or individual concern is a prerequisite under Treaty Article 173, par. 2, for bringing legal action (*Common Market Reports, Pars. 4635-36*).

Though the case immediately concerns an EC local representing civil servants working for the various EC institutions, the ruling has much broader implications, since it defeats union hopes for a change in the Court's attitude. In fact, the decision confirms earlier case law on the admissibility of union-instigated actions pertaining to the status of the Community as an employer.

In 1974 the union brought suit in the Court of Justice seeking 1) annulment of a Council decision "rejecting any move for paying compensation to European officials who may have suffered damage as a result of a member state's error in computing special cost-of-living indexes," and 2) damages suffered as a result of previous Council decisions designed to adapt salaries to changes in the cost of living. Plaintiffs based their first pleading on Treaty Article 173, which provides for court review of Council and Commission acts, and on Treaty Articles 178 and 215, which give the Court jurisdiction to rule on claims based on the Community's contractual and non-contractual liability (*Common Market Reports, Pars. 4661-62 and 5225-26*).

EC Union *(contd.)*

The Court of Justice stated that plaintiffs' pleading based on Article 173 was inadmissible because of lack of direct concern. As for damages that the officials allegedly suffered as a result of Council acts, the Court said that damages could be sought only if the Court had declared the Council's decision illegal. Since the Court held that the annulment pleading was inadmissible, and that the pleading for damages practically depended on the first, it also denied application of Articles 178 and 215.

Belgium: Price Freeze; Alarm over Indexation

After the Belgian consumer price index climbed by another 1.55 points in April, scoring the highest increase in about eight months, the government declared its intention to impose a two-month price freeze pending consultation with the Price Commission. In announcing the step on April 30, Prime Minister Leo Tindemans said that Belgium was being confronted with a "terrifying problem" in trying to regain the international competitiveness of its prices. He said that even in the United States many key industries were producing at lower cost than their Belgian counterparts - a point recently emphasized by the national employers' federation.

The unexpectedly sharp index rise last month - corresponding to an annual inflation rate of 12-14% - has again focused attention on the country's controversial wage indexation system. This latest index boost will automatically give employees in most sectors and in the public services a 2% pay increase in May. It will be the third such increment so far this year, for a total of 6.12%, not including negotiated or other wage rises.

How much this problem is now worrying the government emerged at the general meeting of Fabrimetal, the Belgian association of metalworking industries, where Finance Minister Willi de Clercq posed the question of whether the indexation system can still be justified at a period of high inflation. In normal times, De Clercq said, the system should be viewed as an element contributing toward social peace, but now it triggers constant pay increases that clearly outstrip the expansion of productivity. In the long run, the minister said, this will be suicidal for a country that exports more than 50% of its industrial production. De Clercq's comments were regarded as significant inasmuch as they marked the first time a cabinet member publicly challenged the wisdom of the indexation system. (For that matter, it is also the first time the administration has given up its reluctance to impose a price freeze.)

The upcoming price stop - details of which remained to be worked out - is part of a broader package that reportedly is to include investment aids, lower corporate taxes (especially on inventories), and lower social security bur-

Price Freeze *(contd.)*

dens for companies classified as major employers. Earlier, the Belgian central bank announced the upcoming abolishment of most credit curbs and of obligatory minimum reserves.

Britain: Objections to Proposals for Nationalization

Under the Aircraft and Shipbuilding Industries Bill introduced on May 1 by the Secretary of State for Industry, the U.K. government intends to set up two new public corporations, British Aerospace and British Shipbuilders, to take over these respective industrial sectors. Both corporations are to have "full regard to the requirements of national defense" and are to secure the "benefit of the knowledge and the experience of their employees in the organization and conduct of their affairs."

However, it was Part II of the Bill that triggered the inevitable reaction. It provides for "the vesting in the corporations of the securities of companies listed in Schedules 1 and 2 and certain other assets, for compensation to be paid to existing holders, for control of payments of dividends in respect of the period before vesting, for the safeguarding of assets against dissipation, and for the control of certain transactions in the period before vesting." In other words, 44 companies in the aircraft and shipbuilding industries are to be nationalized (as promised by the Labour Party), and "compensation" is to be paid.

Apart from its natural reaction against state intervention, industry's objections center on two areas: economic viability and compensation. The joint owners of British Aircraft Corp. (BAC), Vickers and General Electric Co. Ltd., have summarized their objections to the "doctrinaire and damaging" Bill, asserting that there is "no evidence offered or available to show how and why the industry's operations will be improved by national ownership." Their list of counterarguments includes charges that costs would rise, competitiveness would be reduced, worker-management relations would deteriorate, and job security eventually would be diminished.

The shipbuilders object to the Bill's implicit compensation payment procedures based on the "average share price of the company involved in the six-month period to Feb. 28, 1974." This, they say, is totally unfair inasmuch as share prices were then depressed in the light of Labour's announced commitment to nationalization. Further, the compensation terms proposed take no account of recent share price rallies. Finally, compensation would be paid (as in the earlier instance of iron and steel nationalization in 1967) by the issuance of government stock. However, unspecified "appropriate deductions" would be made from the base value of securities where there had been (presumably in the view of the Secretary of State) "dissipation of assets."

U.K. Insurers Fear Too Much Intervention

Another piece of legislation that is having a stormy passage through the U.K. parliament is the Policyholders Protection Bill, which had its second reading on May 6. Once again, the objections center on what appears to be "backdoor nationalization" of the insurance sector. Inspired by a recent series of insurance company failures, the draft legislation is designed to produce a statutory protection of "innocent" life or automobile policyholders. A five-member board would be established with powers to intervene in the affairs of any insurance company where holders had lost (or were about to lose) their cover. The board would administer the ailing company, use powers to levy retrospectively 1% of the insurance industry's premium income, and guarantee up to 90% of the benefits promised and a full 100% in the case of compulsory insurance policies. Protection under the proposed legislation would be available to private policyholders but not to corporate holders or foreigners.

The industry obviously fears that the Bill provides the government with a tool to direct and manipulate its affairs. Special hostility is reserved for Clause 16, which appears to oblige the industry to bail out all companies that get into difficulties, irrespective of the reasons behind those problems: the industry does not relish the prospect of having to rescue "go-go" companies that use marketing and operating methods of which it does not approve.

However, the insurers can hardly balk at the concept of increased protection for the individual policyholder. What will be required is either a careful redrafting of Clause 16 to exclude fly-by-night operators or to provide a lower level of guaranteed protection. The odds against an acceptable compromise are somewhat lengthened, however, for want of a united front: Scottish insurers have flatly opposed the need for any protection mechanism on the grounds that their record of self-regulation is excellent.

Germany: Bonn Intends to Stick to Energy Program

The massive protest recently launched by several thousand West Germans against the planned construction of a nuclear power station near Karlsruhe, culminating in a court order halting further construction, has put the government into an awkward position. But the citizens' drive, motivated largely by environmental concern, is not expected to curtail Bonn's efforts to meet future energy needs through atomic energy and additional coal-fueled power stations. Though the government has demonstrated its concern for the environment in an impressive legislative program partly enacted and partly still before Parliament (*Doing Business in Europe, Pars. 23,542-49, 30,614, 30,708, 30,718, and 30,724*), it believes that the protesters are not sufficiently informed about controls and safety facilities and

Energy Program *(contd.)*

that the possibility of a nuclear accident has been greatly exaggerated. As in the case of coal-fueled power plants, where some pollutants always escape despite antipollution devices, the government believes that minimal pollution (from nuclear-powered plants, thermal pollution) must be accepted in the interests of providing adequate energy supplies.

It is clear that Bonn is going to stick to its energy program, charted until 1980, which calls for construction of 10 coal-fueled power plants with a total capacity of 6,000 Mw in order to reduce Germany's dependence on oil. To lessen this dependence even further and more effectively, government plans provide for an additional 15 nuclear power stations, raising the present capacity of 3,500 Mw to 50,000 by 1985. By that time, 45% of the fuel used to produce electricity would be supplied by uranium and other fissionable materials. The government is confident that its supplies of these materials will remain adequate, even without agreements with the United States and the Soviet Union.

Although the administration does not condemn protests or legal suits, it nevertheless is counting on the state agencies to speed up processing of construction permits so that the energy program will benefit the entire country when it is most needed.

Switzerland: Environmental Bill Receives Few Plaudits

Public reaction to the Swiss government's first draft of a federal environmental statute (*Vorentwurf zu einem Bundesumweltschutzgesetz*) has been ranging from enthusiasm by environmental organizations to skepticism by the national industry association and the political parties and to outright rejection by the cantonal governments. Based on a 1971 constitutional amendment (*Doing Business in Europe, Par. 29,543A*), the object of the bill is to prevent further damage to the environment and to reduce as much as possible emissions from stationary and other sources. The draft does not establish standards for air pollution and noise abatement controls, but it would empower the federal government to do so in subsequent regulations.

A great deal of criticism pertains to the vague terminology of the aims sought and the means to attain them. Further doubts center on enforcement, a problem illustrated by the admittedly insufficient application of existing legislation - for example, on automotive exhaust and noise (*Doing Business in Europe, Pars. 29,545A and 29,546A*).

Nearly half of the 25 cantonal governments have submitted comments so far, and all have criticized the failure of the draft to give due consideration to the country's federal-cantonal structure by reducing the role of the can-

Environment *(contd.)*

tons to mere enforcement agencies for the federal government. The cantons instead favor a framework law establishing the principle of reducing emission at the source, with priorities on curbing air pollution, noise abatement, and waste recycling. This framework legislation would grant the cantons a larger role in implementation.

The federal government will decide on its next move once all cantonal comments are in.

Sweden: Central Accord on Highest Pay Rises Ever

Following five months of negotiations, Sweden's SAF employers' association and the LO trade union federation have agreed on collective bargaining terms for the 1975-76 period. These are in the form of nonbinding guidelines, but there was little doubt that the individual sectors would adhere to them in contracts to be formally concluded this month. The accord does, however, include the possibility of renegotiation in the event of a dramatic change in the economic climate or if the individual unions are able to make better deals for their members.

The central agreement provides for wage costs to rise by 15% in 1975 and by about 10% in '76. In consideration of the tax reductions already in force for this year and scheduled for 1976, nominal wage improvements for employees would rise by 23% and 18%, respectively - the highest rise ever negotiated. Union spokesmen estimated that, in real terms, pay increases would come to 3% this year. The employers' side predicted, though, that the high wage costs would in turn be reflected in the inflation rate and thus lead to no net improvements. In addition, Swedish industry is deeply concerned over the probable impact of the new two-year pact on its export competitiveness.

In anticipation of this possibility, the government as of July 1 will free 7 billion kronor from previously frozen corporate investment funds to support export production. In 1974, Swedish exports had expanded by 4% in volume and by 33% in value (imports by 15% and 57%, respectively).

EURO COMPANY SCENE

British Steel/ British Rail/ Chrysler

The chairman of British Steel Corp. is continuing to press for a cut in the concern's work force of some 22,000, despite bitter attacks from the Secretary for Industry and from the U.K.'s labor unions. The confrontation is being carefully watched by the heads of other nationalized industries which could be forced into similar positions. The EC Commission meanwhile has approved a £4-million loan to BSC to help finance a modernization program. The credit was extended under Article 54 of the European Coal and Steel

British Steel/ British Rail/ Chrysler *(contd.)*

Treaty and brings up to over Ŀ98 million the total of loans to BSC approved by the Community since January 1973.

Labor intransigence in the case of BSC has been mirrored elsewhere: British Rail, in grave financial trouble with posted losses of Ŀ97 million in 1974, has been informed by the unions that they will continue to claim a 30% wage increase. A similar line also is being taken by Chrysler workers at Coventry who have voted for a pay strike despite the fact that the company incurred a Ŀ17-million loss last year.

Ferranti

The U.K.'s electrical and electronics group Ferranti is to be "rescued" by the British government to the extent that the state will acquire a 50% holding in the group in exchange for a cash injection of some Ŀ15 million. This sum will be sufficient, it is reported, to provide for the company's current debts and enable its development plans to be implemented. The government's decision to "help out" came on the basis of Ferranti's position as a technological front runner and the group's intricate ties with U.K. defense contracts.

Roland II/ General Dynamics

In two proposals to Parliament, the government of Norway has recommended the purchase of an American version of the Franco-German defense missile "Roland II" and of 72 General Dynamics F-16 fighter jets for a combined cost of 3.5 billion kroner. The F-16 deal would not go through, however, unless Belgium, Denmark, and the Netherlands also opted for the aircraft. The Roland II missile system, accounting for 580 million kroner of the projected total, is to provide low-level, ground-to-air defense for airfields in northern Norway.

AM General/ MAN

AM General Corp., a subsidiary of American Motors Corp. of Detroit, and Germany's Maschinenfabrik Augsburg-Nürnberg AG (MAN) have agreed to cooperate in the commercial vehicle sector. Their first joint efforts will involve the production, sales, and servicing of MAN articulated buses in North America. Later, the collaboration could be extended to cover MAN's complete range of motor coaches.

Röhm/ Morton-Norwich

German chemicals producer Röhm GmbH and Morton-Norwich Products, Inc., of Chicago, have signed a cooperation agreement, according to which Norwich Overseas, Inc., a subsidiary of the U.S. group, will take a 50% stake in the DM 1-million capital of Röhm offshoot Röhm-Pharma GmbH of Darmstadt. The value of the deal was not disclosed.

Common Market Reports

EUROMARKET NEWS

Issue No. 331 *Report No. 265, May 20, 1975*

IN THIS ISSUE

page

Community: Rough Going for Company Draft Statute......1

Committee Has Reservations on Job Rights Proposal.....2

In Brief: Banking; Patents; Migrants; Israel..........3

France: Franc to Return to European Joint Float.......3

Belgium: Protests Fail to Avert Price Freeze..........4

Germany: Little Chance Seen for Loss Carry-Back.......5

Britain: Wilson Considering 'Expanded' Social Pact....5

Euro Company Scene....................................6

Community: Rough Going for Company Draft Statute

The Commission's revised European company draft statute is headed for an uncertain future in the Council of Ministers, according to Council attorneys, who gave this first assessment without even having read the 800-odd-page document (draft statute plus commentary). The attorneys believe that political decisions will have to be made first on several issues, particularly the one concerning labor representation on supervisory boards of European companies. Other, less difficult questions pertain to registered shares, access to the statute by third-country companies, and the two-tier board system.

According to the revised Commission draft, one-third of a company's supervisory board members would consist of labor representatives (employees and outsiders, i.e., union officials) and would be elected by the work force. The second third would be composed of the shareholders' representatives, elected by the shareholders. The remaining third would be chosen by labor and shareholders' representatives to stand for "general interests" - they would be independent individuals having the necessary knowledge and experience (*Common Market Reports, Par. 9745*).

Some Council officials fear that the issue of labor representation might turn out to be insurmountable. The Benelux states and Denmark have made progress in this area

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Company Draft *(contd.)*

and are prepared to go as far as Germany and the Netherlands, the two countries with the most advanced legislation (reflected in the draft statute). But France is still far off, as demonstrated in the recent Sudreau report; Italy remains completely opposed to the concept; and the U.K.'s position is difficult because of the thinking of British union leaders in terms of "class" categories. The problem has not been obviated by the provision that employees need not be represented on the supervisory board and that they could decide for themselves whether or not they wanted labor representatives.

Council officials do not favor setting up a working group immediately and starting discussions, which would be the normal procedure. They are convinced that such talks would lead nowhere; in fact, they would consider it a waste of time to invite law professors and other legal experts from the various member states to suggest solutions that in the end could come only from the national governments concerned.

Community observers tend to agree that nothing will happen until the fall. By then, Council officials might be aware of any signs in Paris, Rome, and London of a possible acceptance of the Commission's concept on labor representation or of other solutions.

Committee Vote on Retention of Job Rights

The Commission's draft directive on harmonizing member state rules on retention of employee rights and benefits in case of merger or other forms of ownership change (*Common Market Reports, Pars. 9657 and 9684*) was not given the unequivocal welcome in the Economic and Social Committee that might have been expected. Yet Commission lawyers were somewhat surprised by how few recommendations were made for amendments. Employees and unions have a much stronger voice in the ESC than in the European Parliament, which had basically favored the proposal. The Committee's opinion was carried by 62 votes to 27, with 14 abstentions.

ESC members were unable to agree on whether there should be joint and several liability of the acquired and acquiring company with respect to employee claims dating back prior to the merger or change in ownership or control. The Commission's proposal does not touch this issue at all; it proceeds from the principle of automatic transfer of employment relationships and all accompanying rights to the acquiring company (Art. 3, par. 1). However, a majority of the Committee agreed with the Commission's intention of taking up the matter of joint and several liability in a separate proposal.

The Committee also made an important recommendation with respect to the validity of collective agreements: rights and obligations flowing from plant or company agree-

Job Rights *(contd.)*

ments concluded by the acquired enterprise should not only be transferred to the acquiring company as a matter of law (as proposed by the Commission) but should continue in force until the conclusion of a new collective agreement.

A third major recommendation concerns consultation of workers' representatives. The committee suggests that these representatives be informed and consulted not only prior to any merger (Art. 7) but also when the acquired company had planned to lay off employees for pressing business reasons (Art. 4).

In Brief...

Expert talks on the Commission-proposed directive coordinating national banking rules are moving along, but the proposal to establish a Contact Committee made up of national banking control authorities is virtually dead. . . Discussions on the European Patent Convention will resume in the fall, now that the British government has given up hope that the European Patent Office would be established in London instead of Munich. The decision to locate the EPO in the Bavarian capital was supported by all the other member states. . . The Commission is working on a charter for migrants, requested by the European Parliament, but officials admit that the document can be no more than a declaration embodying principles already reflected, for the most part, in EC legislation. . . Signing of the Israel-EC trade agreement was made possible only by important concessions to Rome: tariff reductions for canned fruit and juice will apply neither as of July 1 (the effective date of the agreement) nor until Italy has received some compensation for reduced EC sales of its own agricultural products.

France: Franc to Return to European Joint Float

French President Giscard d'Estaing has taken the occasion of the 25th anniversary of the "Schuman Plan" to announce the upcoming return of the franc to the European joint currency "snake." The franc had been detached from the joint float on Jan. 18, 1974, in an action that followed the earlier departure of the British pound and the Italian lira. On that day, the franc was valued at 1.76 vis-à-vis the German D-mark, and subsequently it slipped to a low of 2.01 as a result of the oil crisis and the uncertain political situation in France following the death of President Georges Pompidou. Since then, however, and particularly within the past weeks, the franc has made a spectacular recovery. Within a period of 12 months, it was revalued by 25% against the U.S. dollar, by 15% against the D-mark, and - within the last three months - by 10% against the Swiss franc.

The comeback of the French currency - contrasting with the similarly spectacular decline of the British pound - is being interpreted as proof of foreign confidence in the

Joint Float *(contd.)*

economic stability policies of the Paris government. This confidence has been built up by the administration's success in slowing down domestic inflation and in achieving a positive trade balance. An additional source of reassurance has been France's policy of financing the country's rapidly rising import costs through about $4 billion in foreign loans (1974), protecting its own exchange reserves.

There is, of course, another side to the coin: although a revitalized franc serves to reduce the French imports bill, especially for oil, it works to the disadvantage of the exporters and the competitiveness of French products abroad. This cannot be in the interest of the government either, which views a strong export performance as one of the cornerstones of its long-term economic policy.

Official confirmation of the franc's reattachment to the "snake" was expected at the May 20 meeting of the Community's finance ministers. From then on, the franc supposedly will maintain its previous "fixed" exchange rate of 172.05 to DM 100, moving only within the prescribed 2.25-percent band of the joint float. Some observers are wondering, however, what would happen if the franc again were to head into a major slump (as could occur if the government's recently announced investment incentives and economic stimulants heat up domestic demand). In such a case, renewed complications for the joint currency snake could be unavoidable.

Belgium: Protests Fail to Avert Price Freeze

Despite the violent protests of business organizations as well as of the labor unions, the Belgian government moved quickly to implement a two-month price freeze with effect from May 7. The measure covers both the private and public sectors. Exempted are certain products such as cigarettes, fruit and vegetables, chocolate, electrical household appliances, and oil products. The freeze also spares all items subject to so-called "program contracts" between the government and industrial associations or individual enterprises as well as those subject to EEC price agreements.

The Minister for Economic Affairs justified the freeze primarily as a way to generate a "shock effect" and described it as a warning shot against the widespread practice of using price increases as a form of insurance against all "eventualities." This argumentation was rejected by business spokesmen, who contended that if a price stop was at all necessary, it should be concurrent with a wage stop. As a protest measure, some trade associations were even considering strike action. This would spread the wave of strikes currently sweeping across Belgium and being staged mainly by municipal employees. Walkouts so far have been held by Brussels municipal workers (for wages equal to those paid to their Liege and Antwerp counterparts) and by

Price Freeze *(contd.)*

social and hospital employees, prison personnel, and others.

Germany: Chances for Loss Carry-Back 'Almost Nil'

German Economics Minister Hans Friderichs has made it clear that the chances for introduction of the loss carry-back concept into the tax rules this year must be considered virtually nil, even though discussions will continue. The governing Social Democrats for fiscal reasons have been opposed to the concept all along, and meanwhile some leaders of the Free Democrats, their minority coalition partners, also have retreated from their previously favorable position.

Draft legislation providing for a loss carry-back had been adopted earlier by the upper house of Parliament (*Doing Business in Europe, Par. 30,770*), which until the recent state elections in North Rhine-Westphalia and the Saar region had been controlled by the Opposition. Adoption of the measure by the lower house would have meant the loss of some DM 460 million in revenue, something the Schmidt administration feels it cannot afford (*Doing Business in Europe, Par. 30,761*). Bonn already has been forced to borrow heavily on the capital market to balance the Budget, and it may have to find additional sources of revenue. Since the German economy is making nowhere near the gains that the government had sought by way of investment grants and higher public spending (*Doing Business in Europe, Par. 30,757*), tax revenue is persistently falling short of estimates. Recent statistics indicate that although the number of jobless has decreased from 1.3 to 1.1 million since the winter, the number of workers on short work schedules has gone up to almost 1 million - the highest level in the past 20 years.

Britain: 'Expansion' of Social Pact Considered

U.K. Prime Minister Harold Wilson has made an all-out bid to reassert his own political authority. Upon his return from a visit to U.S. President Ford, Wilson faced renewed attacks to the effect that his government's policies, particularly those envisaged by his controversial Secretary of State for Industry, Anthony Wedgwood Benn, were triggering a collapse in international confidence in sterling and were robbing the economy of competitiveness and effectiveness. The economic situation was "serious," said Wilson in a May 11 television interview, but not as serious as the "doom merchants" claimed. The Prime Minister conceded, however, that labor union unrest was perhaps getting out of hand: "The pendulum has swung too far," he stated, and it might prove necessary to "expand" the social contract by inviting both sides of industry to a "pre-Budget planning conference," at which government, the employers, labor unions, and "other useful people" would attempt to reach a

Social Pact *(contd.)*

consensus on "what was left for wages, profits, and capital gains after defense expenditure and spending on social services and other essential Government services." Both the Confederation of British Industry and the Trades Union Congress gave a cautious welcome to Wilson's initiative.

The Secretary of State for Industry, however, remains at the center of controversy. The broad powers he has inherited and proposes to provide for himself under such legislation as the Industry Bill, the Employment Protection Bill, the Aircraft and Shipping Industries Bill, and the National Insurance Bill have been attacked from a number of quarters and have even prompted plans for an "employers' revolt" (in the form of noncooperation or delaying tactics). Commenting on Benn's plans "to build a new Jerusalem," Wilson stressed time and again that, after the June 5 referendum on Britain's continued Common Market membership, dissident ministers would have to come back into the fold: a Cabinet majority decision would be final on subsequent matters and dissenting ministers would either accept such a decision or face dismissal. (Benn is one of the leading anti-Market ministers).

It is clear that the conflicts within the Labour Party are beginning to affect sterling's status. The pound has been sliding daily, and the feeling in the City is that stringent measures will have to be taken quickly to prote[illegible] it.

EURO COMPANY SCENE

CII/ Honeywell Bull

In a move that could eventually spell French withdrawal from the tri-nation Unidata computer grouping, the government of France has decided to proceed with the fusion of the main activities of the partly state-owned Cie. Internationale pour l'Informatique (CII) with Honeywell Bull, joint offshoot of Honeywell, Inc., of Minneapolis, Minn. (66%) and Cie. des Machines Bull of France (34%). The decision, which was deplored by the French unions and leftist political parties as a "surrender of French EDP to the Americans," represents a victory for Cie. Générale d'Electricité. CGE, which is a major private shareholder in CII along with Thomson-Brandt electronics, had long opposed a cooperation within Unidata on grounds that the French company would be dominated by partners Siemens and Philips. An alliance with Honeywell Bull under domestic control, on the other hand, would give the French computer group independence and a strategic advantage in competition with market leader IBM, it was argued. The merger plan now calls for the formation of a new company or companies comprising the domestic industrial EDP and telephone operations of CII and Honeywell Bull and their foreign subsidiaries. To be known as Cie. Internationale pour l'Informatique - Honey-

CII-HB *(contd.)*

well Bull, this combine will be 53% French-owned and 47% by Honeywell. The French stake in CII-HB will be held directly by Cie. des Machines Bull and indirectly by CGE, the government, and other French interests. Thomson-Brandt is to take over CII's military operations and its factory in Toulouse. To ensure the success of the new venture, Paris has agreed to provide public contracts worth some FF 3.7 billion over the next four years and subsidies totaling FF 1.2 billion through 1978.

Chrysler U.K.

In an effort to prevent major strike action and secure industrial peace at its plants, Chrysler U.K. appears prepared to make massive concessions. The automobile manufacturer has put forward a plan for worker participation and profit sharing (but not loss sharing). It has also suggested that the government take an equity stake in the company in exchange for a £35-million loan from the Finance for Industry state bank, that cash be made available under the Industry Act 1972 to finance development of new models (in exchange for directorships and shares allocated to the new National Enterprise Board), and that employees at all levels be offered participation in the company. Chrysler spokesmen stressed the flexibility of the plan: "democracy" presumably would take the form of joint management-union committees. However, it is not expected that the company would accede to a 50:50 co-determination model.

The U.K. auto maker lost £17.7 million on its British operations in 1974 because of slumping demand, inflated prices for materials and parts, consistent labor unrest, and high pay settlements. Despite this, Chrysler has repeatedly confirmed that it has no immediate plans to close down its British operations, although veiled threats to that effect have been made frequently by senior executives in the United States.

Volkswagen

Declaring that Volkswagen "will never give up" the American market, which he termed "indispensable," the German company's chairman Toni Schmücker announced that he would soon be flying to the United States for an unspecified purpose. Speaking in connection with the presentation of VW's annual statement, Schmücker confirmed that the auto maker was not planning to build a new U.S. assembly plant from scratch and on its own. The likelihood of a cooperative deal with an American manufacturer or the leasing of unused U.S. assembly facilities, on the other hand, was strengthened by reports from Detroit that Chrysler executives would be meeting with Schmücker during his forthcoming visit. Auto industry observers point out that an unfinished Chrysler plant in Pennsylvania would require $200 million for completion - a sum that VW might be prepared to invest.

Hoechst/
East Germany

Following in Krupp's recent footsteps, Hoechst AG chemicals has become the second concern from West Germany to sign a long-term skeleton agreement for economic and technical cooperation with the East German government. The new pact provides for construction of three complete synthetics plants valued at DM 600 million in East Germany by 1979. The project will be carried out by Hoechst subsidiary Uhde, which is expected to arrange for initial financing through an unspecified bank consortium. The possibility of additional contracts was left open in the framework agreement.

Braun/
Agfa Gevaert

The photographic division of Germany's Braun AG, a subsidiary of Gillette Co. of Boston, Mass., has announced it is suing Belgian-German camera maker Agfa Gevaert for alleged violation of the German Law against Unfair Competition. Braun claims that the "Movexoom" movie camera introduced by Agfa Gevaert at the Photokina 1974 trade fair is an imitation of its own "unmistakable" Nizo model, which it has marketed for years. Braun considers Agfa Gevaert's action an attempt to cut into its success with Nizo by abusing its rights. Since repeated attempts to settle the matter between the two firms failed to satisfy Braun, the German manufacturer decided to take legal steps.

Matesa

Juan Vilá Reyes, the chief defendant in the trial involving Spain's Matesa textile machinery firm, has been given the relatively "light" sentence of 223 years in prison and fines and compensation payments totaling over 9.5 billion pesetas (the prosecution had demanded a prison term of over 1,200 years). The Matesa director and owner, along with three co-managers and four government officials, had been charged with fraud, bribery, and the misappropriation of state export credits. In view of his influence and the ramifications of the case, Vilá Reyes is expected to serve only an insignificant portion of his term, however.

KLM/
PanAm

U.S. government authorities and their counterparts in the Netherlands have reached a temporary compromise regarding the North Atlantic flight schedules of KLM and Pan American. In exchange for an American promise not to take any unilateral action against the Dutch airline, Netherlands Transport Minister Tjerk Westerterp announced that KLM would reduce the number of its flights to New York and Chicago from 21 to 18 a week. Pan American, which had originally demanded a 50% cutback in KLM's transatlantic service, will now offer additional flights to Holland. A final air traffic agreement between the two countries is not anticipated until the U.S. government completes a review of its aviation policy and its international treaties in this sector. Dutch-U.S. negotiations could be resumed this summer, however.

Common Market Reports
EUROMARKET NEWS

Issue No. 332 *May 28, 1975*

IN THIS ISSUE

page
Community: Brussels Loses 'Kali,' Wins 'Fruit' Case...1
EC Courts Arab States in Wake of Israel Agreement.....2
In Brief: Company Law; Architects, Nurses.............3
Britain: Inflation Rate Soars above 30% Mark..........3
Germany: Major Tax 'Evasion' Case Moves into Court....4
Switzerland: New Initiatives on Alien Employment......4
Liechtenstein: Moving against the 'Mailbox' Image.....5
Portugal: Lisbon Readies Foreign Investment Code......6
Euro Company Scene....................................7

Community: Brussels Loses 'Kali' Case, Wins 'Fruit'

The European Court of Justice has set aside the Commission's December 1973 decision prohibiting an agreement between two German potash fertilizer producers (Case Nos. 19 and 20/74). It found for Kali & Salz AG (owned by BASF) and Kali-Chemie AG (owned by the Belgian Solvay group), which had entered into an agreement to coordinate their sales of straight potash fertilizers.

In prohibiting the agreement (*Common Market Reports, Par. 9627*), Brussels had overruled an attempt by the companies to obtain an exemption under Treaty Article 85(3). The Commission argued then that the agreement meant concentration of the entire West German potash fertilizer production in one single organization, virtually eliminating all competition on the German market, since little potash was being imported. The Court of Justice, however, saw the agreement not in the context of eliminating competition but as a genuine measure of rationalization. An exemption under Treaty Article 85(3) was therefore conceivable, according to the Court.

The *Kali* ruling is the first antitrust case the Commission has ever lost on substantive grounds, though it has lost others for procedural reasons or on factual issues (*Continental Can*, for example). The decision took even some antitrust lawyers by surprise. A major reason for the

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'Kali'
(contd.)

Commission's defeat was that in its '73 decision it had dwelt on the market for straight potash fertilizers only, deciding that the advantages flowing from centralized sales efforts could not compensate for the impairment of competition. Both firms had argued at the time that the agreement would be very advantageous to customers in terms of supply and product range. In court arguments, the plaintiffs charged that the Commission's approach was too narrow because it failed to take into consideration the fact that competition is not limited to straight potash fertilizers but that there is also competition between simple and compound potash fertilizers.

In another antitrust case (No. 71/74), however, the Court of Justice did side with the Commission and upheld a July 1974 decision prohibiting an agreement between an association of Dutch fruit importers and an association of Dutch wholesalers of imported fruit (*Common Market Reports, Par. 9673*). Both had arranged for auction sales of certain types of citrus fruits imported into the Netherlands. The prohibition did not apply to the auction sales as such but to the obligation imposed on importers and wholesalers to sell citrus fruits destined for the Dutch market only through the auctions. For the Commission this obligation meant a restraint on competition and was therefore in violation of Treaty Article 85(1), an argument the Court of Justice accepted without any restriction.

Community Pushes Dialogue with Arabs

The EC is making great efforts these days to soothe the ruffled feelings of the Arab states over the signing of the Israel-EC free trade agreement and to secure a continued dialogue with the Maghreb states and other countries of the Middle East. There have been a number of formal and informal talks between Arab governments and Council and Commission officials. The trip to Jordan, Syria, and Lebanon by Irish Foreign Minister Garret Fitzgerald, though not in his capacity as president of the Council of Ministers, served this purpose, as did the recent journey of high-ranking Community officials to Cairo. The Arab ambassadors to the EC have been given assurances that the Brussels-Tel Aviv accord is part of a balanced attempt by the Community to establish relations with all countries of the Mediterranean area.

The reason that the negotiations with the Maghreb countries (Algeria, Morocco, and Tunisia) have not been brought to a successful conclusion lies also partly within the EEC itself, according to Community officials. Italy has been dragging its feet because its winegrowers fear a flood of cheaper Algerian wines - the very same argument that Rome used, with some success, in the discussions with Israel.

In Brief...

Council and member state experts have completed the first reading of the fourth draft directive on company law coordination and on the make-up of financial statements and annual reports. An upcoming report by the working group will summarize the problems so far encountered and to be solved during the second reading + + + While the *Reyners* case undoubtedly has promoted the cause of the right of establishment for nonnationals, it apparently has had only limited bearing on the immediate progress of Community legislation in this area. For instance, the draft directives concerning architects and nurses - despite being closest to acceptance - may not be adopted until mid-1976. (The directives concerning physicians are still awaiting formal Council approval because Denmark has yet to withdraw its reservations.)

Britain: Inflation Rate Soars above 30% Mark

There now appears to be recognition on every front - government, management, and labor unions - that the United Kingdom is heading for total economic chaos, assuming that escalating inflation cannot be brought under control. The official retail price index for April, released in mid-May, revealed an unprecedented leap of 3.9% over the previous month, bringing the rise during the last three months to an annual rate of 34.4% and that of the last six months to an annual rate of just over 30%. Preliminary estimates suggest that, in the absence of new counter-inflationary measures involving curbs on both pay and spending, there will be an acceleration over the next quarter. At the present rate, U.K. prices double and monetary assets halve their value every 2-3/4 years.

The Chancellor of the Exchequer must now seek further discussions with union leaders in an attempt to secure "a realistic" approach to pay claims. To the surprise of most commentators, a "restraint initiative" came from Jack Jones, one of the principal architects of the "social contract," which meanwhile has been substantially devalued. Jones proposed an expansion of the contract so that wage demands would be pegged to cost-of-living increases and would operate for "every employed person" (that is, including judges, civil servants, and Crown Ministers).

The employers have stated their case bluntly and repeatedly: industry is moving into a dramatic slump as wages rise and orders fall off, unemployment will rise as well, and investment will be curtailed until the government's policies on nationalization and partial state ownership emerge more clearly.

The crisis is intensified by worldwide reaction to the status of sterling, which has lost ground to such a degree that the Bank of England had to intervene on May 12. If no solution to the government/labor/employer confronta-

Inflation Rate *(contd.)*

tion is found, then Britain's credit-worthiness, already in question, may be in real jeopardy.

Germany: Court to Hear Major Tax 'Evasion' Case

Beginning on May 30, the Kassel tax court will take up a case that is assured of wide publicity in Germany: it involves the appeal of a DM 30-million income tax assessment against a millionaire who left the country after the Social Democrat-Free Democrat government came to power but has since returned. The plaintiff is Liselott Linsenhoff, 47, gold medalist on the West German equestrian team at the 1972 Olympics and major shareholder in a leading automotive equipment manufacturer, VDO Adolf Schindling AG. In late '72, Mrs. Linsenhoff and her husband (from whom she is now divorced) moved to Switzerland practically "in the dead of night," justifying their hasty departure with the alleged plans by the new administration to "expropriate" private assets by means of heavy inheritance and property taxes. Subsequently, however, Mrs. Linsenhoff returned and eventually was served with the DM 30-million bill under the provisions of the 1972 Tax Equality Law (*Doing Business in Europe, Par. 23,305*). It is this assessment she is now contesting in court.

Prior to 1972, many wealthy Germans owning or controlling companies moved to low-tax countries because they feared harsher tax laws. Until then, they had been able to sell their holdings without incurring German tax liability. But with the passage of the 1972 law, it was assumed that such share sales were liable to income tax. Section 5 of the law does leave one escape hatch open: the fiscal authorities may forego imposition of the tax if the taxpayer moves abroad only temporarily and returns within five years.

In the Linsenhoff case, Bonn apparently is unwilling to show any leniency. At the time of their move to Switzerland, both Linsenhoffs gave every indication that their change of address would be permanent. Also, in widely quoted interviews, they made what were regarded as derogatory statements about the government and its allegedly discriminatory tax reform proposals. Government officials privately concede that Bonn's tough attitude was also prompted by budgetary reasons, but they point out that the administration has been supported in this by Opposition-controlled states.

Switzerland: New Initiatives on Employment of Aliens

With a considerably cooler economic climate now prevailing in Switzerland, the central government is confident that, by following a flexible alien employment policy, the number of foreigners living and working in the country can be stabilized much sooner than originally anticipated - by 1976 instead of '80. While there are as yet no definite statis-

Aliens *(contd.)*

tics on the impact of the economic slowdown on alien employment, it is known that the quota of 20,500 new medium-term work permits - established in mid-1974 for a 12-month period and at that time criticized as being insufficient - has not been even half filled. This month, the cantonal governments and the business organizations received for comment a federal draft directive calling for only 7,000 such permits to be made available during the next 12-month period and for a maximum number of 145,000 instead of the present 192,000 seasonal workers. On the other hand, there is to be a special contingent of 5,000 one-year permits to be granted to trainees, mother's helpers, and personnel involved in international job rotation.

Meanwhile, the National Action (Group) for the Protection of the People and the Homeland again has started a campaign for a national referendum aimed at putting severe restrictions on the influx of aliens. Among other measures, it is demanded that companies employing more than five foreigners pay a punitive surtax of at least 10% of the wages paid to the alien staff. Exempted would be employers of seasonal personnel and of hospital and nursing staff. It is highly doubtful, however, whether the initiative would have a chance to succeed: only last October the Swiss voters rejected by a 2:1 margin a similar proposal by the same organization.

...enstein: ... against ...ilbox'

The government of Liechtenstein apparently has made up its mind to take a closer look at a number of so-called "mailbox companies" and holdings, the activities of which are giving the tiny principality a black eye abroad. Upon the instigation of the government, authorities recently issued an order to strike from the commercial register a company that - in advertisements in German media - had offered to set up mailbox firms in Liechtenstein, Panama, and elsewhere and had indirectly encouraged "tax evasion." The company reportedly also "sold" U.S. Ph.D. degrees in Europe. In addition, two other holdings are said to have been accused of violating Liechtenstein banking laws by offering loans to people domiciled abroad.

Despite this tougher approach by the authorities, observers are in agreement that the Liechtenstein government will not go so far as to "kill the goose that lays the golden eggs." They have found no evidence that the number of so-called "domiciled companies" in Vaduz, Schaan, Triesen, Balzers, and Malbun - the principality's five major towns - is on the decline. There are still more than 20,000 "addresses," apart from about one hundred international companies that are genuinely administered from the Liechtenstein "tax haven." On the other hand, tougher tax

'Mailbox' (contd.)

legislation abroad (*see Germany, page 4*) is steadily eroding the Grand Duchy's erstwhile tax-haven status.

Local tax consultants and financial experts now appear inclined to spread their activities from the mere (though lucrative) administration of mailbox addresses to other, similarly rewarding operations. The evident trend is toward trade promotion on behalf of developing countries, particularly in Africa, that are interested in European direct investment, joint ventures, cooperative agreements, etc. In these areas, the Liechtenstein intermediaries are able to contribute their considerable know-how in matters of taxes and finances. Projects undertaken may range from the build-up of a free-trade zone in Dakar, Senegal, to tourism development in the Ivory Coast.

These relatively new activities are being accompanied by efforts on other fronts to improve the country's international profile beyond that of a "postage-stamp principality" or Switzerland's "23rd canton." Liechtenstein this year is to be accorded official observer status with the European Parliament in Strasbourg and might establish its own diplomatic representation at European Communities headquarters in Brussels.

<u>Portugal: Lisbon Plans Code on Foreign Investments</u>

Prior to his May 19-20 visit in Bonn, where he negotiated
for a DM 70-million credit and sought Germany's support
upcoming talks with the European Community, Portugal's
eign Minister Melo Antunes confirmed that his governme
currently preparing a "code" on foreign investments i
tugal. Antunes said such a code could possibly be s
ted within a month; other official sources reportedl
cated, however, that the drafting would take longer
that publication should not be expected before the
summer.

Meanwhile, the wave of nationalizations in Po
continued with the state takeover of the cement, t
and cellulose (paper) industries, reportedly affe
20 companies in all. This followed nationalizat
private banking and insurance sector in March
petroleum, electric utilities, and transport
In other action, the government raised the nat
wage by 21% to 4,000 escudos (about $166) per
June 1 and froze until the end of this year all
salaries in excess of about $480 per month. At
time it was decreed that net earnings of any i
not exceed 35,000 escudos per month.

Additional measures handed down by the so-
Council of the Revolution included a decree tha
official approval before any enterprise may dis
idends or declare itself bankrupt. Businessme

Code *(contd.)*

that they could face imprisonment of up to eight years upon conviction for "economic sabotage."

EURO COMPANY SCENE

British Steel

The violent public debate between the chairman of British Steel Corp., Sir Monty Finniston, and the Secretary of State for Industry, Anthony Wedgwood Benn, entered a "summing-up" phase with the announcement on May 19 that BSC is abandoning the plan advocated by its chairman to lay off 22,000 men in the interests of streamlining and efficiency. The Secretary opposed the plan from the onset on the grounds that it would cause hardship to the workers involved. Instead, the labor unions and BSC's management have "agreed to try a different approach" to cost saving, one involving no dismissals - other than those "voluntary redundancies" that would be subject to bilateral agreement - but calling instead for a "restructuring" of overtime, recruitment procedures, plant loading, and the use of outside contractors. "Positive joint action" has also been agreed on absenteeism, currently running at a level of 14% within the concern. For his part, Finniston continues to maintain that a decision not to eliminate some 20,000 jobs will cause cataclysmic damage to the country's economy.

ler U.K.

There is widespread speculation that U.K. Dept. of Industry funds will be used to arrive at a solution to the problems besetting Chrysler's beleaguered U.K. subsidiary. The funds would be made available for the company to design and develop the tooling for a new automobile geared to the U.S. market. Prime Minister Harold Wilson, who made an impassioned plea to Chrysler workers to end their strike action for a 30% wage boost, apparently considered the situation at Chrysler sufficiently important to raise it with President Ford on his recent trip to the United States.

Ferranti, the U.K. electrical and electronics group that ran into severe cash problems last year, is to receive £15 million in state funds in return for a 62.5% government stake in the company. "It is hoped," said the Industry Secretary, "that the state holding in excess of 50% will be sold to the public within three years."

Within the next few weeks Germany's Federal Cartel Office is expected to announce fines totaling DM 30-40 million for alleged violations of German competition law by some 350 domestic construction firms. Although the Cartel Office refused comment on the televised disclosure by an Economics Ministry spokesman, it is known to have been investigating a number of northern and western German building companies on charges of illegal price and contract fixing since June

Construction Firms *(contd.)*

1973. Construction industry spokesmen for their part claim that federal, state, and local public works authorities often have abused their powerful market position - for example by awarding major contracts to the lowest bidders regardless of long-run economic considerations - and thus must share the blame for any irregularities. In view of the stagnation in Germany's construction sector, where bankruptcies and unemployment have become the rule over the past two years, the Cartel Office is not expected to insist on immediate payment of whatever penalties it may impose, however.

Bollinger/ Lanson/ Bulmer/ Showerings

A British High Court judge has ruled that the label "champagne" may be applied solely to sparkling wine originating in the Champagne district of France. The decision supports the claims of vintners J. Bollinger and Lanson Père et Fils of Rheims, representing the entire French champagne industry, and invalidates the case of U.K. cider makers H.P. Bulmer and Showerings, an Allied Breweries holding, which had sought to continue using the term champagne in connection with their own products, as they had for the past 100 and 35 years, respectively.

Ebauches/ Hughes

Ebauches SA of Switzerland, a leading manufacturer of clock and watch movements, and Hughes Aircraft Co. of Los Angeles have concluded a cooperation agreement covering the m
croelectronics sector. According to Swiss press reports
Ebauches will have access to Hughes technology and sci
tific know-how for the production of low-power integra
circuits.

Midland/ Chase/ Standard & Chartered

The U.K.'s Midland Bank has emerged as the buyer of
Manhattan Bank's 11.9% stake in Britain's Standard
tered banking group. The £34-million deal was prom
the U.S. Federal Reserve Board, which put pressure
to divest itself of S&C following Chartered's non-
withdrawal from domestic American banking (in Cali

Algemene Bank/ Northern Commercial

One of Holland's "Big Two" banks, Algemene Bank
is to purchase troubled U.K. secondary banking
Northern Commercial Trust of Manchester.

Citibank

First National City Bank of New York has annou
ficial opening of its new Danish branch office
gen. The operation, headed by Garrett Bouton,
primarily with large corporations and governmen
with particular emphasis on export-oriented act
its own account, Citibank is both the first ban
branches in all nine EC countries and the first
bank to open in Denmark since the liberalizatio
country's banking laws.

Common Market Reports

EUROMARKET NEWS

Issue No. 333 *Report No. 266, June 3, 1975*

IN THIS ISSUE

page

Community: U.S. Warned on Technical Standards.........1

Brussels Issues Fourth Report on Competition Policy...2

In Brief: Product Liability, Lawyers, Mediterranean...3

Britain: CBI Proposes Economic 'Rescue Plan'..........3

U.K. Confirms North Sea Oil Reimbursements............4

Germany: Tax on Windfall Oil Profits Seen Possible....4

Italy: Strike Causes Near-Collapse of Tax System......5

Netherlands: Paper on Incomes Redistribution..........6

Euro Company Scene....................................7

Community: U.S. Warned on Technical Standards

Abandoning its usual reserve, the European Community has cautioned Washington on the consequences that passage of pending U.S. legislation on technical standards would have for international trade. The warning has come while multinational trade negotiations in Geneva are being conducted on removal of non-tariff barriers and experts are discussing the drafting of an international code of technical standards.

Though the United States and other delegations would like to wind up discussions on these standards even before the GATT trade talks as a whole are completed, there are several obstacles yet to be overcome. Ninety percent of world trade involves goods manufactured according to the metric system. Except for the United States, all major countries that formerly applied the U.S. and British system of measurement now use the metric system. In doing so, they adopted the specifications and norms established by the International Organization for Standardization (ISO). Although Washington, too, signed the metric agreements - some U.S. industries, especially the aircraft sector, already have implemented the metric system - legislation is now pending that could lead to passage of the so-called Optimum Metric Fastener System (OMFS). While this system would not affect American industry in terms of cost, it

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Standards *(contd.)*

would have substantial consequences for all other countries applying the ISO standard. Adoption of OMFS rather than ISO standards for threads on nuts and bolts would cost hundreds of millions of dollars to industries exporting to the United States. In other words, OMFS standards would introduce through the back door new barriers to trade instead of removing existing ones as is being attempted in the current GATT talks.

There is yet another aspect for the Community: introduction of an international code eliminating technical obstacles to trade would raise the problem of achieving a proper balance between obligations and advantages. Community officials point out that while a future code on technical standards could be applied uniformly throughout the EC, the situation would be different in a country with a federal structure, like the United States, where the individual states have considerable freedom in applying their own standards. In addition, establishment of standards in the U.S. is largely left to private organizations, while in Europe it is done at national level and is thus easier to control.

Fourth Report on Competition Policy

The Commission has issued its Fourth Report on Competition Policy, describing Community activity in terms of preserving freedom of competition among enterprises and avoiding competitive distortion across national borders through state aids. It is only natural that the Commission assumed the major share of this task and that it followed familiar patterns in most of its decisions. In at least two cases, though, it broke new ground. In one, concerning the French-Japanese ball-bearing agreement (*Common Market Reports, Par. 9697*), it ruled that agreements preventing third-country imports or having the effect of increasing import prices are incompatible with Treaty Article 85(1). In another it found that an agreement with the stated object of maintaining "fair trading rules" in fact restricted competition among the parties with regard to prices, rebates, and terms of sale and worked to the detriment of consumers (IFTRA - *Common Market Reports, Par. 9658*). In granting an exemption to Bayerische Motoren-Werke - though subject to conditions and limited in time - the Commission took a first concrete step in the field of selective distributorships (*Common Market Reports, Pars. 9617 and 9701*), followed by other actions.

In 1974 the Commission issued its first negative clearance for the formation of a joint distribution subsidiary (SHV-Chevron - *Common Market Reports, Par. 9709*). This decision is important as a matter of principle because it deals with joint subsidiaries established under a general cooperation agreement by which the parent companies agree not to compete against each other through the products concerned.

Competition *(contd.)*

Important insights in the report relate particularly to patent licensing agreements and the problems faced by the Commission in determining what should be tolerated in terms of restricting a licensor's freedom of action. It is clear that the most problematical clauses in licensing agreements are those that impose restrictions on exports to other member states. Though the Commission believes that final guidelines could be developed through decisions in individual cases, it is considering the possibility of an overall approach through exempting regulations.

A good part of the report is devoted to the Commission's attitude and action in the field of state aids, i.e., national and regional aid systems and aids granted to specific sectors like the textile and shipbuilding industries. But the biggest innovative step was represented by its guidelines on environmental aids, adherence to which would not distort competition yet would attain the purpose.

A disappointing element for the Commission: the Council has yet to move on the merger control proposal (*Common Market Reports, Par. 9586*). Council and member state experts met only twice in '74 and did not really get down to discussing the controversial draft.

In Brief...

Though Commission and national government experts have been discussing a first draft directive on products liability, Commission officials remain noncommittal as to when the first draft would be ready + + + The Commission will soon present a draft directive that would assure that an attorney in one state could provide legal services to residents in another + + + Community observers see no possibility of progress in the EEC's Mediterranean policy until after the regional elections in Italy in late June. Only then will the Italian government know whether it can afford to make concessions on duty-free imports of wine, citrus fruit, and canned fruit juices from the Maghreb states.

Britain: CBI Proposes 'Rescue Plan' for Economy

The U.K.'s industrial leaders on May 22 formally unveiled a "rescue package" designed to set Britain's economy on the road to recovery. The package, claimed by Confederation of British Industry president Ralph Bateman to be "a constructive alternative to a discredited social contract," calls for a pay restraint program based on an "inflation target figure" that would (it is hoped) be agreed by the government, the employers, and the labor unions. The initiative would run for two to three years as of this fall and would involve first the computation of an inflation target figure which, in turn, would form the basis for a pay limit figure, that is, the maximum allowable increase in the pay bill per head for "bargaining units" over a 12-month period.

'Rescue Plan' *(contd.)*

Subject to the limit as agreed, employers and employees would be free to negotiate "agreements appropriate to their own circumstances" to the effect that actual distribution of increases would be a matter of negotiation between management and unions.

The proposals have not been greeted with any great enthusiasm by union leaders, possibly because they are all too reminiscent of the last Conservative government's counter-inflation program. Above all, however, the unions will demand that pay undertakings be paralleled or offset by price restraint undertakings. On this point the CBI has been rather vague: "We could not expect to have a sensible wage restraint without sensible price restraint," said managing director Campbell Adamson, but he cautioned against any assumption that one could be bargained off against the other. Too stringent price controls simply impede company operations, he noted.

North Sea Oil Firms Promised Reimbursement

The U.K. government has confirmed that oil companies in which the state claims a 51% stake in respect of their commercial North Sea oil fields will be "reimbursed" for the after-tax revenue they could have expected in the event of the field(s) remaining entirely under their control. The payments, equivalent to the post-tax revenues from the 51% state share, will be made out of the National Oil Account. These arrangements were concluded with British Petroleum, Gulf Oil, and Burmah, but nine other companies eventually will be involved, too.

The fact that it was the government that had to come up with such a proposal was seen as a "diplomatic/political" setback inasmuch as the Labour administration originally had invited the oil companies to make suggestions as to how the government stake should be acquired. This notwithstanding, the proposal would appear to be generous and seems to bear out statements made by various ministers that the 51% participation will not entail any financial loss to the companies concerned. They also substantiate the government's claims that it was not out to generate additional revenue simply by obliging participation.

The oil companies have welcomed the proposals cautiously but still basically distrust state participation. They can gain some comfort, however, from government assurances that each participation deal will be negotiated separately, a vital point, since some fields have required 100% development costs, while others are in mid-development.

Germany: Bonn Might Tax Windfall Oil Profits

In the coming months the Bonn government will be studying the possibility of imposing a special tax on those companies that have earned exceptional profits by exploiting oil and natural gas resources in Germany. Though an annual do-

Oil Profits *(contd.)*

mestic output of 6.5 million tons of crude oil does not amount to much when compared with the 105 million tons imported in 1974, government experts have calculated that the oil companies - all subsidiaries of large foreign-owned oil concerns - realized windfall profits of about DM 1 billion through the very fact that world market oil prices in '74 increased from DM 50 to 200 per ton within a few weeks, while per-ton exploitation costs in Germany rose by only DM 10. A similar situation occurred with respect to natural gas, the price of which went up by 70% in '74. All in all, it is estimated that the oil firms made total windfall profits of DM 800 million on West German natural gas.

Introduction of a windfall profits tax (already imposed in the United States, Norway, and the U.K.) would not seem out of the ordinary were there not a twist to it: such a tax would amount to indirect aid to the government-owned Veba AG, which does not control or exploit any of the few oil fields that do exist in Germany. Bonn has shrugged off the accusations but cannot ignore the conflict of interest, since it would be taking the legislative initiative while being the major shareholder of Veba, which competes with Shell, Esso (Exxon), Mobil, and other multinational oil groups.

Italy: <u>Strike Brings Tax System Near Collapse</u>

The operations of Italy's fiscal administration are approaching a state of chaos as a result of a strike that has been going on for weeks and shows no sign of being settled. Aside from demonstrating for higher pay and better working conditions, the tax officials' major demand is for the hiring of additional staff to cope with the huge backlog of unprocessed tax forms. The most serious delays involve customs declarations and income and value-added tax returns, for which internal deadlines already had to be extended at least twice.

The plight of the country's tax administration has become so bad that it was dealt with by a special report submitted to Parliament last month by Finance Minister Bruno Visentini, ex-chairman of the Olivetti group and a tax expert in his own right. In his 103-page white paper titled "Observations on the Fiscal Personnel and Administrative Situation," Visentini reported that millions of tax documents have yet to be processed and that "thousands of billions of lire therefore cannot be claimed," although desperately needed by the treasury. The paper indicated that, for instance, 12 million customs declarations and 9.6 million income tax returns (plus 1.2 million appeal actions covering the past four years) are in arrears. By the same token, thousands of taxpayers are still waiting for overdue refunds, among them exporters who claim repayments of overpaid turnover tax, although this tax had been abolished in 1972.

Tax System *(contd.)*

One reason for the precarious state of the Italian tax system is the loss of qualified personnel resulting from the offer to senior staff two years ago to accept early retirement on favorable conditions. These voluntary departures alone caused an overall personnel shrinkage of 5.8% - from 60,723 to 57,199. In the income tax branch, the reductions were far more serious, however, and involved 67% of the chief inspectors, 78% of the directors first class, and 61% of the directors second class. Visentini said that the action instituted by his predecessors had been meant to trim deadwood from the fiscal service, "but, unfortunately, the wrong people quit." Many of the former tax officials immediately joined the ranks of the better-paid tax consultants and auditors.

The parliamentary finance committee currently is discussing draft legislation providing for a personnel build-up of the fiscal services. But of equal importance would be the mechanization and computerization of tax processing: virtually all fiscal operations are still being handled manually, while EDP equipment worth billions of lire is sitting around unused (and often still crated) because of the lack of qualified personnel. Numerous tax offices, in fact, lack the most basic equipment such as calculators and copy paper.

Netherlands: Interim Note on Incomes Redistribution

Despite deep-seated differences of opinion on the subject among cabinet ministers belonging to different political factions, the Dutch coalition government has now agreed on an "interim note" on its incomes policy plans. The agreement basically advocates the principle of incomes redistribution to favor low-income groups, which includes the possibility that taxpayers earning higher incomes in the future could be subjected to a freeze of their earning levels or even to a reduction. It has been proposed as a tentative guideline that the highest incomes not exceed five times the lowest pay scales, although this rule could be handled quite flexibly.

The most contested part of the government paper, however, concerns the "redistribution of asset growth" (VAD) of enterprises subject to corporation tax, a redistribution that would in part benefit a company's employees but also the national work force as a whole. The basic idea is that employees would become part shareholders of their company but that these shares would remain with the enterprise. Employee shares would be set aside on the basis of a company's "excess profits," which in turn would be determined by taxable earnings. The owners and shareholders would be entitled to an "equitable return" on earnings, although the government paper fails to spell out exactly what this means. It is generally assumed, though, that about 10% of

Incomes *(contd.)*

taxable corporate earnings would be available for redistribution.

A certain percentage of the funds thus obtained would flow into a central national fund, which would distribute employee share pay-outs (after 7-10 years) and improve workers' company pension incomes. VAD would not affect smaller companies with earnings of up to 750,000 guilders; in determining the VAD percentage of the other businesses, the government would take into account the rates of increase of wage sums and costs as well as productivity so that, in the words of Prime Minister Joop den Uyl, "companies would incur no costs."

It is this viewpoint that has been sharply criticized by the Dutch business community, which noted that the time of "extensive self-financing" by companies has long been over and that most concerns, even the most profitable ones, are no longer able to raise their own investment capital. Under these circumstances, it would be an "illusion" to see so-called excess profits as a source of additional worker income.

EURO COMPANY SCENE

General Dynamics/ Dassault-Breguet

The Dutch government has decided to recommend purchase of General Dynamics F-16 fighter jets to replace its Starfighter defense fleet, subject to similar decisions by NATO partners Belgium, Denmark, and Norway. Since both Copenhagen and Oslo have already made such endorsements, Brussels remains the only holdout. Belgian officials are still divided between proponents of the F-16 and those favoring the French Mirage F-1/M-53, built by Dassault-Breguet. The potential value of the four-nation order for some 350 aircraft is estimated at $2 billion.

Aeritalia/ Boeing

The Italian government reportedly has appropriated 150 billion lire for the development of a new medium-range civil transport aircraft by the Aeritalia group and Boeing of the United States. According to Milan news sources, the subsidy will extend over a six-year period and is to be partially repaid to Rome upon successful completion and marketing of the new prototype. For the project, Aeritalia - which is half-owned by the state's IRI and half by Fiat - is to set up a new plant in Foggia, southern Italy. The factory should be completed by October 1976 and will create 2,000 new jobs, it was reported. Boeing's share in the venture was expected to comprise 20% rather than the 50% proposed when the undertaking was first announced over three years ago.

Maserati

Shareholders in one of Italy's few remaining luxury sports car manufacturers, Maserati SpA, have voted to liquidate

Maserati *(contd.)*

the company in view of continuing heavy losses and no prospects for improvement. Last year alone the firm's shortfall exceeded its capital of 400 million lire. Maserati, in which Citroën of France took a 60% interest in 1969, employs 900 in the production of its own cars as well as engines for the Citroën-Maserati SM model. The decision to shut down was blamed on the general crisis in the automobile industry and on the lower speed limits that have been imposed in many countries. A buyer is still being sought for the company, however, while Italian unions are protesting the liquidation and are said to be urging a state takeover.

GM Switzerland

General Motors Suisse SA has announced it will close its 40-year-old assembly plant at Biel at the end of August. Some 450 of the factory's 1,000 employees reportedly stand to lose their jobs as a result of the move.

PanAm

A High Court judge ruled on May 23 that the U.K.'s Secretary of Trade had no power to prevent Pan American World Airways from paying its agents more than the 7.5% agreed on among other IATA members. PanAm had decided that, as of April 1, it would pay its top agents a commission rate of 10% in order to curtail under-the-counter payments well in excess of IATA rates. The government thereupon threatened to change or even revoke PanAm's permission to fly to Britain if it did not annul the arrangement, arguing that the rates should apply to all PanAm agents and not just those in the U.K. In his ruling the judge noted that in the light of terms applicable under the 1946 Bermuda Agreement between the U.S. and the U.K. he could not vary an operating permit by including a condition in respect of agents' commission. Other airlines have now announced that they are considering following PanAm's example, while the Dept. of Trade is weighing an appeal.

Mann/ Fed-Mart

German entrepreneur Hugo Mann, owner of a network of furniture and department stores, has succeeded in gaining a total interest of about 63% in the capital of Fed-Mart Corp., San Diego-based retail chain. In response to his March takeover bid of $25 per share, Mann was offered 564,750 or 75% of Fed-Mart's 753,000 ordinary shares in addition to a new, 300,000-share issue which he obtained directly from the company. The deal reportedly has cost Mann some $21 million in all.

Creditanstalt

Creditanstalt-Bankverein, Austria's largest bank, has opened a branch office in Budapest, becoming the first western bank with full subsidiary operations in Hungary. According to reports from Vienna, First National City Bank of New York may soon take similar steps.

Common Market Reports

EUROMARKET NEWS

Issue No. 334 June 10, 1975

IN THIS ISSUE

page
Community: Environmental Rules Due for Adoption.......1
Portugal's EC Progress Hinges on Political Course.....2
Britain: Surprise over Solid Margin of 'Yes' Vote.....3
France: Inflation Fears Prompt New Price Curbs........4
Germany: Law on Lead Content to Be Modified...........4
Bonn Considering Change of Bankruptcy Legislation.....5
Portugal: Lisbon Imposes Special Import Levy..........5
Spain: Strike Law Lays Down Strict Limitations........6
Euro Company Scene....................................6

Community: Environmental Proposals Due for Adoption

Three major environmental proposals that eventually will be of significance to businesses operating in the Common Market are scheduled to be adopted at the June 16 meeting of the Council of Ministers: the directives on waste disposal, on sulfur content in fuels, and on accession to the Paris and Strasbourg conventions.

Though Council officials were still not sure whether the remaining reservations to the two conventions would be withdrawn by June 16, adoption of the waste disposal directive alone would represent an important follow-up to the Council's efforts last year when it passed the recommendation on the polluter-pays principle and the directive on collection, storage, and treatment of waste oils.

The main aims of the waste disposal directive are to reduce the dangers emanating from the proliferating types and quantities of waste by requiring the member states to introduce effective and comprehensive legislation on waste disposal and to harmonize existing national rules in this field. So far, only a few states have enacted waste disposal statutes, while others have done little or consider such disposal a regional or local problem. Harmonization would not only remove competitive distortions between businesses but would also facilitate a national approach to waste treatment (*Common Market Reports, Par. 9683*).

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Environment *(contd.)*

The second directive would require the member states to limit the sulfur content in light heating oil and diesel fuel to 0.5% by the end of 1976 and to 0.3% by the end of 1980. However, the states would have leeway in two respects: they could allow a higher sulfur content in areas less endangered by air pollution, and they could enact proposed national legislation (several states have bills of similar or identical content pending) ahead of Community-imposed deadlines. They could not, however, bar imports from other states that already meet Community standards (*Common Market Reports, Par. 9640*).

In acceding to the Paris Convention for the Prevention of Marine Pollution from Land-based Sources and the Strasbourg Convention on the Protection of International Waterways against Pollution, the Community would be joining international efforts to control pollution.

EC Talks with Portugal Hinge on Lisbon's Future Course

The Community and the military leadership of Portugal will soon have a chance to demonstrate whether both sides can agree on how to live up to certain terms of the EC-Portuguese Free Trade Agreement that took effect on Jan. 1, 1973. Like the trade accords with the other remaining EFTA countries, the agreement provides for the gradual dismantling of tariffs; but, unlike the others, it also recognizes Portugal's low degree of industrial development an its dependence on agricultural exports. In addition, it provides for a joint committee to watch over the smooth implementation of the trade pact. This joint committee has now started talks in an attempt to better activate the agreement and to broaden the mutual relationship, perhaps beyond the commercial sphere.

According to a key clause of the trade pact, "the parties are prepared to examine the scope for developing and amplifying their relations and, if it seems of value, to extend them to areas not covered by the agreement." Council and Commission officials leave no doubt as to the Community's willingness to "develop relations," and the question is not so much how but what conditions should be attached. This aspect becomes important, for instance, in the case of financial assistance, which already has been offered by individual EC member states.

There is general agreement in Brussels that all will depend on Portugal's future political development. It is clear that the EC wants Lisbon to pursue a democratic course and to remain a partner within the NATO alliance. The Community simply could not depart from the "no democracy, no money" principle exercised in the case of Greece (though in the context of association with the EC). Consequently, it would not like to see the Portuguese government extend its nationalization drive to additional economic

EC/Portugal *(contd.)*

sectors, although that in itself would not be an obstacle to financial aid. Any such assistance would certainly be withheld, however, if the military government were to restrict or even eliminate freedom of the press and the right of assembly and free speech, tamper with the independent judicial process, or otherwise undermine the rule of law. (*See also Page 5.*)

Britain: Surprise over Solid Margin of 'Yes' Vote

While the "yes" vote of the U.K.'s Common Market referendum on June 5 certainly was not unexpected, it was surprising in its virtual unanimity, no more so than in "nationalist" Scotland and Wales: the two-to-one majority could only be interpreted as a most solid mandate for Britain's continued membership. For Prime Minister Harold Wilson, moreover, the affirmative resolution of the "renegotiated terms" represented a personal triumph. Even the anti-Marketeers, notably the labor unions, appeared to accept the vote as democratic and binding, although a certain small minority will continue to lobby vociferously against the EC. For Britain's Community partners, the referendum result obviously came as a relief, primarily because a vote to pull out would have precipitated colossal administrative difficulties, not to mention the blow such a decision would have dealt to the concept of European unity.

Now that the Community status quo has been maintained, attention in the U.K. will have to shift back to the country's grave economic problems. Immediately following the referendum, industry spokesmen were adamant that the time has come for the implementation of the contingency plans made by major U.K. companies. The key question, however, remains the state of labor relations, which in recent months have deteriorated to a point where the social contract between the government and the unions has proved inoperable. However, if Wilson can repeat his referendum success on the labor front and thus rally the country economically, the good wishes of the European leaders will be vindicated. Through the Foreign Secretary, the government already has given assurances that Britain would now play a more active part in Community affairs, primarily with the aim of safeguarding the interests of U.K. employees, the Atlantic Alliance, and the developing countries.

Meanwhile, as part of the inevitable post-mortems on the referendum, there was speculation that the acrimony and emotionalism that had tainted the campaign and which revealed a deep split in the Labour Party might force Wilson to "restructure" his Cabinet. In other words, those Cabinet ministers who had campaigned against Common Market membership might be reshuffled or put under pressure (on the basis of Parliamentary convention) to resign their posts.

France:
Inflation Fear
Again Triggers
Price Curbs

After having allowed a gradual liberalization of price restrictions over the past months, the French government again has felt compelled to toughen controls in an attempt to defuse the latest inflation threat. In a move that was harsher than expected, Finance Minister Jean-Pierre Fourcade announced a price freeze for a number of foodstuffs and consumer items until Sept. 15. Particularly affected are clothing, shoes, furniture, photo equipment, soap and detergents, etc. For other products the administration redefined retail profit margins: so far these margins have been fixed in relative terms, but now they will be spelled out in absolute figures and partially lowered. Fourcade also indicated that for certain capital goods, price maintenance is to be abolished. Prices for heating oil are to be lowered by 2%, for industrial fuels by 7%, whereas gasoline prices will not be changed.

It is no accident that the latest government action again singles out the retail trade, which finds itself perennially accused of "poor price discipline." Many retailers have made it a habit of passing on their costs overproportionately to the consumers or of not reflecting lower producer and wholesale prices in their own prices. The statistics show, for instance, that from March to April the French raw material price index dropped by 4 points to 145.1 and the index for imported base foodstuffs by nearly 2 points to 202.7. Despite this, the retail price index for foods went up by 1.1% within this period.

Originally, it had been the government's aim to lower the overall inflation rate to about 8% this year, which would compare with 15.2% for 1974. These hopes have been sustained by a slower rise in industrial producer prices but not - particularly in the past few weeks - by the price performance of many consumer goods, foodstuffs, and services. Accordingly, the retail price index for April went up by 0.9%, whereas official expectations had been for 0.5-0.6%. It now appears highly improbable that the 8% target can still be attained, and it is more likely that the administration will have to accept a 1975 inflation rate of not under 10%.

Germany:
Amendment
Sought for Law
on Lead Content

The German government's proposal to amend the 1971 law limiting the lead content in gasoline does not mean that Bonn has given in to pressures from the oil companies and other industry spokesmen who have labeled the law's objectives as "technically impossible" and its impact on the economy as "ruinous." Instead, Bonn wants to show some flexibility in applying the rules, without compromising on its concern for a better environment, even during a time of zero GNP growth.

According to the recently introduced amendment, oil companies and importers that - after Jan. 1, 1976 - market

Lead Content *(contd.)*

gasoline with a lead content exceeding the statutory limit of 0.15 grams per liter would be required to pay a levy of DM 0.02 per liter. The levy would vary according to the amount of lead exceeding the statutory levels so as to offer an inducement to lower lead contents.

Passage by Parliament would essentially remove distortions in competition resulting from the fact that most of the international oil companies supplying the German market have effected the necessary technical modifications or are in the process of doing so, while others, particularly the smaller ones, have not. At the same time, the legislation would amount to support for several thousand independent gas station owners who are supplied by foreign oil companies that have yet to modify their facilities and who still remain a competitive force on the German gasoline market. (*Doing Business in Europe, Par. 23,544B.*)

Study Planned on Bankruptcy Rules

Although the Bonn government does not intend to amend Germany's Bankruptcy Law (*Konkursordnung*) to accommodate current efforts toward approximating national insolvency rules through an EEC convention, it nevertheless plans to have experts determine whether the 98-year-old statute still meets modern-day requirements. Last year, more than 5,000 German businesses went either bankrupt or into receivership, with resulting losses to creditors placed at DM 6.2 billion.

Government officials believe that creditors often end up with little or nothing from the distribution of remaining assets not so much because of the 1877 law but on account of subsequent tax and social legislation and practices confirmed by case law. These provide, for instance, that payment of taxes and social security contributions takes priority over repayment of other claims such as loans. Also, sellers of capital assets retain title of ownership until full payment. Consequently, unless entirely paid for, these assets are not legally part of the buyer's business and revert to the seller in case of bankruptcy. No change is contemplated here, but - as part of its drive against white-collar crime - the government has proposed legislation to forestall such dubious practices as the transfer of assets prior to filing for bankruptcy (*Doing Business in Europe, Par. 30,763*).

Portugal: Lisbon Imposes Special Levy on Imports

Portugal's military government has reacted to the growing deterioration of the country's payments position by imposing a special levy on imports. The tax amounts to up to 30% of the value of such imported consumer durables as washing machines and refrigerators, but does not affect much-needed staples such as foodstuffs or gasoline. Generally, the import restrictions apply to products considered

Import Levy *(contd.)*

luxuries or not absolute necessities as well as to goods that also are produced domestically in sufficient quantities.

Lisbon was forced to decree the curbs in order to contain the massive drain on foreign exchange and gold reserves. Last year, these losses reportedly totaled more than $600 million, and for the first four months of 1975, $440 million. At that rate, it has been estimated, the country will have depleted its remaining reserves by early next year. No exact figures are available, since the statistics issued by the National Bank are too dated to reflect the current situation. According to a report of the newspaper Expresso, which was not officially denied, Portugal "very probably" will use its gold reserves as collateral for a 7-billion-escudo loan to be arranged through the Bank for International Settlements. However, the BIS in Basel refused to confirm this report.

Spain: Strike Law Lays Down Strict Rules

Although strikes have become increasingly evident on the Spanish labor scene in the past few years, the government has now published legislation that grants the right to strike for the first time since 1939. However, the definition of what constitutes a "legal" strike is so closely drawn that labor experts doubt whether the vast majority future walkouts will have a chance of gaining official sanction. The law, published on May 29, prohibits any strikes for political or "solidarity" reasons as well as those seeking modification of existing wage contracts, affecting public services, or leading to plant occupations, among other barred activities. Also, a strike must have been approved in secret balloting by at least 60% of the workers involved, must be announced one week in advance, and may be directed at one company only.

Despite official prohibition of any strikes in the past, Spanish industries have been swept by waves of stoppages, plant occupations, and militant demonstrations, mainly in protest of high inflation and unemployment, but also for political reasons. This year alone, strikes have involved the miners, metalworkers, the entertainment sector, the universities, and even government ministries. While no figures are as yet available for 1974, it was reported that one million work days had been lost in '73 as a result of strikes.

EURO COMPANY SCENE

British Leyland

The European Commission announced on May 30 that it had approved the British government's nationalization plans for British Leyland - undoubtedly dealing a blow to the cause of the anti-Marketeers, who had suggested that a Commission

British Leyland *(contd.)*

veto was probable. According to Commission spokesmen, the British proposals are in fact compatible with Community rules. Brussels, which takes the view that state aids in any particular industry are justified assuming they can reasonably be expected to stimulate competitiveness, has thus given the go-ahead to extend U.K. government guarantees totaling some £200 million to the troubled British automobile giant, as well as to provide a further £200 million for share purchases and long-term loans. At the same time, the Commission indicated its approval of similar (although considerably smaller) programs involving France's Citroën and Germany's Volkswagen. Because of the timing of the announcement, Britain's anti-Marketeers alleged Commission interference in the referendum campaign.

Chrysler U.K.

Britain's troubled automobile group Chrysler U.K. is reported to be among the first companies to benefit from the "preshipment finance" program outlined by Chancellor of the Exchequer Denis Healey in the Budget. This program, to be operated by the Export Credits Guarantee Dept., has been instituted as a means of helping export companies to surmount cash difficulties: bank financing is provided for the production of goods to meet export orders, with the ECGD guaranteeing the contributing banks against any loss attendant on the exporter's possible subsequent bankruptcy. This kind of program is perfectly tailored to Chrysler needs, since massive financing is vital in order to fill major orders for Iran. Chrysler has also applied to Finance for Industry, the medium-term lending facility operated by the Bank of England and the clearing banks. There has, inevitably, also been speculation that the government will seek a share in the company's equity in return for financial aid.

VAW/ Preussag/ Kaiser

A majority of the members of Germany's independent Monopolies Commission has recommended that the Federal Economics Ministry deny a special exemption to VAW Vereinigte Aluminium-Werke, Preussag AG, and Kaiser Aluminum & Chemical Corp. of Oakland, Calif., for their proposed merger of certain semifinished aluminum interests. VAW, the largest German producer and processor of aluminum, was to replace Preussag as co-owner of Kaiser-Preussag Aluminium GmbH (Kapal), but the Federal Cartel Office vetoed the plan early this year. The Monopolies Commission has also decided that such a move would entail restraints on competition. A cooperation, on the other hand, would bring most of the advantages desired by VAW and Kaiser without limiting competition, it said. The panel did not consider the domestic aluminum industry to be in a critical phase in general and thus a candidate for official "rescue." An exemption by the Economics Ministry is now thought unlikely.

Grace/
Borel/
Tanara

W.R. Grace & Co. of New York has announced the sale of 41% of its interest in Jacques Borel International, France's leading restaurant and food services concern, and an agreement to dispose of an additional 7% in 1976, reducing its total participation in the French group to 12%. The transaction, which was handled by a consortium of European financial institutions in conjunction with the Fondation Jacques Borel holding, was by mutual consent. The principal shareholders in Borel are now said to be chairman Jacques Borel and the Fondation, with combined stakes of over 17%. Last month Grace & Co., which appears to be re-evaluating its various foreign engagements, reportedly sold off an Italian commercial ice cream subsidiary, Tanara SpA of Parma, to the state's IRI group for an undisclosed price.

Nestlé/
Libby

Universal Food Specialties, U.S. subsidiary of Nestlé Alimentana SA of Switzerland, is seeking to increase its holding of about 61% in Libby, McNeill & Libby foods of Chicago to 90% or more. Universal is making a cash offer of $8 1/8 per share net for all outstanding common stock and is also bidding for all of Libby's outstanding 5% convertible subordinated debentures due Jan. 15, 1989, at a rate of $700 per $1,000 principal amount.

GHH/
Miller/
Commercial
Credit

The U.S. Justice Dept. is officially opposing a move by Germany's Gutehoffnungshütte (GHH) group to acquire contr of printing press maker Miller Printing Corp. of Pittsburgh, Pa., from Commercial Credit Bank (Control Data). According to the department's antitrust division, a full takeover by GHH would constitute an undesirable restraint of trade in this sector, where the German concern already is heavily represented. GHH, via its offshoots MAN and Roland Offset, has been cooperating with Miller in the distribution area for some 20 years. This relationship is not affected by the current legal problems involving the takeover bid, a GHH spokesman said.

Grindlays/
Citibank

The U.K.'s Grindlays Bank has confirmed that First National City Bank of New York is providing a capital injection in exchange for an increased shareholding in the British bank. FNCB is to acquire 2.37 million new shares in Grindlays at an as yet undisclosed price, boosting its holding from 40 to 49%. Grindlay's need for cash was precipitated by losses incurred by its merchant banking subsidiary Brandts. Grindlays chairman Lord Aldington hinted strongly that FNCB's cash injection would only partly solve the bank's problems. Further capital is to be raised by means of a rights issue by Grindlays to its shareholders National & Grindlays Holdings and Citibank in the proportion of 51 to 49.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

	page
Community: Green Light Sought for Canada Talks........	1
In Brief: Hoffmann, 'Wine War,' Drugs, Physicians.....	2
Britain: A Pledge to Play a 'Constructive Part'.......	2
France: Measures to Reduce Youth Unemployment.........	3
Belgium: Reasons Given for Decision to Buy YF-16......	4
Physicians Try to Keep Out Foreign Competition........	4
Germany: High Court Backs Bonn on Regional Aid........	5
Switzerland: Voters Approve Tax, Duty Increases.......	5
Euro Company Scene....................................	6

Community: Brussels Seeks Go-Ahead for Canada Talks

The European Commission has asked the Council of Ministers for a mandate to open negotiations with Canada for a framework agreement on economic and commercial cooperation. Commission officials are talking freely about the scope of the mandate, although a paper that outlines it has been kept secret because it involves a future negotiating position and not a legal proposal. It has been emphasized that no overtures are being made in terms of preferential tariff concessions, and there is no contractual element with respect to raw materials that would be of disadvantage to the United States. Any such move would be contrary to the 1972 U.S.-Community understanding in which the EC agreed to restrict its preferential policy to western Europe, the ACP countries, and the Mediterranean area. Any concession that might be offered to Canada would also benefit any other GATT trading partner.

The object of any future agreement with Canada, the first with an advanced industrial nation, is to provide an institutional framework for economic and commercial cooperation beyond the field of conventional trade policy. It would cover any activity, trade-related or not, and to this end would not replace but rather complement cooperation between Canada and individual member states.

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Canada Talks *(contd.)*

For both sides, there would be major political aspects to a cooperation agreement. For the Community it would constitute a significant development in external relations and a further opportunity to act as an economic entity by way of coordinating member state policies. Presumably, European businesses would be encouraged to view Canada not only as a source of raw materials but also in terms of participating in processing there and in the diversification of Canadian industry, perhaps through joint ventures. Canada, in turn, would like to attract more European investment in order to reduce the American influence at home (both Ottawa and Brussels are well aware, of course, that Canada will continue to be dependent on U.S. capital and technology). By establishing relations with China and Japan, the Canadians already have demonstrated a new confidence in their external relations, and an agreement with the EC would fit the same pattern.

In view of the significance of such a step, Brussels' request for a negotiation mandate will be thoroughly discussed at Council level. The green light for the talks should be given by the end of the year, although it might take several years before an agreement is actually concluded.

In Brief...

The Commission has informed the Swiss government that it plans to send a statement of objections to Hoffmann-La Roche, citing violation of EC competition rules on the p of the Swiss drug-maker and its European subsidiaries. No matter what the response, though, any direct future antitrust action would be limited to the company's Common Market offshoots, because in the 1973 EC-Swiss trade agreement the Bern government expressly reserved powers to move against domestic firms + + + The shaky peace following the French-Italian "wine war" could again erupt into a legal battle: in accordance with Treaty Article 169, the Commission has now sent a reasoned opinion to the French government. If Paris does not comply, the Commission still has the option of bringing the matter before the European Court of Justice + + + The pharmaceuticals directives, which the Council formally adopted on May 20, 1975, have been published in the Official Journal. The member states have 18 months to comply with them + + + The Danish government has withdrawn its reservations regarding the two physicians directives, removing the last obstacle to formal adoption *(see also Belgium, page 4)*.

Britain: Wilson Gives Pledge to Play 'a Full Part'

In his formal announcement to Parliament of the overwhelming "yes" vote in the U.K. Common Market referendum, Prime Minister Harold Wilson pledged that Britain would now play "a full and constructive part in all Community activities

'Full Part'
(contd.)

and policies." The first tangible evidence of this commitment will be a recommendation that the U.K. take up its complete quota of 36 seats in the European Parliament. Such a decision does not, however, rest with the Prime Minister but with the Parliamentary Labour Party. Nevertheless, it is virtually certain that delegates from Labour's back benches will be sent to swell the ranks of the largest party group in the European Parliament. Then, possibly, the 18-strong Labour Party delegation might enter as an independent group in order to ensure more freedom of action.

A second immediate result of the vote is that the U.K.'s labor unions are now expected to participate in European institutions which, so far, they have boycotted. The Trades Union Congress' involvement in Europe will most probably begin in July inasmuch as its International Committee meets then to decide when to take up Britain's eight seats on the Community's Economic and Social Committee, which advises the Commission on such matters as occupational training and free movement of labor within the EC.

As most observers have conceded, however, the "yes" vote - for all the excitement surrounding the bitter referendum campaign - has only resulted in a continuation of the status quo, and they conclude that the remedies for Britain's dire economic problems will be found not in Brussels and Luxembourg but in Britain itself. The key question now surrounds the Chancellor of the Exchequer's economic strategy, especially in the short term. Reports indicate that Denis Healey will adhere to the comparatively restrictive monetary policy set out in his recent Budget; he himself has made it clear that he is quite prepared to see unemployment running well over the one-million mark if labor does not exercise pay restraint.

Wilson, meanwhile, as expected, has slightly reshuffled his Cabinet, with the main interest focusing on Anthony Wedgwood Benn, who lost the Dept. of Industry but remains in a key position as head of the Dept. of Energy. Eric Varley was named as the new Secretary for Industry.

France:
Paris Moves to Cut Youth Unemployment

In tandem with new price curbs, as previously reported, the French government has announced that it will spend up to FF 3 billion to alleviate the unemployment problem for young people. Of 800,000 jobless persons officially registered with the labor authorities, more than 300,000 are under the age of 25, many of them looking for their first jobs. By fall, another 600,000 school graduates will be joining the labor market.

In anticipation of an eventual economic upswing, the administration wants to persuade employers to hire unemployed young people and offer them job training. Companies

Unemployment *(contd.)*

participating in this program will receive a monthly premium of FF 500 for each young person hired between June 15 and Sept. 30; thereafter, and until Dec. 1, the premium will be FF 300. Employers who provide job training of at least two months will be entitled to a bonus that could equal the legal minimum wage monthly during the period of training and would amount to 30% of that minimum wage thereafter. (All these aids will expire, however, by Dec. 1.) In addition, young people who have not been able to find a job over a period of three months in future can become eligible for unemployment compensation, providing certain conditions are met. Public administrations have been instructed to hire additional staff by the end of this year.

The government did not accede to union demands to further counteract unemployment by lowering the legal retirement age to 60 years for men and to 55 years for women and by shortening the legal workweek to 40 hours. The latter is a goal the government already has set for itself, anyway, but not before the end of this decade.

Belgium: Reasons Given for Decision to Buy YF-16

Prime Minister Leo Tindemans, addressing himself to the Belgian parliament, has justified his government's decision for the purchase of the American YF-16 fighter jet with the refusal of some EC partners - notably Germany and Holland - to agree on the acquisition of France's competing Mirage F-1 as a first step toward establishment of a truly European aerospace industry. Belgium previously had vigorously campaigned for the Mirage as a successor aircraft to the outdated F-104 Starfighter but finally gave in to severe political pressures after NATO partners Holland, Denmark, and Norway had cast their votes for General Dynamics' YF-16. The joint order will involve 300 to 350 aircraft and is valued at more than $2 billion.

The Belgian decision to hand the "arms deal of the century" to the United States rather than France was not without internal political repercussions for the Belgian government. It ran into the strenuous opposition of the Rassemblement Walloon, a minor coalition partner in the Tindemans administration. At one point, the four cabinet ministers representing the small French-language party issued a threat to support the Opposition in a confidence vote on the government's decision.

Physicians Try to Keep Out Competitors

The Belgian coalition government is hopeful that it can muster enough parliamentary support to defeat draft legislation introduced with the backing of a strong physicians' lobby. The bill provides that foreign doctors wishing to practice medicine in Belgium would have to pass a language test in both French and Dutch. While possible passage

Physicians *(contd.)*

prior to the formal adoption of the two Community directives on physicians would not violate EC law, it would be contrary to Community intentions as well as to the Belgian government's commitment (*Common Market Reports, Par. 9690*). It is quite clear that not many doctors from other EC states would be able to pass the language test. In other words, the discriminatory national barriers that would fall upon implementation of the EC directives would merely be replaced by language barriers. The Community directives would authorize member states to offer language training to nonnational doctors. Motions to introduce language tests were, however, rejected during Council deliberations.

Germany: Court Backs Government on Regional Aid

West Germany's Supreme Administrative Court has confirmed the government's practice of granting regional aid to qualifying businesses and thus has set a precedent for some 850 additional cases pending before lower and appellate administrative courts. It also has extinguished hopes of more than 1,500 businesses that lodged protests with government agencies after their requests for aid were turned down. The total amount in dispute is estimated to be nearly DM 800 million.

Under the 1969 Investment Grant Law (*Investitionszulagengesetz*), the government may give grants for investments that "from the overall economic viewpoint are especially worthy of promotion." But these grants are made only if management has received a certificate to this effect from the Federal Economics Minister. In the past, however, many enterprises simply proceeded with these investments without waiting for the certificate. Sometimes it was issued, but in many cases the applications were denied, and appeals to the courts followed.

Rejections usually hinged on the government's interpretation of what made an investment worthy of support. Bonn maintained that an applicant could qualify only if the investment would benefit the local economy directly and permanently by creating new jobs. According to the government, this could be assumed if the firm primarily was to provide services or produce goods to be sold outside the region, an argument that the court accepted.

Switzerland: Voters Approve Tax, Duty Increases

Only half a year after rejecting a similar financial package, the Swiss voters have accepted certain tax and customs duty increases and extended the authorization for the National Bank to effect measures protecting the Swiss currency. The outcome of the June 8 referendum obviously reflected apprehension over the slowdown of the domestic economy as well as the realization that without additional funds the government would be unable to pay its bills. But

Increases *(contd.)*

the voters also came out for strict budgeting by approving a so-called "spending brake": in the future, all proposals for new or higher expenditure will require an absolute majority of both houses of Parliament (so far, a simple majority of the representatives present was sufficient).

The positive result of the referendum assures Bern of about SF 1 billion in additional revenue from a 25% increase in turnover tax and - for incomes in excess of SF 243,000 annually - a boost in direct federal tax. With effect from 1976, retail turnover tax will be raised from 4.4 to 5.6%, and wholesale tax from 6.6 to 8.4%. For the highest personal incomes, the ceiling on the tax progression ceiling will be moved up from 10.45 to 11.5%. The tax on corporate profits will go up by 10%, with the maximum rate rising from 8.8 to 9.8%. On all these tax measures, the vote was 753,000 to 593,000.

Somewhat narrower was the majority for higher customs duties on gasoline, which already had been approved by the government and Parliament last fall. The extra revenue of SF 340 million annually will primarily be used for the national road construction program and thus was seen as an aid to employment. However, the voters did not accept higher customs duties on heating fuels, which would have gained an additional SF 140 million for the treasury.

Finally, the Swiss National Bank won a solid vote of confidence - 1.15 million to 195,000 - as its authorization to guard Switzerland's monetary position was extended until October 1977. This will permit the central bank, for instance, to continue imposing interest and investment restrictions and curbs against the inflow of foreign capital.

EURO COMPANY SCENE

German Construction Firms

Confirming the Economics Ministry news "leak" of last month, Germany's Federal Cartel Office has announced the levying of fines totaling DM 35.9 million against 336 construction firms, mostly in the northern and western regions of the country, for allegedly entering into agreements in restraint of competition. Penalties of DM 32.3 million were imposed against the firms themselves and DM 3.6 million against 481 responsible individuals; 129 ancillary actions are still pending. Spokesmen for the German construction industry have tried to justify their agreements as "defensive" measures made necessary by conditions prevailing on the building market and often involving the award of public contracts. One business association condemned the extent of the penalties as "practically endangering the existence" of those fined, considering the precarious financial position of most German building enterprises these days. In any case, both industry and gov-

Construction Firms *(contd.)*

ernment officials acknowledge the need for a thorough reorganization and redefinition of the German construction market.

BP/ Statoil

British Petroleum is conducting negotiations with the government of Norway with a view to Oslo's taking over BP's Norwegian refining and marketing interests, which have been estimated to be worth some Ŀ420-800 million. Such an acquisition would involve the purchase by Statoil, the Norwegian national oil company, of BP's 50% equity in Norsk Braendselolje. According to a statement by the British company, the negotiations will have "no adverse effects on BP's aspirations for the Norwegian continental shelf."

Thomson-CSF/ Northern Electric

After months-long negotiations, Thomson-CSF, of France's Thomson-Brandt electronics group, has concluded a licensing agreement with Northern Electric Co. of Montreal for manufacture and distribution of the Canadian company's "SP 1" computerized telephone exchanges, worldwide, except for North America and Japan. The deal, the value of which was not disclosed, at last gives Thomson-CSF access to the French public telecommunications market, where ITT and CGE of France have been the leaders up to now. According to the contract, Thomson reportedly will be able to utilize Northern Electric's sales network in North America and will take a minority interest in a joint venture in the area of telephone switching equipment for private systems.

British Airways/ Airbus

Rumors emanating from the Paris air show suggest that British Airways is poised to buy a fleet of "special" A-300 European Airbuses (B10) for European routes and that France, in return, will purchase up to 40 BAC 1-11s instead of Boeing 737s.

Eriksberg

The Swedish government's recent announcement of its plans to rescue the Broestroem shipping group's Eriksberg yard through a takeover as of June 30 has touched off a controversy in domestic business circles about the extent of a company's "social responsibility." The deal involves the token payment of 1,000 kronor by the state to Tirfing, Broestroem's parent company, while Tirfing has agreed to provide the shipyard - Sweden's third-largest - with a tax-free loan of some 225 million kronor and a 237-million order for two 32,000-ton cargo vessels in order to boost its liquidity. Stockholm in turn is underwriting a 12-year, 150-million-kronor credit for Tirfing. As a result of its allocations to Eriksberg, Tirfing now finds itself with a pre-tax deficit of 14.9 million kronor. Tirfing officials justify the loss as the price the company must pay for meeting its social responsibilities toward the government. Various business commentators argue, however, that this view contradicts Swedish company law and puts a new

Eriksberg *(contd.)*

interpretation on private shareholder responsibility, which in this case involves subsidiary firms as well as the parent company. Pressures for a legal clarification have been mounting.

Sharp & Dohme

Sharp & Dohme GmbH, German subsidiary of Merck & Co., Inc., chemicals of Rahway, N.J., has opened a new DM 25-million production plant near Munich. Marking the occasion, Merck officials announced the company's biggest investment program to date in Germany, requiring a total capital outlay of DM 1 billion for 1975-76 in order to set up manufacturing facilities for various new products.

E. Merck/ Whittaker

E. Merck, the German pharmaceuticals and chemicals producer, has acquired the "Rona Pearl" and "Dimensional Pigments" divisions of Whittaker Corp. of Los Angeles for an unspecified price. Merck's U.S. holding EM Laboratories reportedly has formed Rona Pearl, Inc., in Bayonne, N.J., to take over these interests, which include subsidiary operations in Maine, Mexico, and Portugal. The two divisions produce and distribute natural and synthetic pearlized pigments.

Dim-Rosy/ Colroy

Dim-Rosy and Colroy, France's leading two producers of women's tights and stockings, reportedly are negotiating the possible formation of a joint holding company in which to combine their manufacturing interests. If talks prove successful, the new hosiery grouping would account for some 80% of French production and half of the domestic market, with sales for the current year estimated at over FF 600 million.

Maserati

Maserati SpA of Italy, the prestige sports car manufacturer, has won a reprieve from the liquidation first announced several weeks ago. Majority-owner Citroën of France and the Italian government have postponed the action now that Rome has agreed to subsidize Maserati employees through special payments from the state unemployment funds for a six-month period. A buyer for the deficit-ridden auto maker is still being sought.

Bache

The New York stockbrokerage house of Bache & Co., Inc., has confirmed its decision to liquidate Bankhaus Bache & Co. GmbH in Frankfurt, its German banking arm. The company's representative offices will continue to offer full brokerage services throughout Germany, however. A spokesman for Bache indicated that the move should be regarded as a mere formality, since the firm had practically suspended all banking operations in the country for the past five years, anyway.

Common Market Reports

EUROMARKET NEWS

Issue No. 336 *June 24, 1975*

IN THIS ISSUE

page

Community: Greece Applies for Full Membership.........1

Brussels Modifies Position on Energy Discussions......2

In Brief: Portugal, Sri Lanka, Community Law..........3

Italy: Communists Score Major Gains in Elections......3

Britain: Statutory Policy on Prices, Incomes?.........4

Labour Adopts 'Conciliatory' Tone toward Industry.....4

Germany: Curbs on Trade of Foreign Securities?........5

Netherlands: Queries on Plans to Lure Investors.......5

Finland: Interim Government until Fall Vote...........6

Euro Company Scene....................................7

Community: Greece Applies for Full Membership

Greece's formal application on June 12 for accession to the Communities (Economic, Coal and Steel, and Euratom) was not entirely unexpected, since the 1962 EEC-Greece association agreement already had provided for such a step, though at a much later date. Article 72 of the agreement states that full membership should be considered only after Greece could completely accept the provisions of the Treaty of Rome. Presumably, this would have been after the 22-year period that the agreement allowed for complete elimination of Greek customs duties on Community products, i.e., after 1984. Greece, on the other hand, has been enjoying intra-EC treatment for all of its industrial products and most of its agricultural exports to the Community (*Common Market Reports, Par. 5344*).

In its application, presented to the Permanent Representatives, Athens argued that accession would be justified by the development of the Greek economy as well as by the evolution of economic and political relations with the EC. It submitted that Greece belongs to the Common Market politically, economically, and culturally, and that the Greeks share the Community's ideals, although these had been suppressed during the 1967-74 regime of the colonels

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Greece *(contd.)*

(during which time the association agreement had been suspended).

There is, of course, no doubt about major economic disparities between the EEC countries and Greece. Greek per-capita income is still somewhat lower than that of Ireland, the poorest member state in terms of Gross National Product. Also, only 10% of the Common Market population is engaged in farming, as compared with 46% in Greece.

The application does not include a timetable. Should the nine governments respond favorably and entrust the European Commission with a mandate to negotiate, actual talks might take up to three years. On that basis, Council of Ministers officials believe, Greece could become a member by the end of 1978 or in '79.

First, though, Brussels will have to examine the application thoroughly and consider a number of important aspects, since the accession of any new member initially constitutes an additional burden on the Community. Some of these problems are of an administrative and technical nature: for instance, all major pieces of existing Community legislation and each new proposal would have to be translated into Greek - a monumental task, as demonstrated in the case of newcomer Denmark. But there are, of course, political issues to be considered as well, to mention onl[y] the fact that, in the event of Greece's accession, observ[ers] indicate, the Community could hardly reject Turkey as a new member should such an application ever be forthcoming.

EEC Shifts Position on Energy Issue

Hoping to revive the dialogue between the oil-producing and oil-consuming countries, the European Commission has moved away from its earlier position by suggesting that future discussions should no longer be confined to energy problems but should also cover raw materials and even development aid. Talks between the oil producers and consumers broke down in Paris last April largely over disagreement regarding the agenda. The Commission originally was not in favor of discussions about exploitation and prices of raw materials, even though some of the member states were. The United States, too, was initially opposed but has had a change of mind since then.

Discussing the new position, Energy Commissioner Henri Simonet said that a future dialogue could concentrate on individual products or be conducted within an overall system designed to stabilize the producer countries' earnings from exports of raw materials; the Community had agreed to such a system in its convention with the 46 ACP countries (*Common Market Reports, Par. 9715*).

The Community's revised energy conservation program calls for energy savings beyond those made in the face of the economic recession in all member states. A large-scale

Energy *(contd.)*

investment program would develop alternate energy sources: the Commission proposes investments of three billion units of account over the next three years, with 700 million during 1975 alone (1974 = 570 million).

In Brief...

The Commission has asked the Council to establish links of trade and assistance with Portugal, on the assumption that generous, though as yet unspecified, aid would have a positive political and psychological impact in helping that country achieve full democracy + + + In what amounts to a rebuff of the European Commission, the Council has stricken a clause from the negotiated EEC-Sri Lanka trade agreement that would have granted Sri Lanka (formerly Ceylon) most-favored-nation treatment not only for its export products but also for services. With the clause on services, according to the Council, the Commission had simply exceeded its mandate: Sri Lanka's weak commitment "to do its best" possibly would not have prevented discrimination against some shipping lines + + + The Commission has denied allegations, particularly from members of the European Parliament, that it is slow in taking member states to the Court of Justice for failing to abide by Community law, especially in aligning national rules with EEC directives.

ly: g Gains for Communists in Regional Vote

Following the triumphant gains of the Communists in Italy's regional and communal elections of June 15-16, most observers are convinced that it is only a question of time as to when this "political earthquake" will trigger the next government crisis in Rome. The Communist Party missed overtaking the Christian Democrats (DC) as the country's largest party by only a little, scoring 33.4% of the total vote as against the DC's 35.5%. It came out on top in seven of 15 voting regions and in all major cities, including Rome, Milan, Turin, Genoa, Florence, Venice, Bologna, and Naples. The massive shift to the left to a lesser degree also benefited the Socialist PSI, a difficult partner in the present four-party government coalition, which won about 12% of the vote.

The results of the regional elections have no direct influence on the make-up of the parliament in Rome, but they can be interpreted as a massive protest against political and economic mismanagement and the inability of successive Christian Democrat-led governments to cope with the perennial Italian crisis. The new situation should make it exceedingly difficult for the Aldo Moro government to continue in more than a mere administrative function. The heaviest interference is expected to come from the Socialists, who might aim toward new general elections in hopes that these would result in a national left-wing alliance. On the basis of the provincial elections, the Com-

Regional Vote *(contd.)*

munists, the Socialists, and other leftist splinter groups already come very close to holding 50% of the total vote.

Britain: Statutory Price, Income Controls?

British cost-of-living figures for May suggest that the U.K. inflation rate is now reaching suicidal proportions. The staggering 4.2% increase over April, the largest monthly increase on record, would indicate an annual rate of some 25%. However, should inflation continue at the same rate as that over the last three months, an annual rate of over 50% can be extrapolated. The immediate reasons for the sharp rise can be attributed to the Chancellor of the Exchequer's "hard-line" Budget and, more directly, to the flood of wage settlements outside the "social contract," an agreement which, one commentator claimed, "is not worth the paper it was never written on." The situation is now so critical that the imposition of a statutory prices and incomes policy seems inevitable, in spite of the Chancellor's expressed hope that tripartite (government, employers, labor unions) negotiations could result in voluntary wage settlement levels with a ceiling below 15% and concomitant agreements on price levels.

Evidence of a shift of emphasis toward statutory controls also came from the House of Lords, where Lord Shepherd and some of his fellow peers proposed that the concept of an "inflation tax," originally mooted by the Liberal Party, should be favorably viewed. Under this proposal, a tax would be levied on wage increases that exceed a specified (i.e., statutory) norm. The decision to impose such controls would be a bitter one for the ruling Labour government, since it would be tantamount to a final admission that the party's rank-and-file supporters are not prepared to cooperate voluntarily. Whatever hopes for cooperation still remained were largely shattered on June 17, when the conference of the Amalgamated Union of Engineering Workers (AUEW) voted to "oppose the social contract in its existing or any modified form."

Labour Adopts 'Conciliatory' Tone toward Industry

The removal of the controversial Anthony Wedgwood Benn as Secretary of State for Industry, aside from constituting a face-saving maneuver on the part of Prime Minister Harold Wilson, has also heralded a shift in the government's attitude toward industry and the business community. This was highlighted in a "conciliatory" speech by Paymaster-General Edmund Dell, who stressed that official industrial policy was founded on "voluntary cooperation with industry." Dell eschewed all references to worker democracy when he noted that "the main executive burden can only rest on industry because industry alone has the capacity and experience and can hopefully acquire the resources to deal with the problem across the whole front." The unions, Dell said, can "do nothing for their members in industry unless it (indus-

Labour
(contd.)

try) is able to afford reasonable pay and conditions: those who lend their capital cannot get an adequate return unless profitability is sufficient to ensure it."

Dell's remarks appeared to mirror clearly the position of the Prime Minister (who declared that he will "personally" take charge of the Industry Bill) by seeking to inspire investment confidence and, by implication, allay fears that state participation in industry will be indiscriminate.

Germany:
Curbs on Trade of Foreign Securities?

The German government is considering the introduction of legislative controls on the public trade of foreign securities. Germany is one of the few countries in the world with no restrictions on the trade of foreign securities; in fact, it has no agency like the U.S. Securities and Exchange Commission, which exercises considerable controls over the securities sector generally. As a result, dubious securities offers have become commonplace in Germany.

In considering various options for legislation, government officials appear to shy away from planning for controls that would lull potential investors into a false sense of security. Bonn definitely does not want to give the impression that the risk of any investment can be entirely eliminated through government controls, no matter how tight. While no quick answer to the problem is shaping up, discussions within the administration apparently have led to the consensus of allowing only foreign securities listed on any of the six German stock exchanges to be traded outside these exchanges, providing trade is handled through a licensed broker. This provision would not apply, however, to securities that are quoted on stock exchanges in the other eight EEC member states and that may be traded, with national government approval, outside stock exchanges.

Presentation of a bill may be delayed, though, because Bonn may wish to combine the new controls with the long-planned amendments to existing legislation pertaining to the sale of certificates of foreign closed-end real estate funds.

Netherlands:
Firms Query Plans to Lure Investments

In a concerted effort to draw more foreign direct investment to the Netherlands, the Dutch government is planning to intensify its promotional activities abroad. Economics Minister Ruud Lubbers said recently that official trade development offices are to be established in New York and Tokyo, among other locations, and that The Hague intends to utilize the services of international management consultants to ensure the effectiveness of the program.

Investments *(contd.)*

Representatives of the Dutch business community are wondering, however, how the administration could possibly hope to demonstrate Holland's attractiveness to potential foreign investors at a time when many domestic companies are going abroad to escape the chilly tax and investment climate at home. Last year Dutch firms made investments of more than 4 billion guilders abroad - twice as much as in 1973 - and this trend shows no signs of abating. Earlier this month, the Amstelveen-based conglomerate Thyssen-Bornemisza announced that it would relocate its headquarters in Monaco in the fall. The chairman of the supervisory board of Philips, which employs 2% of the national work force, not too long ago made a point of saying that because of the high cost of production in Holland the company currently has no plans whatsoever to expand domestic operations. Similar misgivings have been aired by Japan's Mitsubishi, which, on the basis of a study on western Europe, has warned Japanese investors against direct engagements in the Netherlands. Mitsubishi described the Dutch incentives offered to investors as anything but attractive and complained that the authorities tend to put pressure on companies to locate in the northeastern and southernmost parts of the country, where transport facilities are poor.

Meanwhile, affirmation of the high tax burden in the Netherlands has come from the Statistical Office of the European Communities, which in its latest report on member state fiscal revenue put Holland in the top spot, with 45% of the Gross National Product accounted for by the tax and social security intake (1973). The percentages for the remaining EC countries: Denmark, 43; Belgium, 38.1; Germany, 37.7; Luxembourg, 37.6; France, 35.8; Great Britain, 33; Ireland, 32.4; and Italy, 30. Per-capita wage costs in Dutch industry averaged 30,000 guilders in 1974, which was 35% higher than in 1972, according to the Dutch central statistical office.

Finland: Interim Rule until Vote in September

Until after new parliamentary elections on Sept. 21-22, Finland will be governed by a caretaker administration of civil servants headed by Keijo Liinamaa, Social Democrat deputy minister in the Labor Ministry. The interim cabinet was appointed on June 13 following the resignation of the Kalevi Sorsa government in the wake of insurmountable political differences within the four-party coalition.

These conflicts to a large degree involved the question of how to deal with the country's gravest economic problem, namely, that of the steadily widening foreign trade gap. Last year, the strong domestic demand for import goods had led to a trade deficit of 4.5 billion finmarks, which is expected to exceed 5 billion this year. The situation so far has not been helped much by the impo-

Interim Rule *(contd.)*

sition of restrictions in the form of a six-month, no-interest import deposit of up to 30% (of import value) and by drastic spending cuts on state and local levels.

Unlike most other industrialized countries, Finland in '74 still experienced a relatively strong economic boom, the limits of which were not so much determined by lack of orders as by insufficient capacities. But the country also suffered a 17% inflation rate, partly blamed on the combined effects of tax reductions and generous pay raises (of nearly 20%). While the domestic market continues to show strength, the opposite is true of the foreign markets, particularly for wood, pulp, and paper, Finland's key export products. To help relieve the mounting pressures on the country's payments balance, the International Monetary Fund earlier this month granted a loan of 315 million finmarks and extended an additional credit line of 420 million. In accepting the funds, the Helsinki government pledged to maintain a restrictive budget and credit policy this year and affirmed its intention to abolish the import curbs step by step until March 24, 1976, at the latest.

EURO COMPANY SCENE

M

Italy's Minister for State Participations Antonio Bisaglio has dismissed the president of the four-year-old state holding for mining and metallurgy EGAM, Mario Einaudi, after a parliamentary investigating commission declared him incompetent. The ouster is said to mark the first time that a top manager in Italy's state-owned industries has been forced out of office. Among other things, Einaudi had been accused of squandering public funds by turning EGAM into a repository for bankrupt enterprises and by acquiring a number of firms in sectors completely unrelated to EGAM's principal activities. His interim successor is Ernesto Manuelli, president of the state steel group Finsider. Italian political and economic observers interpreted the shake-up at EGAM as a victory for those - particularly the unions - who have been urging a reform of the state industrial participations. In response to a parliamentary recommendation of late last month, the government also has finally announced the formation of an interministerial commission to undertake reorganization of all the state holdings and their eventual coordination with one another.

VAW/ Reynolds

Germany's state-owned Vereinigte Aluminium-Werke (VAW) is reportedly negotiating for the use of the Hamburg aluminum production plant belonging to Reynolds Metals Co. of Richmond, Va. According to industry observers, VAW is not seeking direct acquisition of the DM 640-million facilities but is proposing the establishment of a joint operating venture together with Reynolds in order to lease or rent

VAW/Reynolds *(contd.)*

the plant. Reynolds, for its part, has been interested in finding a buyer for the smelting facilities, which have been working to only two-thirds of capacity because of legal entanglements involving the pollution issue. One possibility that has been mentioned recently would be Reynolds' cession of the plant to its 10% co-owner, the City-State of Hamburg, without compensation prior to establishment of a joint leasing venture.

Thorn/ SKF/ Sheffield

Britain's Thorn Electrical Industries has held to its promise to top the £10.5-million takeover bid made by Sweden's SKF for Sheffield Twist Drill and Steel. The rival offer announced by Thorn exceeds the SKF bid by some £1 million and, although SKF claims to control some 38% of Sheffield equity, it now appears that the Swedish firm will have to increase its original offer.

Norsk Hydro

Norsk Hydro, the major Norwegian chemicals group, has confirmed that it will proceed with construction of two petrochemical plants that are to form part of the Rafnes complex in southeastern Norway, the largest single industrial investment project ever undertaken in that country. One of the plants, which will be wholly owned by Hydro, will produce vinyl chloride and will cost about 500 million kroner, with an initial annual capacity of some 300,000 tons. Badger Ltd., British offshoot of the Cambridge, Mass.-ba[illegible] engineering group, is the contractor for the facilities, which will utilize B.F. Goodrich technology under license. The second plant, costing about 450 million kroner, will produce chlorine (120,000 tons yearly) and sodium hydroxide (132,000 tons) and is to be co-owned by Hydro and Borregaard, also of Norway, through a joint subsidiary. According to its Norwegian planners, this plant will be the first of its kind in Europe to have no mercury emissions. Lurgi engineering of Germany and Diamand Shamrock Chemical Co. of Cleveland are sharing construction.

Syska & Hennessy/ Fiat/ E.C.A.

Syska & Hennessy, Inc., engineers of New York, and Fiat Engineering SpA of Italy's Fiat group have set up a new joint venture in Switzerland, E.C.A. Engineering & Construction Associates SA, to carry out studies and projects in the civil construction sector worldwide.

Whitbread/ Schenley/ Long John

U.K. brewers Whitbread are negotiating with Schenley Industries, subsidiary of Rapid-American Corp. of the United States, with a view to acquiring the latter's interest in Long John whiskey, estimated at some 75% of the equity. The fact that a British house is negotiating with a foreign owner to acquire whiskey rights underlines a marked trend in that market: with the exception of Distillers, the British giant, many "Scotch" whiskey houses and world-famous brands are foreign-owned.

Common Market Reports

EUROMARKET NEWS

Issue No. 337 Report No. 268, July 2, 1975

IN THIS ISSUE

page

Community: Consensus on Workweek, Minimum Leave.......1

Council Rejects Draft on Equal Opportunities..........2

Germany: Powers Sought on Investment Reporting........2

Bonn Retires Plans for Windfall Profits Tax...........3

Britain: High Wage Claims Trouble Labor Scene.........4

Bank of England Urges Check on Public Spending........4

Austria: Vienna Eases Exchange, Investment Curbs......5

Switzerland: Discussions over Numbered Accounts.......5

Yugoslavia: Import Embargo for Many Products..........6

Euro Company Scene....................................7

Community: Council Favors 40-Hour Week, Four-Week Leave

The Council of Ministers on June 17 agreed in principle that the member states should follow the European Commission's recommendation to make the 40-hour workweek and four-week annual vacation mandatory by Dec. 31, 1978, at the latest. Some legal and translation problems still have to be solved prior to formal adoption. Although the recommendation would not be binding, it nevertheless is expected to help harmonize national differences, legislative or actual.

Statistical comparisons of annual leave show that legislation and actual (collective bargaining) practice correspond to each other only in France and Denmark, where at least 24 days' paid vacation is the rule. Everywhere else, collective agreements substantially exceed the statutory minimum. In Germany, for example, employers are now granting between 20 and 26 work days of leave, whereas employees legally are entitled to only 15-18 days. Italy's statutory minimum is 12 days, but most employees receive 18-24 days on the average. Britain has no legislative rules on paid vacations, although most U.K. employees are given between 15 and 18 days.

Under the Community proposal, the member states would strive for minimum leave of four weeks, not counting public

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40-Hour Week *(contd.)*

holidays falling within that period. This system would have no effect on pay, although it obviously would cost employers more in terms of time lost.

Considerable differences also exist in member state rules on the maximum workweek. Only France has the 40-hour week on the books, though the average actually worked is 44.5 hours. In Germany, Italy, and Ireland the average number of hours worked, 40, lies far below the 48-hour statutory maximum. Belgium's statutory maximum is 45 hours, whereas the average actual workweek does not exceed 40-41 hours. Again, the U.K. has no rules at all, but most Britons do not work more than 40 hours.

The Community recommendation contains one compulsory element: the member states must inform the Commission about their legislative efforts in this sector so as to assist Brussels in the preparation of its annual report on social policy. Community officials tend to agree that if the recommendation is not fully followed by 1980, the Commission would propose a directive to force tardy or reluctant member states to move up to the others.

Members Reject Draft on Equal Opportunities

The Council's June 17 discussions on the draft directive concerning equal opportunities in employment have revealed so many additional problems that adoption of this important measure may not be forthcoming until late fall or early winter. Several member states object not only to the occasionally ambiguous language of the draft but also have strong reservations on the financial implications that would result from the implementation of the equal opportunity principle for men and women in terms of access to employment, vocational training, advancement, and working conditions (*Common Market Reports, Par. 9718*). Britain, for instance, believes that adoption of the draft directive in its present form would lead to financial consequences that the U.K. would find unacceptable. With a current retirement age of 65 years for men and 60 for women in Britain, the equality principle would mean that men should be allowed to retire at 60, too. This would bring on additional costs of some £1.8 billion annually in terms of lower tax and social security contributions and higher pension pay-outs.

In the face of objections like this, the draft measure was returned to the Permanent Representatives, who were expected to entrust a group of experts with the job of finding solutions.

Germany: Powers Sought on Investment Reporting

The German government is seeking statutory authorization for future regulations to make reporting on investments mandatory - residents would have to report on investments abroad, while nonresidents would have to give account of

Investments *(contd.)*

investments in Germany. These regulatory powers are sought in a draft amendment to Section 26 of the Foreign Trade Law (*Aussenwirtschaftsgesetz*). This amendment would give the government a quid pro quo for its relaxation, in January 1974, of exchange controls that had been introduced in mid-1973 to stem the inflow of foreign capital (*Doing Business in Europe, Pars. 23,124 and 30,654*).

Under the proposal, the government could extend the reporting requirements to cover transactions between individuals and corporate residents and nonresidents as well as other data on ownership of assets if these are needed for balance of payments compilations, for foreign trade considerations, or for meeting obligations assumed in international treaties (tax treaties, for example). Residents could be required to report payments made to nonresidents as well as any consideration received from abroad. Moreover, residents could be asked to disclose the volume as well as specific items (to be listed in future regulations) of their foreign assets, not necessarily investments in the conventional sense. The same could be demanded from nonresidents with respect to their assets located in Germany.

The proposed amendment came too late to be passed by Parliament prior to the summer recess, so adoption cannot be expected until fall and the government regulations would follow some time thereafter.

Special Tax on Windfall Oil Profits

At least for the time being, Bonn has shelved the idea of imposing a windfall tax on profits made by foreign oil companies in exploiting oil and natural gas resources in Germany. Instead, the government is seeking a "cooperative solution" that, hopefully, would include a pledge by the companies affected to reinvest a substantial part or all of such profits. According to Bonn sources, both Economics Minister Hans Friderichs and Finance Minister Hans Apel cited constitutional grounds, among other things, in their case against a windfall profits tax. It was argued that - revenue considerations aside - nothing could be gained in economic terms because the structure of the tax would not allow the oil majors to write off losses incurred by one operation against the profits of another, a situation that could endanger jobs. A pledge to reinvest profits thus is seen as a better solution.

Presumably, Friderichs had an opportunity to win the oil companies' promise of cooperation during his U.S. visit last month. A bill seeking the introduction of a windfall profits tax has been dropped in the United States, contrary to the report in the June 3 issue of *EUROMARKET NEWS* that such legislation had been passed.

Britain: Wage Claims; Jobless Record; Payroll Aids

Only days after Britain's Amalgamated Union of Engineering Workers formally rejected the U.K.'s social contract, the government itself stood accused of contributing to wage inflation when it authorized a 30% wage claim by the National Union of Railwaymen (NUR). At about the same time, a 25% pay increase was clinched by local government employees. In the coal-mining industry, the Scottish unions have even gone beyond these percentages by declaring that a minimum target of £100 per week is "fair and realistic."

At company level, the lure of high settlements was nowhere more evident than at Imperial Chemical Industries, where 57,000 workers rejected a 26% pay rise offer. The developments at ICI were regarded as particularly significant in that they raised wage claim issues that will have to be settled within the framework of a new social contract. Such an agreement would have to make some provision for cash differentials between skilled and unskilled workers. The ICI terms offered (unskilled) general workers an increase of £10 and (skilled) craftsmen only £12.50, a situation further aggravated by the fact that the former group can earn an additional £11 per week for night-shift work.

Meanwhile, the latest unemployment figures revealed that the number of jobless in Britain had risen by 13,000 per week over a period of two months to a record total of 863,700 in early June. This was the highest total since World War II and, when projected at the current rate, woul[d] mean over one million unemployed by the end of August.

According to unconfirmed reports, the U.K. government will shortly announce a program under which employers in areas of high unemployment will be granted a "temporary subsidy" if employees are kept on the payrolls in "expectation" of a business upturn. At the national level, this would require some amendments to the Employment Bill now at the committee stage. At European Community level, however, Britain might run into some difficulty, since Brussels is known not to look favorably on this type of subsidy to industry.

Central Bank Urges Check on U.K. Spending

The latest edition of the Bank of England's Quarterly Bulletin contends that there should be no increase in Britain's public sector spending, in real terms, until the end of this decade. The Bank argues that if the balance of payments and domestic investment are to be reinforced, then there is in practice "no room for increases in the volume of public expenditure."

The proposal is the most drastic to date as a solution for the U.K.'s ailing economy and is released at a time when the government is urgently reexamining public spending.

Austria: Vienna Eases Investment, Exchange Curbs

Following the relaxation of foreign exchange regulations, which was announced by the National Bank on June 21, nonresidents will again be able to acquire real property in Austria as well as make direct investments in industry and commerce, with the exception of the construction and tourism sectors and the establishment of wholesale distribution companies by foreign manufacturers. Commercial loans by Austrians to nonresidents also are again permitted.

Capital imports will be allowed mainly toward the purchase of apartments, but only if construction of the buildings involved was started before Nov. 29, 1972, and if these buildings had then been approved for sale to foreigners. This means that nonresidents still may not become engaged in new apartment projects, but Austrian developers at least will be able to sell those finished or unfinished projects that had been affected by the November 1972 freeze on capital imports and that could not be sold to residents. Removal of these curbs is to benefit in particular small and medium-sized building companies, many of which are struggling to survive.

In relaxing the restrictions, Vienna is following the recommendations of the OECD as well as of domestic business spokesmen, who have criticized the government for the allegedly poor handling of its own financing: so far this year, the treasury already has taken up foreign and domestic credits totaling more than 22 billion schillings. In presenting the first 1976 Budget draft to Parliament last month, the administration revealed that the 1975 deficit could be more than 50% higher than originally approved. The government also confirmed plans to raise the standard rate of value-added tax from 16 to 18%, which would result in additional revenue of about 4 billion schillings next year. The reduced VAT rate of 8% on foodstuffs and services will not be altered, however, according to the Finance Ministry proposal.

Switzerland: Banks Fight Move to Kill Number Accounts

The Swiss banking community has made it plain that it will resist all efforts toward abolishment of the numbered bank accounts, one of the mainstays of the country's bank secrecy system. The unequivocal reaction was in response to an initiative by France, which is pressuring Bern to do away with these accounts as a condition for Switzerland's becoming associated with the European joint currency float. The issue recently was taken up in Paris between French Finance Minister Jean-Pierre Fourcade and his Swiss counterpart; subsequently the Swiss National Bank discussed it "informally" with representatives of the top banks. According to Swiss reports, the consensus among the bankers was that the French proposal should be viewed as yet another attempt by a foreign government to break down Switzerland's rigid bank

Number Accounts *(contd.)*

secrecy rules in order to trace instances of capital flight and tax evasion. (Paris' latest move reportedly was prompted by maneuvers such as that of a French singer who moved himself and his assets to Switzerland, thereby escaping French taxes.)

Regardless of the negative attitude of the domestic banking establishment, there is some evidence that the Swiss central government and the National Bank would consider abolishment of the "secret" numbered accounts if this were to help throttle the inflow of "hot money" from abroad and thus ease the pressures on the franc. This new position would be based primarily on economic considerations: the persisting revaluation of the Swiss currency is rapidly pricing the country's exporters out of their world markets, a development that meanwhile has put such key sectors as the watchmaking and textile industries into serious difficulties.

Among the factions that have been favoring abolishment or at least a reform of the bank secrecy laws is also the largest party in the Swiss coalition administration, the Social Democrats, which favors a stricter stance on tax evasion. Switzerland's president, Pierre Graber, also has spoken out against certain "abuses" of the bank secrecy rules. The banks, on the other hand, argue that tax evasion or avoidance - whether at home or abroad - will not be stopped by discontinuing the system of numbered accounts. In fact, they maintain that without these accounts, Switzerland's attractiveness as an international banking center would be seriously impaired, with consequences for the entire economy.

<u>Yugoslavia: Belgrade Halts Imports of Many Products</u>

In an attempt to reduce the country's rapidly growing trade deficit, the Yugoslav government has stopped the import of a number of products, mostly consumer goods and foodstuffs, until the end of the year. Included in the embargo list, which was published on June 21, were household appliances, television sets and home electronics equipment, watches, and cosmetics, as well as milk, fruits and vegetables, whiskey and gin. Also prohibited was the importation of certain agricultural machinery, automobile tires, synthetic fibers, linen and cotton products, steel construction parts, and livestock for breeding. In certain cases, however, importers may obtain exemptive permits, while deliveries contracted for in long-term industrial cooperation pacts with foreign partners are not affected by the embargo.

Last year, Yugoslavia ran up a trade deficit of about $2 billion and it appears as though this year's shortfall will be higher still. For this reason, the Tito government is interested in closer cooperation with, and more concessions from, the Common Market, a subject that was thorough-

Embargo *(contd.)*

ly discussed with European Commission President François-Xavier Ortoli during his three-day visit in Belgrade last month.

EURO COMPANY SCENE

AEG-Telefunken

Germany's AEG-Telefunken group has announced it accumulated total losses of DM 684 million last year owing to "extraordinary provisions" made to cover risks in its nuclear reactor business. The company withdrew DM 439 million from its reserves to help meet the deficit and is now planning an increase in its nominal base capital from DM 704.1 million to 929.8 million to improve liquidity. Accordingly, AEG's supervisory board is proposing a rights issue in the ratio of 3:10 at a price of DM 70 per DM 50 nominal share. The chief drain on AEG's resources has been its 50% participation in Kraftwerk Union AG, the atomic energy venture it co-owns with Siemens. As early as last November AEG indicated its desire to sell off this interest, preferably to partner Siemens, but now company officials say that only a partial reduction of the stake is sought. Discussions are continuing with Siemens and other interested parties, including representatives of the oil-producing countries.

Burmah/

Britain's Paymaster General Edmund Dell has stated that the government has "no intention" of reconsidering the price paid by the Bank of England for Burmah Oil's 77.8 million shares in British Petroleum which were purchased for a total of £179 million (230p per share). The transaction was part of a giant rescue operation after Burmah had reported crippling losses on its tanker operations. Since the purchase date, BP shares have soared to 527p, valuing the bank's stake (i.e., the government's) at over £410 million. The government's rejection of arguments advanced by small shareholders came as no surprise: in May, institutional shareholders in Burmah, who had also taken losses through the enforced sale, made similar, unsuccessful representations.

Doncaster/ Inco

The U.K.'s Daniel Doncaster, the Sheffield-based forge, is the object of a £10.9-million takeover bid by Canada's International Nickel Co. (Inco) group. Doncaster specializes in high-technology forgings for the aerospace, vehicle, and engineering industries and posted record profits of £2.7 million for the last financial year.

Chrysler U.K.

A total shutdown of Chrysler U.K.'s domestic production for the second time within a month was narrowly averted when strikers at a key components plant in Coventry went back to work after agreeing to submit their dispute over layoff pay to formal arbitration. The anticipated standstill, an in-

Chrysler U.K. *(contd.)*

direct result of a strike by 4,500 employees at the company's central engines plant at Coventry, would have meant layoffs for some 20,000 auto workers. Chrysler announced it would make lump-sum payments of £70 to all the strikers in order to encourage "future cooperation."

Distrigaz

Distrigaz, the Belgian energy group, is seeking an agreement with the USSR for the importation of some 5 billion cubic meters of Soviet natural gas annually. According to reports from Brussels, such a contract - worth an estimated BF 230-275 billion based on Ekofisk gas prices - would provide for the exchange of Belgian equipment and technical know-how for the gas. Contract proposals were to be discussed in Moscow by top Belgian and Soviet government officials during King Baudouin's current state visit.

Bell Belgium

A Brussels court has imposed a four-year prison sentence and fines on Germain Baudrin, the former chief of Belgium's Telephone & Telegraph Administration for corruption, falsification of documents, and abuse of his position as a state official. Baudrin was tried in connection with bribery and collusion charges involving him and Frank Pepermans, managing director of ITT's Bell Telephone Manufacturing Co. in Antwerp. Four others were also fined and sentenced to varying jail terms, some suspended. Baudrin, who has already served 14 months of his sentence in detention, has appealed the judgment. Legal action against Pepermans was initia[illegible] late last year.

Degussa Alabama

Degussa Alabama, Inc., U.S. subsidiary of Germany's Degussa metals group, is investing $8.5 million for construction of a plant at Mobile that will produce 3,000 tons of niacinamide annually. The facilities, using a process developed by the German company, are to begin operations during the second half of 1977. According to Degussa, the new plant will make the United States independent of imports of niacinamide, a B-vitamin used by the pharmaceutical and food industries.

Diebold/ Gemini/ CAP Europe

The Diebold Group of New York, EDP analysts and consultants, has sold 185,000 of the 449,120 shares of Gemini Computer Systems, Inc., New York, to CAP Europe SA of Luxembourg, a subsidiary of the London- and Paris-based CAP-Sogeti computer software group. European interests are now said to control some 75% of the capital of CAP Europe.

Common Market Reports

EUROMARKET NEWS

Issue No. 338 *Report No. 269, July 8, 1975*

IN THIS ISSUE

page

Community: Sugar Trial Plea for Italian Companies.....1

Decision by Maghreb Countries Expected Soon...........2

In Brief: Holdings; Parliament; Merger Controls.......2

Britain: 'Threat' of Statutory Incomes Policy.........3

Ireland: Emergency Plan Includes Income Tax Boost.....4

Denmark: Government Battles Record Budget Deficit.....5

Germany: Cartel Report Expounds on Merck Ruling.......6

Switzerland: Proposal to Limit Number of Referenda....6

Euro Company Scene....................................7

Community: [illegible] to Spare Italian Firms in Sugar Cases

In the "sugar cases" now before the European Court of Justice (*Cooperative Vereniging "Suiker Unie" et al. v. Commission*), Advocate General Henri Mayras has recommended annulment of the Commission's 1973 decision against the Italian members of a sugar cartel and a reduction of the fines against one German and two Dutch firms, but he also has presented a strong case for letting the fines stand against all other parties. In January 1973, the Commission had imposed fines totaling 9 million units of account against 16 European sugar producers and distributors for allegedly carving up the market in violation of Rome Treaty competition rules (*Common Market Reports, Par. 9570*).

Mayras believes that the six Italian firms could not be held in violation of Treaty Article 85(1) on grounds of engaging in concerted practices, since Italian regulations provide for a sugar equalization fund, levies, and a system of tendering bids for importing sugar into Italy and thus, for all practical purposes, reduce competition for sugar imports from France, Belgium, and Germany. Accordingly, the concerted practices of the Italian companies could not adversely affect intra-Community trade. Mayras contended that the Commission first should have compelled the Italian government, under Treaty Articles 92 and 169, to repeal or amend the regulations before

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Sugar Cases *(contd.)*

moving against the firms. Commission attorneys privately concede now that this part of the decision was weak and do not rule out that the Court of Justice might follow the Advocate General's reasoning.

Mayras also emphasized another weakness in the decision: the Commission could not provide conclusive proof, he said, because the German and Dutch firms did not really engage in their agreed concerted practices in connection with sugar imports from the western region of Germany to the Netherlands. He recommended, therefore, that the decision be annulled in this respect. (The companies are, however, involved in other charges that Mayras considered effectively proven.)

A judgment in the sugar cases was not expected before October, although several justices reportedly favored winding them up before the July 15 summer recess. No other proceedings before the Court so far have required so much study and time. The AG's 260-page opinion alone took more than a day to deliver.

<u>Decision by Maghreb States Expected Soon</u>

In the coming weeks the three Maghreb countries Algeria, Morocco, and Tunisia will decide whether or not to accept the Community's offer for free trade and cooperation agreements. The offer was made possible because Italy, which has been blocking the negotiations for fear of heavy competition in agricultural commodities, has been granted practically all the concessions it had requested. In return, Rome dropped its reservations against several provisions of the signed EC-Israel trade agreement, which thus took effect on July 1. Commission officials are now confident that negotiations with the three Maghreb countries can be wound up prior to the summer recess.

Most of the concessions granted Italy by the other eight member states at their June 23-24 meeting in Luxembourg may not affect the three Mediterranean countries, which are mainly concerned about gaining entrée to the Common Market for their farm products. Of particular importance here is wine, a major export item for Algeria and Tunisia, although any surplus imported from the two countries would be converted into alcohol. However, this measure could cost the Community some 45 million units of account each year, and it may even spur Algerian and Tunisian winegrowers to produce more - a situation that the EC is trying to avoid on its own territory. Imports of certain processed fruits and vegetables, on the other hand, would remain subject to licensing, suspendible by Brussels in the event of market "disturbances." It is this proposed system to which the Maghreb states may object.

<u>In Brief...</u>

France and Germany reportedly are continuing to pressure Luxembourg to repeal tax legislation favoring <u>holding com-</u>

In Brief...
(contd.)

panies there. Although the revenue derived from holding operations does not amount to more than 1% of the national budget, the Luxembourg government has so far remained steadfast. The matter may come to a head when the Council of Ministers decides on the permanent location of Community institutions. Here the Grand Duchy could be the real loser, since a relocation of branches of the European Parliament and EC offices (printing facilities, etc.) and some 3,000 employees would hurt more than would the repeal of the contested tax legislation + + + Community observers believe that the Council will make a decision within the next two years on whether there should be direct elections to the European Parliament instead of appointment by the national legislatures. The EP has made numerous suggestions in the past, but its latest proposal in the form of a draft convention is considered the best + + + Commission attorneys have expressed disappointment over the impasse in the Council working group that is discussing Brussels' merger control proposal. On June 24, the experts met for the second time this year but made no progress because of Italian and French opposition to the Commission's concept. For the Italians, the proposal cannot be reconciled with Treaty Articles 87 and 235; the French argue that, for their part, such a proposal is superfluous, since Paris is considering legislation of its own.

Britain: 'Threat' of Statutory Incomes Policy

Chancellor of the Exchequer Denis Healey announced in the House of Commons on July 1 that the U.K. government is prepared to impose a statutory incomes policy to ensure that wage increases of the next bargaining round do not exceed 10%. In doing so, Healey warned that neither he nor the government would be "taken in" by an unsatisfactory social contract. Labour leaders were cautious in their reaction to Healey's thinly disguised threat, but the general secretary of the Trades Union Congress stressed that talks would continue with the Confederation of British Industry on a voluntary pay policy involving tighter restraint. The City reacted warmly to the Chancellor's firm stand: shares rallied appreciably and the pound, which had been under enormous pressure in foreign exchange markets, also made a strong recovery.

According to Healey's statement, wage rises will be limited in the next pay round to 10% either voluntarily or, if necessary, statutorily. The 10% limit also will apply to dividends; the present ceiling, since July 1974, is 12.5%. The Cabinet will decide whether the limit on pay increases should be at a flat rate (as mooted by the unions) or as a percentage of existing incomes. Cash limits will be fixed on wage bills in the public sector, and private employers will be "encouraged" to comply with the new provisions. The

Incomes Policy *(contd.)*

main enforcing bodies will be the Price Commission and the Dept. of Prices and Consumer Protection.

The Chancellor's declaration came in response to a sinking pound and rising unemployment and mirrored government concern at the growing crisis within the Labour Party's rank and file. In addition, however, the gravity of the situation has forced the Wilson government into a highly compromising position in that Labour ministers have given repeated assurances that they will "never" revert to a statutory incomes policy, particularly in the manifesto on which the party's last successful general election campaign was fought. The upshot is that the government faces dissent at cabinet level (where some resignations can be expected) and at labor union level.

In other news, the government has confirmed its proposals for the nationalization of the shipbuilding and aircraft industries. In a written reply on July 1 the Secretary of State for Industry announced that the Aircraft and Shipbuilding Industries Bill would be held over to the next parliamentary session. He stressed, however, that the government still attached "highest importance" to ending uncertainty within the two industries as to their future.

Ireland: Emergency Plan Includes Higher Income Tax

Inflationary pressures and alarming unemployment prompted the "mini-Budget" emergency package introduced by Irish Minister for Finance Richie Ryan on June 26 in the Dail (parliament). Inflation in Ireland is currently running at an estimated 24% and unemployment stands at 103,000, or 8.5% of the work force. The emergency measures feature subsidies and a temporary program of employment premiums. In addition, Ryan raised the income tax base and earmarked an extra £10.5 million for home construction in the next year.

The subsidies relate to essential foods and services: bread, butter, milk, public transport, and gas supplies. Furthermore, value-added tax has been removed on several items, including clothing, footwear, electricity, and heating fuels. The temporary employment premium program specifies that companies will be paid £12 per week for each employee recruited from the unemployment register. This program is to run until March 1976 and will be extended through June 1976 at the reduced rate of £6 per week. Ryan estimated that the program would create some 15,000 to 20,000 extra jobs.

The income tax increase imposed relates to taxable incomes of over £1,550 per annum. These incomes will be subject to a 10% tax boost, raising the present 35% rate to 38.5%.

'Mini-Budget' *(contd.)*

Ryan, who had to predict a targeted Budget deficit of £241 million at year-end, expressed confidence that his emergency package would prove effective. It was clear, however, that much will depend on the reaction of the labor unions during the renegotiation of the National Wage Agreement, under which the workers were to have received pay increases averaging 30% over the next 12 months. The government is anxious to seek a settlement well below this figure and has intimated that, in the event of conflicting labor demands, it will not hesitate to exercise stronger options with respect to statutory wage and price controls.

Denmark: Government Battles Record Budget Deficit

The ongoing economic recession, combined with insufficient tax revenues, is threatening to throw Denmark's state finances into a record deficit: unless Finance Minister Knud Heinesen can soon come up with the necessary budgetary relief, political observers do not rule out a government crisis this coming fall.

The root cause of the precarious situation lies in the fact that the budget provisions made by Parliament last March following the resignation of the Hartling government failed to cover fully the 7-billion-kroner reduction of direct taxes that took effect on Jan. 1. The Hartling administration had been willing to accept a 2.9-billion deficit for the current 1975-76 fiscal year as a means of keeping economic performance at an acceptable level. Under the incumbent Anker Jörgensen government, meanwhile, this figure has doubled to 5.8 billion and - according to the latest Finance Ministry projections - is almost certain to go up to 8.6 billion. This means that only 88% of public expenditure would be covered by revenue inflow. Technically, an overall deficit of 12.1 billion kroner will result when the Social Pension Fund administration purchases obligations in the amount of 3.5 billion; however, the liquidity effect of this transaction is to be offset through a state bond issue of 5.7 billion kroner.

Both the government and the Opposition are in agreement that the country in the future cannot afford another deficit like the one experienced this year. Accordingly, Heinesen has announced the intention to "improve" the 1976-77 Budget to the tune of 4-6 billion kroner. This can be achieved only by boosting indirect taxes and through expenditure cuts. An increase of direct taxes is not considered feasible by the governing Social Democrats, who have committed themselves to existing tax schedules. Heinesen already has asked the other ministries to work out austerity plans; public sector hiring is to be on a very restrictive basis.

Germany: Cartel Report Expounds on Merck Ruling

The German Federal Cartel Office's annual report for 1974 would not differ much from that of preceding years were it not for the agency's April 1974 decision ordering the drug manufacturing firm Merck (not to be confused with the U.S. company) to lower its prices for vitamin B-12 pills by 60-70%. The newly released report contains some insights into the Merck decision, which was essentially upheld by the Berlin Court of Appeals last March. This ruling will occupy antitrust lawyers for some time, even if Merck decides not to appeal to the German supreme court. (A similar decision against Swiss-based Hoffmann-La Roche ordering substantial reduction of Valium and Librium prices is currently the subject of proceedings before the same appellate court.)

Most antitrust experts believe that the Cartel Office overstepped the statutory basis provided by Section 22 of the Cartel Law. Under this section, broadened by a 1973 amendment (*Doing Business in Europe, Pars. 23,509 and 30,652*), the Office may prohibit abusive practices by market-dominating businesses. But the question has been, and still is, whether this provision includes general price-rollback powers (the position of the Cartel Office and the government), whether a price reduction order may be issued only in exceptional situations (the argument of the Monopoly Commission), or whether the Cartel Office lacks this power entirely (the opinion of most antitrust lawyers). Legal scholars believe that the Office has ad-hoc powers that may be used in "grave situations." However, a final word can come only from the supreme court.

Although the Cartel Office may take pride in what it has done otherwise in terms of preserving freedom of competition, it admits disappointment in two areas: small and medium-sized firms have not made the expected use of the various forms of cooperation allowed by Bonn, and the system of nonbinding price recommendation in place of the abolished price maintenance (*Doing Business in Europe, Par. 23,506*) did not result in the expected price reductions.

Switzerland: Curbs Sought on Avalanche of Referenda

The Swiss government has proposed several constitutional amendments to reduce the constant flow of referenda and legislative initiatives: the number of signatures required for both would be doubled. At present, 30,000 signatures are necessary for holding a referendum (for example, on a bill passed by Parliament) and 50,000 are needed for any initiative (*Doing Business in Europe, Par. 29,103*). During the 1971-74 period, all initiatives were supported by an average of 76,000 voters.

In submitting its message to Parliament, the government conceded that the amendments may not bring about a

Referenda *(contd.)*

reduction in the number of referenda and initiatives that are characteristic of Switzerland's direct democracy, although this is their major objective. Swiss citizens have tired of going to the polls almost every Sunday of the year, a fact that is often reflected in the low turnout. Doubling the number of required signatures is also overdue, according to the government, in view of the 600% increase in the number of eligible voters since the pertinent articles were last amended.

EURO COMPANY SCENE

United Brands

According to Ernest Glinne, a Belgian Socialist delegate to the European Parliament, the European Commission is investigating United Brands, holding company for United Fruit Co. of New York and a leading world marketer of bananas under its "Chiquita" trademark, for alleged infractions of Community competition rules. Glinne said that the company has violated these regulations in six EC member states. Since Brussels has not released any details on the case so far, Glinne reportedly plans to submit a written inquiry to the Commission requesting information on the nature and progress of the proceedings.

VAW/ Preussag/ Kaiser

As anticipated, German Federal Economics Minister Hans Friderichs has rejected the bid of Vereinigte Aluminium-Werke (VAW), Preussag AG, and Kaiser Aluminum & Chemical Corp. of Oakland, Calif., for a special exemption under the terms of the Federal Cartel Law (*Doing Business in Europe, Par. 23,505*) to permit the merger of certain aluminum production interests in Germany. VAW had sought to replace Preussag as co-owner of Kaiser-Preussag Aluminium GmbH (Kapal), but these plans were vetoed by the Federal Cartel Office last January. Now Friderichs has confirmed that decision, declaring that the proposed fusion would not benefit the public interest and the general economic situation but would give VAW and Kaiser a market-dominating position and permanently impede competition. As a direct consequence of the ruling, VAW has announced the closure of its aluminum rolling mill at Hannover, laying off 600 employees. The companies have a month in which to appeal the Economics Minister's refusal, but this is not thought likely now. Instead, they are expected to choose an alternative rationalization arrangement involving the pooling of various manufacturing subdivisions.

Aker

Norway's state-financed Fund for Industrial Growth and Adaptation has announced it will provide a direct loan of 25 million kroner to the hard-pressed Aker engineering and shipbuilding group in addition to guaranteeing it a foreign credit of 100 million kroner. Aker's largest shareholder, the Olsen shipping group, reportedly will also

Aker *(contd.)*

lend Aker 25 million kroner in exchange for a seat on the board of Aker's parent firm. These funds, plus 225 million kroner in foreign loans that Oslo previously agreed to underwrite, should ease liquidity pressures on Aker, which over the past year has lost contracts worth 4 billion kroner for the construction of oil tankers. Norwegian tanker magnate Hilmar Reksten alone had cancelled orders for four 420,000-ton tankers and was ordered by an arbitration court to pay Aker 234 million kroner in compensation costs; his cancellation of orders for two other 285,000-ton vessels is also being investigated. The government has been negotiating to buy Reksten's shares in various industrial holdings so that he in turn can pay his debts to Aker. The new credits, meanwhile, should help finance investments Aker needs to convert its yards to other, more lucrative forms of production - in the offshore oil sector, for example.

Ford U.K.

British Ford is reportedly carrying out feasibility studies with a view to shifting production of the Capri line from the Halewood (U.K.) plant to Ford's German plant in Cologne.

Air Products

Air Products GmbH, subsidiary of American Air Products & Chemicals, Inc. of Allentown, Pa., has announced it will set up a new air separation plant at Lüneburg, Germany. The facilities, reportedly to cost DM 60 million, will provide the North German market with 110,000 tons of oxygen, nitrogen, and argon yearly.

Banque Bruxelles-Lambert

Shareholders in Belgium's Banque de Bruxelles have approved the bank's proposed merger with the smaller Banque Lambert. The new Banque Bruxelles-Lambert will be the country's second-largest after Sté. Génerale de Banque, with a consolidated balance sheet total of BF 350 billion and current deposits of over 180 billion. Stockholders also approved the issue of a BF 3-billion subordinated loan to be subscribed by the new bank's major shareholders as a means of increasing Bruxelles-Lambert equity to some BF 10 billion. Next year, in the second phase of the fusion, a new "umbrella" holding for all interests of the Bruxelles-Lambert group and a financial company to manage its non-banking activities are to be established.

Herstatt

At the start of the month creditors of Germany's Herstatt bank, which declared bankruptcy in June 1974, were to be paid 50% of the compensation quotas owed them, according to the bank's official liquidators. In line with last winter's settlement agreement, domestic banks will be receiving a total of 45% of their deposits and foreign banks and local authorities 55%.

Common Market Reports

EUROMARKET NEWS

Issue No. 339 *Report No. 270, July 17, 1975*

IN THIS ISSUE

page

Community: Joint Attack on Nontariff Trade Curbs?.....1

Council for Phase-out of Shipbuilding Aids by '77.....2

In Brief: Company Law; Medicinal Products; Greece.....2

Belgium: Extended Price Freeze; Insurance Law.........3

Germany: Bonn to Stick to Environmental Policies......3

Britain: Employers, Unions Pledge Compliance..........4

Austria: More Funds Approved to Stabilize Economy.....5

Portugal: Land Seizures; Community Assistance.........6

Euro Company Scene....................................6

Community: Joint Attack on Nontariff Trade Curbs?

Impressed by the progress made by the EC in removing nontariff obstacles to intra-Community trade, the United States would like to become the "tenth nation" to join efforts to eliminate nontariff barriers in world trade, according to Commissioner Finn Olav Gundelach, who recently returned from extensive consultations with the U.S. government and American business leaders. Removal of nontariff obstacles is currently being discussed in Geneva as part of the multinational GATT negotiations. Some 800 tariff positions are involved, and with most the obstacle lies in the fact that imports may be barred on grounds of public policy and because of environmental and safety regulations.

Gundelach emphasized Washington's interest in removing these barriers for the sake of alleviating unemployment and supporting the U.S. balance of payments. He also reported that the United States will embark on a pronounced export drive to the Common Market and Japan, since it has no illusions about increasing exports to the OPEC countries and the East Bloc. It is generally agreed that even after the U.S. economy moves into the expected upturn, there will still be substantial unemployment and structural problems: then, stepped-up exports would be expected to provide major relief. This export offensive, Gundelach declared, would start in the States and not through European subsidiaries,

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Trade Curbs *(contd.)*

since wage levels in Europe are no longer below those in the United States and thus do not offer an incentive for establishing Continental subsidiaries.

Gundelach stressed that both the Community and the United States have a mutual interest in bringing the GATT negotiations to a successful conclusion and that both sides could do something on their own to break down protectionist systems. The Community could approximate national provisions and customs rules and not present public policy, safety, and environmental considerations as a pretext for hampering third-country imports. But Gundelach also called on the United States to do something for EEC exports. Simplification of customs and administrative procedures, he said, should not be achieved simply by setting up a new consultation procedure, i.e., a new bureaucracy. Gundelach is aware, however, that Washington might run into difficulties when it comes to amending legislation, since in some fields legislative powers have been delegated to the states and in others many federal agencies operate rather independently.

Phase-out of Shipbuilding Aids by '77

The Council of Ministers' basic agreement on the third directive on aids to shipbuilding industries has been greeted with relief at Community headquarters and in most national capitals. By immediately prohibiting certain types of aids and by allowing others (price guarantees) to continue through 1977, the Community may avoid some of the headache currently experienced by such major shipbuilding nations as Japan and Norway. The agreement should serve to prevent overproduction of tankers but at the same time, by retaining some forms of assistance, not aggravate the unemployment situation in the hard-hit shipbuilding industries of most member states. By setting the 1977 deadline for the termination of all types of aid, however, the Council has recognized that these support systems cannot continue forever. Aside from the economic considerations (overcapacities), these aids are bound to distort competition and thus are irreconcilable with Treaty Articles 92-93 (*Common Market Reports, Pars. 2921-32*).

In Brief...

The Council has decided to set up an ad-hoc group to study the political problems that have to be solved prior to assigning a special working party full time to the European company draft statute. The group is supposed to report back in early October + + + Commission and member state officials are working on the rules of procedure for the Committee for Proprietary Medicinal Products that will be set up under the second pharmaceuticals directive. The rules would deal with questions such as how much a drug manufacturer would have to pay when applying for marketing authorization and which of the required documents would have to be translated and into what languages + + + At the upcom-

In Brief...
(contd.)

ing EEC-Greek Association Council to be held on July 28 in Athens, member state officials will hear more arguments from Greek officials in support of their country's bid for full EC membership, while representatives from the nine national governments will convey their views on Athens' request.

Belgium:
Extension of Price Freeze; Insurance Law

Although the Belgian price freeze originally was to have been terminated on July 7, after two months, the government has chosen to extend it by another three months, though in a more flexible form. In explanation, the Economic Affairs Ministry said that the complete removal of the price stop would have had too much of an inflationary impact, which probably could be avoided by the three-month transitional period. The new arrangement allows selective approval of price increases - for instance, for oil products and household appliances - and also permits increases that had been granted before April 30 but could not be implemented because of the price freeze. Still, government spokesmen have expressed the hope that the transitional price control system will make it possible to bring down the Belgian inflation rate from currently 15% to below 10%.

In other developments, the lower house of Parliament has followed the example of the Senate in approving draft legislation establishing general and uniform controls over the country's insurance sector. The framework legislation, which will take effect upon official publication, calls for the creation of a national insurance authority to oversee all activities in this area, including the licensing of insurers. The law eventually will be augmented by implementing regulations. With this legislation, Belgium also aligns its national rules with Community directives (*Common Market Reports, Par. 1349.35*). Eventually, this will permit insurers from other EC member states to operate there.

Germany:
Bonn to Stick to Environment Policies

The current ills of the German economy in the form of high unemployment and reduced industrial capacities will not deter the government from following through on its environmental policies. This is the upshot of a recent meeting that Chancellor Helmut Schmidt and several cabinet members held with industry executives and union leaders. Prior to that session on July 3, there was speculation that - while the economic recession lasts - Bonn would plan to ease up in proposing new legislation and pushing pending bills.

According to unofficial reports, a good part of the talks was devoted to the proposed levy that industry would have to pay for dumping effluents into waterways; the amount of the levy would depend on the degree of resulting

Environment *(contd.)*

pollution (*Doing Business in Europe, Par. 30,718*). Industry is protesting that the imposition of such a levy would drive many small and medium-sized companies out of business - a charge supported by calculations and expert testimony presented to the Bundestag subcommittee discussing the proposal.

Although solutions are expected to shape up during upcoming committee work, Bonn also must be mindful of the environmental program of the European Commission, which plans to submit a draft directive that would require member states to enact legislation limiting the discharge of matter into rivers and lakes. It is clear that a Council directive - or perhaps even a convention, to permit nonmembers like Switzerland to accede - would increase financial burdens even further, especially for the German chemical plants heavily concentrated along the Rhine, Main, and Neckar rivers. Chemical manufacturers located along the Rhine have alone invested some DM 1.5 billion in pollution control during the last three years. At least in this sector, the government might tolerate a slower investment pace lest the heavy financial burden on the companies impair the competitive standing of the domestic chemical industry.

Britain: Employers, Unions Pledge Compliance

Prime Minister Harold Wilson has warned of a "possible breakdown in constitutional democracy" in the course of an appeal to the U.K.'s militant mineworkers, some of whom had demanded a minimum £100 per week. But the National Union of Mineworkers president, Joseph (Joe) Gormley, opposed these demands as "neither logical nor even militant, but madness." Eventually, the miners were placated to the extent that their demands became an "objective" rather than an ultimatum.

The Prime Minister, who - like his cabinet colleagues - is campaigning to make the Chancellor of the Exchequer's recently announced 10% limit on wages and dividends palatable to the nation as a whole, struck a new note of toughness when he declared that it was the government's intention to make sure that every industry would "pay its way within its income." Wilson referred to the "vicious spiral" of cost increases and claimed that, before Britain's workers even started to enjoy the proceeds of a settlement beyond that which the country could afford, the Chancellor had to counter by increasing personal taxation and indirect taxation on such "necessities" as beer, spirits, and gasoline. To continue wage awards on the scale of recent months would be "to eat the seed corn."

Meanwhile, the discussion of the Chancellor's package continued, with the Confederation of British Industry and the Trades Union Congress both contending that they would

Pledge *(contd.)*

seek to comply with government directives. However, the CBI made this cooperation conditional on assurances that no "special cases" would be allowed and that the unions would adhere strictly to the proposed guidelines. The TUC, for its part, asked for some undertaking on price control. The TUC economic committee declared itself "broadly in favor" of pay increases in the next round (starting Aug. 1) being limited to £6 per week, i.e., approximately 10% on the national average. But neither the Chancellor nor the CBI expressed approval of the upper pay limit for such increases, namely, £7,000 per year: the CBI is known to favor a ceiling of £10,000 per year beyond which the flat-rate increase would not be accorded. TUC leaders also have suggested that Wilson and his colleagues should make a "gesture to the nation" in the form of imposing salary reductions on themselves.

Austria: Funds Approved to Stabilize Economy

In its last session before the summer recess and the Oct. 5 general elections, the Austrian parliament has approved legislation authorizing the Finance Minister to use the remaining 4.4-billion-schilling "stabilization quota" in the current Budget for additional stimulative measures. The first one-third of this quota, in the amount of 2.2 billion schillings, had been voted at the end of May to finance extra public investments, though without any noticeable effect on the stagnating economy. The newly approved funds will be used to aid sectors hit hardest by the current recession, including construction, vehicle production, electrical engineering, textiles, and farming.

During the parliamentary debate preceding the finance vote and following the government's economic review, the Bruno Kreisky administration found itself severely attacked for its economic policies. But the government defended its record by pointing to the latest statistics, including the recently published OECD report, which indicate that Austria has done better than most other industrialized countries in weathering the oil crisis and its aftereffects. The government flatly refused to accede to Opposition demands to bare the present status of the state finances, and Kreisky himself reiterated his belief in "deficit spending" as the best way of keeping the Austrian economy afloat and of avoiding serious unemployment. His government is proceeding on the premise, the Chancellor said, that it is cheaper to borrow in order to safeguard jobs and create new ones than to finance a high rate of unemployment.

The largest opposition party, the ÖVP (Austrian People's Party), charged during the debate that this year's Budget deficit would exceed 30 billion schillings, a figure immediately rejected by government spokesmen as being far too high. (Privately, administration sources are said to

Funds Approved *(contd.)*

have conceded a possible 25-billion deficit.) A week earlier, in obvious anticipation of the upcoming elections, the ÖVP had submitted its own three-phase program for the stabilization of the economy and had proposed an economic and social pact to be concluded by the government, the parties, and employers and labor. This program would consist of 1) immediate measures, 2) a plan to consolidate the state finances, and 3) a long-term plan to ensure economic stability for the future.

Portugal: Seizure of Farmland; EC Assistance

In what was interpreted as the start of a sweeping land reform, the Portuguese government has now formally announced the expropriation of farms larger than 700 hectares (about 282 acres). The cabinet of the Revolutionary High Council approved a bill to this effect on July 4. The measure will primarily concern land holdings in central Portugal and in the southern regions. Also scheduled for state takeover is land "not adequately managed" or vacated by the owners. At the same time, the military rulers continued their nationalization drive to include factories belonging to absentee businessmen and all radio stations. The government does not intend to pay indemnities for seized businesses, according to Lisbon reports.

In other developments, it was reported in Brussels that the European Community would make a "concrete" offer of assistance to Portugal later this month. According to one plan, this aid could amount to $1.3 billion over the next three years. The EC Council of Ministers already has agreed in principle to extend emergency aid to Lisbon, and there were reports that this would involve an initial $400-million loan to tide Portugal over until a more permanent arrangement could be set up.

EURO COMPANY SCENE

Dow Chemical

Dow Chemical Europe has confirmed its signature of an agreement with the Dutch government according to which the Netherlands will provide investment subsidies for a 700-million-guilder expansion of Dow's petrochemical facilities at Terneuzen. The project includes construction of a harbor to accommodate vessels of up to 60,000 tons and development of a 115-hectare industrial site for which Dow is to pay the government 7 million guilders. Work on these two undertakings is to begin this year. The Hague has not revealed any information as to the nature and extent of its financial participation, however.

Stauffer

Stauffer Chemical Co. of New York has announced it will build a new herbicide production plant at Charleroi, Belgium. The facilities, requiring estimated investments of

Stauffer *(contd.)*

over $30 million, are to be completed by late 1976. According to a company spokesman, most of the necessary capital will be raised in Belgium, through medium- and long-term bank credits. The new plant, which will supply the European, African, and Mid-Eastern markets, reportedly will be one of the largest of its kind in the world.

Reynolds

A final decision on the fate of Reynolds Metals Co.'s aluminum production plant in Hamburg, Germany, is not expected until next month, when the Hamburg state parliament is due to vote on the matter. Officials of the city-state, which is a 10% co-owner of the DM 640-million facilities, are now weighing proposals for Hamburg to take over all shares in the plant and then lease it to a joint operating company that would include Germany's state-owned Vereinigte Aluminium-Werke (VAW), Reynolds, and Vereinigte Metallwerke Ranshofen Berndorf, a nationalized Austrian concern.

Volvo/ Poclain

Volvo BM AB, agricultural and forestry machine manufacturing subsidiary of Sweden's Volvo, has reached agreement with Poclain S.A., the French manufacturer of hydraulic excavators and mobile cranes, for a cooperative marketing venture. In an effort to successfully compete with U.S. domination in this field, Poclain will distribute Volvo BM's products in France while Volvo will assume responsibility for marketing the French company's products in Sweden by taking over its Svenska Poclain subsidiary there. In Austria a new joint holding is to be set up in which Volvo will have the majority.

Pilkington/ Imperial Typewriters/ Norton

The U.K.'s new Minister for Industry, Eric Varley, has made it clear that the government will no longer indulge in featherbedding of "lame duck" companies: he has refused to subsidize glass manufacturers Pilkington Brothers in order to keep open their 750-employee plant at Ravenhead, has turned a deaf ear to requests for financial aid from ailing Imperial Typewriters, and is said to be unprepared to aid crisis-torn motorcycle manufacturers Norton-Villiers-Triumph.

Alfa Romeo

Italy's Alfa Romeo, an IRI holding, is planning to lay off some 17,000 employees - about half its total work force - at two plants near Naples for several weeks between now and mid-September. The move, which is being protested by the unions, was prompted by a rise in the company's backlog of unsold vehicles to 30,000, as compared with normal stock levels of about 20,000. Alfa's continued losses, which recently required a reduction and then an increase in the company share capital, have been attributed largely to its Alfa Sud subsidiary, which manufactures smaller, more salable models. The Naples operation reportedly has had a

Alfa Romeo *(contd.)*	daily absentee rate of 22.6% since the start of the year and has not been able to meet its production quotas.
Alitalia	Alitalia, a subsidiary of Italy's IRI state holding, has reported a record deficit of 37.1 billion lire for 1974. Like the other loss-making IATA airlines in Europe, Alitalia has felt the effects of higher fuel and personnel costs, shrinking demand, and world-wide inflation, but Italy's particular problems in this sector - strikes, outdated airport facilities, poor domestic flight scheduling - are regarded as key factors contributing to the magnitude of the shortfall. An extraordinary shareholders' meeting was called to approve the reduction of Alitalia's capital from 50 billion to 2.5 billion lire. The airline is operating on a temporary extension of its state concession, which expired in June 1974. A renewal of this contract and additional financial help from the government have not been forthcoming, so that Alitalia has not been able to proceed with its plans for the next few years.
Paktank/ Western Petroleum	Paktank of the Netherlands, one of the world's largest independent oil storage companies, will form a joint venture with southern California's Western Petroleum Storage, a subsidiary of Pacific Lighting of Los Angeles. According to Amsterdam reports, the new company, Paktank Pacific, is to construct additional tank storage facilities, initially in Los Angeles, to be leased to oil companies.
SHV/ David Joseph	SHV, the major Dutch industrial and trading company, has announced that its U.S. subsidiary SHV North America will purchase a major interest in David Joseph Co. of Cincinnati, Ohio, which is involved in the preparation of industrial scrap metal for the steel industry. SHV has long been active in coal and ore trading and is hoping by means of this acquisition to further expand its international business.
Sogenal	The leading French regional bank, Société Générale Alsacienne de Banque (Sogenal), which is 33.3% owned by Société Générale, has become the first western bank to open a representation in East Berlin. It has also completed the takeover of Sté. Française de Banque et de Dépots (Francibanque), which had been a majority holding of Société Générale with responsibility for its Belgian banking activities.
BCCI	Bank of Credit and Commerce International of Luxembourg has established a new branch in Frankfurt. By its own account, the bank, which was set up with capital assets of $10 million at the end of 1972, is primarily active in the United Arab Emirates and adjoining countries.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

page

Community: Another Trademark Case for EC Court........1

In Brief: Merger Controls; Third-Country List.........2

Britain: White Paper Details 'Attack on Inflation'....3

France: Industry Objects to 'Snake' Rate for Franc....4

Italy: Unions to Put Emphasis on Job Security.........5

Germany: Agreement on Taxation of Property Value......6

Switzerland: Directive on Aliens; Aircraft Deal.......6

Euro Company Scene....................................7

Community: EC Court Again to Deal with Trademark Case

The European Court of Justice will have an opportunity to clarify its previous trademark decisions when, following the summer recess, it hears Case No. 51/75, involving the British recording company EMI Records Ltd. and CBS United Kingdom, the British subsidiary of the U.S. company. The case was referred to the Court last March by the British High Court, and the question submitted is similar to that in the Hag case (*Common Market Reports, Par. 8230*). The British court is asking whether EMI may enjoin CBS U.K. from importing records bearing the Columbia trademark into the Community or from manufacturing them there.

EMI Records owns and has registered the Columbia trademark in the U.K. and in all other member states of the EEC. CBS sells records under the same trademark in the United States and in countries outside the Common Market. Until recently, CBS U.K. did not use the trademark within the EEC, but when it did EMI sought an injunction against it. An interim injunction was granted pending the ruling of the European Court.

In the Hag case, the Court of Justice had decided that Van Zuylen Frères, the owner of the Belgian Hag trademark (a red heart), had no right to stop imports of Kaffee Hag products from Germany that carry the identical trademark, held by Hag of Bremen. Hag Germany's former Belgian sub-

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Trademark Case *(contd.)*

sidiary was expropriated after World War II as enemy property, and the trademark was subsequently bought by Van Zuylen.

The major difference between the two cases is that *Hag* involved two holders of identical trademarks of common origin, registered in two member states - admittedly a rather rare situation. A more frequent occurrence is that in which the same trademarks are used in two different countries without being of common origin. EMI's legal predecessor had obtained the Columbia trademark for Europe from another company prior to World War II, and the CBS parent company of today was a subsidiary of that company. But at no time were there any legal, technical, or economic links between EMI and CBS that might have justified, from the viewpoint of the original owners, territorial restrictions on the use of the trademark.

In its two Centrafarm decisions, the Court of Justice reaffirmed its position first stated in the Hag ruling by declaring that the principle of free movement of goods between member states prevails over considerations involving patent and trademark rights. But the Court also made a distinction between patents and trademarks. In the Centrafarm/Sterling Drug case (*Common Market Reports, Par. 8246*), it made an important concession with respect to patents to the extent that "an obstacle to the free movement of goods can be justified on the ground of protecting industrial property . . . where there are patents whose original owners are legally and economically independent." This holds true for EMI and CBS U.K. The Centrafarm/Winthrop decision (*Common Market Reports, Par. 8247*), on the other hand, did not contain a similar statement regarding the Negram trademark.

The question now is: Will the Court adopt a similar position concerning trademarks or will it go so far as to say that the owner of a national trademark could no longer bar imports of identically branded goods, even if the trademarks are of independent origin and the owners remain unconnected? This question is of wide interest, especially to corporate lawyers who have come out against a further "erosion" of national trademarks. German government officials and even some Commission lawyers have expressed apprehension over a further extension of the Court's position on the issue of free movement of goods versus industrial property rights, protected by Treaty Article 36. A great deal of this apprehension concerns the Commission's plan to create an EEC trademark law (*Common Market Reports, Par. 5873*).

In Brief...

Informed sources in Brussels say that the European Commission plans to reconsider certain aspects of its merger con-

In Brief *(contd.)*

trol proposal as well as the legal approach to it. The draft has been stalled for two years in the Council of Ministers without making any visible progress + + + Community and member state officials are now drawing up the so-called third-country list denoting those countries that could export meat and livestock to the EC. They are also making progress on devising a control procedure by which EC officials could be sent abroad to verify compliance with Community veterinary standards. Both meat exporters and the third-country governments involved are favoring such a procedure, since it would vastly simplify matters: processing plants would be visited only by EC inspectors and not by officials from all nine member states.

Britain: White Paper Details Attack on Inflation

In a White Paper titled "The Attack on Inflation" (Cmnd. 6151, HMSO London) and introduced by Prime Minister Harold Wilson to the House of Commons on July 11, the U.K. government has detailed how it intends to bring down the domestic rate of inflation from currently 25% to 10% by the third quarter of 1976 and "to single figures" by the end of that year.

The basic rule, hammered out in protracted negotiations with the country's labor unions (Trades Union Congress), is that employees will be permitted to negotiate **a flat-rate wage increase of up to £ 6 per week in the course** of the next pay round, i.e., July 11, 1975, to Aug. 1, '76, this being the maximum weekly increase compatible with the 10% objective. Only one modification to the Trades Union Congress recommendations has been made: the upper limit, beyond which no increases will be allowed, is set at £ 8,500 per year as compared with the TUC's proposed limit of £ 7,000.

Legal action against employers who pay over the prescribed limit is "being held in reserve," though the government already has an impressive arsenal of sanctions available to enforce the proposals. Government employees will be controlled directly in that public-sector pay review bodies will have to make recommendations that comply with the limit. Local authorities and transport bodies will be controlled via the level of government grant support, borrowing and capital program approval, and staff recruitment limits. State-owned industries will receive no subsidies or extra credits or permission to impose higher prices to finance excess pay awards. Private-sector employers will find that the whole amount of an excess pay award will be disallowed for price increases, that those who offer excessive increases will be disqualified from receiving discretionary government aid under the Industry Act of 1972, and that their "pay behavior" will "influence

White Paper *(contd.)*

the placing of government orders." Self-employed persons will be regulated by means of existing Price Code **mechanisms.**

There is, for the moment, no provision for prices to be frozen, principally because this is impractical due to the number of increases already in the pipeline. But "strict control" will continue: new consumer advice centers will be set up, price restraint will be imposed on "key family budget items," and an additional £ 70 million will be allocated for food subsidies. Dividends, as announced earlier, are to be held at a maximum of 10%. Finally, on the employment front, provision is being made for temporary subsidies to firms in high-unemployment areas in order to forestall possible dismissals.

France: Exporters Oppose Franc's Reentry Terms

While the official return of the French franc into the European joint currency "snake" on July 10 in itself was viewed as a routine event, French industry spokesmen still registered shock over the fact that the reentry came at the original exchange rate of FF 172.5 to DM 100. Up to the last minute, France's exporters had still hoped for a devaluation to compensate for divergent national cost and inflation rates since early 1974 when the franc was detached from the joint float. Since that time, it was argued, French prices and wages have risen about twice as fast as those in Germany, causing a 10% loss in the franc's purchasing power vis-à-vis the German D-mark. An exchange rate of FF 200: DM 100 - which had applied in May '74 - would reflect the situation more realistically, industry spokesmen maintained, and would be necessary to ensure French competitiveness on the world markets.

Even before the franc rejoined the European bloc float, the majority of French industrialists had expected a serious slump in their export business: for this they blame the broad decline of world demand in conjunction with the devaluation of the U.S. dollar, the British pound, the Japanese yen, and the Italian lira. In terms of volume, French export shrinkage has been estimated at 10% compared with last year's figures. Faced with a steep drop of orders, a number of export industries are preparing for further production cutbacks and concomitant layoffs and short-time work schedules in the fall. As of May, industrial output was 15% lower than a year ago.

According to Paris reports, both the Bank of France and the Finance Minister had opposed the franc's return to the joint float at the old exchange rate, but they were overruled by President Giscard d'Estaing, evidently on political grounds. This does not mean, however, that Giscard will not be in favor of a "recalculation" of the bloc cur-

Reentry *(contd.)*

rencies, possibly to be discussed at the Sept. 22 meeting of the EC finance ministers. At that time, the issue of Switzerland's joining the joint float also is to be taken up again. Although all technical problems concerning a Swiss participation appeared to have been cleared up at this month's conference of the ministers, French insistence on procedural points again forced a postponement of the decision.

Italy: Labor Unions to Emphasize Job Security

At a joint conference held to map out strategies for the national collective bargaining rounds this fall, Italy's major union federations have basically agreed to accord top priority to job security rather than to high wage demands. The upcoming talks will involve the renegotiation of some 40 contracts covering more than 4 million industrial workers. The unions' prime concern with employment protection springs from the fact that the number of jobless in Italy has now reached 1.2 million and may still climb higher, since many smaller and medium-sized plants in particular reportedly are gearing up for layoffs.

The labor delegates largely followed the recommendations of the Communist-Socialist CGIL federation to seek to protect purchasing power through token pay increases beyond the wage indexation increments and by putting pressure on the government for stricter price policies. They agreed, moreover, that their major effort should be to get the government and the employers to step up investment activity both in public services and in the state-controlled and private industries.

The proposal to restrict wage demands was not, however, uniformly welcomed among labor ranks: in Bologna, the head of the powerful metal workers' union FLM declared afterward that his union, for one, has no intention of practicing wage moderation. It would be a mistake, said Georgio Benvenuto, to make the fight against unemployment dependent on wage demands.

Meanwhile, the president of the Italian industry federation Confindustria, Giovanni Agnelli, has expressed skepticism over the Communists' readiness to respect the need for the existence and the initiative of thousands of small private employers. Speaking at a meeting of the metals industry association, Italy's largest, Agnelli addressed himself directly to Communist party representative, Eugenio Peggio - the first Communist leader to be invited to such a conference in decades. Peggio confirmed that his party indeed was not in favor of "uncontrolled" rescue operations for small companies, but he did come out for the private enterprise concept, if only within the scope of a national economic planning system.

Germany: Agreement on Taxation of Property Value

The German government coalition partners have reached agreement on the method of computing a proposed levy payable by real estate owners when they sell or build on property that has appreciated in value through communal developments or improvements or because of rezoning. The consensus will now enable the Bundestag's Land and Urban Development Committee to report the measure to the floor following the summer recess.

The following example illustrates how the levy would be computed for a lot that originally was valued at DM 10 per square meter but appreciated to DM 80 following rezoning for construction. The seller would then have to pay a levy equal to one-half the increase in value (DM 35) plus one-half of the square-meter cost assessed by the community for road, water, and sewage facilities (say, one-half of DM 20). Thus, the levy would total DM 45 per square meter. (Under the original proposal, the computation did not allow for municipal development costs.)

The bill is still expected to face resistance in the upper house of Parliament, the Bundesrat, which continues to be controlled by the Opposition parties. The Opposition wants the property valuation to be handled by the tax offices, which already assess property values for the purpose of the federal net worth tax and the local real estate tax. The government, on the other hand, would like to see ind pendent commissions of local experts determine the incre in value.

Switzerland: Directive on Alien Workers; Aircraft Deal

The Swiss government has now issued the new directive limiting the number of alien employees in the country. Going into effect on Aug. 1, the regulation underscores Bern's determination to take advantage of the current economic downturn and its effects on the labor market by pushing for a speedy reduction of the foreign population in Switzerland. Earlier, the aim had been for a "stabilization," at best. Accordingly, the limits placed on residence and work permits will be stricter than ever: the ceiling on the number of seasonal workers is to be lowered from 192,000 to 145,000, and the issuance of one-year permits will be kept to an absolute minimum.

The directive places a high priority on maintaining job opportunities for the native population. Its Article 21 provides that work permits may be issued to foreigners only when Swiss citizens are unable or unwilling to accept the job offered on normal conditions. Specifically, this concerns permits to be issued when an alien seeks his first job in Switzerland, changes employment or occupation, or applies for an extension of his residence permit.

Aliens *(contd.)*

As of the end of April, the foreign population in Switzerland totaled 1.059 million, with 403,000 aliens holding one-year permits and the remainder with longer-term permits.

In other news, the Swiss government and the U.S. Dept. of Defense have signed a "memorandum of understanding" concerning a compensation agreement that would guarantee Swiss industry U.S. orders equaling at least 30% of the purchase value of some 70 Tiger F-5E fighter aircraft that Switzerland may order from the United States (Northrop/General Electric). Within the framework of this understanding, Washington has declared its willingness not to impose tariffs on Swiss products and, so far as possible, grant exemptions from the "buy American" rule. Bern's final decision on the aircraft procurement contract was expected in October after Parliament reconvenes.

EURO COMPANY SCENE

British Leyland

British Leyland, the U.K.'s major auto maker, has denied allegations by the United Auto Workers union that its Morris Marina **line** is being "dumped" on the U.S. markets. In a complaint to the U.S. Treasury, the UAW has asked for a ruling that the Marinas (as well as certain Volkswagen and Fiat models) are being sold at "less than fair value." A ruling to this effect would probably lead to an International Trade Commission investigation and could result in the imposition of penalty duties. British Leyland has cited fierce competition on the U.S. market as the reason for introducing a $400 price cut. But the UAW has pointed out that the disparity between the U.S. and U.K. Marina price (approximately $2,500 and 2,885, respectively) is made even more pronounced by the fact that in Britain the cars can be sold without several hundred dollars' worth of safety and emission control equipment mandatory under U.S. law.

VW/ American Motors

Germany's Volkswagenwerk AG has concluded a "basic agreement" with American Motors Co., Detroit, that calls for the purchase of VW-made four-cylinder engines by AMC. Volkswagen also licensed American Motors eventually to set up its own production of the modified "Audi 100" engines, for which VW would deliver assembly equipment. The partners did not reveal details as to the value of the deal, delivery schedules, or the AMC model in which the engine will be used. Unofficially, it was reported that the U.S. company may fit its Pacer line with the lightweight, overhead-camshaft units.

Westland/ Aérospatiale/ Agusta/ Messerschmitt

The four leading European helicopter manufacturers from the U.K., France, Italy, and Germany have signed a "memorandum of understanding" mapping out the guidelines for their cooperation on joint future projects. The partners are Westland, Aérospatiale, Agusta, and Messerschmitt-Bölkow-Blohm. The agreement covers the entire range of possible cooperation, from design and development to series production, and is seen as a step toward securing the viability of a European helicopter industry.

Belgian Oil Company

The Belgian government is in the final stages of setting up a state-controlled import company for the procurement of crude oil from the Mideast and Algeria. After some hesitation, the Belgian subsidiaries of the multinational oil companies - Shell, BP, Exxon, Petrofina, and Texaco - have agreed to acquire jointly 49% of the share capital of the new company, while the Belgian state will hold 51%. Through this import center, which is to meet about 10% of the national oil requirement, the government hopes to gain an insight into pricing policies and procurement techniques on the international oil markets.

Reksten/ Aker

The Norwegian Ministry of Trade has announced that the Oslo government, as part of its rescue mission for financially distressed tanker magnate Hilmar Reksten, has now purchased 177 million kroner worth of Reksten's shares in a number of mining and shipping companies, including Norsk Hydro, the country's leading industrial group. The government's move will enable Reksten to pay compensation to the Aker engineering and shipbuilding group for his cancellation of oil tanker orders.

General Electric/ Osram/ AEG

In an unexpected move, General Electric Co., New York, has withdrawn its bid to gain control of Germany's leading light bulb producer, Osram GmbH, Munich. G.E., which already holds a 21.4% stake in Osram, had been scheduled to acquire in addition the 35.8% equity of AEG-Telefunken, the electrical engineering group. To the surprise of most business observers, the deal has now fallen through, apparently because G.E. and Siemens AG, the other major shareholder (42.8%), were unable to agree on the degree of autonomy Osram management would still retain following the share transfer. Furthermore, the Federal Cartel Office had let it be known that the G.E. bid probably would have been disallowed on grounds that a majority stake would have given the U.S. concern a dominating position on the German light bulb market. Osram - with a turnover of DM 940 million last year - already controls nearly 50% of that market, followed by Dutch Philips (25%), and GTE Sylvania (about 10%). At this time, it is not clear whether Siemens will now seek to take over AEG's Osram interests.