Common Market Reports
EUROMARKET NEWS

Issue No. 341 *Report No. 271, August 1, 1975*

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IN THIS ISSUE

Community: Parliamentary Powers; Court of Auditors

The Council of Ministers wound up its last meeting prior to the summer recess by taking a concrete step in the direction of increasing the European Parliament's budgetary powers and by establishing a new Community institution, the Court of Auditors. Representatives of the nine governments signed the pertinent amendments to the three European treaties on July 22, thus clearing the way for ratification by the national legislatures.

Enactment of the proposed amendments would empower the European Parliament to reject, for example, the Draft Budget as a whole by a majority of its members and two-thirds of the votes cast. The future will tell whether the parliament will actually use this power or whether the authorization will remain largely symbolic. It is more likely that the assembly will occasionally insist on budget changes within the limits set by total draft expenditures. The Council could overrule parliament only by unanimous vote. Where the parliament proposes an increase in spending, a simple majority in the Council would suffice for rejection.

Establishment of the Court of Auditors would fulfill long-standing demands from many factions in the EC, since it would permit audits of Community expenditures and revenues. The court would consist of nine qualified individuals appointed by the national governments for terms of six years.

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

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Some Progress Reported at Summit Meet

While the July 16-17 meeting of the heads of the nine Community governments in Brussels did not produce concrete decisions worth reporting in a communiqué (it was agreed beforehand not to issue one), the delegations still professed satisfaction with the tangible progress achieved in several fields. One of them involved a certain degree of economic policy coordination. In the coming weeks, Bonn and Paris will get together to draft new public investment programs to stimulate the respective economies; details were worked out at the July 25 meeting in Bonn of President Giscard d'Estaing and Chancellor Schmidt. The Benelux countries were expected to draw up their own programs later in the year, once the French and German measures begin to exert the expected "pull" on the neighboring economies. Italy and the U.K. will not join these common efforts, but it was acknowledged by the other Community partners that the two countries must pursue different economic policies because of their high inflation rates.

The EC leaders also agreed to submit at the next meeting of the European Council detailed proposals on direct European Parliament elections and on the creation of a passport union. The Parliament already has presented a draft convention on direct elections (the first of which is supposed to take place in May 1978), but many details have yet to be filled in. A passport union, a parallel to the customs union, would help foster a European identity through the issuance of uniform passports by the participating nations. This union would require a reorganization of controls at the Community's external borders, which in turn could precipitate a common approach in according equal treatment to nationals from third countries.

The question of aid to Portugal, on which some disagreements had existed among the member states, was deferred when Lisbon cancelled the scheduled conference with the Community, allegedly because of the government crisis at home. The real reason, it was surmised in Brussels, probably was the EC refusal to give assurances of substantial financial assistance even prior to the meeting.

Finally, the "routine summit" and the subsequent Giscard-Schmidt talks established a similarity of viewpoints between the French and the Germans, especially in the areas of energy, raw materials, and relations with developing countries. Schmidt, though, did not gloss over the fact that much work needed to be done to arrive at a common position prior to the international energy and raw materials conference. Both countries remain as far apart as ever on the subject of a common EC energy policy. France is reluctant to abandon its isolated position designed to placate Algeria, which has taken on the role of spokesman for the OPEC and the developing countries. The

Summit *(contd.)*

other eight member states do not intend to retreat from their positions favoring cooperation with the United States, Japan, and other industrialized countries through the Paris-based international energy agency.

Customs Union Resolution Gets Mixed Response

Council and Commission reaction to the European Parliament's recent resolution on the customs union and achievement of an internal market has been less enthusiastic than the publicity the statement had received elsewhere. In the resolution, the Parliament had complained that the failure to harmonize national customs rules is acting as an obstacle to the customs union. It expressed concern over the numerous controls still existing on the movement of individuals and goods within the Community and called for an urgent streamlining of customs formalities.

In Brussels, there was little argument that customs harmonization was far behind schedule and that this continues to impede intra-Community travel and the free circulation of goods. Recognizing that harmonization is a primary objective on the way toward a genuine customs union, the Commission has sent numerous proposals to the Council, many of which have been adopted, while others are still being discussed.

Commission lawyers, however, have voiced strong objections to the Parliament's proposal to achieve further progress in this area through Council regulations rather than directives. Regulations have the advantage, of course, of being directly applicable in the member states, whereas directives leave the means to achieve the desired objectives to the individual states and allow grace periods for the adaptation of national rules (*Common Market Reports, Par. 4901*). But Commissioner Finn Olav Gundelach has told the Parliament that to rely on regulations would require an amendment to the Treaty of Rome. Still, Gundelach also would like to speed up the harmonization process by having an independent group of experts help draft directives. This way, the Commission would not have to rely so much on national experts who are normally civil servants assigned to the task and frequently do not have as much time for Community work as Brussels would like.

Britain: Tories Score Withholding of 'Phantom Bill'

The U.K.'s Conservatives have been rather wary in their reaction to the recent anti-inflation package introduced by the Labour government: beyond pointing out that the measures proposed have yet to meet the acid test of workability and that the package has a definite "statutory" undertone despite Labour's protestations that the incomes policy is "voluntary," the Opposition and the Shadow Cabinet have offered no alternative program and have been care-

'Phantom Bill' *(contd.)*

ful not to condemn openly a package that has been negotiated with both the notoriously difficult labor unions and the employers.

The Opposition has, however, queried in the strongest possible terms the government's decision not to publish the draft Bill containing the "reserve powers" hinted at in the "Attack on Inflation" White Paper. In effect, the Opposition claims that the Bill implementing the first stage of Labour's program - the Remuneration, Charges and Grants Bill - should not even be allowed a Second Reading. This, it says, is because the Bill "provides for existing contractual rights to be overridden by the White Paper which is not open to parliamentary amendment." The Conservatives also complain that the obligations imposed by the Paper are to be interpreted by a member of the Cabinet rather than by the courts. Further, they object to the fact that the specification of additional sanctions is to be left to another (unpublished) bill and that the Paper provides for an "undefined increase in indiscriminate housing subsidies."

Chancellor of the Exchequer Denis Healey was obviously embarrassed by the decision not to publish the Bill. Certain drafting points were, he admitted in opening the debate, still "under consideration" and, anyway, it would be misleading to publish the Bill now because "inevitably there would have to be changes in the light of circumstances." This prompted the question by the Opposition leader, Margaret Thatcher, of whether the Bill was being concealed because it is too tough or not tough enough.

The Chancellor did, however, give a brief outline of the principal clauses of the "phantom bill": legal powers against employers who did not comply with the £6-per-week wage increase limit, provision for the prevention of the prosecution of workers for criminal conspiracy (but no reference to contempt of court), compulsory notification of all settlements, powers to reduce excessive settlements, and exclusion of any and all "special cases."

Netherlands: Controls on Lending; Rules on Capital

Draft legislation requiring a special license for any person or institution engaged in commercial lending is now being prepared by the Dutch Finance Ministry. It would be the aim of the lending controls to protect the consumer against dubious practices by individuals and (mostly smaller) financing companies operating in the personal-loan business.

The issuance of government licenses would be tied to a set of strict conditions. The lender's assets (capital plus reserves) would have to total at least 500,000 guil-

Controls
(contd.)

ders. Also required would be the submission of balance sheets and profit-and-loss statements on a semiannual basis, and these reports would have to be certified by a registered accountant. The management of any lending institution would have to be in the hands of more than one person, and these individuals would have to meet certain minimum qualifications.

In other developments, the government has submitted to Parliament a bill specifying an authorized minimum capital of 25,000 guilders for any newly established stock corporation (NV) and close corporation (BV). According to reports from The Hague quoting the Ministry of Justice, no change is planned in existing rules whereby at least 20% of authorized capital has to be issued (i.e., subscribed to) and at least 10% of the issued capital has to be paid in at the time of incorporation (*Doing Business in Europe, Par. 26,718*).

Italy:
Liechtenstein
Companies Lose
Legal Status

In what amounts to another blow against tax-haven "mailbox companies," the Venice Appellate Court has deprived Liechtenstein-based "Anstalten" of their legal status in Italy. This means that all companies incorporated in this form in Liechtenstein and often merely owning property in Italy have lost their corporate identity there and that, for instance, all property deeds entered for them in Italian land registries have become void. In explaining its ruling, the Court said that it is not sufficient for these companies to be incorporated in Liechtenstein in order to conduct legal transactions in Italy, since an *Anstalt* is a special corporate form that has no counterpart in Italy and thus lacks the prerequisite for judicial reciprocity between the two countries.

It is no secret that many, if not most, Liechtenstein *Anstalten* in Italy are merely covers for wealthy Italians who have invested undeclared assets in valuable properties in northern Italy, especially near the Swiss-Italian border. In most cases, these untaxed funds had been illegally taken to Liechtenstein, only to be "legally" reimported through an *Anstalt*. Since this is a problem that, in one form or another, touches other European countries as well, the Venice ruling is seen as a judicial precedent within the Community, where national governments have been trying to contain the go-between role of Liechtenstein-based trusts and other firms in the realm of tax avoidance and evasion.

The decision of the Venice court - which was not appealed and therefore became binding - had been preceded in January 1974 by a decree of the Italian fiscal authorities

Legal Status *(contd.)*

directed at Liechtenstein *Anstalten* with assets and real property in Italy. The companies were told to appoint an Italian representative empowered to transact all legal business on their behalf. But apparently this move did not prove as effective as intended, since numerous Italian attorneys and other professionals showed no qualms in taking over a "strawman" function for these firms.

Meanwhile, reports from the Grand Duchy said that the Venice ruling had been anticipated for some time and that local lawyers had developed a counter-strategy involving the conversion of the *Anstalten* into regular stock (holding) companies for which a reciprocal status allegedly cannot be denied.

Germany: EDP Storage of Legal Texts, Judgments?

German publishers of legal periodicals have expressed strong reservations about the government's so-called "Juris Plan" for computer storage of legal texts and judgments of appellate and supreme courts. One of the objectives would be to ease the drafting of bills and regulations by the federal government and the application of law by all public agencies (federal, state, and local) and by the courts. The publishers claim they would have to fear for their business if lawyers, courts, and administrative offices could turn to computer terminals for their legal data instead of relying on published material. They also charge that the Juris Plan would encroach on the wide spectrum of legal opinion now presented by scholars and practitioners in some 50 periodicals, since the government in effect could decide what legal data would be stored on magnetic tape and what would not.

The legal publishers are not entirely against the computerization of data, so long as these consist basically of citations (courts, case numbers, and decision dates) and so long as the full text of decisions or legal essays is published in the periodicals. They propose that fees should be charged for the use of any computerized information and that these fees should compare with subscription fees for periodicals.

The government's response is not expected until some time after the summer recess.

The dispute over computerization of legal data follows another, related controversy over a proposal by the German Bar Association to set up a mail-order bookstore for its members. Through this book center, in which they would be partners, lawyers would order their books at regular retail prices and at the end of the year would be given rebates roughly corresponding to the retail profit margins. This procedure would circumvent Germany's price maintenance system still applicable to published products.

Legal Texts *(contd.)*

As could be anticipated, both legal publishers and the book trade have violently objected to the plan on grounds that it would set a precedent and, eventually, bring on the collapse of the price maintenance system for books. The Federal Cartel Office, too, has indicated that it would be certain to take a close look at the lawyers' mail-order business, and this is why the Bar Association for the time being has laid its plan to rest, pending the study of the legal problems involved.

EURO COMPANY SCENE

CGE/KWU

Paris reports indicate that an agreement is near for closer cooperation in the nuclear power sector between France's Cie. Générale d'Electricité (CGE) and Germany's Kraftwerk Union (KWU). The alliance would cover joint procurement of boiling-water reactors and possibly extend to a CGE engagement in KWU's pressure-water reactor program.

Lübeck/ U.S. Steel/ Buderus

Negotiations conducted since fall 1974 will result in the complete takeover of Germany's Metallhüttenwerke Lübeck GmbH by the United States Steel Corp. Lübeck, a steel combine with a turnover of DM 240 million last year, is a subsidiary of the Buderus'sche Eisenhüttenwerke, member of the Flick group. It operates with a basic capital of DM 5 million and employs 1,500. The acquisition marks the first time that U.S. Steel becomes directly engaged in German raw steel production, although the company maintains numerous other ventures in the Federal Republic. The price and other details of the Lübeck transaction have not been revealed.

Alcan/ Clark Equipment/ AEB

Alcan Aluminium (Europe) SA, Geneva, and Clark Equipment Co., Buchanan, Mich., have announced that Alcan and Automotive Equipment Beteiligungs-GmbH (AEB) have an agreement with various Clark subsidiaries to buy the latter's truck trailer manufacturing facilities in Europe, pending formal approval. The new group will acquire two plants in Germany and Wales, both of which produce prefabricated components, as well as licensing rights, patents, and trademarks currently held by Clark Equipment AG, Zurich. Financial details were not publicized.

AEB is a new company financed by the current management of Clark's truck-trailer operations in Europe and by independent distributors. This management evidently will leave Clark to head the newly acquired facilities. The deal with AEB marks Clark's retreat from the European trailer scene, after having closed out its U.S. activities in this sector. Alcan, on the other hand, appears to

Alcan *(contd.)*

strengthen its position: the company already supplies sheeting and other materials to trailer producers and, through a subsidiary, controls a major U.K. trailer firm, Freight Bonallack.

Celanese/ Akzo

Celanese Corp. of New York reportedly has filed complaints in British courts against two subsidiaries of the Dutch Akzo chemicals group, Akzo Plastics BV and Akzo (U.K.) Ltd., for alleged breach of patent rights. According to reports from Arnhem, Holland, Celanese is seeking temporary injunctions to stop both companies from importing to Britain thermoplastic polyester, for which the U.S. concern holds U.K. patents.

ICI/ Wiederhold

Final agreement was expected by the end of this month for the U.K.'s Imperial Chemical Industries (ICI) to purchase a 70% interest in Lackfabriken Hermann Wiederhold, the last of Germany's major paint producers not owned by one of the top German chemical concerns. Only last January did the Wiederhold family deny any intention to sell out, conceding merely that cooperation talks were being held with the British. With capital assets of DM 22 million, Wiederhold in 1974 had a turnover of DM 280 million. The majority share purchase by ICI would be expected to ease the company's current liquidity problems and ensure the jobs of more than 2,000 employees. ICI already controls another German paint manufacturer, Spangenberg of Hamburg.

Van Ommeren/ Matex

International-Matex Tank Terminals reportedly is to be the name of a new 50:50 tank storage partnership between Van Ommeren, a major Dutch storage and shipping company, and International Tank Terminals of New Orleans. The joint venture will include all of the U.S. company's domestic interests and will hold participations in facilities in South Korea, Pakistan, and Bangladesh.

Amex/ RIB

Amex International, London-based merchant banking subsidiary of American Express Co., has announced it will purchase Rothschild Intercontinental Bank Ltd. (RIB), also of London. RIB, a consortium bank established in 1967 as a medium-term lending facility for the Eurodollar market, presently has 11 shareholders, with N.M. Rothschild controlling a 23.19% interest. Other shareholders include three U.S. banks, Industrial Bank of Japan, German Bankhaus Sal. Oppenheim, and British Eagle Star Insurance Co. Rothschild's loosely constructed European bank group, with four Continental members, holds 43.9% of the RIB shares.

Amex International reportedly will pay around £12 million for RIB, which showed a profit of £1.3 million on a balance-sheet total of £384 million at the end of fiscal year 1974.

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IN THIS ISSUE

Community: Council Passes Waste Disposal Directive

Adoption last month by the Council of Ministers of the waste disposal directive represents another major step for the Community in the field of environmental protection and will affect businesses throughout the EC. The directive requires the member states to introduce "effective and comprehensive" programs curbing the volume of waste and promoting waste recycling and processing (*Common Market Reports, Par. 9683*). Radioactive and agricultural waste and tailings produced in mining are exempt from the scope of the measure.

While allowing member states more leeway in attaining the pertinent objectives than other Council directives based on Treaty Article 100, the measure nevertheless establishes uniform conditions. For example, waste must be disposed of in a way that poses no danger to human health and no hazards to the environment. Land conservation and protection must also be considered.

The member states are required to draw up as soon as possible plans detailing the types and quantities of waste involved, general technical requirements for disposal, designation of suitable disposal sites, and special safeguards for specific types of waste. These plans must be followed up by national legislation within 18 months. Specifically, the states are required to introduce rules

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Directive *(contd.)*

providing that all waste, whether emanating from private households or businesses, be turned over to authorized waste collectors. If a business disposes of the waste itself, the public authorities must make sure that such disposal conforms to health and environmental rules. The polluter-pays principle, adopted by the Council last year in the form of a nonbinding recommendation, is elevated to a mandatory rule: the states must require the originators of waste to pay for the overhead cost of disposal, i.e., any cost not recovered by recycling.

Finally, enterprises engaged in commercial processing and temporary and permanent depositing of waste need to be licensed. Controls also will have to be established for companies disposing of their own waste, although the means will be left up to the states.

In originally submitting the draft directive to the Council, the European Commission stressed that any national follow-up measure not hamper intra-Community trade or distort competition in trade of waste materials. This point was even included in the draft by the Council, thus reflecting concern over attempts by some states to use national environmental rules as a pretext for impeding the free circulation of waste materials within the Common Market.

Fruit Importers Fear Impact of New Rules

Trade involving processed fruit and vegetables originating from third countries is certain to be influenced by the six agricultural regulations formally adopted by the Council at its July 21-22 meeting as well as by four others to be adopted either at the first meeting following the summer recess or through written procedure. Although for the most part affecting products originating from the Mediterranean countries, the future rules also concern U.S. exports.

The stated objective of these regulations, most of which will go into effect on Oct. 1 (Sept. 1 for tomato juice and tomato paste), is to liberalize third-country trade in these products by abolishing the current quota system. But they would also provide the Commission and the national authorities with the power to set up safeguards protecting domestic industries. Imports of canned tomatoes and tomato juice and canned peaches, pears, and prunes would be subject to licensing. Tomato paste would be subject to the minimum import price system that the EC applies to other agricultural products.

Fruit and vegetable importers in Common Market countries have already expressed concern over the future rules. Their main argument is that, in contrast to the still-existing system whereby an importer applies for a license within the limits of a quota, the future system

New Rules *(contd.)*

entails considerable risks. Within the five-day period allotted for the processing of an application, the Commission could decree a total ban on imports in the event of both actual and threatened "market disturbances." This clause, many EC importers fear, could lead Brussels to use its new powers rather arbitrarily.

In Brief...

The Green Paper on workers' representation in companies, which was prepared by Commissioner Finn Olav Gundelach, has been printed up and should be formally adopted by the full Commission following the summer recess. Outlining the systems currently existing in the member states and containing the Commission's comments and conclusions, the paper is to aid the discussions on two proposals before the Council: the fifth draft directive on company law coordination and the draft statute on the European Company + + + Commission lawyers are working on two further proposals on company law coordination; they concern take-over bids and the alignment of national rules governing relations between members of an affiliated group of companies + + + A "European consensus" on nuclear safety is now being sought by the Commission. Although nuclear power plants are operating in most member states, with legislative and administrative steps taken to assure maximum safety, there are differences in the national rules on safeguards that the Commission would like to harmonize.

Italy: 'SEC' Tackles Securities Sector Reform

About one year after passage of legislation clearing the way for a reform of Italy's securities and bourse system, the Italian equivalent of a Securities and Exchange Commission has officially launched its operations. Named CONSOB (*Commissione Nazionale per le Società e la Borsa*), the six-member commission is headed by Gastone Miconi, former director-general of the Treasury. The agency gradually will take over the supervisory and enforcement functions thus far in the hands of the chambers of commerce, the stock exchange authorities, and the administrative committee of the brokers' association. To ease its own task and that of the businesses affected, the CONSOB was given a transitional period of five years for the step-by-step implementation of the reform law of June 7, 1974.

The most immediate effect of the CONSOB activation involves a requirement that all companies listed on the country's stock exchanges have 30 days within which to notify the commission of their existing cross-shareholdings (*partecipazioni incrociante*). The law demands notification of any shareholding changes on the part of stock corporations or limited liability companies that own more than 2% of any listed company or more than 10% of any unlisted company. Notification requirements also exist for

Reform *(contd.)*

members of supervisory boards, directors-general, and auditors of listed companies and firms controlled by these companies. These individuals have to disclose shares owned by themselves, their spouses and children, or by any corporate or other intermediaries.

The disclosure rule on cross-shareholdings is only the first of several contained in three implementing decrees published in May within the framework of the reform law. All decrees involve measures designed to build investor confidence in Italy's stock market institutions and to compel listed private companies to disclose more information about their business activities and results. One decree, for instance, provides for the mandatory audit and certification of annual reports of listed companies by special auditors. These are to be licensed by the state and are not to be confused with the regular auditing profession, the *collegio sindacale*. Another measure established certain standards and rules of itemization for the profit-and-loss statements of banks, insurance companies, and other financing institutions; it will be enforced as of 1979.

Last year, as part of the stock market reform legislation, Rome already had issued a decree reintroducing the dividend withholding tax (a flat 30%) that had been applied in an experimental form in the years 1964-67 but w then abolished.

Denmark: Parties Differ over Economic Policy Plans

The political arguments over the best ways to achieve a recuperation of Denmark's ailing economy are certain to flare up again this fall when the government is to present its Draft Budget along with an economic program for 1976. According to earlier official projections, the new Budget will have to be financed to the tune of 12.1 billion kroner, and Finance Minister Knud Heinesen said at the time that he would aim for a "budget improvement" of up to 6 billion kroner, leaving open whether this would be done through expenditure cuts or fiscal measures. In the meantime, though, Prime Minister Anker Jörgensen has called these plans into question with his statement that, so long as the current recession persists, even a deficit of 12 billion must be accepted.

It appears now that the government will submit a two-phase program designed to initially stimulate the economy and, specifically, employment and then - should demand heat up too much and pose a renewed inflationary threat - follow up with measures neutralizing the extra purchasing power. Here, the governing Social Democrats probably would again be locked in the "classical" conflict with the opposition Liberals: the former are in favor of stiffer taxa-

Policy Plans *(contd.)*

tion (higher value-added tax) to sift off this purchasing power, while the Liberals are advocating curbs on public demand, i.e., expenditure cutbacks.

Meanwhile, the Danish economy shows some faint signs of stabilizing, following a long period of recession. The balance of payments - in a serious deficit position for years - may wind up with a shortfall of "only" 2 billion kroner this year. Wages and prices, too, are beginning to rise at a more moderate pace. Wage levels are still about 20% higher than a year ago but are expected to rise at half that rate or less within the next 12 months. The rate of increase in consumer prices has dropped from 15.3% in 1974 to about 10-11% at present, and the government hopes for a rate of 6-7% in 1976. Unemployment in June totaled 103,000 of the country's work force, or 5%. Since this number is likely to go up this coming fall and winter, the upcoming economic program is certain to include incentives to safeguard employment and create new jobs.

Germany: States Seek More Consumer Protection

The two German state governments of Bavaria and Bremen have proposed consumer protection guarantees that would go beyond existing federal law covering sales negotiated at the buyer's home, at work, or as part of special sales promotion campaigns. The state-proposed legislation would permit the buyer to revoke any contract within one week of conclusion. Existing law, in effect since last October, gives the buyer the right to cancel within one week and by registered letter all types of installment contracts, but it does not offer a remedy in the much more frequent cases when cash is paid upon delivery or when full payment is made at a later date agreed to by the parties.

The two state bills, virtually identical, allow for the fact that door-to-door or similar sales often involve pressure tactics. Under the Civil Code and case law, the buyer seldom has a chance to back out of such contracts. Even if dubious practices are involved, a buyer is rarely in a position to adduce proof of such practices. Under the terms of the extended legislation, the buyer could cancel a contract within one week by simple letter. The one-week period would begin from the day on which the buyer receives and signs the seller's written affirmation to the effect that the former is entitled to cancel the contract. The burden of proof would rest on the seller in case of dispute over whether the statement had been actually signed or on which day.

The determining criterion for exercising the right of cancellation would be the fact that the buyer verbally accepted the sales offer outside the seller's business premises. A buyer could not exercise the privilege when he had made a prior appointment with the salesman or when low-

Protection *(contd.)*

value, daily-use items (for instance, household brushes) and services were delivered or rendered on the spot and paid for immediately.

Portugal: No Information on Restitution, Investment Code

The unsettled political situation in Portugal apparently has kept the Lisbon government from deciding on its policy concerning restitution to expropriated businesses. Following the first wave of nationalizations in March, involving a number of key industries and the banks, the government had promised to settle the question of restitution within 90 days. In answer to recent inquiries following passage of that deadline, the authorities said that they could give no further information on this subject.

Also behind schedule is the publication of a previously announced foreign investment "code." In the past, government spokesmen have stated repeatedly that the nationalization drive has spared such investments. Nevertheless, foreign investors in Portugal generally have been making no further commitments, not only because of the political uncertainties but also because of the new import levies, stringent price controls, the state-decreed stop of dismissals, etc.

The latest reports from Lisbon indicate that the government has now set up a working group to prepare a draft of the investment code, but not before completing an "inventory" of foreign business interests in the country. Many observers are convinced that Lisbon is merely stalling for time until Portugal's relations with the European Community in particular have been clarified to a point where the treatment of foreign investments could be used as a bargaining position.

Spain: Pessimistic OECD Report on Economy

Following several years of rapid development, the Spanish economy has now entered a crisis period marked by a high inflation rate, rapidly rising unemployment, high payments deficits, and shrinking exchange reserves. This resumé is contained in the latest OECD report on Spain, which said that this economic recession started about a year ago and shows no signs of abating. The OECD views as too optimistic official Spanish estimates that the country's Gross National Product will grow by 2.5% this year, after gaining 5% in 1974 and 8% in '73. The Paris-based organization also questions Madrid's forecast of a 12% consumer price inflation rate this year as compared with an 18% rate in '74, citing "escalation factors" such as major pay increases which are bound to be reflected in production costs. The report said that Spain's foreign trade deficit in 1974 was, at $7 billion, twice as high as the year be-

Economy *(contd.)*

fore, while the balance of payments moved from a small $560-million surplus to a $3.1-billion deficit within the same period.

In the event of a further economic deterioration, the OECD experts suggest selective measures in the public building sector as well as tax concessions for low-income groups. They favor the introduction of short-time work rather than dismissals as a means of stabilizing employment. Further, the OECD recommends measures to improve agricultural productivity and a modification of energy policy aimed at lowering oil consumption and, thereby, imports.

EURO COMPANY SCENE

Commission/ Hoffmann-La Roche

After several months of investigation, the European Commission has now formally charged Swiss pharmaceutical producer Hoffmann-La Roche with violations of EEC competition rules and with unfair marketing practices in the vitamin sector. As Europe's leading vitamin producer, the Basel-based company is accused of abuse of a market-dominating position as a result of its alleged policy of extending special rebates to customers who purchased all, or nearly all, of their vitamin requirements from the company. According to Commissioner Albert Borschette who outlined the complaint, these "fidelity rebates" usually were granted on the basis of exclusive and binding contracts, thus impeding customers from seeking competitive prices elsewhere. Also, the rebates were calculated on total purchases of the company's entire line of vitamin products, he said. (Meanwhile, Hoffmann-La Roche has confirmed that it discontinued the contract system, without admitting irregularities in this respect.)

The company has been asked to present its defense at a Brussels hearing scheduled for the end of September. Should the Commission reject the arguments and stand by its decision, it could levy fines totaling up to 10% of Hoffmann-La Roche's group turnover. The Swiss drug maker in turn could appeal the ruling to the European Court of Justice. Brussels' complaint extends only to the company's activities in the vitamin sector; the Commission is still investigating Hoffmann-La Roche's pricing policies in regard to tranquilizers.

British Leyland/ Authi/ SEAT

Following the failure of General Motors and the Spanish government to come to terms on the intended sale of British Leyland's Spanish subsidiary Authi to GM, the U.K. car maker has now concluded an agreement to sell the major part of the company to SEAT, Spain's largest automobile pro-

British Leyland/ Authi/ SEAT *(contd.)*

ducer. The deal involves the transfer of Authi's main assembly plant at Pamplona for 1.1 billion pesetas and a smaller components plant at Sampedor for 150 million pesetas. Still undecided was the fate of an engine plant near Santander, which employs 2,000. SEAT, in which Italy's Fiat and the Spanish government hold a 37.5% stake each, plans to begin manufacture of its 124 model in Pamplona early next year, aiming for an eventual assembly capacity of 100,000 units per year.

Fiat

With nearly 40% of its turnover already accounted for by non-automotive activities and ambitious plans for further diversification and international expansion, Turin-based Fiat SpA is preparing its conversion into a holding concern. But finance chief Cesare Romiti has rejected speculations that the company was in the process of shifting its main operations abroad. Such fears also had been expressed by the Minister for Industry, Carlo Donat-Cattin, who charged that Fiat seemed to be "escaping from Italy." In a meeting with the Minister, Romiti said that the company intended to improve its position on the world market through cooperative ventures abroad. This explains, he said, why Fiat's international holding in Lugano, Switzerland, has a higher capital base than the parent company in Turin - a fact that had been criticized in Italy. Through the newly formed Iveco truck subsidiary in Amsterdam - which unites Fiat's own industrial vehicle division (80%), France's Unic, and Germany's KHD - Fiat eventually hopes to overtake Europe's leading truck manufacturer Daimler-Benz (Mercedes) and challenge the U.S. producers as well. Other foreign ventures are similarly designed to promote multinational expansion, but this did not mean that the Italian parent would relinquish control in the administrative, financial, and research areas, Romiti said.

Hanson Trust/ Indian-Head/ Thyssen-Bornemisza

The U.K.'s industrial and construction group Hanson Trust has announced the intended takeover of the specialized textile division of Indian-Head, the U.S. group controlled by Holland's Thyssen-Bornemisza. The purchase, for £16 million in cash, is to be effected through the British company's U.S. subsidiary, Hanson Industries. According to reports from London, the textile division had a turnover of $170 million in the last fiscal year and employs 4,000 in 15 plants. Terms of the deal have been laid down in a letter of intent and still await final approval. Previously, on July 7, Hanson Trust had announced an £8.6-million rights issue to finance borrowings in the United States, the source of more than half the company's profits in the first half of this year.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Corporation Tax Alignment to Take Years

After the European Commission's submission of its draft directive on harmonizing national corporation income taxes and withholding taxes on dividends, the question in Brussels is not so much whether the Council of Ministers will act on the proposal, but when. On the basis of a first assessment, Council attorneys said that it might take up to 12 years until adoption. Among the problems they visualize is persuading some states to change over to the proposed system of partial tax credits, because of the budgetary consequences. While, technically speaking, a revamping of tax legislation would not be too difficult, it would be another matter for tax offices and businesses to get used to the new system. Furthermore, certain member states have their own ideas on what tax system would be best: in the U.K., for instance, where the tax credit system is now applied, the Labour government reportedly is favoring the "classical" system (see below), since it would encourage companies to reinvest earnings for modernization rather than distribute them.

In line with its communication sent to the Council in December 1973, the Commission proposes a system allowing a shareholder, upon the filing of his individual income tax return, to get a partial, rather than a full credit for the corporate income tax paid by the corporation. The Commission believes that full, unrestricted tax credits - now

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Tax Alignment *(contd.)*

permitted in France and Britain and, in a somewhat modified form, in Belgium and Ireland - could lead to inequities and certain abuses. Germany, which currently applies the split-rate system, will change to the tax credit system once Parliament approves pending legislation. Denmark, Italy, Luxembourg, and the Netherlands are using the aforementioned "classical" system of taxing company profits and shareholders' dividends in two separate operations: earnings are subject to 1) the corporation income tax and 2) the individual income tax payable by the shareholders (so-called "economic double taxation" in contrast to "international double taxation").

The Commission believes that the proposed partial tax credit system would not only offer relief from economic double taxation but would also be a major step in equalizing competitive conditions by way of a broad alignment of corporate tax rates - here, a 45-to-55% range is suggested. Complete harmonization is being contemplated for the '80s. Still, the initial step would be a real accomplishment considering the present national differences, with the added advantage that revenue losses would be kept within bounds.

The Commission is well aware that the proposed system would present technical difficulties in international taxation by making dividends subject to the same tax in two different states. The problem is that the tax withheld b[y] the paying company in one country might not be deductible when the shareholder files his income tax return in his own country. This problem is not always solved satisfactorily in existing bilateral tax treaties. Here, the Commission's proposal to harmonize withholding rates - another aim of the draft directive - would help to the extent of streamlining the rates throughout the Community to a uniform 25%. The partial tax credit to which the dividend recipient would be entitled plus the 25% withholding at the source would bring overall dividend taxation up to 50% throughout the EC and thus prevent tax evasion.

Although they are realistic about the many complications, Council attorneys nevertheless believe that the proposal has a good chance in the long term. The present Council chairman, Italy's Mariano Rumor, also is determined to make some headway in tax harmonization during his term, though any immediate progress is more likely to come in the alignment of indirect taxes.

France: Paris Readies Major Measures to Aid Economy

In order not to weaken the full psychological impact later, the French government is remaining tight-lipped over the large-scale economic program now being worked out by the various ministries and to be officially unveiled on Sept. 4. Also in early September, Parliament will convene for a

Aid Measures *(contd.)*

special session to give its blessing to the measures. (At about the same time, the German government is to announce a similar package, following agreement on such a parallel approach by President Giscard d'Estaing and Chancellor Schmidt.) Unofficially, it was reported that Paris is preparing a massive injection of FF 15-20 billion into the economy, in the form of a deficit-spending investment program.

The dispositions now being made follow Giscard's admission at the end of last month that France's economic situation is not nearly as positive as he himself had described it only four weeks earlier. Despite its undeniable success in revitalizing foreign trade and slowing inflation to below 10%, the administration remains deeply worried over business stagnation and high-level unemployment. In his latest monthly television address, the President thus proclaimed the need "to steer a new course" and to achieve "a new kind of growth, an economy with a different structure," with the emphasis on quality rather than quantity. In other words, even the government concedes that in France, too, the boom years are finally over and must be followed by a period of consolidation and readjustment.

Giscard's revelation that unemployment should reach 900,000 this fall put the finger on the No. 1 problem to be tackled by the upcoming economic program if a major political confrontation is to be avoided. Already, there is talk that the real crisis will develop in October when many experts predict the jobless count will top the one-million mark. The Patronat Français, the employers' federation, has warned of further mass dismissals at the end of the August vacation period as many enterprises try to stave off collapse. François Mitterand, the socialist leader, charged that the failure to enact the support measures immediately will lead to a loss of jobs for at least 300,000 more people, and he demanded that the government submit to a vote of confidence at the special parliamentary session in early September.

Italy: Draft Budget Features Record Deficit

A record deficit of 10,318 billion lire - described by Treasury Minister Emilio Colombo as approaching "the limit of what is economically acceptable" - is the key feature of Italy's 1976 Draft Budget that was passed by the cabinet on July 29. The budget plan provides for expenditures of 36,874 billion lire and revenues of 26,556 billion, on the basis of a projected 3% expansion of the Gross National Product and an anticipated inflation rate of 12%.

On the expenditure side, the Budget is burdened by such major items as the automatic pay raises in the public sector (1,000 billion), higher pay for educators (700 bil-

Budget
(contd.)

lion), improved social insurance benefits (700 billion), and subsidies required to make up the deficits of the state railways and the postal service (1,197 billion in all). A substantial portion of the planned capital expenditure will be eaten up by a 3,500-billion-lire investment program to benefit construction and exports and to expand credit facilities for industry.

Colombo pointed out, however, that the treasury's revenue projections were more conservative than actual expectations: revenue is officially scheduled to grow by 14.9% but could be as high as 20-25%, providing the income tax and value-added tax intake stabilizes and the changeover to the new fiscal system continues without major disturbances.

At European Community level, the Italian budget draft was viewed with mixed feelings: it was noted that the deficit provisions permit a 25% expansion of current expenditures and correspond to an additional credit volume of 26,100 billion - 3,200 more than allowed within the framework of EC guidelines. The European Commission immediately approached Rome on this point and urged the Italians to refrain from any fiscal compromises that could worsen the situation still further. Brussels evidently fears that a too rapid revival of the Italian economy could lead to a relapse on the payments front, where Italy has been making substantial gains. (This continued improvement of the payments position has been reflected in the latest, provisional figures of the Banca d'Italia, which show a six-month deficit of 320 billion lire compared with 2,956 billion for the same period in '74. The foreign trade balance registered a 1,064-billion deficit, down from 3,945 billion a year ago.)

Britain:
Nationwide
Employment
Subsidies?

The U.K. government is preparing emergency measures to check the rapid rise in the number of unemployed in Britain. At the end of last month, the "crude total" of unemployed was well over the one-million mark, the highest figure in 35 years. It was rumored in Whitehall that the measures to be introduced will include temporary employment subsidies on a nationwide basis rather than for the country's development areas as at present.

Ireland:
Unions Asked
to Waive
Pay Raises

The Irish government's attack on inflation, heralded in the recent emergency Budget, faces a critical test this week as trade union leaders convene to discuss a proposal that would essentially result in the country's workers waiving their right to an across-the-board pay raise of between 4 and 5% due this quarter. The government has called for the unions' cooperation under the National Wage Agreement and, Pay Raises *(contd.)*

in return, offers a counter-inflation package designed to curb the cost of living by about 4%. As outlined in the "mini-Budget" published at the end of June, these measures would include direct state subsidies to bring down the price of staple foods (bread, milk, butter); the temporary abolition of value-added tax on electric power, clothing, and shoes; a 12.5% rate cut for household gas; and a 25% reduction of public transport fares, which had been drastically raised just last May. On the basis of this program, the government expects to bring down the inflation rate from 24 to 20% within this year.

At the same time, the perennial question is being asked again in Dublin - namely, whether the time has not definitely come to revalue the Irish pound, thus severing its traditional one-to-one link with sterling. The fact that the U.K. is going through an intensely difficult period scarcely inspires confidence in the performance of the Irish economy which is still closely connected to that of Britain. Though the governor of the Bank of Ireland has openly questioned the "advantages" of a break with sterling at this time, there is little doubt among most observers that this step will be taken soon. It would, in any case, not be a panacea: Ireland's most besetting problem, unemployment, has been compounded by population increases and, moreover, by the fact that incoming foreign investment tends to be capital-intensive rather than labor-intensive.

<u>Germany: Looking at Ways to Trim the Deficits</u>

The current public debate in Germany on how the federal and the state governments can cut their rapidly mounting deficits has been given a new impetus by two recent initiatives - one coming from Social Affairs Minister Walter Arendt and the other from the parliamentary group of the governing Social Democrats. They involve a proposal on eliminating abuses of vocational training benefits and urge a critical revaluation of civil service privileges, farm benefits, and student scholarships, all of which cost the German taxpayer billions every year.

Arendt is considering an amendment to the Employment Promotion Law that would curb apparent abuses of government-sponsored vocational training programs which are financed out of unemployment contributions (*Doing Business in Europe, Par. 23,456*). Current rules permit individuals to enroll in vocational training programs and still receive 90% of previous pay from the government. It does not matter in what industry sector the individual was previously employed, nor does it matter whether the newly acquired skills are to be used in an occupation or merely as a hobby. Arendt now wants Parliament to modify the system, so that a jobless individual who has no choice but to undergo vocational retraining would receive 85% of his previous

Deficits *(contd.)*

pay. Those who have no demonstrated need for learning a new skill would get only 58%, since unemployment benefits amount to 60% of previous pay. Individuals who never held a job would have to finance their vocational training through subsidized loans.

The Social Democrat parliamentarians - specifically Holger Börner, one of their floor leaders - have been zeroing in on some "unjustifiable" privileges now being enjoyed by such groups as the civil servants, the farmers, and college students. For the civil servants, benefits include regular promotions based on seniority rather than merit, rent subsidies, free health care, and virtually complete protection against dismissal. Whereas at one time this job security was considered compensation for below-average remuneration, civil servants now earn as much or more than employees in private industry. (In 1961, the 1.5 million civil servants employed in all levels of government received wages and benefits totaling DM 25 billion; in '74, the figure had risen to DM 134 billion for 1.9 million public servants.) Similar objections are being raised in regard to the benefits enjoyed by the German farmers as a result of the Common Market's farm price support system and its surplus financing. Here, too, the government and the consumers have to foot the huge bill. Finally, it is suggested that billions of D-marks could be saved annually i[illegible] Bonn would do something about the generous scholarships n[illegible] offered to most students. It is said that the scholarship system has filled the universities, which have run out of space, and has led to a drastic increase in the number of students who have completed their education but are unable to find jobs.

Belgium: The Case of the High-Priced Potatoes

The high cost of an important Belgian staple, potatoes, and its impact on the general cost of living has been the object of a heated controversy between the government and the trade unions. The dispute - which was front-page news during the summer lull - quickly ended in a compromise that left neither side satisfied and did not entirely clear the government of charges that the retail price index is being "manipulated."

Potatoes are the only "vegetable" included in the retail price index which determines the rate of automatic pay increases in Belgium. In July, traditionally, the index reflects the price of newly harvested potatoes. This year, because of a late and poor harvest, the price was abnormally high and would have caused the monthly index to shoot up by no less than 2.5-2.6 points. Since this would have triggered corresponding pay increases and additional cost pressures, the Economic Affairs Minister came up with the

Potatoes *(contd.)*

idea of dropping "the hot potato price" from the index, which then would have risen by only about 0.5 points. This proposal, however, brought howls of protest from the trade unions and the opposition Socialists, and the subsequent compromise neutralized the potato price only partially: it was agreed that the index rise would be 1.39 points, of which the potato price accounts for only 0.73. The increase is still high enough, though, to bring on automatic pay raises in the public services and for some private industry sectors - a development that Brussels would have liked to avoid.

EURO COMPANY SCENE

AEG-Telefunken

Following more than 10 years of political polemics, the debate over what type of color television system should be adopted by Italy has been resolved with a government decision for the German PAL system, developed by AEG-Telefunken. The loser in this tug of war was France, which had been pushing its own SECAM system. The Germans, predictably, applauded Rome's decision as being in the "European interest," pointing out that within the EC only France itself, Luxembourg, and Monaco have opted for SECAM. The long delay in deciding has been viewed as a major cause of the crisis in Italy's home electronics industry, which now expects to sell at least 4.5 million color TV sets by the end of the year. No date has been set yet for the official start of color transmissions. AEG-Telefunken, as the licensor, is now hoping that Rome's move will persuade other European "holdouts" to adopt the German system.

PUK

The French Ministry of Environmental Affairs and the industrial concern Pechiney-Ugine-Kuhlmann (PUK) have signed an agreement - described as "remarkable" and the first of its kind in France - on the implementation of a program to contain heavy pollution by several of PUK's older specialty-steel plants. Similar programs also are being prepared for the chemical and aluminum sectors of the company. Expenditure for the various measures will total some FF 200 million until 1982. The government is in the process of drawing up environmental agreements with other industrial groups, notably Saint-Gobain/Pont-à-Mousson and Creusot-Loire.

Norton

Following the decision of the U.K. government to withdraw state support from Britain's ailing motorcycle industry, Norton Villiers Triumph announced that its main plant at Wolverhampton would be liquidated, despite the fact that it is the only really successful motorcycle factory in the

Norton *(contd.)*

U.K. Virtually unaffected, on the other hand, will be the company's Meriden, Coventry, plant, scene of a controversial employee sit-in and "workers' cooperative." In a statement explaining its decision, Norton management said that it could not, without further funds, carry on with two factories: the sit-in (or work-in) at Meriden had been successful, however, and "if workers (at Wolverhampton) were to take this sort of action, they would have the management's sympathy."

Special note has been made in the U.K. of the odd fact that a company - previously promised financial backing by the state - is forced to shut down a profitable plant rather than one where production is still at a prototype stage. Another disturbing aspect, industry observers said, is that the Norton management was prompted to endorse a possible work-in after having been virtually "coerced" by another work-in to keep open the less profitable plant.

ABN/ Mees en Hope

Two leading Dutch banks, Algemene Bank Nederland NV (ABN) and Mees en Hope Groep NV, have officially confirmed the opening of negotiations paving the way for a merger. The Amsterdam Bourse expects an ABN bid for Mees en Hope within the next few weeks, at a probable rate of 200 guilders per 50-guilder share, which would value the transaction at around 265 million guilders.

ABN, Holland's second-largest commercial bank with a balance sheet total of 34.9 billion guilders at the end of 1974, operates more than 800 branches with 21,000 employees. Bank Mees en Hope, No. 4 in the country, has a balance sheet total of 5.5 billion and a network of 66 branches and 3,200 employees. Morgan Guaranty Trust Co. of New York holds a 20% stake in Mees en Hope Groep, the holding company for Bank Mees en Hope. A merger of the two banks would result in the formation of the largest banking institution in the Netherlands, outranking Rabo Bank and Amsterdam Rotterdam Bank (Amro).

Pan Am

The U.K. Court of Appeal has overturned a High Court ruling of two months ago that the Secretary of Trade had no power to prevent Pan American World Airways from paying its agents a higher commission than the standard IATA rate of 7.5%. The court's three judges were in agreement that there are "no restrictions whatever on the conditions he (the Trade Secretary) may impose," so long as they are "relevant conditions" and he acts "honestly" in imposing them.

The decision cannot be appealed to the House of Lords by the airline.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Council Gets Amended Draft on Lawyers

The European Commission has sent the Council of Ministers an amended version of its 1969 proposal that would allow a lawyer from one member state to plead before a court in any other member state and to counsel clients anywhere in the Community (*Common Market Reports, Par. 1349.09*). The new version takes into account the European Court of Justice's *Reyners* and *Binsbergen* judgments (*Common Market Reports, Pars. 8256 and 8282*), according to which discriminatory restrictions on the activities of self-employed persons - not just lawyers - had ceased to apply at the end of the transitional period (Dec. 31, 1969). The new draft also contains amendments to reflect the common-law systems of the U.K. and Ireland, which distinguish between barristers and solicitors.

In line with *Reyners* and *Binsbergen*, the scope of the draft directive includes virtually all areas of a lawyer's work, including the representation of clients in civil matters in and out of court and the defense of accused persons in court. The Commission, however, has not gone so far as to suggest that a lawyer should be allowed to settle in another state and open an office there, although this might be recommended in a future proposal.

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Amended Draft *(contd.)*

The revised draft makes an important distinction between in-court and out-of-court activities. Whenever a lawyer offered legal advice or extrajudicial assistance (drawing up a contract, for example), he would be bound only by the rules of conduct of his home state. For instance, if his home state prohibited him from managing a client's financial affairs, he could not engage in this activity in the host state even if this were allowed there. Nor could he become a member of a managing board in the host state under the same circumstances. Furthermore, in representing a party in civil proceedings or in defending someone in a criminal case, he would have to abide not only by the rules of conduct of his home state but also by those of the host state (plus other conditions the latter may impose) in the same way as domestic attorneys. Such requirements would not be necessary, of course, when an attorney merely rendered advice or engaged in extrajudicial activities, because here the direct link to the host state's judicial system would not be evident.

The member states could make representation in civil and criminal proceedings subject to one or both of the following conditions: that an attorney from another state a) be introduced to the presiding judge in accordance with local custom and that he b) work in consultation with or in the presence of a host-state lawyer in order to plead. A great advantage over the 1969 proposal is that the member states would have freedom in establishing those conditions, and it is conceivable that some states might adopt a more liberal policy or might even forego those conditions entirely.

The Commission side-stepped a major problem that had arisen in the discussions with British government officials: the draft does not attempt to solve the longstanding dispute between Scottish and English lawyers, which the Commission considers an internal affair. Scottish lawyers have been demanding the right to plead in England, and vice-versa. At present, a barrister may plead both in England and Scotland only if he is admitted to both bars. As for the two categories of lawyers in the U.K. and Ireland, the Commission suggests that lawyers from other member states be treated as solicitors and also be accepted as barristers, providing they adhere to both British and home-state bar practices.

The Council's working group is scheduled to start discussions on the revised proposal in early September.

Italy: Questions on Impact of Economic Plan

Economic experts and industry spokesmen in Italy have expressed skepticism and "serious doubt" (industry federation president Giovanni Agnelli) over the ability of the public authorities to implement the government's new economic pro-

Economic Plan *(contd.)*

gram quickly enough to make its impact felt this coming fall and winter. Approved on Aug. 8 by the Rome cabinet, the program provides for a liquidity boost to the economy of between 3,500 and 4,000 billion lire within two years. Main targets of the credit and investment package are exports, construction, public transport, and agriculture, and the government hopes that key portions can be initiated immediately so as to stimulate stagnant industrial investment and thus aid employment. As of June, the industrial investment index was 10.4% below last year's level, and unemployment this month has climbed well over the 1-million mark.

Industry's misgivings extend particularly to the measures concerning the construction and public works sectors which require assistance most urgently: due to the lethargic pace of the administrations concerned, it is argued, the government will hardly be in the position to spend more than about 500 billion lire by the end of this year - an amount that falls far short of actual requirements. Guido Carli, who has just stepped down from his position as governor of the central bank, criticized Rome for lacking the "courage and imagination" to find really effective solutions to the economic crisis. Others maintained that, at best, Italy can hope for no more than a "psychological lift" from the program.

The bulk of the reflationary package, more than 2,000 billion lire, has been earmarked for investments in social housing, hospitals, and public works projects (port and airport improvements, etc.). The southern regions alone are to benefit from half of that allocation. Further, it was decided to expand the volume of export credit finance from 1,400 to 3,500 billion lire as well as the fund out of which subsidized credits to small and medium-sized businesses are financed. One of the most interesting parts of the program concerned the government's reluctant consent to relieve employers for a one-year period of the social contributions for their female employees. This measure, involving about 1.3 million women workers, will primarily help the ailing textile sector, where more than half of that number are employed. It will reduce labor costs by an average of 96 lire per workhour and cost the treasury 320 billion lire.

<u>Belgium: Major Boost for Public Investments</u>

As part of the 1976 Draft Budget now completed, the Belgian government has scheduled considerable public investments to spur the economy and combat unemployment. In addition to the running expenditures, the budget plan calls for investment outlays of BF 143 billion, mainly in the public health and transport sectors and for housing construction. These efforts, said Finance Minister Willy de Clercq, are to be

Investments *(contd.)*

in loose coordination with those to be taken by France and Germany, although the question of financing still requires some thought. The revised current Budget already shows a gap of BF 31 billion, which is nearly 5% of the total volume. The 1976 draft initially foresees a shortfall of BF 17 billion, based on proposed regular expenditures of BF 719 billion and anticipated revenues of 702 billion. These intended deficits represent a heavier burden than in other European countries, since they are never matched by the revenue volume. Thus, the state's debt obligations (interest payments, etc.) of BF 58 billion constitute the third-largest Budget item, being exceeded only by expenditure in the educational (BF 142.5 billion) and social security sectors (83.2 billion).

Earlier, the government agreed to make BF 8 billion in investment credits available to industry. According to the decision by the ministerial committee for economic and social coordination, these funds are to be used to create some 1,300 new jobs, especially in the Flanders region. Unemployment in Belgium, meanwhile, has reached 6.5% - from June to the end of July, the number of jobless climbed by another 10,000 to more than 172,000. Thus, within a 12-month period, unemployment went up by 77.8%, while the number of vacancies declined by 80%. The most worrisome aspect to the authorities is the fact that about one-third of those out of work are young people below the age of 25; including this year's school graduates now joining the labor market, some 100,000 young Belgians will be on the unemployment rolls this fall.

Netherlands: Higher Taxes as Part of '76 Budget?

Even though the deliberations within the administration on Holland's 1976 Draft Budget have not been concluded, it appears certain that government expenditure next year will rise by some 10 billion guilders. This is considerably more than expected only a few weeks ago and would mean that the Budget will top 70 billion guilders for the first time. From what has been revealed so far by Finance Ministry sources, the expected budget gap of 1 billion guilders will have to be made up by raising the fiscal burden and eliminating some tax benefits.

Among the measures reportedly contemplated is an increase of the highest value-added tax rate (now 16%) by one or two percentage points. Also being considered is a plan to apply only partially the system of taking account of the annual inflation rate in income tax assessments: the proposal is for lowering the correction factor from 80 to 50%. Other possibilities include a "slight rise" in the income tax and the tax on alcoholic beverages, including wine (a higher tobacco tax already has been implemented). Finally, the government is said to be taking a hard look at natural

Higher Taxes *(contd.)*

gas prices, an area where an increase would bring the most noticeable revenue improvements.

In other news, the Central Statistical Office in The Hague in the future will issue - next to the standard consumer price index - another index that will not reflect price changes caused by increases in VAT or other indirect taxes and will register only the employees' contributions to the health insurance system, not the employers'. With the approval of the trade unions, this modified index forthwith will provide the base for calculating the automatic price compensations within the wage indexation system and thus result in somewhat lower increments than in the past.

Britain: 'New Strategy' on Assistance to Industry

The U.K. government has announced that the Treasury and the Dept. of Industry are developing "a new strategy," to be revealed at the October meeting of the National Economic Development Council. It is understood that the "principle of giving aid to enable industries to take advantage of an economic upsurge" will continue but that recent government aid to the clothing industry and the announcement of aid for the machine-tool and iron-foundry sectors will "be placed in perspective" when the proposals are unveiled.

The vagueness of the government announcement, which was made jointly by the Chancellor of the Exchequer and the Secretary for Industry, has angered industrial leaders whose problems, already critical, may become insurmountable by October or whenever action is finally taken and the "new strategy" applied.

Controls on Cigarette Ads Held Likely

Less than a week after a U.K. government announcement on Aug. 6 that controls were being considered to regulate the manufacture, sale, description, and advertising of cigarettes and other tobacco products, Britain's Advertising Standards Authority (ASA) issued a new code on cigarette advertising to substitute for earlier guidelines. The code essentially provides that advertisements should not encourage people, particularly the young, to start smoking, step up smoking habits, or smoke to excess. No "titillating" sex-oriented copy or illustrations should be used, no claims linking smoking to "manliness or virility" should be made, and no testimonials from well-known personalities should be published. Most significantly, the health "advantages" of one brand over another may be advertised only if specifically proven and accepted by the health authorities.

It appears as though the ASA code is inadequate when seen in the context of the government's overall aims. The government, though it did ban TV commercials of cigarettes in 1965, generally would prefer to work through voluntary agreements with industry. Should these prove ineffective, Cigarette Ads *(contd.)*

however, control machinery analogous to that of the Control of Medicines Act 1968 can be anticipated. (That legislation specifically allows, *inter alia*, government ministers to ban advertisements for certain products, impose stringent statutory requirements on advertising content, and take other steps to ensure that products advertised are appropriately described.)

As things stand, the new ASA code has not removed the existing conflicts between government and industry: during several months of abortive talks, no agreement was reached, for example, on the issues of whether tar yield should be reported on packets as well as in advertisements, whether a more strongly worded health warning should be printed on packets, or whether gift coupons should be severely curtailed. The standoff was such that the industry actually expected the arbitrary imposition of new conditions - a possibility not yet to be excluded.

Germany: Waste Disposal Plan Stresses Recycling

As expected, the German government's first waste disposal program now being discussed with representatives of industry, the unions, and environmental organizations emphasizes recycling rather than dramatic legislative moves and large-scale financial aid. With the ever-growing volume of waste compelling public waste disposal plants to make further investments, the government wants even stricter adherence to the polluter-pays principle that has governed Bonn's drive for a better environment and which is already incorporated in enacted or proposed legislation (*Doing Business in Europe, Pars. 23,542; 30,708; 30,718; 30,724*).

Full application of the polluter-pays principle is considered the best alternative, since it forces manufacturers to go to the necessary expense of keeping waste volume down by recycling what can be used or by using other materials that may be not only cheaper to buy but also cheaper to dispose of. The government also stressed that the application of this principle constitutes the surest way of eliminating competitive distortions among businesses throughout the Common Market and thus is in line with the ultimate objectives of the European Commission.

To Bonn observers, the government's firm insistence on the polluter-pays principle seems to signal an eventual phase-out of state subsidies to public waste disposal facilities, with corresponding increases in fees payable by households and industrial waste producers. Still, the government would seem prepared to make allowances in cases where prohibitive waste disposal fees could mean financial hardship for a company.

In related news, businesses covered by Section 53 of the Clean Air and Noise Abatement Act (*Bundesimmissions-*

Waste Disposal *(contd.)*

schutz-Gesetz) and listed in subsequent implementing regulations must have, as of Aug. 1, an environmental safety engineer. It is the function of the engineer to encourage and aid the introduction and development of new processes and products that are favorable to the environment. The sixth implementing regulation, in effect since May 1, requires that the engineer's qualifications include a university degree in engineering, or physics, or chemistry (*Doing Business in Europe, Par. 30,772*).

Norway: New Rules for Labeling Packaged Foods

Detailed product information on the labels of prepackaged foods will be required under new Norwegian regulations that take effect on July 1, 1976, as part of the seven-year-old law on the labeling of consumer goods. The rules - applying to both domestic manufacturers and foreign exporters - provide that the labels of prepackaged foods show the product name and information on content, net weight or volume, the period of time during which the contents should be consumed, and methods of correct storage, if required. Nutritional values must be indicated for health or dietary foods. The labels further must bear the name and address of the manufacturer and importer and/or packer. All information has to be in a Scandinavian language or in English.

EURO COMPANY SCENE

Framatome/ CGE/ CEM

As part of the restructuring of France's nuclear energy sector, which has been decided at cabinet level, French reactor production will be concentrated in one company, Framatome. Present ownership of that company, which builds Westinghouse pressurized-water reactors under license, is mainly divided between Belgian-French Creusot-Loire (51%) and Westinghouse (45%). In order to reduce the U.S. participation, the government - through the national atomic energy agency - intends to acquire a substantial stake in Framatome, reportedly at around 30% and largely at the expense of Westinghouse. The reorganization means that France will rely, at least until the early 1980s, on U.S.-developed pressurized-water reactor technology until its own PWR system is marketable.

The government decision practically eliminates the Cie. Générale d'Electricité (CGE), licensee for General Electric's boiling-water reactors, from reactor production. Two existing orders and six options so far placed by the state utility Electricité de France (EDF) evidently will be cancelled. However, CGE will still participate in the nuclear sector as a major supplier of turbines, through its Alsthom subsidiary and in cooperation with Cie. Electro-Mécanique (CEM), another turbine manufacturer.

Exxon Nuclear

Exxon Nuclear International, newly formed subsidiary of Exxon Nuclear Co. of Bellevue, Wash., has established its first European office in Brussels. Over the past few years, Exxon has been expanding its activities in the nuclear field to include the supply and development of uranium techniques and the manufacture of uranium and plutonium oxide fuel assemblies.

Rolls-Royce

The U.K.'s Secretary for Industry has announced that the government will back, to the tune of some £21 million, development by Rolls-Royce of the RB-211 engine for use in Boeing 747 jumbo jets. This sum is in addition to another £26 million earmarked for a development program to modify the 211 for Lockheed's longer-range Tristar Airbus and a further £12.3 million to boost the engine's thrust from 50,000 to 53,000 pounds.

Du Pont/ Lacas y Pinturas

E.I. du Pont de Nemours & Co. has announced its 100% takeover of leading Spanish industrial paint and dye manufacturer Lacas y Pinturas SA. As a producer of paint thinners and solvents, industrial paints and enamel dyes, the company in the future also will take up the manufacture of special Du Pont paints and dyes for the Spanish market and neighboring countries. Du Pont's further activities in Spain include a 50% interest in Desarrollo Químico Industrial SA, manufacturer of fungicides and methylchloride a[illegible] chloroform gases and distributor of the Du Pont product line at its Madrid and Barcelona sales outlets.

Cyanamid

American Cyanamid Co., through Cyanamid of Great Britain, is to build a £4.6-million extension to its U.K. plant in Hampshire. Scheduled to come on stream late next year, it will be used for the manufacture of a range of new synthetic drugs, primarily of the "psychotropic" variety, developed by the company in the United States.

Central Soya/ Provimi

Central Soya Corp. of Fort Wayne, Ind., reportedly intends to divest itself of its French interests, specifically in Provimi-France, manufacturer and distributor of animal feedstuffs, which it had taken over from its previous Dutch owners in early 1972. With an estimated turnover of FF 250 million, Provimi reportedly has incurred losses for the past two years, and negotiations are reportedly being conducted with the French authorities with the objective of liquidating the company.

Common Market Reports

EUROMARKET NEWS

Issue No. 345 *Report No. 273, August 28, 1975*

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IN THIS ISSUE

Community: More Powers for European Court

As of Sept. 1, the European Court of Justice will assume additional powers to ensure the uniform application of the 1969 Convention on Jurisdiction and Enforcement of Judgments in Civil and Commercial Matters (*Common Market Reports, Par. 6003*). The Court's protocol concerning the interpretation of the Convention takes effect on that day, following the deposition of the instruments of ratification by Italy as the last of the original six signatories. The Convention itself has been in force since Feb. 1, 1973.

Although the Court already has received several cases pertaining to the Convention, it will only now be able to issue preliminary rulings on both the Convention and the protocol and thus facilitate their uniform application within the Community. Initially, this will involve only the six original member states but, eventually, the three newcomers Denmark, Ireland, and Britain as well.

It is the main principle of the Convention that a defendant, no matter what his nationality, may be sued at the court of his domicile. Despite certain built-in safeguards, the wording of the Convention does not, however, preclude possible conflicts in that national courts in different states could claim or decline jurisdiction. Thus,

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More Powers *(contd.)*

the subsequently signed protocol provides for the European Court to be the ultimate arbiter of such conflicts.

The rules governing requests for preliminary judgments by the Court are basically patterned on those set forth in Treaty Article 177: the supreme courts of the member states must ask the European Court for a preliminary ruling whenever a question relating to the interpretation of the Convention is relevant for a decision; in fact, all lower and appellate courts may request such a ruling. There is, however, one major difference: a national supreme court (or another high authority designated by the state - the justice ministry, for example) also could ask for a European Court ruling whenever decisions rendered by national courts conflict with interpretations given either by the European Court itself or by the supreme court or lower and appellate courts of another member state.

In Brief...

The European Commission has launched an investigation against four French automobile manufacturers - Renault, Peugeot, Citroen, and Chrysler-Simca - for possible infractions of EC competition rules, specifically as to whether the firms have recommended that their dealers apply fixed rebates for spare parts + + + Failure to achieve a voluntary agreement with South Korea was expected to lead to Community curbs on textile imports from that country, at least until both parties can possibly come to terms as a result of renewed negotiations beginning in September. Last month, Brussels had signed an accord with Hong Kong whereby the Crown Colony agreed to apply voluntary restraints for about 85% of its textile shipments to the EC and to limit annual growth of these exports to 6% + + + Agricultural matters will be on the agenda of three of the six Council of Ministers' meetings scheduled between September and mid-December. At the first conference, on Sept. 9, the nine governments again will try to make some headway concerning the wine market, where the stand-off between France and Italy still needs to be resolved. A reassessment of the common agricultural policy - which had been demanded by the Germans last October - will be the topic of the second meeting.

Britain: Wilson Pleads for Support of Incomes Policy

In a nationwide television appeal on Aug. 20, British Prime Minister Harold Wilson launched his government's "attack on inflation" campaign by imploring the country as a whole to accept the £6-per-week limit on wages proposed for the coming year to Aug. 1, 1976. It was obvious, however, that Wilson also wanted to deliver a distinct warning to trade union militants or others who might feel inclined to subvert the proposals: this was explicit in his call to oppose the misuse of "industrial muscle," particularly by "minorities."

Wilson's Plea *(contd.)*

The broadcast was significant, moreover, in that it represented a straightforward admission by the Premier that Britain was firmly entrenched in an unprecedented economic crisis. Wilson predicted a fall in living standards for "very many" and talked about the "shadow of unemployment" and the "most virulent trade and employment depression since the Thirties." He cited industry's failure over the past 20 years to invest in plant, machinery, and modernization and bemoaned the fact that inflation in 1975 had been aggravated "almost entirely" by internal prices and costs.

In advocating incomes controls as a solution to many of the U.K.'s current problems, Wilson chose to ignore the fact that such controls had been completely ruled out by his party before assuming power and have been rejected by many Labourites and trade unionists as being incompatible with Britain's tradition of free collective bargaining. Undaunted, the Prime Minister stressed that there would be "rough justice," that the limit on pay settlements would be observed without exception, and that "the government would not weaken" either as a direct employer or as treasurer or paymaster of public industries or services.

In conclusion, Wilson declared that there was now a consensus in industry and between industry and government and that "the country is now alert and determined" - a claim immediately questioned in various quarters and ridiculed in others. A symptom of the "understanding" between the government and the unions could be that the latter assume that they are automatically entitled to a flat raise of £6 per week over the next 12 months. The government, of course, has insisted all along that this figure would be a maximum to be reached by negotiation.

Germany: Basic OK for DM 5-Billion Aid Package

The German federal and state governments have reached basic agreement on the make-up of a DM 5-billion public procurement and investment program designed to give the domestic economy a "quick and effective" shot in the arm. Although formal cabinet approval was still pending, no major alterations were expected for the package, which includes the following elements: DM 1.2 billion in federal investments; joint federal-state expenditures of DM 1.5 billion for infrastructural measures (roads, schools, hospitals, etc.); separate state investments of DM 400 million; and another DM 400 million to stabilize the labor market. All this is to be supplemented by a joint home building program calling for an investment of DM 800 million and providing for low-interest credits out of the European Recovery Program (ERP) in the same amount. It was emphasized that the public orders involved are to be placed by the end of the year, at the latest, in order to help the depressed construction industry weather the 1975-76 winter season.

Aid Package *(contd.)*

Bonn observers were fairly certain that the Schmidt cabinet, at its scheduled Aug. 27-28 session, would give its blessing to this program but not give in to demands by business spokesmen and the Opposition for tax concessions. The economics ministers of the individual state governments are split on this issue: several of them feel that the public investment boost should be supplemented by fiscal relief in order to stimulate business investment activity and improve profitability. Proposed were the introduction of a limited loss carry-back (to cover a two-year period), another investment bonus (of 10% instead of the previous 7.5%), improved write-offs for private home builders and buyers, and the reintroduction of the deductibility of interest on private debts, which had been abolished in early '74. However, rough estimates have priced such an additional package at DM 1.2-1.5 billion annually - the prime reason for Finance Minister Hans Apel's unwillingness to accede to these demands.

The government's firm position on this subject has been more or less confirmed by the latest report of the Council of Economic Advisers (*Sachverständigenrat*), which was published on Aug. 19. The five-member Council, "the five wise men," came up with a surprisingly positive evaluation of Germany's economic prospects next year, not to rule out a GNP growth of 6% and an inflation rate of only 4-5%, providing that the expansion of public expenditure also is held to 6-7%. While this assessment earned the applause of the Schmidt administration, it drew mixed reviews from within the business community. The employers' federation disqualified it as being based on "fictitious assumptions," and others pointed out that the Council previously had been far too optimistic in its forecast for the current year.

Court Expands on Product Liability Law

The German supreme court has expanded current case law on product liability by ruling that not only the manufacturer himself but also his production managers may be held liable for defective products. In 1968, the high court had reversed the then-current practice by throwing the burden of proof into the manufacturer's lap: if a buyer could prove that his injury was caused by a defective product, he was granted damages unless the manufacturer could produce evidence that neither he nor his employees could be held responsible. In other words, if the manufacturer could prove that the defect was an exception that could occur occasionally and not be avoided despite strict controls, the buyer would be denied compensation.

The supreme court has now expanded this concept to include also production managers in high positions and with corresponding responsibilities (Judgment of June 3, 1975, Case No. VI ZR 192/73). Being closest to the production

Liability *(contd.)*

process and most qualified when it comes to obtaining the facts needed for the clarification of claims, the court declared, production managers must share the risks with their employers in adducing evidence that could prove the absence of negligence.

Switzerland: Notification Rules on Mass Dismissals

The Swiss government has issued a decree, to become effective on Sept. 1, obligating businesses to notify local or cantonal labor offices as soon as possible of any planned mass dismissals, i.e., those affecting more than 15 employees. If layoffs of that magnitude are scheduled to be effected within one month, notification must be given at least 10 days prior to the issuance of the first notice of dismissal and at least three working days prior to any public announcement. Layoffs of more than 40 employees within a three-month period require notification periods of 20 and three days, respectively. The decree further spells out the type of information employers must provide, but it also requires the labor authorities to treat the information confidentially.

Based on the cantonal implementing rules of federal unemployment and job referral legislation, the mandatory notification procedure merely permits the labor offices to engage in mediatory efforts. Acceptance of notification by the authorities does not necessarily imply official approval of planned dismissals or closures, nor does it offer public guarantees of new jobs or of state aid leading to the creation of such jobs.

Norway: Oslo to Extend 'Industrial Democracy'

The Norwegian government, in a White Paper published earlier this month, has announced its intention to extend, as of '76, the country's present system of "industrial democracy" and worker representation to all forms of economic activity, except merchant shipping involved in overseas trade. Minor exceptions also will apply to the banking and insurance sector, for which a separate study is being prepared. Still under discussion is the "difficult question" of worker representation in the central and local governments.

Norway's existing system of industrial democracy covers only joint stock companies with more than 50 employees. In these companies, a majority of the workers may request that one-third of the board of directors be elected from among their own ranks (this means a minimum of two seats on the board). A so-called "corporate assembly" is required for companies with more than 200 employees. This assembly, in which the workers hold one-third of the seats, appoints the board of directors and represents the final decision-making authority. According to the Labor government's document, some modifications will be required in order to

'Democracy' *(contd.)*

extend the system to enterprises not organized in the form of joint stock companies. For instance, special voting rules are to ensure that the worker representatives will have "full rights only in matters concerning the employees."

Sweden: Single Tax Rate Proposed for Capital Gains

As a way of simplifying capital gains taxation in Sweden, a state commission has recommended, among other things, that a flat rate of 30% be levied on sales of shares held for more than two years, according to Stockholm reports. Under current legislation, the capital gains tax rate is 100% on shares held for less than two years, 75% if held for two to three years, 50% if held for three to four years, 25% if held for four to five years, and 10% if held for five years and longer. If approved by both government and Parliament, the new tax rule will take effect as of 1977.

Portugal: Nationalization Drive Goes On; Escudo Drain

The wave of political unrest and uncertainty sweeping Portugal has not prevented the newly installed cabinet, under the leadership of Premier Vasco Gonçalves, to continue the step-by-step nationalization of private industry where the previous regime had left off. The latest major acquisition was the Companhia Uniao Fabril (CUF), the country's largest holding, which was owned by the De Melo family and accounted for about 20% of Portugal's industrial capacity. Parts of CUF already had come under state control earlier this year. Although there were assurances that the previous owners would be compensated, no decision has yet been made on the extent of compensation. CUF's interests include a one-third stake in the huge Lisnave shipyards, the complete nationalization of which should be only a matter of time now. Just prior to the announcement of the CUF takeover, the government also had assumed control over the concern's Setenave shipyards at Setubal, south of Lisbon, in addition to the beer brewing industry and several firms in the transport, shipping, and finance sectors.

The developments in Portugal meanwhile have had serious repercussions on the domestic and international confidence in the escudo, which until recently had remained a relatively stable currency. Reports from Lisbon indicated that more and more individuals were trying to take their capital out of the country. In western Europe, the trading in escudos shriveled to a minimum after the Bank of Portugal, in efforts to stop "the illegal export of capital," had asked foreign banks to take down the names and passport numbers of customers who had exchanged escudos - a request that usually was refused. On the other hand, the foreign banks were running the risk of having their current escudo accounts no longer credited: there was speculation that the Bank of Portugal would devalue the escudo and issue new

Escudô Drain *(contd.)*

bank notes. Accordingly, most banks in Switzerland and Germany, for instance, accepted only very small amounts of the Portuguese currency at steadily lower exchange rates.

According to central bank figures in Lisbon, escudo sales abroad during the first six months of this year totaled 1.6 billion, which already is more than in all of 1974.

EURO COMPANY SCENE

Reynolds

Reynolds Metals Co., Richmond, Va., and the German city-state of Hamburg finally have come to terms on the future of Reynolds' DM 700-million aluminum complex in Hamburg and that of more than 1,000 employees. Because of various legal entanglements, the plant has operated at only two-thirds of its capacity and has run up losses estimated at around DM 50 million for the past two years. The agreement provides for the purchase of Reynolds' 90% stake in the smelting operations by the City of Hamburg - which currently controls the other 10% - and the subsequent sale on Oct. 1 of the entire complex to a coalition of three concerns: state-owned Vereinigte Aluminium-Werke AG (VAW), Austria's Vereinigte Metallwerke, and Reynolds Metals Co., each to hold one-third. With a book value in excess of DM 578 million, the deal will involve the smelting plant (to be managed jointly by the three partners), the rolling mill (to remain either under Reynolds' management or that of a subsidiary), and a plant extension presently inoperable pending court resolution of environmental pollution charges.

Coming after months of deliberations, this solution avoids the problems that possible bankruptcy would have posed. On the other hand, it is costly for the City of Hamburg, which not only has to arrange for a 25-year financing plan but also subsidize interest payments that could range up to DM 37 million.

Dow Chemical

In somewhat related news, Dow Chemical Co. has now been given the go-ahead for a second chlorine plant at Stade, near Hamburg. The granting of the permit followed a decision by an administrative court that had considered possible environmental hazards. The Lüneburg court emphasized, however, that guidelines still remain to be worked out in this respect. The new Dow plant will be similar to one existing at the same location, with a daily capacity of 1,000 tons. Dow already has invested some DM 850 million in its various Stade operations since 1970 and plans to bring up the total to DM 1.5 billion by 1980.

In other developments, the coordination of research, product development, and marketing in the pharmaceuticals

Dow Chemical (contd.)

sector in Europe and the Mediterranean area is to be concentrated in the future at Dow Chemical Europe at Horgen, Switzerland. For all practical purposes, this move diminishes the status of Le Petit SpA, Milan, Italy's No. 1 drug producer (Dow owns 78% of the company's common stock and 50% of preferred stock). The action evidently takes account of certain difficulties encountered in Italy, although legally Le Petit remains the parent of Dow's entire pharmaceutical activities.

Chrysler U.K.

Chrysler U.K., which showed record losses of some £18 million in 1974, has offered its workers two seats on the board in what was regarded as a final effort to improve industrial relations within the troubled British subsidiary. Trade unionists at the company have opposed the suggestion, contending that the "national" representation would only undermine local bargaining power. As of Aug. 21, some 1,200 employees were laid off at Chrysler's Luton and Dunstable plants following strike action over pay differentials.

Idéal-Standard

The fate of Idéal-Standard France, subsidiary of American Standard, Inc., New York, remains uncertain at least until a hearing in September at which time a provisional administrator appointed by a Paris commercial court in July will submit his report. The company had asked for the appointment after the severe slump in the French construction industry forced it to cut back production to "below 45%," according to a spokesman for Ideal Standard Europe in Brussels. In France, where it has been present since 1898, Ideal Standard manufactures heating equipment (boilers, radiators) and sanitary fixtures in six plants and employs some 5,000 people. The company so far has not revealed the extent of what are said to be substantial losses in 1974 and '75 and has agreed to continue operations at reduced capacity until an acceptable solution to its current problems is found.

Capitol Food/ Gerkens/ General Cocoa

Capitol Food Industries of Chicago reportedly has arranged for the sale of its Dutch subsidiary Gerkens Cacao Industrie to Dutch distributor General Cocoa Co. Financial details have not been revealed. Gerkens operates two plants for the manufacture of cocoa butter, chocolate liqueurs, and chocolate-flavored mixes.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Court Upholds Claim for Compensation

When the European Court of Justice last May ruled that the Community must pay compensation to a French firm to make up for export losses incurred because of Common Market action, the EC tribunal not only handed down its first decision based on Treaty Article 215(2) but it also expanded on previous case law protecting the basic rights of individuals and companies. In Case No. 74/74 (Judgment of May 14, 1975), the parties were given six months within which to agree on the amount of compensation, otherwise the Court itself would determine the amount.

The action for damages had been brought by Comptoir National Technique Agricole (CNTA) - a buyer, processor, and seller of rapeseed (colza) - after the European Commission, in 1972, abruptly had revoked compensation earlier granted to seed exporters to offset widely fluctuating exchange rates. Brussels' actions had come within less than two weeks: Regulation 144/72 of Jan. 21, 1972, had raised compensation with effect from Jan. 24, but Regulation 189/72 of Jan. 26 revoked it entirely, effective Feb. 1, on the ground that changed market conditions had precluded the need for such compensation. In its subsequent suit, CNTA charged that the abolition of compensation had affect-

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Compensation *(contd.)*

ed then current contracts and caused damages of nearly FF 1 million.

In its ruling, the Court of Justice found that, for transactions irrevocably undertaken on the basis of an export license fixing in advance the amount of a refund, a trader need not expect official action re-exposing him to the exchange risk and to losses. Furthermore, the Court said that it could not detect an "overriding matter of public interest" that would have cleared the Community of any liability. Thus, it ruled that the Commission had violated a superior rule of law by failing to include in Regulation 189/72 transitional measures to protect a trader's legitimate trust in Community rules.

Nevertheless, in going back on previous case law, the Court also stated that, under Treaty Article 215(2), the Community could not be held liable for any damage suffered by individuals as a consequence of economic policy legislation unless there was a sufficiently flagrant violation of a superior rule of law protecting individuals' rights. Here, the Commission was granted considerable discretion, with the Court ruling that plaintiff had failed to establish that Brussels had exceeded its powers when revoking the compensation system. It also stated that a trader could not expect such a system to offer a guarantee against the monetary risks faced by exporters.

In Brief...

As expected, the Community's finance ministers and central bank officials presented less than a united front when they headed for the annual meeting of the International Monetary Fund in Washington. Their informal preparatory talks in Venice, Italy, brought no consensus on the exchange rate issue beyond an agreement that discussions on ways of reestablishing fixed parities should be postponed for the time being. The EC partners did draw up a common position on gold, providing for transactions of gold reserves among central banks and for gold sales on the open markets + + + After reintroducing levies on grain exports from the Community on Aug. 19, the Commission was quick to raise these levies to prevent EC surplus grain from being sold to the USSR and other East Bloc buyers at below world market prices. Brussels acted on the premise that the massive Soviet purchases sooner or later will lead to higher price levels, which should benefit EC surplus sales + + + In a report on the electric utility sector, the Commission has asked the member state governments to draw up 10-year programs on the construction of conventional and nuclear power plants in order to enable the industries involved to assess future market potential more clearly. The report also stresses the need for more intra-EC joint ventures and cooperation, stepped-up export efforts, and greater emphasis on research and development.

France: Paris Aims for Capital Gains Tax by 1977

A special study group headed by the president of the French Court of Cassation, Daniel Monguillan, has now delivered to the government its report dealing with the question of introducing a capital gains tax in France. The report is meant to lay the groundwork for government-sponsored draft legislation which is to be taken up first by the Economic and Social Council before being presented to Parliament in the spring of next year. If all goes according to schedule, the new tax will be imposed for the first time in 1977, at the earliest.

The government is purposely pursuing a gradual approach, being well aware that the subject of a capital gains tax is a touchy one in France, particularly within the finance and securities sectors. Presently, no separate capital gains tax is levied on the sale of securities and real property; in certain cases, some gains are subject to personal and corporate income tax (*Doing Business in Europe, Pars. 22,810 and 22,870*). But the administration believes - and this is wholeheartedly backed by President Giscard d'Estaing as part of his "incomes redistribution" and tax equality proposals - that the time has come for the introduction of such a tax.

Although the Monguillan Report represents only the first step toward this aim, it does offer some clues on the possible extent of future legislation. Thus, it reportedly recommends that only effective gains be taxed, i.e., net gains realized after the final completion of any securities or real property transactions. Any gains are to be calculated in real rather than nominal terms, with price inflation to be taken into account. The tax is to apply to capital gains realized from the sale or transfer of all assets, with the exception of gold and art objects.

While relatively few problems would be expected with the taxation of capital gains from securities - here, the Monguillan Commission is said to have patterned its recommendations noticeably on U.S. and British practices - the situation would be more complicated in respect of real property. The reason is that, in France, the official documentation of such sales frequently reflects only part of the agreed price as a way of avoiding the full impact of transfer duties (the difference between official and actual price being paid on a cash basis).

U.S. Investment at 4.6% of French Total

The United States continues to lead foreign investment in France, followed by the Netherlands and Switzerland. According to a recently published survey of the French Office of Statistics, which is confined to investments in excess of FF 2 million, U.S. investments account for 4.6% of the capital of all French companies; in the industrial sector, this participation reaches 9.2%. The other leading foreign investors, in that order, are Holland with 1.9%, Switzer-

Investments *(contd.)*

land with 1.2%, Germany with 1.1%, and Britain and Italy, each with less than 1%. Total foreign capital holdings in France average 12.5%, but in the industrial sector this percentage goes up to 19.4. The report pointed out that foreign investors concentrate almost exclusively on medium-sized enterprises as a result of official French policy of discouraging dominant foreign participations in key industry sectors.

Germany: Dutch Outpace U.S. Investors So Far in '75

With a count of 196, the number of newly established foreign-owned companies in Germany during the first six months of 1975 has slightly declined over that reported for the same period last year (205). More significant was the shift in the countries of origin, even though this may be merely temporary: in 1974, the United States still ranked as the No. 1 investor in terms of company establishments, preceding Great Britain, the Netherlands, and France. So far this year, the order has somewhat changed, with Holland now leading the field with 26 new companies (plus five Dutch-German joint subsidiaries), followed by the United States with 24 (plus 3), France with 20 (plus 2), and Britain with 17 (plus 7).

Within the period mentioned, Düsseldorf slightly outranked Frankfurt as the preferred location, with Munich and Hamburg in third and fourth place, respectively. For the first time, the electronics and electrical engineering sector lost its No. 1 standing among the industries represented, having been overtaken by the construction, property development, and building materials sector. The other main industry branches were machine tools, textiles, and chemicals.

Britain: ASSC Paper Favors 'Social Accounting'

A "discussion paper" released last month by the U.K.'s Accounting Standards Steering Committee ("The Corporate Report," Aug. 19, 1975) contains proposals which, if implemented, would usher in a new era of "social accounting" in Britain. In essence, the paper poses certain fundamental questions about the purposes of corporate reports and argues that a company must be viewed as having responsibilities not only to its own shareholders but, virtually, to the world at large. If the primary objective is not the maximization of shareholders' profits - and a Committee survey indicates that, surprisingly, most company chairmen take this view - then the company must provide in its report information designed to satisfy the needs of various other groups. These are defined as, for example, the "loan-creditor group," the "employee group," the "analyst-adviser group," the "business contact group," the government, and the general public.

Accounting *(contd.)*

The ASSC's controversial proposals are based on the contention that the prevalent concept of financial reporting, whereby the minimum standards of the Companies Act are adhered to and reporting is done to the companies' "owners" only, is outdated in the present age of disclosure of information. Additional statements should be furnished, including a statement of value added, an employment report, a statement of money transactions with the government, details of foreign exchange transactions, a statement commenting on the company's future prospects and, finally, a statement of corporate objectives. The document is particularly critical of the lack of employee information required under British company law and offers a possible "checklist" of data which might be included in the company report.

The discussion paper has, appropriately enough, provoked lively debate: while "technical" recommendations such as the almost-certain move to inflation accounting are not queried, the "social" ones are. The main criticisms leveled at the document are that it preempts upcoming company legislation, ignores the fact that the most convenient yardstick of a company's performance is its profitability, proposes inclusion of information of a quantity and complexity that should lead to confusion, and may endanger the company by disclosing internal forecasts. A further criticism is, of course, that the inception of such pioneering accounting methods would drive a further wedge between the U.K. accountant and his Continental counterpart at a time when the European Commission is attempting to achieve Community harmonization in this sector as well. The most outspoken critics have also pointed to a self-serving motive: as disclosure-of-information pressures continue to mount in Britain - under the Industry Bill and the Protection of Employment Bill, for example - the accounting profession is merely taking steps to protect its own bailiwick.

U.K. Invasion of Continent Slowing Down

Britain's economic troubles and the mood of uncertainty that prevailed during the European Community membership campaign appear to have combined, in the view of the London Chamber of Commerce, to reduce drastically the number of takeovers and mergers involving British companies and their Community counterparts in the first half of this year. U.K. companies bought into a modest 19 European firms in the first six months of 1975 as contrasted with 58 successful mergers or takeovers in the corresponding period of 1974, and 87 in the "boom year" 1973. Furthermore, of the 19 firms that have made a move in Europe so far this year, nearly all were major corporations already holding Continental interests and aiming for consolidation rather than expansion.

Denmark: Spending Plan to Counteract Unemployment

To prevent unemployment from worsening further this coming winter, Denmark's Social Democrat minority government has drafted the basic elements of an economic program said to provide for the extra expenditure of 5 billion kroner. The package was to be submitted to a special session of Parliament scheduled to convene on Sept. 8. Among the measures reportedly to be taken could be a temporary reduction of the 15% value-added tax. However, the main impact of the package was expected to be in the form of public works orders and investment aids. The number of unemployed, meanwhile, has risen above the 100,000 mark, equal to 7% of the national work force (for those covered by unemployment insurance, the rate was around 10%).

Earlier, on Aug. 18, the National Bank had lowered the Danish discount rate from 8 to 7.5%, with the intention of stimulating business investment and supporting the labor market. But the business community itself questioned the wisdom of the action, advancing the argument that most industry sectors were in no position to consider additional borrowing at this time. Lower interest rates for the consumer might stimulate domestic demand and thereby production, spokesmen said, but this would also accelerate imports and thus work against the country's deficit-ridden foreign trade balance.

Since the National Bank only recently had come out against another cut in the discount rate - which already had been lowered twice this year - some observers hinted that the action had been prompted by political pressures on the part of the government. On the other hand, the Bank evidently felt justified in lowering the rate by 2.5% within a half-year period because of the considerable slowdown of price expansion. Within one year, Denmark has succeeded in cutting the domestic inflation rate almost by half, to 8% in annual terms. This was accompanied by an upswing in the balance of payments: in the second quarter of 1975, the current account showed a modest surplus of 205 million kroner as compared with a 1.96-billion deficit for the same period in '74. For the first half-year period, the improvement was similarly evident, with the shortfall shrinking from more than 5 billion kroner last year to 435 million.

Italy: Industry Hopes for Next Year; New IMF Loan

The Italian business community is inclined to believe that the current recession is in the process of "bottoming out" and that the domestic economy will advance more vigorously next year. This optimistic view was reflected in the latest survey of the Confindustria, the employers' federation, which cautioned, however, that the degree of recovery would closely depend on the state of the world economy as well as on the speed with which the Italian government can imple-

Industry Hopes *(contd.)*

ment its latest 3,500 billion-lire reflationary program (it officially took effect on Aug. 19).

According to Confindustria figures, industrial production in Italy next year should regain the level of 1974, rising by 6.6% as compared with this year's projected drop of 6.4%. (Following yet another 12.5% decline in output during the first six months of 1975, industry currently operates at only 70% of full capacity.) The favorable forecast also extends to investments, which are estimated to total 10,909 billion lire for the 1975-76 period: after a projected 2.2% slump this year, they should expand by 8.7% next year. Here, the most significant gain, in relative terms, is seen for the struggling construction sector where - thanks to the upcoming public infusions - investment should turn around from an anticipated minus of 11% in 1975 to a 4.9% plus next year.

The least encouraging part of the Confindustria survey pertained to the labor market: employment in 1976 probably will remain below the levels of '74, rising by only 1.2% in contrast with the estimated 1.8% decline for the current year. At latest report, outright unemployment hovered between 1.1 and 1.2 million, not considering the large number of short-shift workers.

Italy's foreign indebtedness, meanwhile, has exceeded $13 billion, following International Monetary Fund approval last month of another oil-facility credit of 780 million in Special Drawing Rights (about $940 million). More than half of the total, $7 billion, has been borrowed mainly by the state holdings on the Eurodollar markets. The remainder is composed of European Community loans totaling $1.9 billion, an IMF standby credit of $1.2 billion, last year's IMF oil-facility credits totaling $843 million, and a German Bundesbank loan of $1.5 billion. Rome's decision to draw again on the IMF, despite the undeniable improvement of Italy's payments position, should be viewed as a refinancing move: the IMF terms have been relaxed to a point where some of the oil-facility funds can be used to pay off the German loan, for which Italy had to pledge its gold reserves as a collateral.

EURO COMPANY SCENE

Enka/ McKinsey

In what was interpreted as a victory for the International Chemical Workers' Federation (ICF), the management of Enka-Glanzstoff - synthetic-fiber production subsidiary of Holland's Akzo NV industrial group - has reluctantly agreed to conduct talks about rationalization measures on a multinational level. In upcoming meetings with union representatives from the Netherlands, Belgium, and Germany, the company was expected to use a study by U.S. management con-

Enka/ McKinsey *(contd.)*

sultants McKinsey & Co. as a basis for a program aimed at reducing fiber capacities and effecting other reorganizations. The slumping sales of Enka-Glanzstoff are solely blamed for Akzo's net loss of some 107 million guilders in the first half of 1975 compared with a 201-million net profit for the same period in '74. The McKinsey report forecast total losses of about 180 million guilders for Akzo this year. Enka employs some 11,000 workers in Holland and another 19,000 in Belgium and Germany, many of which would stand to lose their jobs as a result of the proposed rationalization measures. The unions already have attacked the McKinsey report as lacking "vital information."

Dow Chemical

The general economic climate in Europe and "other commitments" on the part of the company's technical staff were given as the official reason for the decision by Dow Chemical Co. not to go ahead with a large petrochemical complex near Bordeaux, France. Dow had envisaged a total investment of some $400 million over the next five years for the proposed steam cracker/chlorine production plant. The company insists, though, that the project had been shelved rather than cancelled. Inevitably, there was speculation in France that the "real" reasons for the postponement were the company's disenchantment with administrative delays and an unusually effective lobby by local environmentalists in opposition to the plans.

In Spain, meanwhile, the government has authorized a joint project of Dow Química Ibérica and Cepsa to construct an ethylene production plant with an annual capacity of 470,000 tons. The complex is scheduled to go on stream at Huelva in 1979.

Alusuisse/ Heyward-Robinson

Schweizerische Aluminium AG (Alusuisse), Zurich/Chippis, has announced its takeover of Heyward-Robinson Co., Inc., New York. The U.S. process engineering company, employing some 250, is a specialist for the planning and construction of chemical production systems. It will now become part of the services division of Alusuisse, while retaining managerial control of its operation.

Hertz

Due to increased automobile operating costs resulting in a slackening in car rentals by tourists and businessmen, the Hertz Corp., subsidiary of RCA Corp., New York, will close 17 of its 52 West German branches. Hertz will, however, continue to serve "major" locations and airports, according to a spokesman for RCA International Ltd., London.

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The idea for a European export bank is supported by the arguments that 1) such an institution would improve the chances of medium-sized firms to export to non-EC countries and 2) it would provide a counterweight to the export aid systems operating in the United States and Japan. Currently, American and Japanese firms competing with EC-based companies and consortiums on foreign markets are enjoying a major advantage in that the export credits they receive are denominated in their national currencies. On the other hand, when companies from different EC member states join

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Commission officials see no contradiction in the efforts toward establishment of the EEB and the current negotiations among the Community, Canada, the United States, and Japan on a gentlemen's agreement on export credits. These talks have bogged down over disagreements on interest rates, but even a successful conclusion of the negotiations would not eliminate the advantaged position of the United States and Japan when it comes to the denomination of export credits.

France: FF 30-Billion Spending Burst for Economy

With the most ambitious spending program of all European countries, providing for expenditure of FF 30.8 billion, the French government intends to overcome large-scale unemployment and get the domestic economy moving again. As outlined by President Giscard d'Estaing on Sept. 4, the package comprises four major parts:

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The financing of the "Giscard Plan," the shrinkage of tax revenue as a result of the lingering recession, and the postponement of tax payments will now combine to create a FF 50-billion deficit for the 1975 Budget, which initially had been in balance.

Germany: Austerity Plan To Cut Down on Huge Deficits

Confronted by an unprecedented federal deficit of DM 40.9 billion, which has been rapidly accumulating as a result of both costly reform legislation and Germany's longest post-war recession, the Bonn government has taken steps to nurse the public finances slowly back to health. On Aug. 29, the Schmidt administration agreed on an "austerity program" in the form of a supplemental Budget of DM 15.1 billion for the current year and a Finance Plan for the 1976-79 period. The 1976 Budget, on the basis of this plan, is to expand by 4.1% to DM 168.1 billion on the premise that the hoped-for economic upturn will spur a GNP growth of nearly 5% in real terms. Still, the government will be forced to finance almost DM 39 billion on the capital markets next year - an undertaking that might prove difficult in the event of an actual economic recovery, when private industry will be competing for funds to finance its own investments. By 1979, the federal deficits are to be trimmed to DM 11.4 billion.

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While Finance Minister Hans Apel referred to the "excellent results" of the internal financial talks, Opposition spokesmen talked of a "program of higher taxes and duties" with which the government expects to correct its previous "financial mismanagement." The German employers' federation voiced regrets that Bonn had chosen to add to the tax and cost burden of businesses rather than provide relief - the increase of the unemployment insurance contributions alone should add up to more than DM 2 billion annu-

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ally. More criticism came from the trade union federation DGB, which charged that the measures will "unilaterally affect the employees."

Italy: Export Aids; New Threats of Labor Strife

Pressured by both the business community and the trade unions to implement as quickly as possible the 3,500 billion-lire reflationary program announced early last month, the Italian authorities have now made available an extra 1,000 billion lire for export financing and have lowered the interest rate for export credits. Under the stewardship of Paolo Baffi, the new governor of the Bank of Italy, the Export Credit Guarantee Committee authorized the additional funds to minimize exporters' risks involving currency losses and the possibility of insolvency on the part of their foreign clients. Of the 1,000-billion total, 540 billion will apply to signed, but still-to-be-transacted export deals so far only partially covered by risk guarantees. Another 390 billion will be set aside for newly negotiated exports, while still another 60 billion is to be reserved for future deals. At the same time, the Exchange Office lowered from 12.5 to 8.5% the interest rate for three-month export credits for transactions taking place within the last four months of this year. This means an effective rate of about 10.5%, since this form of subsidized financing is available for 50% of export value only. It was hoped that the combined effect of these aids will help push up exports by at least 20%.

Meanwhile, Italian industry is bracing for the upcoming collective bargaining talks involving some 4.2 million workers in industry, transport, and agriculture. There are indications that the Communist-led unions - mindful of the effect that further plant closures and mass dismissals would have on employment - will subordinate the issue of higher pay to that of job protection. (Tensions already built up on the first official workday following the traditional August vacations, when more than 10,000 workers heeded union instructions and turned up at the Alfa Romeo plants at Milan and Arese although company management had declared an extra week of enforced vacations.) The unions, too, know that renewed demands for massive pay increases would be certain to threaten the viability of many smaller and medium-sized companies. The latest estimates for 1975 already put labor cost increases at 23.7% per employee and at 26% per workhour. The latter percentage does not even take into account the extraordinarily high rate of *assenteismo*, which still remains at a 15% national average. For example, on the first workday in September, 16 out of 100 workers failed to show up at Fiat's main plants in Turin, while Fiat operations elsewhere reported absentee rates of between 7 and 29%.

Denmark: Crisis Plan Provides for Major VAT Cut

The Danish minority government under Social Democrat Anker Jörgensen this week launched negotiations with the leading non-socialist parties in attempts to find a parliamentary majority for its anti-unemployment program. The first phase of the two-stage plan would include a six-month reduction of the standard value-added tax rate from 15 to 9.25%, probably with effect from Sept. 29. However, in order not to aggravate the foreign trade deficit, the reduction would not apply to automobile and motorcycle imports (Denmark has no automotive production of its own). It is also planned to drop the compulsory savings program for higher-income groups, which had been imposed last fall, and to repay 1 billion kroner in accumulated savings. Finally, the administration intends to set aside additional expenditure of 700 million kroner for public works investments within the current fiscal year (ending on March 31, 1976) and a further 700 million to encourage private investment in industry and the export sector. As part of the second phase, Copenhagen would attempt to trim 2 billion kroner in public expenditure over a three-year period, with the aim of maintaining economic performance at a higher level after the recovery sets in.

Altogether, the program would cost the treasury approximately 4 billion kroner, an amount that the government believes should lead to the creation of some 50,000 additional jobs. However, independent economic experts are convinced that, at best, only 30,000 new jobs will result, pointing to the ineffectiveness of previous employment measures.

Netherlands: Higher Taxes Due for '76, Reports Say

In step with the majority of the European Community partners, the Dutch government will reveal its own economic support program on Sept. 16, according to a cabinet decision. It was speculated in The Hague that the package will cost around 3 billion guilders. Unconfirmed reports said that businesses will be given a further incentive in the form of a 1% reduction of the corporate tax rate. On the other hand, it was thought likely that the 16% value-added tax would be brought up by two points and that this VAT bracket would be extended to additional product categories. With the exception of those with the lowest incomes, individual taxpayers probably can expect a 1% income tax boost, it was reported. Further tax increases were said to be considered on automobiles, insurance, heating fuels (including natural gas), and alcoholic beverages.

The new fiscal measures, if carried out, would follow the income tax reductions that took effect on April 1 and were to have improved consumer purchasing power by some 840 million guilders within this year. But the anticipated boost of domestic demand so far has failed to materialize,

Higher Taxes *(contd.)*

one reason being that much of the money has gone into private savings rather than being spent at retail level. (Within the first quarter of 1975, for instance, savings were 1.1 billion guilders higher than for the comparable 1974 period.) The sluggishness of the economy also has been marked by a further acceleration of unemployment (to 224,500 or 5.5%, seasonally adjusted), idle industrial capacities, and a shrinking of tax revenue. The situation is not being helped by the fact that the full impact of various stimulative measures decreed earlier this year - in the form of tax incentives for businesses, investment aids, and higher public expenditure - will not be felt until a few months from now.

Britain: No Ban Seen on Aerosols, PVC Plastics

The U.K.'s Ministry of Agriculture has no intention, for the present, of following the U.S. Food and Drug Administration's recent ban on certain forms of PVC plastics used in food packaging. The U.S. ban on rigid PVC containers, such as salad oil bottles, was imposed by the FDA when it was established that employees exposed during the manufacturing process to high concentrations of vinyl chloride monomer (from which PVC is made) could contract a rare form of liver cancer. This gave rise to fears that VCM could conceivably contaminate PVC-packaged food. The British attitude, expressed by the Food Additive and Contaminants Committee, an independent body of experts reporting at ministerial level, is that there is insufficient proof that PVC packaging for food constitutes a major health hazard. Equally detached is the U.K. position on another recent U.S. development which could lead to a ban of certain aerosol sprays. The Dept. of Health is aware, of course, of American reports that fluorinated hydrocarbon propellants used in certain sprays, notably deodorants, may be damaging the ozone layer and may be causing a higher incidence of skin cancer. The official position is that this has not yet been conclusively established, that - even if true - the effect may be exaggerated, and that the incidence of skin cancer may increase only imperceptibly, if at all. Newspaper reports have tended to be alarmist, however, and the general public has reacted similarly: virtually overnight, all aerosols, especially deodorants, are viewed as potential causes of cancer.

British aerosol manufacturers are understandably concerned at this development, but so far none has announced - as did the United States' Johnson Wax - that it will remove the suspect propellant from production lines "during the period of uncertainty and scientific inquiry." Johnson's U.K. subsidiary is planning to implement the parent company's "aggressive reformulation of product ingredients," but there is little doubt that this will be in the inter-

Aerosols *(contd.)*

ests of commercial prudence rather than out of a conviction that the products are seriously injurious to health.

Greece: Athens to Issue Five-Year Economic Plan

A five-year economic development plan offering a compromise between "necessity and freedom" has been outlined by Greek Prime Minister Constantine Caramanlis at the opening of the Salonika Trade Fair. The plan for the years 1976-80 would provide for a buildup and realignment of export industries and for the import of capital, technology, and modern management methods as a means of reducing the country's chronic foreign trade deficit. The government also will promote the step-by-step redistribution of national income on "regional and social" levels and strive for the improvement of the education and training systems.

In reference to the country's economic situation, the Prime Minister gave assurances that the Greek economy is "under the control of the legitimate government and, most of all, under the control of reason." Caramanlis said that, following an inflation rate of 30% in 1973 and a similarly high rate in '74, his administration has since succeeded in reducing inflation to about half that during the first six months of this year. In fact, the 1.2% rise of the consumer price index from April through July was one of the lowest anywhere, he said.

In other developments, a Greek government commission has approved draft legislation on the revision of contracts pertaining to private investments in the country and concluded with the state during the eight-year period of the colonels' regime. The law would authorize Athens to invalidate or renegotiate contract terms that the government believes work against the national interest. The bill requires the authorities to notify companies or investors involved within three months following passage of the law; thereafter, the law would lapse. Unofficial reports from Athens said that Switzerland's Nestlé and Austria's Steyr are among the foreign investors already engaged in contract renegotiations with the government.

EURO COMPANY SCENE

U.S. Banks in London

Rumors continue to circulate in London that as many as half a dozen U.S. banks in the city - out of nearly 100 - have done virtually no new business this year. While the reports of their "imminent demise" in terms of their U.K. presence may be greatly exaggerated, it is uncontested that a number of American banks have had to resort to "rationalization" in recent months. In some cases, this was done by restricting the range of services offered, notably by withdrawing from the flagging Eurobond market. Other banks, U.S. Banks *(contd.)*

hit by soaring office costs, have moved out of the City proper, in a couple of instances "integrating" their City representations into their West End branches.

Part of the trouble has been the fall in Euromarket activity subsequent to the removal of interest equalization tax and a movement of that sector back to the United States. Other institutions have suffered from the collapse of the U.K. real estate boom or have overextended themselves in the ship financing sector. As the British recession continues to deepen, several banks have admitted that they are at least considering a pullout. So far, however, the First National Bank of Miami is the only institution to have closed up shop in Britain.

Northrop

Following years of evaluation, the Swiss government has selected Northrop Corp.'s F-5 Tiger fighter as the main replacement aircraft for its air force - a decision that definitely eliminates such other former contenders as the U.S. Phantom, the French Mirage, and Britain's Harrier. The cabinet will ask Parliament to okay a SF 1.17-billion credit for the purchase of 72 F-5s, with a possible subsequent allotment of SF 150 million as an inflation allowance. Parliament is expected to take up the matter early next year. The aircraft is scheduled for delivery between early 1979 and the spring of '81, providing a firm order placed by April 1, 1976. According to the Swiss-American agreement, 53 of the 72 planes will be assembled at Switzerland's Emmen plant. In addition, Bern was successful in negotiating a clause guaranteeing Swiss industry reciprocal U.S. orders valued at a minimum 30% of the aircraft purchase.

Danzas/ Alltransport

The Swiss transport and forwarding firm Danzas AG of Basel has acquired a majority shareholding in U.S. freight forwarders Alltransport, Inc., New York. For Danzas - already active in Europe, Central and South America, South Africa, and the Middle East - the acquisition is a major step forward in its overseas expansion efforts. Financial details were not released.

Pan Am/ British Airways

As of Sept. 1, Pan American and British Airways, the airlines which - together with Air France - serve West Berlin from West Germany, have transferred their operations from the city's Tempelhof Airport downtown to the new Tegel Airport, on the northern fringe of West Berlin. At the same time, Tempelhof virtually ceased its civilian air operations of more than 50 years, which were climaxed by the monumental "Operation Vittles" airlift of the Western allies during the city's 1948-49 blockade by the Soviets. The airport will continue to be used by the U.S. Air Force as a supply and training base and by civilian traffic as a supplemental airfield.

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Italy: Export Aids; New Threats of Labor Strife

Pressured by both the business community and the trade unions to implement as quickly as possible the 3,500 billion-lire reflationary program announced early last month, the Italian authorities have now made available an extra 1,000 billion lire for export financing and have lowered the interest rate for export credits. Under the stewardship of Paolo Baffi, the new governor of the Bank of Italy, the Export Credit Guarantee Committee authorized the additional funds to minimize exporters' risks involving currency losses and the possibility of insolvency on the part of their foreign clients. Of the 1,000-billion total, 540 billion will apply to signed, but still-to-be-transacted export deals so far only partially covered by risk guarantees. Another 390 billion will be set aside for newly negotiated exports, while still another 60 billion is to be reserved for future deals. At the same time, the Exchange Office lowered from 12.5 to 8.5% the interest rate for three-month export credits for transactions taking place within the last four months of this year. This means an effective rate of about 10.5%, since this form of subsidized financing is available for 50% of export value only. It was hoped that the combined effect of these aids will help push up exports by at least 20%.

Meanwhile, Italian industry is bracing for the upcoming collective bargaining talks involving some 4.2 million workers in industry, transport, and agriculture. There are indications that the Communist-led unions - mindful of the effect that further plant closures and mass dismissals would have on employment - will subordinate the issue of higher pay to that of job protection. (Tensions already built up on the first official workday following the traditional August vacations, when more than 10,000 workers heeded union instructions and turned up at the Alfa Romeo plants at Milan and Arese although company management had declared an extra week of enforced vacations.) The unions, too, know that renewed demands for massive pay increases would be certain to threaten the viability of many smaller and medium-sized companies. The latest estimates for 1975 already put labor cost increases at 23.7% per employee and at 26% per workhour. The latter percentage does not even take into account the extraordinarily high rate of *assenteismo*, which still remains at a 15% national average. For example, on the first workday in September, 16 out of 100 workers failed to show up at Fiat's main plants in Turin, while Fiat operations elsewhere reported absentee rates of between 7 and 29%.

Denmark: Crisis Plan Provides for Major VAT Cut

The Danish minority government under Social Democrat Anker Jörgensen this week launched negotiations with the leading non-socialist parties in attempts to find a parliamentary majority for its anti-unemployment program. The first phase of the two-stage plan would include a six-month reduction of the standard value-added tax rate from 15 to 9.25%, probably with effect from Sept. 29. However, in order not to aggravate the foreign trade deficit, the reduction would not apply to automobile and motorcycle imports (Denmark has no automotive production of its own). It is also planned to drop the compulsory savings program for higher-income groups, which had been imposed last fall, and to repay 1 billion kroner in accumulated savings. Finally, the administration intends to set aside additional expenditure of 700 million kroner for public works investments within the current fiscal year (ending on March 31, 1976) and a further 700 million to encourage private investment in industry and the export sector. As part of the second phase, Copenhagen would attempt to trim 2 billion kroner in public expenditure over a three-year period, with the aim of maintaining economic performance at a higher level after the recovery sets in.

Altogether, the program would cost the treasury approximately 4 billion kroner, an amount that the government believes should lead to the creation of some 50,000 additional jobs. However, independent economic experts are convinced that, at best, only 30,000 new jobs will result, pointing to the ineffectiveness of previous employment measures.

Netherlands: Higher Taxes Due for '76, Reports Say

In step with the majority of the European Community partners, the Dutch government will reveal its own economic support program on Sept. 16, according to a cabinet decision. It was speculated in The Hague that the package will cost around 3 billion guilders. Unconfirmed reports said that businesses will be given a further incentive in the form of a 1% reduction of the corporate tax rate. On the other hand, it was thought likely that the 16% value-added tax would be brought up by two points and that this VAT bracket would be extended to additional product categories. With the exception of those with the lowest incomes, individual taxpayers probably can expect a 1% income tax boost, it was reported. Further tax increases were said to be considered on automobiles, insurance, heating fuels (including natural gas), and alcoholic beverages.

The new fiscal measures, if carried out, would follow the income tax reductions that took effect on April 1 and were to have improved consumer purchasing power by some 840 million guilders within this year. But the anticipated boost of domestic demand so far has failed to materialize, Higher Taxes *(contd.)*

one reason being that much of the money has gone into private savings rather than being spent at retail level. (Within the first quarter of 1975, for instance, savings were 1.1 billion guilders higher than for the comparable 1974 period.) The sluggishness of the economy also has been marked by a further acceleration of unemployment (to 224,500 or 5.5%, seasonally adjusted), idle industrial capacities, and a shrinking of tax revenue. The situation is not being helped by the fact that the full impact of various stimulative measures decreed earlier this year - in the form of tax incentives for businesses, investment aids, and higher public expenditure - will not be felt until a few months from now.

Britain: No Ban Seen on Aerosols, PVC Plastics

The U.K.'s Ministry of Agriculture has no intention, for the present, of following the U.S. Food and Drug Administration's recent ban on certain forms of PVC plastics used in food packaging. The U.S. ban on rigid PVC containers, such as salad oil bottles, was imposed by the FDA when it was established that employees exposed during the manufacturing process to high concentrations of vinyl chloride monomer (from which PVC is made) could contract a rare form of liver cancer. This gave rise to fears that VCM could conceivably contaminate PVC-packaged food. The British attitude, expressed by the Food Additive and Contaminants Committee, an independent body of experts reporting at ministerial level, is that there is insufficient proof that PVC packaging for food constitutes a major health hazard. Equally detached is the U.K. position on another recent U.S. development which could lead to a ban of certain aerosol sprays. The Dept. of Health is aware, of course, of American reports that fluorinated hydrocarbon propellants used in certain sprays, notably deodorants, may be damaging the ozone layer and may be causing a higher incidence of skin cancer. The official position is that this has not yet been conclusively established, that - even if true - the effect may be exaggerated, and that the incidence of skin cancer may increase only imperceptibly, if at all. Newspaper reports have tended to be alarmist, however, and the general public has reacted similarly: virtually overnight, all aerosols, especially deodorants, are viewed as potential causes of cancer.

British aerosol manufacturers are understandably concerned at this development, but so far none has announced - as did the United States' Johnson Wax - that it will remove the suspect propellant from production lines "during the period of uncertainty and scientific inquiry." Johnson's U.K. subsidiary is planning to implement the parent company's "aggressive reformulation of product ingredients," but there is little doubt that this will be in the inter-

Aerosols *(contd.)*

ests of commercial prudence rather than out of a conviction that the products are seriously injurious to health.

Greece: Athens to Issue Five-Year Economic Plan

A five-year economic development plan offering a compromise between "necessity and freedom" has been outlined by Greek Prime Minister Constantine Caramanlis at the opening of the Salonika Trade Fair. The plan for the years 1976-80 would provide for a buildup and realignment of export industries and for the import of capital, technology, and modern management methods as a means of reducing the country's chronic foreign trade deficit. The government also will promote the step-by-step redistribution of national income on "regional and social" levels and strive for the improvement of the education and training systems.

In reference to the country's economic situation, the Prime Minister gave assurances that the Greek economy is "under the control of the legitimate government and, most of all, under the control of reason." Caramanlis said that, following an inflation rate of 30% in 1973 and a similarly high rate in '74, his administration has since succeeded in reducing inflation to about half that during the first six months of this year. In fact, the 1.2% rise of the consumer price index from April through July was one of the lowest anywhere, he said.

In other developments, a Greek government commission has approved draft legislation on the revision of contracts pertaining to private investments in the country and concluded with the state during the eight-year period of the colonels' regime. The law would authorize Athens to invalidate or renegotiate contract terms that the government believes work against the national interest. The bill requires the authorities to notify companies or investors involved within three months following passage of the law; thereafter, the law would lapse. Unofficial reports from Athens said that Switzerland's Nestlé and Austria's Steyr are among the foreign investors already engaged in contract renegotiations with the government.

EURO COMPANY SCENE

U.S. Banks in London

Rumors continue to circulate in London that as many as half a dozen U.S. banks in the city - out of nearly 100 - have done virtually no new business this year. While the reports of their "imminent demise" in terms of their U.K. presence may be greatly exaggerated, it is uncontested that a number of American banks have had to resort to "rationalization" in recent months. In some cases, this was done by restricting the range of services offered, notably by withdrawing from the flagging Eurobond market. Other banks, U.S. Banks *(contd.)*

hit by soaring office costs, have moved out of the City proper, in a couple of instances "integrating" their City representations into their West End branches.

Part of the trouble has been the fall in Euromarket activity subsequent to the removal of interest equalization tax and a movement of that sector back to the United States. Other institutions have suffered from the collapse of the U.K. real estate boom or have overextended themselves in the ship financing sector. As the British recession continues to deepen, several banks have admitted that they are at least considering a pullout. So far, however, the First National Bank of Miami is the only institution to have closed up shop in Britain.

Northrop

Following years of evaluation, the Swiss government has selected Northrop Corp.'s F-5 Tiger fighter as the main replacement aircraft for its air force - a decision that definitely eliminates such other former contenders as the U.S. Phantom, the French Mirage, and Britain's Harrier. The cabinet will ask Parliament to okay a SF 1.17-billion credit for the purchase of 72 F-5s, with a possible subsequent allotment of SF 150 million as an inflation allowance. Parliament is expected to take up the matter early next year. The aircraft is scheduled for delivery between early 1979 and the spring of '81, providing a firm order placed by April 1, 1976. According to the Swiss-American agreement, 53 of the 72 planes will be assembled at Switzerland's Emmen plant. In addition, Bern was successful in negotiating a clause guaranteeing Swiss industry reciprocal U.S. orders valued at a minimum 30% of the aircraft purchase.

Danzas/ Alltransport

The Swiss transport and forwarding firm Danzas AG of Basel has acquired a majority shareholding in U.S. freight forwarders Alltransport, Inc., New York. For Danzas - already active in Europe, Central and South America, South Africa, and the Middle East - the acquisition is a major step forward in its overseas expansion efforts. Financial details were not released.

Pan Am/ British Airways

As of Sept. 1, Pan American and British Airways, the airlines which - together with Air France - serve West Berlin from West Germany, have transferred their operations from the city's Tempelhof Airport downtown to the new Tegel Airport, on the northern fringe of West Berlin. At the same time, Tempelhof virtually ceased its civilian air operations of more than 50 years, which were climaxed by the monumental "Operation Vittles" airlift of the Western allies during the city's 1948-49 blockade by the Soviets. The airport will continue to be used by the U.S. Air Force as a supply and training base and by civilian traffic as a supplemental airfield.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Accounting for the High Costs of CAP

The European Commission has gone to great lengths to repudiate the widespread notion that it is wasting taxpayers' money in administering the common agricultural policy (CAP). In its fourth financial report concerning the Agricultural Guidance and Guarantee Fund (EAGGF), which lists expenditures of $4.3 billion in 1974, the Commission makes the point that two-thirds of public expenditures for agriculture are allocated in national budgets and are paid for by the respective governments.

Although expenditures of the Community's agricultural budget have doubled from 1971 to 1974 ($2.1 to 4.3 billion), the Commission emphasizes that it was able to spend less than originally allocated. This was especially true in the cereal and milk products sectors, where high world market prices made it possible to reduce premiums paid to exporters, thus saving $200 million. However, savings in this area were more than wiped out by substantially higher appropriations in order to deal with the beef and veal surpluses. Here, the sudden changes on the world market and within the EEC necessitated numerous measures such as higher refunds, massive intervention buying, the introduction of orderly marketing premiums and consumer subsidies, all of which cost the Community an additional $321 million.

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CAP Costs *(contd.)*

Against the $4 billion spent on price support systems for various agricultural commodities, the expenditures for modernization of farms and special aids to hill farmers look rather modest ($325 million in '74).

Still, Brussels will find it hard to repudiate criticism of its handling of farm funds provided for in the Community budget and financed by the member states - for example, the 410,000-ton butter deal with the Soviet Union that alone cost taxpayers $300 million. Other complaints concern the alleged failure to do enough for the prevention of farm subsidy scandals. On this subject, the Commission reports that - as a result of improved cooperation with member state authorities - 96 cases of fraud were discovered, half of which were settled by way of repayments. However, with less than $500,000 recovered so far out of a total loss of $3.8 million, Brussels again has called for additional measures to combat fraud by improving the system of mutual and immediate exchange of information. The Commission deplores the fact that the national authorities have been so slow in conveying information on alleged fraud cases that, by the time investigations are launched, the perpetrators may have taken steps to make successful recovery difficult, if not impossible.

The EAGGF report will be discussed by the national finance ministers at their regular meeting later this month.

In Brief...

Commission and national government officials discussing a first draft directive to harmonize member states' rules on unfair competition are making sufficient progress to turn the document into an official proposal, possibly by the end of the year. The draft borrows heavily from German rules, considered the toughest by international standards, which means that France and the U.K. apparently have relented in their resistance + + + Lawyers of the Commission's antitrust division and the Swiss government remain as divided as ever over the interpretation of Article 23 of the EEC-Swiss free trade agreement, which declares cartels and abuse of a market-dominating position "incompatible with the functioning of the agreement." The disagreement has arisen in connection with the case of a former executive of Hoffman-La Roche who gave the Commission information on the Swiss company's marketing practices involving vitamins. Swiss authorities had arrested the man as he reentered the country, later releasing him on bond. Brussels maintains that the pending trial will violate the spirit of Article 23; Bern disagrees, saying that this interpretation goes much too far + + + Finalization of the accession of the EC's three newcomer members to the Convention on Jurisdiction and Recognition of Judgments in Civil and Commercial Matters is expected by the end of November.

France: Business Lauds 'Coherence' of Aid Measures

Following the announcement of France's most ambitious economic support program since the war, the question was whether the bundled incentives will really be what it takes to prod the French economy out of its prolonged slump. For once, the business community was virtually unanimous in its opinion that the FF 30.6-billion package does indeed prepare the ground for an eventual recovery. The Patronat Français, the employers' federation, described the measures as "significant and coherent" and said that they would give industry "opportunities to act and reasons for hope."

The government expects that the six-month moratorium on corporation tax payments will improve business liquidity, albeit temporarily, by some FF 10 billion, and it was hoped that this would "provoke" investments of twice that amount. In addition, businesses will benefit in the equivalent of FF 2.8 billion from an extension of a tax break that dates back to May 1975 and allows companies to deduct 10% of their value-added tax debts on the purchase of capital goods. So far, however, this rule covered only purchases of goods with an eight-year depreciation period, a limit that has now been removed.

Aside from the Communist-led trade unions and the left-wing parties, which had downgraded the "Giscard Plan" even before it was made public, there were a number of critics who wondered whether the sheer size of the government's program in itself would guarantee a speedy economic upturn. Specifically, they questioned industry's readiness both to invest and to commit itself to new hiring. It was reasoned that businesses would first want to return to normal schedules by eliminating short-time work and by stepping up production. This possibility evidently has been taken into account by the government, which has set aside no less than FF 13.1 billion for immediate public investments that are to fill the breach left by private investments.

As concerns the stimulation of private demand and consumption, the Giscard Plan has been extremely selective: FF 3.4 billion will be spent on one-time bonuses to families and another 1.6 billion will provide pension bonuses to 2.3 million retired and handicapped persons. Also eased were rules governing downpayments and credit periods of consumer installment purchases.

Altogether, the Paris administration, since last April, has set aside a total of FF 50 billion to revive economic performance - a sum equal to 3.5% of GNP and unmatched by any of France's European neighbors. For even greater effectiveness, minimum reserve requirements were lowered from 11% to 2% and the discount rate by 1.5 points to 8%, the latter being the largest single reduction in 30 years. It remained to be seen, though, to what extent

Aid Measures *(contd.)*

commercial interest rates would respond; until recently, they were still fairly high.

Britain: Study Proposes 'Current Cost' Accounting

The committee set up by the U.K. government in 1973 to analyze the economic and political implications of inflation accounting has now delivered a report which, if its implementation is sanctioned, will result in the demise of traditional British financial reporting in the already much-maligned form of "historic costs." The Sandilands Report, named after the committee's chairman, Francis Sandilands, proposes a radically new system of inflation accounting based on current costs. The radicalism of the proposals lies in the fact that the "current cost accounting" approach would constitute an attempt to demonstrate the "specific" effects of inflation on a "specific" company.

The report thus is diametrically opposed to the Accounting Standards Steering Committee recommendation of a "current purchasing power" system, whereby historic cost accounts would be adjusted by reference to a general index of purchasing power. This, says Sandilands, is unsatisfactory: such a system errs in assuming an "across-the-board" inflationary effect and merely perpetuates the classic inadequacies of the historic cost approach which permits swollen paper profits in periods of inflation and does not clearly establish the extent to which, for example, plant replacement costs must be provided for in the form of depreciation allowances.

Instead, the Sandilands Report suggests that balance sheets should present assets and liabilities at "their value to the business," i.e., they should indicate the loss the company would take if it were deprived of a particular asset. To European ears, admittedly, this does not sound all that revolutionary in that it bears a marked resemblance not only to widely used internal management procedures but also, for example, to the current replacement cost procedures followed in the Netherlands.

The U.K. report goes further, however, by postulating that "the value to the business" may be viewed as net realizable value or "economic value," defined as the present value of the future income the asset is expected to produce. Profit, therefore, would be assessed by setting off against sales the "value to the business of the assets consumed in generating those sales." The company thus would include the replacement cost of stock in the cost of its sales and charge depreciation on the replacement cost of the fixed asset. This, obviously, has the effect of excluding from "profit" such items as stock appreciation.

The main plus claimed by Sandilands is that implementation of the report's proposals - which are not without

Accounting *(contd.)*

political overtones in the areas of price control and mergers and takeovers - will reflect a company's performance more accurately and make its comparative performance more readily understood by the public at large. What is more, such a system would inevitably distinguish between "gratuitous profit" (such as from real estate held during a property boom) and profit generated through sheer managerial expertise.

Germany: High-Court Appointments and EC Law

Later this month both houses of the German parliament will be called upon to elect six justices to the Federal Constitutional Court. This election is significant in many respects because the 16-member court - the country's highest tribunal and superior to the five federal supreme courts - has contributed a great deal to Germany's political and legal system. Possibly its greatest contribution has been in safeguarding the rights of individuals and businesses against unwarranted incursions by the government.

It was this concern for the preservation of these freedoms that prompted the court last year to render a much-criticized decision pertaining to EC law. In a 5-to-3 ruling, the court reserved for itself the power to examine the "legality" of Community law so long as the European integration process failed to produce a catalog of fundamental rights equal to those contained in the German constitution (*Common Market Reports, Par. 9689*). This ruling put Bonn into an awkward position because it was clearly contrary to prevailing legal doctrine. Yet, under the constitutional setup providing for a separation of powers, the federal government has no way of influencing the court's decision. In recognition of this situation, the European Commission thus chose to send a letter deploring the ruling rather than start proceedings under Treaty Article 169.

With the election of six new justices upcoming, there is now speculation in Bonn on whether the government might seize on the opportunity to nominate only jurists who would probably toe a "friendly" EC line. However, "packing the court" never has been publicly suggested by anyone, nor have the current negotiations between the government coalition parties and the Opposition revealed great concern over this issue. Since any candidate requires a two-thirds majority to be elected, the government needs the Opposition's support and vice-versa. Chances are that the governing Social Democrats will not repeat previous practice of nominating candidates on the basis of party membership rather than judicial distinction. The opposition Christian Democrats, on the other hand - committed to several state organizations of their party - already have nominated three civil servants who are virtually unknown outside their home

Appointments *(contd.)*

states, a choice over which legal observers have expressed some apprehension.

Denmark: Parties Reach Compromise on Economic Plan

Denmark's Social Democrat minority government and four non-socialist Opposition parties on Sept. 8 reached a compromise on an immediate economic program, thus averting a political crisis that could have led to new general elections. The agreement, backed by 122 out of 179 members of Parliament, became possible after the opposition Liberals extracted a promise from the Anker Jörgensen administration to keep price and wage inflation in line during the next few years and thereby contain the cost burden on businesses.

As previously reported, the 15% value-added tax rate will be temporarily reduced to 9.25% as of Sept. 29, but this reduction will be in effect only for five months instead of six. The lower rate will not apply to automobiles and gasoline. Also, public investment aids for the sagging economy will total some 1.6 billion kroner, more than double the amount originally foreseen by the government. Businesses will be able to take advantage of additional write-offs and other incentives worth about 1 billion kroner. Furthermore, in order to get a grip on unemployment, the state and the communities will follow up with public work orders totaling 630 million. Compulsory savings accumulated last year in blocked accounts will be released.

The parliamentary compromise on which the entire package is based followed a more or less firm pledge by the unions to exercise wage restraint once the current extended contract period expires. In return, the unions won assurances that the collective bargaining process itself would not be tampered with. Providing the mutual promises are kept, wage levels in Denmark should rise by no more than 6-7% annually until '79. By contrast, wages had gone up by 111% from 1970 until early '75, a cost factor that severely crimped the competitiveness of Danish products on the world markets.

Austria: Vienna Also to Shift into Higher Gear

The Austrian government, too, is making provisions for a program to shift the economy into higher gear: Finance Minister Hannes Androsch said Vienna is prepared to spend about 4.4 billion schillings on public orders for the construction sector, the federal railways, and the armed forces. Last spring, the administration already had allocated 2.23 billion schillings for economic support measures. Austria has been successful in maintaining almost-full employment so far, but during the past months industry generally has complained of falling orders and exports.

Norway: Price Freeze until the End of This Year

Less than two weeks before the mid-September regional elections, the Norwegian government announced details of an economic support program and decreed a price freeze until the end of '75. The freeze, on the basis of Sept. 1 prices in both the private and public sectors, in principle covers all product categories. But it does exempt certain daily-use items and provides for compensations for raw material costs. The government proposed to Parliament a 2 billion-kroner spending program to prevent serious unemployment during the cold season: the money is to go toward public works projects, retraining programs for unemployed young people, direct investment aids for businesses, industrial settlements in designated development areas, etc. With the help of all these measures, Oslo expects to ensure an additional 20,000 jobs this winter.

The imposition of a price freeze had been demanded by the trade unions as a condition for their acceptance of reduced wage adjustments. On Sept. 2, the employers and the unions agreed on 80% compensation of the 10% price rise since November 1974: the employers will bear 30%, which raises wage costs by 3%, while the state will accept the remaining 50%, probably by way of direct-tax cuts and lower pension contributions.

Norway so far has been largely spared the effects of the international recession, and its 1.1% unemployment rate also is far below the levels experienced elsewhere. But the latest economic statistics indicate an approaching slowdown, and Oslo fears that the current number of 17,500 jobless could rise to 25,000 this coming winter. For 1975, the growth of industrial production initially had been projected at 2.2%, but a slump in foreign orders meanwhile has forced a revision of that figure to 1% at most - this would be the lowest rate of expansion since 1958.

EURO COMPANY SCENE

ITT Portugal

In a written statement to the Portuguese government, International Telephone & Telegraph Corp. has announced cancellation of all planned subsidies for its operations in Portugal, which include Lisbon's Sheraton Hotel, several electronics plants employing around 7,000 workers, and part ownership in the leading components manufacturer Standard Electrica. As grounds for the action, ITT pointed to the difficulty of maintaining effective management control over its subsidiaries in light of the attitude of Portugal's militant worker committees, the reluctance of state-owned banks to provide credit, and losses in recent months of some $10 million.

With its total Portuguese assets amounting to around $100 million, ITT so far this year has pumped $3.5 million

ITT *(contd.)*

into its activities there but is holding off further investment, at least until the country's economic and political situation has stabilized. It remains to be seen whether the conglomerate's decision will improve cooperation of the Portuguese authorities, the unions, and the banks, since a withdrawal or collapse of ITT operations would seriously add to the country's unemployment problem. Obviously, the ITT case will have its effect on the attitude of other foreign investors, who are facing similar dilemmas in Portugal.

Copperweld/ Imétal

U.S. specialty steel producer Copperweld Corp., Pittsburgh, has obtained a preliminary restraining order to ward off a $112-million takeover bid by French metals and mining giant Société Imétal, the key industrial holding of the Rothschild group. In initiating the action, Copperweld has charged Imétal with violations of U.S. securities and antitrust laws, with failure to make complete "material disclosures" to the Securities and Exchange Commission, and has declared the tender offer of $42.50 per common share to be "clearly inadequate." Société Imétal, in turn, has filed a counter-suit and has asked the Pittsburgh federal court to modify its restraining order. Hearings on Copperweld's request for a preliminary injunction were scheduled to begin on Sept. 15.

The Imétal bid represents an attempt on the part of Baron Guy de Rothschild to secure the family's first major stake in the United States. This would appear to be the basis for much of the opposition to the proposed acquisition, with local politicians and labor leaders having pledged their support of Copperweld's fight to block the takeover bid. Imétal was set up late last year as the holding for about 70 metal and mining subsidiaries around the world and manages properties valued at more than $1 billion.

Marsh & McLennan/ Gradmann & Holler

Marsh & McLennan, New York, by its own account the world's largest insurance broker, has acquired a 15% interest in Gradmann & Holler, one of Germany's leading brokerage firms in the areas of corporate insurance, group insurance and pension plans, and reinsurance. The agreement gives Marsh & McLennan the option of increasing its participation to 30%. The two companies have been representing each other in their respective countries for some 10 years. In Europe, Marsh & McLennan maintains cooperative ventures and branches in France, Britain, Belgium, Spain, Greece, and Italy. Gradmann & Holler has a domestic premium volume of about DM 350 million and foreign participations in Canada and Brazil.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Brussels Warns France on Wine Import Tax

The European Commission has threatened to take France before the European Court of Justice on grounds that the French government's decision to impose a tax averaging 13% on wine imports from Italy is contrary to the spirit of Community rules. Article 31(1) of the EEC Council Regulation No. 816/70 prohibits any levy having the effect of a customs duty and the imposition of any quantitative restrictions or measures having an equivalent effect (*Common Market Reports, Par. 615F*).

The French government has tried to justify its action under Article 31(2) of the same regulation, which allows a member state to limit imports from another member state in order to prevent a "disturbance" on its own markets. But this particular paragraph supposedly expired at the end of 1971: that year, the Agricultural Committee had unanimously recommended its repeal, although the Council itself never got around to taking formal action. The French are now claiming that the Council's failure to do so has kept the provision in force, a position that Commission lawyers consider "rigid and formalistic." The confusion of the legal situation is now such that perhaps only the Court of Justice could bring a clarification.

This issue is in two parts, consisting of 108 pages. This is Part I.

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Import Tax *(contd.)*

There is no disagreement among all parties concerned that the prolonged wine crisis, which had erupted earlier this year, is primarily due to two successive bumper crops. Italian wine exports to France so far this year total 8 million hectoliters compared with 3 million last year, a rise largely due to a 30% devaluation of the Italian lira. For the Italians, these exports are simply part of the Common Agricultural Policy (CAP), and their argument maintains that if this policy does not offer the same chance to Italian wine exports as it does to French beef and dairy product exports to Italy (France is the principle supplier), then CAP does not mean much.

The Commission is aware, of course, of the dispute's potential snowball effect on other member states, which might feel inclined to impose unilateral measures instead of waiting for Commission-proposed solutions. Concerning the wine surplus, Brussels' proposals of limiting vineyard acreage and stepping up distillation (*Common Market Reports, Par. 9756*) have little chance of success, though: the French and Italians are opposing the former for political reasons and the Germans and the British are against the latter for financial reasons (they would have to foot a large part of the bill).

In Brief...

Having already stalled progress on the draft directive that would grant physicians the right of establishment and freedom to provide services throughout the EC, the Belgian government also has adopted delaying tactics on the proposal concerning architects. In this area, however, the reasons appear more persuasive, since Belgium has the highest educational requirements for architects in Europe: only after four years' formal study and six years of practice in an established firm may an architect set up his own office. The Belgians fear that these requirements might have to be diluted if foreign architects were allowed in + + + For the first time in EC legal history, the Commission has availed itself of Treaty Article 228(1) and has asked the European Court of Justice for an opinion on the compatibility of a prior international agreement (the OECD-sponsored export credit insurance agreement) with the EEC Treaty. Brussels maintains that the Community, rather than the member states, is entitled to negotiate. Last May the Commission had asked the Council for authorization to negotiate on the Community's behalf, but when there was no reaction, it seized upon Article 228 rather than sue the Council for inaction under Article 175 + + + The Commission's proposal on a passport union has been positively received by the member state delegates attending the first meeting of the new Council working party. This favorable reaction evidently is based on the fact that the uniform documents would be largely symbolic in nature - the member states would not

In Brief
(contd.)

yield much of their sovereignty, since they would continue to issue the passports (perhaps in a different color for each country).

Britain: White Paper on Racial Discrimination

A U.K. government White Paper on "Racial Discrimination" (Cmnd. 6234, HMSO London) has outlined proposals to strengthen and coordinate legislation in this area. The document, released on Sept. 11, contains recommendations for a two-pronged attack on the problem: the individual who feels that he is being, or has been, discriminated against on racial grounds is to have more direct accessibility to the courts (rather than via the Race Relations Board in the first instance) and, secondly, government's powers in matters of race relations are to be extended.

Central to the White Paper is the proposed commission on race relations (as yet not officially so designated), which would assume the functions of both the Race Relations Board and the Community Relations Commission. The new body would be empowered to investigate "whole areas of discrimination" in respect of particular organizations and individuals. Accordingly, it would acquire powers to demand written information and to summon witnesses on its own authority or as the Home Secretary directed. The new body would issue compliance orders in the form of anti-discrimination notices. A new standing advisory council on racial discrimination is also mooted. Finally, it is proposed that employers generally - as opposed to those in the public sector where "race relations compliance clauses" are already mandatory in employment contracts - would be called upon to furnish information if their employment policies were challenged.

Much of the comment on these proposals has centered on the closing of certain loopholes in the existing legislation, the Race Relations Act. Thus, for example, a recent House of Lords' decision would be overturned, inasmuch as unlawful discrimination would extend to private members' clubs. Significant also would be a re-drafting of the provisions of the Act to the effect that it would no longer be necessary, in alleging "incitement," to establish a "subjective intention."

Wilson Hints of Controls on 'Dumping'

U.K. Prime Minister Harold Wilson has hinted that his government has not ruled out the possibility of imposing exchange controls or, as he said, "protective measures" to shield particular sectors of British industry against "dumping or other forms of unfair trading." While Wilson acknowledged that it would be against Britain's interests to invite retaliation in those sectors where the U.K. was currently showing a trade surplus, he stressed that the

'Dumping' *(contd.)*

Secretary of State for Trade would emphasize the "possibility" of controls in the course of his visit to Japan.

Reports from the Far East suggest that Wilson's word of warning, although timely, may be superfluous at least so far as Japanese automobile exports to Britain are concerned. Persistent criticism of the Japanese automobile export policy will probably lead to voluntary curbs, despite arguments by Tokyo that the large increase in Japanese automobile market penetration in the U.K. is mainly attributable to labor disputes that have dogged production in Britain. Total sales of Japanese automobiles in Britain in the eight months to August this year were 60% up on the corresponding figures for 1974, and Japanese market penetration is now estimated at nearly 10%. The U.K.'s Society of Motor Manufacturers has appealed, unsuccessfully, to the government and the European Commission against the dumping of Japanese automobiles, claiming that the competitive prices on the British market could not conceivably reflect total production and shipping costs.

Germany: Major Bills to Come Up This Session

At the start of the final phase of the legislative period prior to the October 1976 national elections, the German government is pushing for passage of a number of bills that are going to have an impact on businesses.

Although both government coalition parties are currently discussing solutions to the problem of the "tie-break" on supervisory boards of companies covered by the extended co-determination bill (*Doing Business in Europe, Pars. 30,695; 30,700; and 30,749*), chances are that the bill will not make it through committee by the end of the year. A more realistic estimate is that it could pass both houses of Parliament some time next year and could go into effect as of 1977.

The Bundestag and Bundesrat have been in a tug-of-war over the bill designed to promote vocational training of school leavers (*Doing Business in Europe, Par. 30,796*). A major bone of contention is financing (businesses would be assessed 0.25% of their payroll), but there are also differences over the administrative setup and union influence. A hearing was planned for the end of this month. There are only minor differences on the bill concerning safeguards in the employment of juveniles; adoption of the measure is foreseen for next spring (*Doing Business in Europe, Par. 30,717*).

The Opposition-controlled states have made a united stand against a government-sponsored constitutional amendment that would empower Bonn to control water resources. Progress is expected, though, on the proposed water levy that polluters would have to pay, and a compromise solution

Major Bills *(contd.)*

on computing the levy is apparently in sight (*Doing Business in Europe, Par. 30,718*).

Although the Free Democrats, the minority partners in the coalition, have repeatedly emphasized that the corporation income tax bill would pass the Bundestag in '76, the original date for enactment - Jan. 1, 1977 - seems no longer to be realistic. Committee work has been held up by the Social Democrats, whose reluctance is based primarily on the consequences that the proposed tax credit system would have on the Budget (*Doing Business in Europe, Par. 23,395*).

Denmark: Solid Majority for Compromise Economic Plan

With a large majority of 112 to 40 votes (nine abstentions), the Danish parliament has approved the compromise economic program that resulted from a five-party agreement and has endorsed the government's pledge to follow a strict stability course for at least three years. The decision for a temporary reduction of the value-added tax was backed by 131 Folketing members in the Sept. 12 vote.

The legislation's passage was generally welcomed by the business community, with the employers' federation speaking of "regained trust" in the country's leadership. The most positive aspect of the program was seen in the realistic chances of reducing the annual rise in both prices and costs to 6-8% until early 1979, thus affording greater opportunities to Danish exports on the world markets.

Switzerland: Compulsory Unemployment Insurance Plan

The Swiss government has issued a proposal for a compulsory unemployment insurance system on a centrally coordinated basis. So far it has been up to the cantons to introduce binding regulations for their areas of jurisdiction and to fix insurance conditions and terms; in a few cantons, participation in private insurance funds has been entirely voluntary (*Doing Business in Europe, Par. 29,456*).

The new system, in principle, would be financially self-supporting, with employers and employees sharing contributions. Should benefit payments ever exceed accumulated funds, both the central government and the cantons would provide financial assists. Details on the percentage and amount of contributions still need to be negotiated; the situation on the labor market obviously will be a decisive factor here.

Under the government proposal, the various existing unemployment insurance funds would continue to operate, though within the framework of federal legislation to be reflected in the revised Article 34 of the Swiss constitution. The new system also would provide a legal base for federally coordinated measures for the prevention of unemployment. If the parliamentary work on the revision of

Insurance *(contd.)*

Article 34 proceeds without delay, the government would expect the final bill to be submitted to a national referendum during the latter part of next year.

In other developments, the Federal Office of Industry, Commerce, and Labor has begun to compile for the first time statistics on short-time work, which is spreading rapidly and so far has affected an estimated 100,000 workers in many industrial sectors. As of Sept. 1, all Swiss businesses with more than five employees are required to notify local labor offices of scheduled short-time work. (At the end of August, the Labor Office registered a total of 10,114 jobless persons as compared with only 74 a year earlier.)

Other government actions in the labor sector include the proposal to lower the legal workweek from 46 to 45 hours - a recommendation that should have practical consequences for relatively few businesses, since it lags behind the actual situation. For instance, the union representing workers of the textile, chemical, and paper industries has recently demanded that the number of workhours be cut from 44 to 40 per week. Also pending before Parliament is an initiative by a leftist group for the general introduction of the 40-hour week at full pay. According to the latest statistics, the average workweek in Swiss industry during the first quarter of 1975 was 43.7 hours.

Norway: Oslo to Extend Work Safety Legislation

The Norwegian government has completed its final draft of new legislation on work safety and job environment, which is intended to revamp and extend existing law dating back to 1956. It is the bill's central aim to afford employees maximum protection against "accidents, occupational disease, overwork, stress, and dissatisfaction." The law would establish revised minimum standards of protection and include provisions on the use of dangerous substances, noise and vibrations, ill effects from "psychic and social factors," etc.

The proposed rules are to apply both to the private and public sectors, with the exception of shipping, fishing, and air transport for which separate regulations are to be drawn up. Specifically covered by the new law would be the offshore oil and gas industry, although full or partial exemption could be granted here under certain circumstances.

Employers would be responsible for implementing the new rules; enterprises with more than 50 employees would be required to set up "work environment committees." State funds could be made available to companies momentarily unable to make the investments necessary to comply with the

Work Safety *(contd.)*

tighter work safety requirements. The bill generally provides for stiffer sanctions in case of violations, but it does not contain the earlier government proposal of reversing the burden of proof under which the employer - in the event of an accident or a "potential accident situation" - would have been liable unless he could prove conclusively that he had fulfilled his statutory obligations.

EURO COMPANY SCENE

GM Vauxhall

Vauxhall Motors, Ltd., British subsidiary of General Motors, has reported it plans to sell in the U.K., under the Vauxhall name, automobiles produced in GM's German and Belgian Opel plants. The new model, the Cavalier, is expected to compete with Ford's Cortina and the Chrysler 180. The announcement has angered the British trade unions, which fear that GM is preparing to phase out its U.K. passenger car assemblies, concentrating instead on production of Bedford trucks which have maintained high export sales. Vauxhall, which showed pre-tax losses of £7.5 million for the first half of 1975 and has trimmed its work force over the past two years from 34,000 to 29,000, presently has no new U.K. models on its drawing boards. Pressure is now mounting on the company to clarify its long-term production program.

Bank of America/ Jensen

The Bank of America has emerged as the major creditor of Jensen Motors, the prestige U.K. car maker which has now gone into receivership. Kjell Qvale, Jensen's chairman, ascribed Jensen's collapse (debts are estimated at some £4.5 million) to the high level of U.K. inflation, the energy crisis, British labor unrest and, more specifically, to the cash pressures deriving from the need to comply with worldwide emission and safety standards. To date, there has been no hint of a rescue bid from any quarter. One of Britain's other luxury automobile manufacturers, Aston Martin, was put into receivership earlier this year.

Chrysler Spain

In sharp contrast to the overall slump in the Spanish automobile industry, Chrysler Espana, wholly-owned subsidiary of the U.S. Chrysler Corp., has announced its best seven months so far: from January through August, sales volume totaled over 41,600 units, compared with 31,350 for the same period in 1974. This represents a 32% increase, while sales of all Spanish car manufacturers combined have fallen by almost 8%.

Eurocanadian/ Furness Withy

The Canadian shipping group Eurocanadian Holdings has acquired a 28.5% holding in the U.K. passenger and cargo shipping company Furness Withy. The stock market reacted somewhat negatively to the news, primarily because of ru-

Eurocanadian/ Furness Withy *(contd.)*

mors that Eurocanadian, thwarted in a bid to take over Furness Withy's 60%-owned subsidiary Manchester Liners, might make a bid for control of Furness Withy itself. Hilmar Reksten, the Norwegian oil tanker magnate, is said to have held some 15% of Furness Withy equity, and his recent liquidity problems have forced him to make this portion available.

Reed/ St. Regis

Negotiations are in process between the U.K.'s Reed International paper packaging group and New York's St. Regis Paper Co. with a view to the former acquiring the St. Regis stake in leading South African packaging concern Nampak of Johannesburg.

Hill Samuel/ Herstatt

British merchant bank Hill Samuel's German subsidiary has won an initial success in its battle to recover the $21.5 million it lost in the Herstatt bank collapse last year. A Frankfurt court has ruled that the German Bundesbank should pay Hill Samuel DM 10 million plus damages, interests, and costs, following the British bank's allegation that the central bank had failed to halt a spot foreign exchange transaction even though it knew that Herstatt would be closed in the afternoon of June 26 last year. The DM 10-million payment would, in effect, represent the balance of the amount "owed" Hill Samuel. However, the Bundesbank has announced that it will challenge the judgment, if necessary at supreme court level.

Singer/ Otto

Singer Co., New York, is to sell its 95% stake in the German mail-order house Schwab AG to Otto AG, the major shareholder in another of Germany's leading mail-order firms, Otto Versand of Hamburg. Since its 1966 takeover of Schwab, Singer has encountered continuous problems in operating the company at a consistent profit level: with a 1974 turnover of DM 402 million, Schwab recorded a loss for the year of around DM 12 million and also stands to suffer "significant losses" in 1975. Otto Versand, No. 2 on the German market, had sales for the 1974-75 business year of DM 1.8 billion. Otto announced that it intends to run Schwab as an independent operation but is exploring all methods for cooperation of the two firms in the areas of purchasing and importing and joint use of technical facilities.

Purchase price of the transaction - which is to be completed early next year - was not revealed, but present Schwab share quotation on the over-the-counter market would place the size of the deal at around DM 79 million.

Common Market Reports

EUROMARKET NEWS

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Issue No. 350 September 30, 1975

IN THIS ISSUE

Community: European Court Kicks Off Fall Session

The European Court of Justice opened its fall session on Sept. 16 by hearing concluding arguments in a case involving a tariff classification dispute between a German importer and national customs authorities (Case No. 28/75 - *Baupla GmbH v. Regional Tax Office Cologne*). Legal observers are more interested, however, in several pending cases pertaining to antitrust, trademarks (the EMI cases), right of establishment, free movement of individuals, and social security.

Next month the Court is expected to render its judgment in the "sugar cases," which have major implications in the area of competition (*Common Market Reports, Par. 9570*). Another case in this realm is No. 26/75, in which General Motors' Antwerp subsidiary is appealing a $100,000 fine imposed by the European Commission for abuse of a dominant position. The company is said to have charged excessive prices for automobile safety certificates that are mandatory under Belgian law. Oral proceedings are to start on Oct. 8. Another case (No. 73/74 - *S.C. Usines Peters-Lacroix SA et al v. Commission*) involves a cartel of Belgian wallpaper manufacturers whose members were fined for violation of Treaty Article 85(1). The plaintiffs are seeking an annulment of the Commission decision and the return of fines paid so far (*Common Market Reports, Par. 9668*).

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Fall Session *(contd.)*

Commission lawyers believe that the Court is confronted only by a "minor problem" in Case No. 25/75 with the litigants Van Vliet, a Dutch manufacturer-distributor, and Fratelli Dalle Crode, an Italian paint brush producer. In connection with group exemptions for exclusive distributorship agreements provided for by Commission Regulation No. 67/67 (*Common Market Reports, Par. 2727*), the issue before the Court is whether the distributor's market (here the Benelux) must remain open to all parallel imports or only to those from countries other than the manufacturer's home state (Italy). Advocate General Gerhard Reischl, in his opinion delivered on Sept. 17, strongly supported the Commission's view that any agreement preventing exports of products under contract from one member state to another does not qualify for an exemption from the ban of Article 85(1). While Dalle Crode saw to it that its Italian customers refrained from exporting to the Benelux countries, the company remained free to export to countries like France and Germany, from where the goods could be exported to the Benelux. Actually, Dalle Crode never did take advantage of this opportunity, but both the Commission and the Advocate General Reischl argue that this would not make any difference.

The interpretation of Article 4(2)(i) of Regulation No. 17 is at issue in the Case No. 63/75 - *Fondries Rouba v. Fondries Roux*: a Paris court wants to know whether an agreement between the two French foundries could qualify for an exemption under Treaty Article 85(3) even if one of the parties imports from another member state materials (here, scrap from Germany) that are used to make a final product, i.e., steel ingots. Under Article 4(2)(i), an agreement may be exempt in deals involving enterprises from one member state but not involving imports/exports between member states (*Common Market Reports, Par. 2431*). Although the Commission has yet to submit its comments to the Court, many antitrust lawyers believe that a broad interpretation should not hurt the exempt status of this and any similar agreement.

Member States Balk at 17% Budget Rise

With the new budget year around the corner, the Community again is being confronted by the problems of how to finance its upkeep and of who will pay how much: the Commission has asked the Council of Ministers for approval to boost the 1976 Budget to 7.5 billion units of account, a 17% increase over the current year's Budget (for which another 200 million UA are required to make ends meet). Predictably, several member states already have expressed their opposition to footing the ever-higher Community bills in the face of mounting deficits at home.

Germany, once more called upon to pay about one-third of the total, has become a most reluctant contributor ever

Budget Rise *(contd.)*

since the Schmidt administration assumed office in May 1974; earlier this year, Bonn even blocked higher expenditures for the Community research budget. Some of this reluctance can be attributed, of course, to the Chancellor's well-known dislike of the common agricultural policies, but most of it simply results from Germany's own fiscal dilemmas. Thus, Bonn's latest bid for a cut of its contributions is considered more than just a prelude to tough Council negotiations. The Germans want to base the conversion of national currencies into EC units of account on "more realistic" rather than pre-Smithsonian exchange rates. Since the Deutschmark has appreciated nearly 30% over the past four years, this would mean that Bonn would save about 600 million UA in contributions to the 1976 Budget.

If the Council were to accede to this demand, Commission officials point out, member states with devalued currencies obviously would have to contribute proportionately more, especially Britain and Italy. And they maintain that the Germans, for all their own budgetary problems, are still vastly better off than these two partner countries and that they should continue to bear a large share of the costs.

It was recalled in Brussels that the idea of more realistic exchange rates already had been advanced by the Belgians last year, but that the Council refused to adopt it. This time, EC observers expect a compromise involving substantial budget cuts and allowing all member states to pay less, including Germany.

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

In requesting preliminary rulings from the European Court of Justice, a German court and a Danish court have asked essentially the same questions that the British High Court submitted in Case No. 51/75 (*EMI Ltd. v. CBS U.K. Ltd.*) and which pertained to the exercise of <u>trademark rights</u> under the Treaty principle of free movement of goods. These additional requests had been expected, and chances are that more will be forthcoming, since EMI owns and has registered the Columbia trademark in the U.K. and in all other EEC member states, while CBS U.K. owns the rights elsewhere but sells phonograph records bearing this trademark through its Common Market subsidiaries + + + The Commission is presently evaluating member state rules on <u>discharges of individual employees</u> as opposed to collective dismissals. The evaluation should be completed by the end of this year. At that time, the Commission will approach the Council as to whether there is a need for specific Community legislation + + + In related developments, the Council will soon receive a Commission proposal designed to avoid legal problems concerning the <u>transfer of employees</u> from an employer's business establishment in one member state to one in

In Brief *(contd.)*

another. The proposal contains an important innovation inasmuch as it would extend to all migrant workers (originally, its application was to be restricted to EEC workers alone).

Netherlands: Concern over Budget, Fiscal Course

Public and business reaction in Holland to the implications of the government's 1976 Draft Budget has been marked by deep concern over the country's economic viability and the question of whether the limits of the welfare system are now being reached. Even the administration has conceded the "calculated risk" of having to finance a projected record deficit of 15.1 billion guilders next year, based on expenditures of 77.9 billion and revenues of 62.8 billion. Significantly, more than half of the outlays will be spent on social services (19.23 billion) and education and science (19.18), while certain defense expenditures will be cut. The government is defending this apportionment by pointing to the "unacceptable alternatives" of less growth, even higher unemployment (now at 5.6%), and reduced public services. On the basis of the proposed Budget, the administration feels confident that the expansion of consumer prices in '76 can be held to 7.5-8% (now 10.7) and that of labor costs to 9.5-10% (13.5). GNP growth is targeted at 3.75%.

Submitted to Parliament by Finance Minister Willem Duisenberg on Sept. 16, the Draft Budget calls for a number of tax changes, most of which had been predicted for some time. As of July 1, 1976, the personal income tax rate would be raised by one point, excepting only the lowest tax brackets. Also on that date, the value-added tax rate would move up from 16 to 18%, while the reduced 4% rate would remain unchanged. As of January 1, the automobile tax would be increased by 43%, and stiff increases also are due for the levies on alcoholic beverages and wine and on tobacco products. Natural gas prices are to go up by 3.5% and postal rates by 5% (April 1). As a result of all these measures, the treasury's revenue intake would improve by 2.02 billion guilders, causing the Dutch tax burden to rise by another 0.3% to 30.3% of national income. Nevertheless, The Hague will be forced to raise some 10.5 billion guilders on the capital and money markets next year to make up for the remaining deficit.

Part of the budget plan is yet another reflationary package of nearly 3 billion guilders designed to provide an economic stimulus and to keep unemployment from reaching dangerous levels. It extends existing relief measures in the fiscal, social contributions, and investment realms into 1976, mainly to ensure that the labor cost burden on businesses does not become too crushing. Thus, the state will take over 600 million guilders of projected employer con-

Budget
(contd.)

tributions to the children's allowances fund and spend 550 million to assist companies battling liquidity problems. To shore up employment, the government is making available an extra 900 million, with most of that specifically aimed at the depressed construction sector.

While the budget message obviously has been of interest to the Dutch business community, more attention probably will be focused on two proposals that the government intends to make within the next few weeks. One will detail the administration's future course in regard to its controversial incomes redistribution concept. As part of this "incomes reform," the Joop den Uyl administration is now preparing the draft of a law that would have employees sharing in the growth of corporate assets through a union-administrated fund. Another proposal will involve the Cabinet's position on the "development and strengthening" of the country's "economic structure." Even before details are known, most businesses are convinced that this plan will involve state investment controls designed to curb corporate independence and powers.

Britain:
'General' Okay
EC Patent
Convention

The U.K.'s parliamentary Under-Secretary of State for Companies, Aviation, and Shipping disclosed on Sept. 18 that the British government was ready to endorse the European Community Patent Convention, under which a uniform patent law would apply throughout the EC. The government's approval was still "general," however, and it was predicted that a number of fine-print details - predominantly of an administrative nature - may yet cause delays. In principle, the establishment of the proposed European Patent Office in Munich, Germany, appears to have been accepted, but final U.K. ratification will be contingent on "substantial British representation on the office staff in Munich."

It seems, therefore, that Britain has graciously accepted the defeat of earlier U.K. plans to hold out for the location of an examining branch of the EPO in London. Should the British examiners refuse to relocate, however, it is expected that some of the examining work will be farmed out from Munich to the existing Patent Office in London.

Under the Convention, the EPO would be empowered to grant on a single application batches of patents valid under national patent laws for Community members and for other EC-related countries. The Munich operations originally were to commence in 1977-78, but this will in part depend on the outcome of negotiations scheduled for November.

Germany: Investment Controls on Swedish Model?

Discussions within Germany's governing Social Democratic Party (SPD) over possible state controls of private investments are increasingly straining the coalition with the Free Democrats (FDP), the minority partners. The FDP's national leadership recently has issued a clear warning to the Social Democrats that any step in this direction might endanger the government coalition following next year's general elections. These statements have come at a time when several SPD state organizations voted to put the subject of investment controls on the agenda of the national party convention in November.

In Hamburg, the home city-state of both Chancellor Helmut Schmidt and Finance Minister Hans Apel, both politicians were able to prevail over ultra-leftists within the party, although they had a hard time convincing the rank-and-file of the "humbug" nature of the proposed controls. Schmidt argued that the government should promote rather than control private investment: the current economic recession, he declared, cannot be remedied simply by converting the free enterprise system into a state planning system which eventually would extend to the nationalization of industries.

Still, both the Chancellor and his Finance Minister contributed to the debate by suggesting the possibility of indirect investment controls through taxation. Conceived and practiced in Sweden, this system provides for a lower tax rate on company profits that are reinvested, while a higher rate is applicable to distributed earnings. (Businesses with annual profits in excess of 100,000 kronor, moreover, are required to deposit 20% of this excess with the central bank as an investment reserve.) The Swedish concept will be discussed at the SPD convention and could have a chance with the delegates. On the other hand, Bonn observers once again are expecting strong resistance from the Free Democrats because the Swedish model would interfere with the government's proposed corporate tax reform bill and the tax credit system to which the FDP is heavily committed (*Doing Business in Europe, Par. 23,395*).

Italy: Rome Urges Social Pact, Pay Ceiling

The Italian government has sent a message to the country's trade union federations exhorting them to exercise pay moderation in the upcoming collective bargaining talks so as not to undermine industry's investment potential and, consequently, the chances for economic recovery. The document warned that the domestic economy could not continue to suffer the disastrous effects of the price-wage spiral, with the average 22% rise in wages still outstripping price expansion (16-18%). The unions were told that, in order for Italy to maintain its international competitiveness, the "absolute limit" of new pay increases should be fixed at

Social Pact *(contd.)*

10%, the same ceiling that the U.K. labor unions already have agreed to. Anything beyond this percentage, the statement said, would refuel inflation, add to unemployment, and defeat all stabilization efforts.

The message came as part of the government's campaign for a "social contract" with labor and industry in order to achieve a "tolerable conclusion" of the wage talks that will involve some 4 million workers. Prime Minister Aldo Moro himself has repeatedly appealed to the "sense of responsibility" of the Communists, who control the largest union federation and without whose cooperation the administration could not hope to be successful with its most recent economic crisis program.

The Communist CGIL and other labor syndicates immediately rejected the government appeals as unacceptable, insisting on complete autonomy in the collective bargaining process and accusing Rome of having failed with its employment and investment policies. Political and economic observers are wondering, though, whether the unions would really carry their inflexible position to the point of risking their public support by inviting more chaos for the Italian economy.

EURO COMPANY SCENE

U.S. Companies in Italy

The deteriorating labor climate in Italy has been chiefly blamed for the growing inclination of foreign investors to halt further spending plans there, curtail operations, or try to pull up stakes altogether. But even the decision to pack up and leave is often difficult to carry out, as can be attested to by several U.S. companies which are presently battling union and worker opposition. The most significant case involves Singer Co.'s termination of the unprofitable operation of its Leini (Turin Province) plant, which employs some 2,000 workers in the production of electrical household appliances and in which the company is said to have invested 35 billion lire over the past four years. Inadequate productivity has been blamed, among other things, on an absentee rate of up to 25%. The plant was "occupied" by employees early this month, and the regional government reportedly is looking for a buyer who could guarantee existing jobs. Another possibility would be the temporary acquisition of the plant by GEPI, the state-run rescue organization for financially troubled enterprises.

Production also has stopped at the Lomazzo (Milan) plant of Ranco, Inc., of Columbus, Ohio, where thermostats for appliances and other equipment had been manufactured by 800 employees. Last winter the unions had blocked the scheduled dismissal of 300 workers, and the work force has occupied the plant since a board decision at the end of

U.S. Companies in Italy *(contd.)*

last month to enter into liquidation. Within a nine-month period, Ranco reportedly has incurred losses of 605 million lire at Lomazzo.

Also searching for a buyer for its Sestri (Genoa) production facilities is Connecticut-based Torrington Co. (Ingersoll-Rand). If unsuccessful, management is determined to dismantle the plant (which produced industrial sewing and knitting needles with 530 employees), because it is unwilling to commit the funds necessary to modernize the facilities. However, even that might prove impossible, since the plant also has been occupied since July.

W.R. Grace, Co., on the other hand, recently was successful in selling one of its Italian subsidiaries, ice cream producer Tanara, to the state-controlled SME group for an undisclosed price. General Foods Corp., too, was able to shed its Genoa-based Elah subsidiary, a candy manufacturer, which was acquired by a local competitor, Dufour.

Morgan & Cie./ Morgan Stanley

Morgan & Cie. International SA, Paris-based investment banking firm which is two-thirds owned by Morgan Stanley & Co., Inc., is to acquire the one-third interest currently held by Morgan & Cie. SA, subsidiary of Morgan Guaranty Trust Co. of New York. Following completion of the transaction, which was "prompted mainly by changes in the nature of (Morgan & Cie.'s) business following the removal of U.S. controls on investment overseas," Morgan & Cie. International will be renamed Morgan Stanley International. Since its establishment in 1966, Morgan & Cie. International has managed some $5 billion in public and private financings and will continue its international investment banking business as a wholly-owned subsidiary of Morgan Stanley. Morgan Guaranty will continue to serve multinational clients through its Parisian subsidiary.

First National/ Grindlays

New York's First National City Bank has secured approval from U.K. and U.S. authorities and has reached agreement with Britain's Lloyds Bank to increase its stake in London-based Grindlays Bank from 40 to 49%. Grindlays announced large loan losses recently, and the stepped-up participation evidently is designed to boost Grindlays' resources.

Hambros

An "American bank" is believed to have acquired a significant holding (estimated as high as 15%) in Hambros Bank, one of the U.K.'s leading accepting houses. Not only was the name of the buyer a source of speculation in the City, the motive was also unclear. Although the Bank of England recently has been more tolerant of bids by British and even Continental institutions for control of accepting houses, its opposition to such a move by non-European institutions still remains.

Common Market Reports

EUROMARKET NEWS

Issue No. 351 *Report No. 276, October 8, 1975*

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IN THIS ISSUE

Community: Council Acts on Budget; Bonn Outvoted

The Council of Ministers has adopted a Draft Budget of 7 billion units of account without cutting the Commission's allocations for farm price support and other proposed expenditures for the common agricultural policy (CAP). The Germans, who voted against both the Community's general Draft Budget as well as the proposed CAP expenditures (with 5 billion UA by far the biggest item in the Budget), lost their battle for further budgetary trimming in the agricultural sector against the united front of the other eight Community partners. But, with the support of the other partners, Germany succeeded in saving some 500 million UA in other fields. The Draft Budget now goes to the European Parliament for possible changes, and final adoption is expected for December.

Since Germany is experiencing unprecedented budgetary problems at home, there had been speculation and even some concern in both Bonn and Brussels that the German government might turn adoption of the Draft Budget into a "vital issue" under the 1966 Luxembourg compromise (a de-facto amendment of the EEC Treaty) and thus would be in a position to block the measure until a unanimous agreement is reached. Political repercussions at home and within the Community reportedly prompted the Schmidt administration

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Budget *(contd.)*

to set aside financial considerations at this point. However, Bonn is counting on the long-range possibility of revamping the CAP and averting "economic humbug," like butter mountains and many other price support measures that cost Community taxpayers hundreds of millions of UA each year.

EURATOM Loans Request Under EC Scrutiny

Although the member states are still in disagreement over several aspects of the Commission's request to borrow from the capital market and, in turn, grant loans to industry to finance nuclear power stations, Community observers see a good chance for agreement prior to the meeting on Nov. 17 - the date scheduled for a Council of Ministers' decision. Still in dispute are questions of the administration, public guarantees, and amount of loans.

Last January, the Commission asked the Council for authorization to raise annual loans on behalf of EURATOM, up to a maximum of 500 million UA. Under this proposal, designed to help reduce dependence on oil by expanding nuclear energy production, the Commission alone would negotiate borrowing the money in the best interests of the Community, keeping in mind the conditions of the capital market and requirements imposed by the terms of the loans. It alone would also decide on the recipients and amounts of loans. Finally, transactions would be entered under the Community Budget's research and investment expenditures.

Even though the member states are assured the Commission would do its best to raise money under the most favorable conditions, Germany and the Netherlands are, at present, not inclined to give the Commission the sole say as to who would be granted a loan and how much an individual enterprise (private or government-owned) would receive. They favor bringing the European Investment Bank (EIB) into the picture, and not merely as a clearing institute but giving it partial or even complete responsibility for the granting of loans. Thus the member states could exert influence, since the EIB's Board of Governors is made up of the member states' finance ministers. Both the German and the Dutch governments have made the point that it would be better to have the transactions effected through a bank and over that bank's accounts rather than under the Community Budget because of the risks involved (for example, an enterprise that has received a loan becoming insolvent). The two governments also seek a geographical distribution of the risks by demanding guarantees from the particular state in which actual investments are made. In other words, if a loan is not paid back on time, the particular state would carry the financial consequences and not the Community.

While the British go along with the idea of giving the Commission the power to raise loans on an annual basis and are even prepared to forego some of the administrative controls suggested by Bonn and The Hague, both the Germans and

Loans *(contd.)*

the Dutch are opposed to the general authorization for the Commission to raise loans of up to 500 million UA annually. Instead, they favor a trial phase during which the Commission could raise a total of one billion UA, divided into two parcels of 500 million UA each. Any further borrowing would require new authorization by the Council.

Despite these differences and some minor technical details, Council officials count on agreement within the EC since all member states concur on the basic objective.

In Brief...

The European Commission is progressing on amendment of the three draft directives on veterinarians in light of the *Reyners* ruling, which removed all discriminatory barriers based on nationality and thus largely rendered one of the proposals moot, although *Reyners* could not tear down those barriers expressly allowed by Treaty Article 55. One problem facing Commission lawyers is that some member states allow a private practitioner to "exercise official authority" ad hoc - for example, in ordering measures to combat diseases + + + A compromise is shaping up in the dispute within the Council over the Commission's proposal to harmonize national rules on headlights of automobiles. It would allow France to retain its system requiring yellow headlights (all other states require white headlights) until adoption of the other related draft directives (for instance, on backup lights) + + + Council attorneys see little chance for adoption in its present form of the Commission's draft directive aimed at reducing the sulfur content in heating oil and diesel fuel. Ireland, whose sole refinery does not have the technical means to comply with the proposed standards, is opposed. A two-stage solution that would grant the Irish a respite during the initial phase (yet to be established) is anticipated.

Belgium: More Exports; Dividend Stop; Tax Relief Plan

The Belgian government has conceived a program to inject new life into an economy that has been beset by recession, unemployment, and inflation. Though details will not be released until Parliament, industry, and the unions have a chance for discussion with the administration, indications are that the government would play an even bigger interventionist role in the economy. Since more than half of Belgium's GNP depends on foreign trade, the government plans to promote investments at home and enable domestic businesses to increase exports by granting more favorable export financing and credit conditions. Also planned is a freeze on the distribution of dividends for 1976 at 1975 levels: the objective would be to improve the liquidity of companies. Small and medium-sized enterprises would be receiving tax relief in order to absorb rapidly increasing wages that are geared to the consumer price index and, therefore, cannot be easily slowed.

Exports *(contd.)*

Observers expect that the price stop that has been in force since April 30 and was scheduled to expire on Sept. 30 will be extended; otherwise, it would be difficult to see how the government could keep the consumer index down to 11% (1974: 12.7%). The government wants pay raises for civil servants only to make up for loss of purchasing power due to inflation, and it hopes that private industry and the unions will reach a similar agreement at the bargaining table.

France: High Car Sales Raise Hopes for Uptrend

Though it may take many months until the French government's ambitious program gets enough traction to pull the economy out of a prolonged slump, French auto industry executives see signs of the economy's revival in the increasing number of domestic car sales. In fact, sales have been picking up over the last two months, and total volume for July-August was up nearly 4% over the same period last year. There are hopes for an even greater uptrend when buyers take advantage of the eased installment contract conditions decreed as part of the government's economic revival program. Under this plan, a buyer may obtain credit of up to 80% of the sales price for a period of 30 months.

Industry executives also note with some satisfaction that exports, which accounted for 68.5% of the 307,000 cars produced during July and August, were only 3% below 1974 levels. However, the picture is still unsatisfactory in the commercial vehicles sector. Here, production fell during July-August by 31.7%, or 27,300 units, but the industry is hoping that the government's program - with its measures to encourage construction of housing, plants, offices, roads and public buildings - will also increase sales of trucks and other commercial vehicles.

Germany: Response on Antitrust Cooperation

The German government is currently preparing its response to the U.S. government's preliminary draft agreement that would provide for mutual cooperation of both countries' antitrust authorities. If and when the agreement is concluded (and Bonn observers believe that it will be, even if it takes a year or two), it could hail the beginning of a new era in international cooperation of antitrust enforcement agencies. In the German government's view, a future U.S.-German agreement providing essentially for a comprehensive exchange of information on antitrust matters between the Federal Cartel Office and the antitrust division of the U.S. Dept. of Justice could serve as a model for agreements with other states, and Bonn would even support a European Commission proposal for a convention on legal and administrative assistance.

There is no doubt that any antitrust agency would be more effective in combating restraints of trade if a broad

Antitrust
(contd.)

and lasting international cooperation in this field were achieved. The need for international cooperation is becoming increasingly obvious as a result of both increased liberalization of international trade and the difficulties that national antitrust agencies have in coping with the activities of multinationals.

As far as the Common Market is concerned, the European Commission is in a relatively good position due to the powers it has under both the Coal and Steel and EEC Treaties. Antitrust lawyers from the Commission and the various member states meet four times a year to exchange information and discuss actions pending or planned. There is even cooperation between the U.S. Justice Dept. and the Commission, with a current exchange of experts to acquire knowledge of each other's policies. This voluntary cooperation may be helpful for the Commission, which is presently examining whether the international oil companies purposely cut or stopped sales of oil and oil products to the independent companies during the 1973-74 oil crisis, accumulated large oil reserves, and made huge profits - thus exploiting their market-dominating position.

The OECD's efforts toward international cooperation did not produce highly positive results. The OECD has so far adopted two resolutions: the 1967 recommendation provides for a voluntary procedure of consultation, exchange of information, and coordination whereby member countries investigate or start antitrust proceedings that directly affect the major interests of another country; the 1973 recommendation introduces a voluntary consultation and conciliation procedure by which a member country which considers that enterprises established in one or more other member countries are engaging in restrictive practices substantially and adversely affecting its interests may request consultation with the other country or countries concerned. This consultation is designed to enable the other country to ensure that appropriate remedial action is taken. So far, this latter procedure has not been utilized.

Switzerland: Bern to Extend Monitoring of Prices

The Swiss government has decided to extend in reduced form the price monitoring system that had been first introduced at the 1972-73 turn of the year on the basis of emergency legislation and which was to have expired at the end of 1975. A proposal to this effect is to be taken up by Parliament in December, and approval is expected. A national referendum by the end of '76 would be required as well, if the new decree should be in force for more than one year.

In explaining its reason for seeking an extension of the system, the government said that surveillance and some control of prices continue to be a necessity despite the

Monitoring *(contd.)*

economic recession and lower inflation rates. It was revealed that the authorities thus far have received 23,000 notifications, inquiries, and complaints concerning prices and have conducted 4,000 investigations and checks. Of 700 consultations with "originators of price increases," 670 resulted in settlements by mutual agreement; in the remaining 30 instances, the government had to issue orders of compliance. Also mentioned was the "psychological effect" of a network of price surveillance offices authorized to process citizens' complaints and inquiries as well as notifications and justifications of price increases by businesses.

While details of the new decree remain to be worked out, it appears that the modified system would be strictly confined to prices within product categories and industry sectors. No longer subject to monitoring would be wages and profits - under existing rules, this has been conducted in a rather lax form anyway and consisted largely of occasional verbal appeals for moderation. In the future, even more emphasis is to be placed on the surveillance of prices of vital items such as oil, oil products and housing rents.

In related developments, the Price Monitoring Agency has admonished businesses to observe certain guidelines that took effect on Oct. 1 when the turnover tax rate on retail sales went up from 4.4 to 5.6% and that on wholes transactions from 6.6 to 8.4%. These guidelines are designed to cause "only a very modest rise" in the consumer price index and to spread the changeover over a period of several months.

<u>Britain: Package of Measures to Create New Jobs</u>

U.K. Chancellor of the Exchequer Denis Healey outlined on Sept. 24 a £175-million package of measures designed to check rising unemployment in Britain. First estimates suggested that the measures, to be spread over an 18-month period, could generate employment for some 100,000 persons. The program features an extension of the temporary employment subsidy (introduced in August) from "assisted areas" to the whole of the United Kingdom. Under this program, a grant of £10 per week is made to subsidize the employment of workers who might otherwise be made redundant in companies with good long-term prospects, i.e., where skilled labor will probably be needed as world trade rallies. Further, the Manpower Services Commission is to receive a £30-million grant to create some 15,000 new jobs by providing labor-intensive projects - especially for young people and school-leavers - in areas of high unemployment. Special provision is also made to promote jobs for school-leavers generally: companies hiring school-leavers will be paid £5 per head per week for the first 26 weeks of their employment. In addition, a grant of £20 million is to be

New Jobs *(contd.)*

made to the Training Services Agency, and Ŀ3 million is earmarked for projects designed to stimulate labor mobility. Finally, Ŀ80 million is allocated for capital projects and modernization and an extra Ŀ20 million has been made available for the construction of advance factories.

Commenting on the measures, the Chancellor reiterated his view that world recession was the root cause of U.K. unemployment. He added, however, that "excessive" wage settlements were another major contributing factor. It was to be expected, on the other hand, that acceptance by the country's labor unions of the recent Ŀ6-per-week limit on wage settlements until August 1976 would substantially reduce the unemployment figure.

EURO COMPANY SCENE

Flick/ W.R. Grace

Final agreement is expected shortly for the purchase by Germany's industrial holding Flick-Gruppe of 4 million newly-issued shares in W.R. Grace & Co., New York. The transaction, valued at around $100 million, represents over 10% of Grace's present share capital and would make Flick the largest single shareholder in the diversified American concern. The proposed investment is thought to be prompted by Flick's 1974 year-end sale of its 29% stake in Daimler-Benz AG to Deutsche Bank AG for some DM 2 billion - an amount due to be paid on Jan. 1, 1976. Flick, one of Europe's largest privately-owned companies, employs some 63,000 in more than 40 countries, and has interests in chemicals and plastics (notably through its Dynamit Nobel AG subsidiary), explosives, raw materials and industrial equipment. The group showed a net profit for 1974 of DM 75.4 million on total sales of DM 9.3 billion but anticipates a 13% drop in turnover this year. Grace maintains participations in 41 countries in the areas of specialty chemicals and processes, agricultural products, plastics and special packaging items; it reportedly reaped 38% of its 1974 turnover of $3.5 billion from foreign sales.

The new agreement - to take effect early next year - provides for the nomination of three Flick representatives to the Grace board of directors, including chief executive Friedrich Karl Flick, who was employed by Grace in the 1950s.

Aérospatiale/ Dassault-Breguet

Paris reports indicate that the French government has allotted FF 450 million of its economic recovery program for development of a new jet aircraft to be marketed in the U.S. and Canada. With total production cost estimated at FF 650 million, the project is to be undertaken jointly by state-controlled Aérospatiale and the private Dassault-Breguet group. The small business jet, the Falcon-50, is designed for eight passengers and will have a non-stop

Aérospatiale *(contd.)*

flight range of around 5,000 kilometers. About 50 customers so far have placed options for the new plane, which will be ready for marketing sometime in 1979.

Chrysler U.K.

Chrysler U.K. announced Sept. 26 that it would introduce a buyers' incentive program unparalleled in European automobile manufacturing history: unlimited mileage guarantee and a free breakdown service anywhere in the U.K. for the first 12 months, and free replacement of a wide range of components that previously have been guaranteed only if found to be defective. Further, Chrysler has issued comprehensive pre-delivery checklists to all its U.K. dealers. Reaction from other auto manufacturers was varied: some felt that Chrysler's competitors would be forced to follow suit while others claimed that the company's package was simply a "desperation move" to boost sales. Chrysler's share of the U.K. market is estimated at 5% in September 1975, as contrasted with a market slice of between 8 and 9% in the same month over the last five years.

Oetker

Germany's first direct financial involvement in the state of Alaska, to be made by the Oetker-Gruppe, Bielefeld, calls for an $11.5 million investment in an Anchorage brewery, which will be erected on an 80,000-square-meter site acquired in 1974 from the Prinz Brewery. Construction of the edifice is to begin shortly and production is schedu[led] to commence during the summer of 1976, with a predicted yearly capacity of 8.3 million liters of beer.

ICI/ Union Carbide

The U.K.'s Imperial Chemical Industries (ICI) has reached agreement with Union Carbide whereby the British company will assume sole responsibility for European sales of Union Carbide's "udel" polysulfone thermoplastics. Under the terms of the agreement, ICI will, at a later date (1979, according to ICI spokesmen), manufacture polysulfone in Europe: a multi-million pound sterling investment production complex is already in the project study phase.

Rank Xerox

The U.K. Monopolies and Mergers Commission investigation into the British market operations and policies of the Rank Xerox corporation is scheduled for submission to the Secretary of State for Prices and Consumer Protection sometime this month. The investigation relates to Rank Xerox as a dominant supplier of indirect electrostatic reprographic equipment. What remains to be established is whether monopoly conditions exist and, further, whether unfair marketing and patent practices - as already alleged by the U.S. Federal Trade Commission - have been followed.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Action Due on Environmental Proposals

The latest developments in Brussels indicate that two proposals on the agenda of this week's meeting of the EC Environmental Council have a good chance of being adopted immediately or at least at a later date: the European Commission's draft directive to limit the sulfur content in light heating oil and diesel fuel (*Common Market Reports, Par. 9640*) and the proposed Council decision to control the discharge of toxic or dangerous substances into water.

The draft directive would require the member states to enact legislation limiting the sulfur content to 0.5% by Oct. 1, 1976, and further to 0.3% by Oct. 1, 1980. Ireland, by virtue of the disadvantaged situation of its sole refinery, would not have to comply until Oct. 1, 1985, providing a certain processing volume is not exceeded. The Council would be empowered to alter sulfur levels by qualified majority; the Danes have requested a unanimity rule, but Council attorneys considered this a minor problem.

On the matter of coordinating national measures controlling the discharge of toxic or dangerous substances, the Council is called upon to make a basic decision on how

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Environment *(contd.)*

to proceed in the future. The question is whether criteria should be established in a so-called negative list of toxic or dangerous substances or whether pollution control should be carried out by establishing water standards. In past discussions, a compromise had been shaping up that would provide for a combination of both: highly toxic substances such as mercury would be included in the negative list, while less toxic substances (certain synthetics) would be controlled through water standards.

Adoption of this proposal would have to take into account three major conventions on water protection that the member states and the Community have signed or are discussing - the Paris Convention for the prevention of marine pollution from land-based sources, the Strasbourg Convention for the protection of international freshwaters against pollution (prepared by the Council of Europe), and a draft convention for the protection of the Rhine River against chemical pollution. Each of these includes a list of toxic or dangerous substances and places controls on their discharge, although there are inconsistencies among the lists. Other problems of coordination involve timetables, diverging enforcement procedures, and the fact that all three conventions are overlapping to a certain degree. The Rhine, for instance, would be subject to all three.

Joint Policy for Europe's Aircraft Sector

The Commission has unveiled a plan toward a common policy for the European civil aircraft industry. Its main features would be a system of joint authorization and standardization and a switch from national to Community aids. Also, since 60% of Europe's production involves military aircraft, the Commission suggests the establishment of a procurement agency with three basic objectives: coordination of national air force requirements, identification of future common needs, and negotiations with the United States on a reciprocal sales policy.

In underlining the need for a common approach, Commissioner Altiero Spinelli declared that the European industry's financial and technological resources presently are being dissipated by too many projects, which results in wasteful duplication of efforts. Despite high production and performance standards, sales targets are rarely met, and many manufacturers survive only because of heavy government subsidies (currently totaling over $400 million annually for civil aircraft development and production alone). Spinelli said he believed that the European producers should concentrate on special projects similar to that of the Airbus and VFW-Fokker ventures, an approach that should help preserve rather than jeopardize the 400,000 jobs involved.

The Commission's plan reiterates Brussels' position that the absence of a common policy was the primary reason

Aircraft *(contd.)*

for the U.S. success in obtaining the lucrative contracts to supply four European NATO partners with the new F-16 as replacement for the Starfighters. The Commission furthermore complains of a deep divergence of national interests caused by France's refusal to join the U.K., Germany, and Italy in developing the MRCA (multi-role combat aircraft).

Although the Commission has considerably watered down Spinelli's original plan calling for establishment of a single central agency similar to the former High Authority under the Coal and Steel Treaty, it is questionable whether the member states will be prepared to surrender national support of their aircraft industries in favor of a Community approach. Also, with its recommendation for the establishment of a European procurement agency, the Commission is venturing into the military field where it actually has no jurisdiction and where it could collide with the interests of the "Euro Group" of NATO. Although France is not a member of that group, the Commission's plans would include the important French aircraft industry.

In Brief...

Council lawyers presently see no chance of rescuing the European Company draft statute following the inconclusive Oct. 1-3 meeting of the ad-hoc group that was formed prior to the summer recess. Labor representation on the supervisory board was one issue on which the member state experts could not agree, although the Commission had considerably diluted its original draft. Apprehension also was expressed over the fact that the national governments would be unable to control companies choosing the *Societas Europaea* as a form of doing business to the same extent to which they can control domestic companies + + + Hopes for establishment of a lower court to relieve the European Court of Justice from its work as a court of first instance in disputes between EC institutions and employees have been dampened: the Commission has told its Legal Service to stop work on the proposal which the Council had requested last November. Last year, no less than 41 out of the 102 cases before the Court had been brought by Community employees. The Commission fears that an even larger number of employees would take advantage of the new judicial avenue to sue the EC institutions. This would particularly concern the executive branch, which ranks as the No. 1 Community employer with 7,200 employees. Council lawyers believe, however, that the member states will bring up the subject again, since it is also in their interest that proceedings before the Court, particularly those involving businesses, be wound up as quickly as possible + + + Council discussions on the mandate sought by the Commission to negotiate a new type of cooperation agreement with Canada are moving along cautiously, with the obvious aim of avoiding any concessions to the Canadians that could offend the United States or prompt Washington to ask for similar con-

In Brief *(contd.)*

cessions. Still, Council officials believe that the discussions will be wound up within the next two months, so that the Council would be able to establish the Community's negotiating position at the December summit in Rome.

Germany: Compromise Seen on Co-Determination

Germany's government coalition partners, the Social Democrats and the Free Democrats, reportedly are ready to accept a compromise concerning draft legislation that would grant employees equal representation on supervisory boards of large companies (*Doing Business in Europe, Pars. 30,700 and 30,749*). However, the administration has passed the word to proceed slowly in the formulation of the compromise so as to avoid political repercussions prior to the Social Democrats' party convention in November.

Renewed negotiations between the two parties became necessary after legal experts raised questions on the constitutionality of the bill and after the Free Democrats backed off from an earlier compromise. Most recently, as a result of the Bremen state elections which brought the Free Democrats major gains, the party has felt reassured in its self-chosen role as a guardian against too much Social Democrat intervention in the free enterprise system.

The negotiators have been facing three problems in discussing the co-determination bill: how to break voting ties on the supervisory board, how to guarantee shareholders a final say, and how to provide for election and representation of executives of the lower and middle management. By way of making further concessions, the Social Democrats reportedly have accepted the installation of an additional independent board member who would be in a position to cast the decisive vote (it is to be understood that he would side with the shareholders' representatives). Thus, companies with more than 2,000 and less than 10,000 employees would have a 13-member supervisory board: six shareholder representatives, six employee representatives, and the so-called "13th man." Companies with a workforce of between 10,000 and 20,000 and a proposed 16-member board would get an additional 17th member. This solution not only would avoid deadlocks and eliminate the constitutionality issue but also would come close to union demands. Still, the Free Democrats are said to continue favoring election of the supervisory board chairman by the shareholders and giving him a second, tie-breaking vote.

The Social Democrats apparently are also prepared to accede to the Free Democrats' request for direct election of employee representatives rather than through electors as provided in the current bill. They, in turn, have asked their coalition partners to give up, or at least weaken, their demand for a separate election of executives. This special status of the executives has met with strong oppo-

Compromise *(contd.)*

sition, not so much from the Social Democrats themselves as from their powerful allies, the unions.

Britain: Changes in Employment Protection Bill

High on the list of U.K. parliamentary priorities will be renewed debate over the government's industrial relations measure, the Employment Protection Bill (*Doing Business in Europe, Par. 30,780*), following the changes made by the Opposition in the House of Lords. The upper house is Conservative-dominated, so it can safely be predicted that the Commons may reject some of the proposed amendments. In view of the congested parliamentary timetable, however, Commons opposition may be somewhat mitigated, not least because the proposed amendments, though significant, do not challenge the basic principles of the bill.

The key amendments are the following:

- Employers as well as the trade unions would be allowed to refer recognition issues to the Advisory, Conciliation and Arbitration Service. The main aim of this is to enable the unions to secure collective bargaining benefits from an employer who refuses to recognize them at all.

- The Lords have removed the highly contentious proposal in the bill to restrict the appointment of safety representatives to recognized union appointees. This was done on the grounds that the clause unfairly discriminated against employees in unorganized workplaces by suggesting that they should be represented by a nonrepresentative outside body.

- It is proposed that the right of employees - in the absence of collective bargaining agreements - to have their terms and conditions of employment adjusted upward to those pertaining locally for workers with a comparable status should be adjusted to the effect that such a right would **exist only** where pay and conditions are "substantially" inferior. No definition of "substantially" was offered.

- The Lords further have proposed that employers should be released from the bill's provision stipulating that they must make guaranteed payments to employees laid off because of fuel or power shortages beyond the employer's control. It is thought unlikely that this amendment will be adopted, since the employees can surely argue that they should not be made to suffer for a situation that is beyond their own control.

Ireland: Capital Gains Tax Rate Fixed at 26%

The comprehensive system of capital taxation scheduled for introduction in Ireland this year (*Doing Business in Europe, Par. 25,351*) has yet to be fully implemented. The wealth tax bill is now in its final stages, but the capital acquisitions tax bill, which is to levy new taxes on gifts and inheritances, has not been fully considered and is now

Tax Rate *(contd.)*

deferred until the next parliamentary session. On the other hand, the new capital gains tax provisions have now been finalized: the rate of tax has been fixed at 26% (matching the lowest rate of income tax), and the key exemptions to be granted relate to gains derived from the sale of a principal private residence and from disposals on retirement of a farm or business. In such situations, however, the consideration is not to exceed Ł50,000.

France: Paris Rescinds 'Inflation Tax' on Profits

The depressed economic climate and the poor earnings situation of domestic businesses have persuaded the French government to drop the controversial surtax on "inflationary" corporate profits which had taken effect last Jan. 1 without ever being actually applied. The decision to rescind the tax as of Oct. 3, at least for the time being, was announced by Finance Minister Jean-Pierre Fourcade, who explained that the conditions that had led to the introduction of the levy were no longer existent. Originally, the Giscard d'Estaing administration had hailed the new tax as a potent weapon against inflation. But the tax was never collected, even though the price index for industrial products had risen by more than 1.5% during three consecutive months through May 1975. An increase above the 1.5% mark within any three-month period was to have triggered the imposition of the surtax. (Within the June-August period, industrial prices rose by no more than 1.2%.)

However, Fourcade has not entirely relinquished the surtax concept: within the 1976 Budget plan now submitted to Parliament, he proposed to reintroduce the levy should the price index go up by more than 2% within a period of three consecutive months. As under the previous system, the tax would be imposed at a uniform 33.3% rate on corporate profits in excess of 14.3%.

Belgium: Retirement Age for Men to Be Lowered to 64

Beginning next January, male employees who have worked a total of 45 years will be allowed to retire at age 64 instead of 65, the Belgian government has announced. This measure, it is hoped, will open up more jobs for young people who are now unemployed, although the Ministry of Economic Affairs would venture no estimate on how many jobs would thus become available. It was estimated that the action will cost the state approximately BF 1 billion in additional pension benefits next year and perhaps twice that amount in 1977. The measure will not affect the retirement age of women, which will remain at 60.

Also, the government and the unions have reached an agreement in principle on a wage freeze until July 1, 1976, but not on the future of the wage indexation system.

Austria: Socialists Keep Absolute Majority

The Oct. 5 general elections in Austria surprisingly have resulted in exactly the same parliamentary power structure that had prevailed during the previous legislative period: the governing Socialists, led by Chancellor Bruno Kreisky, retained 93 mandates out of a total of 183 and thus kept their absolute majority in the Nationalrat. The opposition People's Party also kept its 80 seats, and the Freedom Party, 10.

The new government is to be installed by Oct. 28; political observers expected few, if any, changes in the Kreisky cabinet.

Norway: Draft Budget Calls for 18% Spending Boost

Referring to the state's obligation to maintain its "activities at a high level" in order to prevent a further rise in unemployment, Norway's Social Democrat minority government has presented a 1976 Draft Budget providing for expenditures to expand by 18.3% to 49.6 billion kroner. Outlays for the exploration and exploitation of the country's offshore oil and gas fields alone are to be increased by 300% to 7.3 billion kroner.

In anticipation of substantial oil revenues in the coming years, the government has no reservations about having to finance an 8.3-billion-kroner budget deficit next year. Finance Minister Per Kleppe announced fiscal adjustments in the total amount of 1.3 billion kroner to prevent the tax progression from causing effective income reductions for low-income groups. Family allowances and basic pension benefits are to be improved as well. Stiffer taxes, however, are scheduled on higher incomes and on tobacco and alcohol. Telephone rates - already among the highest in Europe - are to be raised further.

The Budget plan projects a 7% rise in the GNP in real terms next year, an 8.5% inflation rate (presently 12%), and wage increases of 12.5% in nominal terms. Norway's payments deficit in '76 should amount to 11.5 billion kroner as compared with 14.3 billion expected for this year.

EURO COMPANY SCENE

ESA/ VFW-Fokker

The largest single contract ever to be awarded within the European aerospace industry, valued at more than DM 600 million, has now been finalized between the European Space Agency (ESA) and the German-Dutch VFW-Fokker group. It involves the development and construction of the Spacelab as part of the U.S. Space Shuttle program, for which the first launch has been scheduled for 1980 from the Kennedy Space Center. VFW-Fokker won the contract last year as the leader of a consortium of companies from 10 European countries.

AEG/ Rockwell

Germany's AEG-Telefunken and Rockwell International of El Segundo, Calif., have signed an agreement for the exchange of licenses covering production and technical know-how in the area of micro-processors. According to AEG, the agreement will ensure "continuity" in the delivery of micro-processors by two different producers to European manufacturers at "highly competitive prices." It was estimated that the market volume for micro-processors in Europe will reach DM 500 million by 1980. Micro-processors are small computers operating on the basis of highly integrated semiconductor circuits and are used in such equipment as cash registers, "intelligent" computer terminals, aircraft navigation systems, etc.

Air Products

Air Products SA, Belgian subsidiary of Air Products & Chemicals, Inc.,of Allentown, Pa., has announced plans for construction of a BF 80-million specialty gas plant - one of the first to be built at Belgium's new Keumiêe, Namur, industrial complex. The company's main activities include the manufacture and sale of industrial and specialty gases and the design and construction of cryogenic equipment and air separation plants. Other Air Products facilities are presently under construction in Germany, France, and Scotland, in addition to the British operation, Air Products Ltd.

Carboloy/ BOC

Carboloy Europe, a branch of General Electric Technical Services Co., Inc., has announced the formation of a new company, Carboloy Ltd., in which G.E. will hold an 80% stake and BOC Ltd. (formerly British Oxygen), the remainder. Carboloy Ltd. has acquired the assets of the Production Tool Alloy group, a U.K. cutting tool producer previously completely owned by BOC.

Quelle/ Sears

Europe's leading mail-order house, Quelle Schickedanz KG of Germany, has acquired the exclusive right to sell in Germany and Austria, as of next year, products manufactured by Sears, Roebuck & Co., Chicago. Under terms of the agreement, Quelle is to offer - also under its own brand name - some 100,000 Sears items, primarily hobby and sporting goods. Quelle said the deal does not call for any financial participations. (The German firm has a U.S. distributor for its products - Unity of Hicksville, N.Y.)

Quelle reported a DM 2-billion turnover for the first eight months of 1975. As the world's largest retail firm, Sears chalked up sales of $13.1 billion for 1974. The U.S. company is already active in Europe with a branch in Belgium and a purchasing and sales office in Frankfurt.

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IN THIS ISSUE

Community: Green Paper on Employee Representation

The Oct. 22 publication of the Commission's Green Paper on Employee Representation and Company Structure signals a major step in Brussels' campaign to bring about more understanding of some of its proposals on company law coordination and to get discussions in the Council going again. These discussions have bogged down for some time over the issues of labor representation in companies and a two-board system for stock corporations. The Commission believes that the basic principles proposed in the fifth draft directive on company law coordination - that companies should have a supervisory board in addition to a managing board and that employees be entitled to one-third representation on the supervisory board - are still valid and realistic objectives (*Common Market Reports, Par. 1401*). However, in view of the resistance by some member states, particularly the U.K., the Commission acknowledges that the member states should have a maximum of flexibility to attain these objectives in stages. Discussions in the Council will concentrate on just how much flexibility the member states may want, and the Green Paper presents the Commission's suggestions on the subject.

Few will argue with the Commission's premise that there is a trend in member state legislation giving employ-

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Green Paper *(contd.)*

ees more say in management, whereas the company laws of several states do not reflect reality to the extent that labor, constituting a powerful element in politics and economics, does not have a corresponding voice in management. Yet it is also clear that great discrepancies in national laws could interfere with the normal flow of investments and resources.

As for employee participation on supervisory boards of companies with more than 500 employees, the Commission has several suggestions that would permit employee representation and yet make allowance for the member states' varying labor-management traditions. Regarding the two-board system, the Commission would go along with a transitional period during which a company could choose between the dualist and one-board systems.

Council attorneys believe that greater flexibility will improve the fifth draft directive's chances for adoption. This takes on even greater significance since the likelihood of adoption of the European Company draft regulation can practically be ruled out at the present time.

EC Court Hears Appeal by GM Continental

Attorneys for General Motors Continental, the Belgian subsidiary of the U.S. firm, have denied that their client violated Treaty Article 86 by charging excessive fees for issuing automobile safety certificates in Belgium. Presenting arguments in Case No. 26/75 (*General Motors v. Commission*) on Oct. 7 before the Court of Justice, GM's counsel maintained that there was no fraudulent intent behind their client's procedure in issuing these certificates, which are required under Belgian law before any imported vehicle, new or used, can be marketed in Belgium.

The Court was hearing GM Continental's appeal against a Commission decision last December that fined the company 100,000 units of account for abusing its market-dominating position by charging too much for the certificates (*Common Market Reports, Par. 9705*). The Belgian government had authorized GM Continental to issue certificates for all GM cars in Belgium, and in this respect the company had a kind of market-dominating position.

Prior to fining Continental and once again before the Court of Justice, the Commission claimed that GM Continental effectively shut out competition by independent importers of General Motors cars, particularly Opel cars from West Germany. Commission lawyers argued that Continental was able to discourage importers from bringing Opels into Belgium because of the high fee demanded for a certificate. After receiving complaints from independent importers in 1974, the Commission started investigating Continental's practices under Regulation 17.

GM Appeal *(contd.)*

GM's lawyers also argued that their client charged higher fees only for a very short time and then lowered them even before the Commission started proceedings; in fact, GM Continental reduced the charges as soon as the importers complained to the Commission. The lawyers also declared that because of tough competition, the system did not hamper free interstate trade.

Commission attorneys find it difficult to imagine that the Court would accept the claim by company lawyers that GM was unaware that it could be infringing on EEC competition rules and that it had no intent to act fraudulently.

The Court's judgment is expected sometime in November.

In Brief...

Commission lawyers have completed a draft directive on consumer credit, and the Commission is expected to submit the proposal to the Council by the end of the year. Consumer protection, not so much harmonization of national rules, was the Commission's primary motivating factor + + + Work on the third-country list denoting those countries that could export meat and livestock to the EEC has stopped for the time being because of the low priority given to it by the present Council chairman (Italy). On the other hand, the Italians have pulled from Council files the draft directive on public supply contracts that was supposed to have been adopted by the end of '74. Council officials do not deny that the Italians have a greater stake in making progress on harmonizing national procedures for the award of public supply contracts than in aligning veterinary rules. The officials point out that if both proposals were discussed at the same time, some other draft would have to be set aside because of the Council's limited conference space and manpower resources (only 15 working groups can meet on any one day, and interpreters are borrowed from the Commission) + + + The Commission is considering a proposal on minimum Community standards that would assure employees of back pay in case their employer goes bankrupt. Commission lawyers are aware, though, of the difficulties inherent in any legislative attempt in this direction, since Treaty Article 118 does not offer a basis for Council directives (it merely leaves the Commission the task of promoting close cooperation between member states), so any measure would have to be shored up under Article 100 or 235.

Netherlands: Government Plan on Basic Worker Rights

As part of its continuing drive for more social equality, the Dutch government reportedly intends to present in the near future draft legislation that would amount to a "bill of rights" for employees and to which critics have already referred as a "new catalog of duties for employers." According to reports from The Hague, the draft law would ba-

Rights *(contd.)*

sically follow proposals contained in a report on "individual employee rights" that was prepared by the Social Democrat party group in Parliament, of which Prime Minister Joop den Uyl is a member. The authors are advocating "standards for democratic human relations" within enterprises out of concern over the fact that too many employees are simply regarded as wage earners and enjoy no additional status. The basic worker rights, according to the report, would include:

- the right to be informed about all essential aspects of corporate life and activity;
- the freedom to express an opinion about the activities of the company and its management and to an exchange of opinion - on the job and away from it - on the labor policies of the company, even with outside institutions;
- the right to equal treatment of all employees - for instance, as concerns work clothing issued or the mode of job-related travel.

Other rights would include the right to strike, the right to refuse to work for religious or other important reasons (for instance, on a certain day of the week), and the right to additional paid leave for the purpose of attending "socio-political activities" (presumably job-related). The Social Democrats, according to the reports, would like to have this bill of rights laid down in the form of an introductory law, the details of which would have to be negotiated by the employees and the unions in consultation with the employers.

France: Parliament Debates Urban Land Reform

The French government's bill for an urban land reform, which has been the subject of stormy debate in the National Assembly the past two weeks, has been described by President Giscard d'Estaing himself as "a test of the willingness" of all political parties to curb real property speculation and excessive prices and to control the density of construction in France's cities. If passed, the law would put certain limits on the rights of property owners (of which there are some 14 million in the country), and thus the bill has encountered stiff opposition and has been made the subject of numerous proposed amendments.

The government-sponsored draft legislation leans mainly on two provisions which would establish 1) limits on the extent of construction on a site and 2) a preemptive right for the municipalities. Within the framework of a *plafond légal de densité*, construction in urban centers would be subject to a coefficient of 1 and, in Paris, of 1.5. This would mean that, in cities other than Paris, a 1,000-square-meter piece of property could be built up to an equivalent of 1,000 square meters of floor space. A "density tax" would be imposed when this ratio is exceeded.

Land Reform *(contd.)*

For instance, should total floor space double the ratio, the builder would have to pay a levy equal to the price paid for the property. Of this, the community would keep 75%, while the remainder would flow into a central (presumably national) fund. Total revenue from the proposed levy has been estimated at FF 2.5 to 3 billion annually. The funds thus raised would be used by the communities to intervene on the local property markets on their own behalf and acquire properties needed for parks, recreational facilities, social housing, and other municipal projects. Such interventional acts would be authorized by the second major provision of the law, which would empower communities with more than 10,000 inhabitants to exercise a preemptive right in purchasing real property, though strictly on the basis of "market prices."

The proposed law is seen by the government as a way of dealing with the excesses caused by the country's rapid industrialization and the population rush to the cities since World War II as well as by inflation. Until the current economic recession, real property prices in the cities have risen by an average 15% annually, in Paris even by 25%. As a result, building activity in city centers has concentrated on commercial and office properties and on luxury-type dwellings, replacing low-rent housing and thereby leading to what has been termed "social segregation" by forcing low-income sections of the population to relocate on the fringes of the cities.

The government's bill does not provide for an actual property tax. Still, much of the parliamentary debate centered on an amendment proposed by Gaullist deputy André Fanton, who demanded the introduction of such a tax as the only effective way of dealing with the problem but who found no support for his proposal within administration ranks.

Surtax on Heating Fuels; Tax Changes for Oil Firms

Within the scope of the recently submitted Budget plan, the French government has placed a surtax on purchases of heavy heating fuels in order to compel industrial users to reduce consumption. A decree that took effect on Oct. 1 provides for an additional levy of FF 150 on each ton purchased in excess of certain limits determined by total consumption in the year 1973. On the average, the surtax will be imposed on fuel purchases exceeding 87% and up to 113% of 1973 totals. Not affected are businesses using less than 1,000 tons of fuel per year. Revenues gained from the tax may not exceed 0.4% of the turnover of businesses affected, and they will flow into a national fund that is to provide financial aid toward energy-saving investments.

Another government move in the energy sector relates to the fiscal treatment of oil companies, specifically as pertains to reserve funds set aside for new explorations.

Surtax *(contd.)*

The maximum percentage of such tax-favored reserves in relation to earnings is to be lowered from 27.5 to 23.5%, Paris reports said. Furthermore, the maximum amount of tax-free reserves allowed as compensation for exchange rate fluctuation on the international markets is to be cut by one-third, according to the reports.

Britain: Labour Doubts on 10-Percent Inflation Goal

In the wake of the recent Trades Union Congress and the Labour Party Conference, certain Labour members have publicly voiced doubts over the assurances given by the government that the increase in prices in Britain will be at most 10% by this time next year. The "magic" 10% figure represented a persuasive argument for the country's labor unions since - in the light of the £6-per-week limit on pay increases in the attack-on-inflation campaign - this percentage increase would, on the average, maintain the real value of gross incomes. Now, however, and in line with many private forecasts, Foreign Secretary James Callaghan was heard to say that inflation would fall to "12 to 15%" by next autumn and that the 10% target would be pushed back to the end of next year.

Government figures published on Oct. 9 have demonstrated that the drop in the U.K.'s living standards continues: soaring prices and rising taxes have contributed to a 3% fall in real disposable incomes between the first and second quarters of 1975, the largest drop since such records were first kept over two decades ago. It is argued that the government could check this slide by either pruning taxes or curbing public expenditure. The very close links between the two tend to make any such argument circuitous, many experts believe: the most recent figures on public expenditure show an alarming 47% increase in the first half of the 1975-76 financial year, while central government revenue increased by a "mere" 31%. It would seem, therefore, that even the occasional euphoria of the TUC and the Labour Party conferences was less than justified, observers have noted.

Italy: Warning on Another Record Budget Deficit

The Italian budget deficit next year may possibly climb to a record 17,000 billion lire and thus again confront the government with extremely tough financing problems, Budget Minister Guilio Andreotti and Treasury Minister Emilio Colombo have told Parliament in submitting the administration's 1976 Draft Budget. This shortfall would be about 2.5 times as high as this year's and would necessarily require massive public borrowing, with all its negative consequences for the economy.

The warning caused some shock in Rome, in particular since the new Budget plan already provides for an 11,500-billion deficit, with expenditures scheduled at 38,072 bil-

Deficit *(contd.)*

lion lire (up 7,658) and revenues projected at 26,556 billion (up 3,355 billion). Also, it was revealed that the combined debt of the communal and local governments in Italy has now accumulated to 20,000 billion.

In his Budget message to the Senate, Andreotti emphasized the necessity for Italy to return to an austerity policy by way of drastic measures curbing the consumption of products with a high import value. Specifically, Andreotti advocated restrictions on the consumption of oil products and beef as well as a "buy Italian" campaign to persuade private households to rely more on domestically produced goods. On the basis of the latest statistics, the Budget Minister said, the government entertains little hope for an improvement of the domestic economy before the latter half of '76.

Colombo, for his part, listed several priorities for the government's fight to overcome the crisis: a boost of industrial production, containment of the local-level debt and reduction of the social welfare deficits (which will grow to 2,000 billion lire by the end of next year), and the fight against tax evasion. It was as part of his message to the Senate that the Treasury Minister revealed the strong possibility of a "latent" finance gap of 6,000 billion lire on top of the 11,500-billion deficit already planned for.

EURO COMPANY SCENE

CGR/ GEM

Cie. Génerale de Radiologie (CGR), medical equipment subsidiary of France's Thomson-Brandt, has announced the takeover of General Electric Medical, Belgian subsidiary of General Electric Co., New York. GEM, employing some 700, distributes electro-medical equipment manufactured by G.E. and also produces such equipment at its own Liège plant. In the past business year, it had sales of FF 120 million. CGR, which reported 1974 net profits of FF 19.3 million on a turnover of FF 1.2 billion, accounts for 54% of its sales from foreign operations. CGR's international expansion efforts presently include plans for two plants in India and Mexico.

Rehault/ Genesco/ Arno

Rehault of France and the United States' Genesco Apparel, joint owners of U.K. shoe retailers Clarks, have acquired an 80% stake in France's retail shoe chain Arno, which has some 50 outlets in Paris and other major French cities. Financial details were not revealed.

Delacre/ Campbell Soup

Construction of a second biscuit production center at Lambermont, near Verviers, Belgium, has been completed by NV Biscuits Delacre SA, a subsidiary of Campbell Soup Co.,

Delacre *(contd.)*	Camden, N.J. The facilities represent an investment of $11 million and cover an area of 18,000 square meters.
Borregaard/ Koplik	Borregaard A/S, the Norwegian pulp and paper group, is to sell U.S. waste paper and other raw materials on the European market following an agreement with the New York company H. Koplik & Sons, Inc. The waste paper will be made available through Borregaard's existing sales network in the EEC, Austria, and Norway. Borregaard reports that the relatively low recirculation of paper and cardboard on the American domestic market opens considerable possibilities for such exports.
DNO	DNO (Det Norske Oljeselskap A/S), the Norwegian oil company, will move its exploration and production division to New Orleans because of the "prevailing political conditions" in Norway. Like all private Norwegian oil companies, the firm conducts most of its prospecting activities abroad. A separate oil exploration and production company already has been established in New Orleans to undertake drilling operations in the Gulf of Mexico. DNO's head office will remain in Oslo.
Imperial Tobacco/ ICI	The U.K.'s Imperial Tobacco and Imperial Chemical Industries, which have spent some £4.5 million on research, development and toxicity testing of "new smoking material" (NSM), are unconcerned by short-term medical test results published in the most recent issue of a leading British medical journal, "The Lancet." The projected 30%:70% NSM/ tobacco mixture was examined by four doctors from Edinburgh University's Dept. of Medicine. Their conclusion: that the 30:70 blend is "no better and no worse" in terms of smoker safety than ordinary cigarettes. The major potential marketmakers (Imperial, Courtaulds, and the United States' Celanese Corp.) can point out, however, that the tests as yet have not been able to assess possible long-term effects.
E.F. Hutton/ Poppe	The U.S. brokerage house E.F. Hutton International, New York, has merged its German subsidiary with the Hamburg grain brokerage firm Poppe & Co. The new company, to be known as E.F. Hutton, Poppe & Co. GmbH, will start out with a capital base of DM 100,000. It will deal directly in commodities such as cereals and grains, soybeans, and vegetable oils on the German domestic market as well as engage as a broker on the international commodity markets.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Court Tightens Competition Rules

The European Court of Justice once again has stood up for the free movement of goods within the Community by closing a minor gap thus far left open in EEC competition rules and case law. In effect, the Court said that parties to exclusive distributorship agreements could not count on having their agreements exempted from the ban of Treaty Article 85(1) when a manufacturer prohibits domestic dealers and other buyers from exporting products under contract to the distributor's territory in another member state. This kind of agreement comes within the scope of Article 3 of Commission Regulation No. 67/67 (*Common Market Reports, Par. 2727*), even if the dealers and buyers in the distributor's territory have the opportunity to buy products under contract within the Common Market but outside the manufacturer's home state.

The dispute (Case No. 25/75) arose when an Italian brush manufacturer (Dalle Crode) and a Dutch manufacturer-distributor (Van Vliet) disagreed over the latter's exclusive rights to sell the products within the Benelux territory. Dalle Crode had agreed to ensure that its Italian dealers and other buyers refrain from exporting brushes to the Benelux countries. At issue was whether the fact that

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Competition *(contd.)*

other Dutch dealers and consumers had an opportunity to obtain a large quantity of the products from other states (although none of them ever did) could preserve the status of exemption for the agreement under Commission Regulation No. 67/67. Accepting both the Commission's and the Advocate General's arguments, the Court of Justice interpreted Article 3 of that regulation to mean that agreements of this type may not benefit from Article 85(3). The Appellate Court of Arnhem may now settle the dispute accordingly.

In Brief...

Since the Council working party discussing the sixth draft VAT directive has not been able to make any headway for several months, the member states' finance ministers will get together on Nov. 24 to seek a way out of the impasse. The standoff has resulted primarily from the Italians' insistence on exempting real estate sales from value-added tax and extending special treatment of agricultural commodities beyond what the other states are either practicing through reduced rates or are prepared to concede. Italy even wants to exempt some commodities entirely + + + National industry lobbies are preventing a breakthrough in Council discussions on the 1972 Commission proposal on safety glass for motor vehicles. An Italian manufacturer holds a patent for plate glass that experts consider to be best and safest. The Germans and French, under pressure from domestic manufacturers, so far have refused to agree on a type of glass that, in order to meet the common safety standards, would be very similar to that covered by the Italian patent + + + After having given Paris ample time to come up with a face-saving move in the wine dispute, the Commission now has formally started proceedings against France under Treaty Article 169. The Commission believes that since prices of imported wines have gone up by 10%, the French government has lost even more legal terrain in the defense of its tax (averaging 11%) on wine imports from other member states.

Netherlands: Profit-Sharing Bill Due by End of Year

Draft legislation on the introduction of employee profit-sharing in the Netherlands probably will be completed by the end of this year, administration spokesmen have announced. The proposed system - to be embedded in the government's broader designs for incomes redistribution - already had been outlined in an "interim note" last summer. Of particular interest to businesses in that respect was the proposal for the "redistribution of asset growth" of enterprises that are subject to corporation tax - a redistribution that would benefit a company's employees as well as the national work force. According to these plans, "excessive" corporate profits were to have been channeled into a central fund. Now, however, a spokesman for the Social

Profit-Sharing *(contd.)*

Affairs Ministry has said that no final decision has been made yet as to whether such a fund would be set up on a national basis or whether separate funds would have to be maintained by the enterprises. The spokesman did confirm that the government is seeking to allocate 300 million guilders toward a fund or funds, even for 1975. This would indicate that The Hague intends to accede to the unions' demands that the profit-sharing system be implemented next year at the latest and that it be made retroactive to '75.

In related news, Holland's three major labor federations - in a statement directed to the lower house of Parliament - have agreed not to seek a "general" increase in wages next year. But they did insist on the necessity of maintaining purchasing power at least up to an annual wage level of 23,000 guilders. This would mean that those earning less would receive increases and that those earning more would have to accept reductions. The procedure also would include compensation payments of 245 guilders per worker for each percentage point of inflation - at this rate, employees in the 23,000-guilder bracket would be assured of covering about half of their inflation losses.

Belgium: Labor-Employer Talks on Wage Indexation

Representatives of Belgium's labor federations and employers' associations currently are locked in negotiations over the future form of the country's wage indexation system, with the eventual outcome of these talks expected to partially answer the question of how the government will fare with its new economic support program. One of the more sensitive elements of this program is the attempt by the Tindemans administration to revamp the rigorous indexation system by widening the periods of automatic pay adjustments, by working out a new base for the cost-of-living index itself and by, perhaps, excluding higher incomes entirely.

The most persistent pressures for modification, if not abolishment, of the system naturally have come from the employers. They argue that the practice of granting automatic pay raises in step with consumer price rises is to blame for as much as two-thirds of Belgian inflation and constitutes an unfair burden on businesses. In view of the economic recession and the poor position of many enterprises, the employers apparently are convinced that it is "now or never" to settle the issue. The unions so far have shown little inclination to retreat and, in fact, have let it be known that any compromise on wages would be expected only if the index were maintained: only in that case would they consider "restraint" on wage demands beyond the automatic, index-based increments.

With both sides firmly entrenched in their positions and no immediate agreement in sight, many observers have

Indexation *(contd.)*

been pointing to the danger of a major confrontation by the end of the year when numerous collective bargaining contracts come up for renewal.

France: Assembly Okays Urban Land Reform Bill

By a vote of 283 to 185 (with 10 abstentions), the French National Assembly has passed and sent to the Senate an urban land reform bill that basically follows the government's original draft. To the satisfaction of the administration, the lower house did not change the bill's two main provisions that would limit, by way of a levy system, the extent of construction on a site and would grant certain preemptive rights to municipalities. Not passed was a hotly discussed proposal by Gaullist deputy André Fanton seeking introduction of a regular property tax; instead, the Assembly voted to shelve this issue by turning it over to a study committee.

More News on Capital Gains Tax Study

As of mid-month, Paris reports still differed on whether the government-commissioned special study on the introduction of a capital gains tax actually had been officially published or whether it had been merely leaked to the public. In any case, revelation of further details was enough to cause a brief decline in stock market prices and revive the discussions over the issue.

It now appears that the study recommends that virtually all capital gains be subjected to taxation, including those from speculation. Affected would be transactions involving real property, securities, foreign exchange, gold and other precious metals, and antiques and art objects (the latter, if their value exceeds FF 10,000). Also taxed would be gains from French assets held abroad, whereas the study reportedly makes no firm commitment on gains from assets owned by nonresidents in France. Furthermore, there seem to be no clear proposals regarding the tax treatment of capital losses and the consideration of inflation effects on gains.

Germany: Bonn Moves to Reduce Drug Prices

In a bill proposed to Parliament, the German government has moved to slow annual price increases of drugs, thereby putting a damper on soaring costs in the public health service as well. Bonn's formula includes a 3.4% reduction of pharmacists' markups (currently ranging from 35 to 74%), introduction of a maximum markup for drug wholesalers, and cutting from 7 to 5% the rebate granted to the health insurance funds when they pay for drugs prescribed for the insured. The legislation also would promote more competition in the sale of nonprescription drugs, which would no longer be subject to government price controls when sold in pharmacies and other retail outlets.

Drug Prices *(contd.)*

The bill would, however, give legislative approval to the current practice by druggists of selling prescription drugs at manufacturer-recommended prices. Presently it is legal but considered unethical to sell below the recommended price. Government officials believe that price competition among pharmacists in the area of prescription drugs would not necessarily benefit the public.

Competition also is to be furthered by establishing a commission that would prepare lists indicating the composition, healing properties, side effects, and prices of important drugs. The government hopes that these lists would enable doctors to become more price-conscious when prescribing drugs. The 13-member commission would be made up of representatives of the health insurance funds, drug industry executives, physicians, pharmacists, and consumers.

In a related matter, the German pharmaceutical industry has announced drastic cutbacks in the promotion and advertising of drugs. According to spokesmen, last year's total expenditures for drug samples and promotion material made available to doctors amounted to DM 490 million and for advertising to DM 300 million (1974 sales totaled DM 7.2 billion). The exact extent of the reductions is to be determined at next month's meeting of the national drug manufacturers' association.

Henry Ford II Warns of Extended Co-Determination

The board chairman of the Ford Motor Co., Henry Ford II, speaking on the occasion of the 50th anniversary of the company's German subsidiary in Cologne, has cautioned against the notion that "if a degree of co-determination is good, then vastly more co-determination must be even better." Ford thus clearly took a position on the government's plans to extend employee co-determination even further and said he believed that the business outlook in Germany has become "somewhat less certain" because of the legislative plans in this area.

Referring to the subject in some detail, Ford raised no objections to the current form of co-determination, saying that Ford Germany has been operating "successfully" under the Works Constitution Act and its revision since 1952 and that, generally, the works councils and the employee representatives on the supervisory boards had always shown a high degree of responsibility and loyalty. However, he professed to be "deeply concerned over proposals that would give professional trade unionists, not elected by our work force, direct representation on our supervisory board. It is difficult to imagine that such outside union representatives, who probably would sit on the supervisory boards of several companies, could approach problems with the same company loyalty as our own elected employees."

Ford expressed even more concern over any proposal that would keep the shareholder representatives from having

Henry Ford *(contd.)*

a final say in corporate policy and in the selection of the executive board: "Such a denial of the basic rights of ownership seems inconceivable to me." In ending his remarks on this subject, the Ford chairman said it would be "a great tragedy" if German industry were to lose its international competitiveness because of "well-intentioned but crippling social legislation."

Britain: EEC Insists on Haulage Rules Compliance

The European Commission has "censured" Britain and has intimated that it might take the U.K. to the European Court of Justice in the event of non-compliance with Community regulations in regard to employment conditions prevailing in the haulage industry. The U.K. government had, in effect, requested a two-year postponement of the application of EEC rules limiting road transport drivers to an eight-hour instead of a 10-hour day and, moreover, had asked for an indefinite postponement of the fitting of tachographs to drivers' cabs. The Commission, in reply, stressed that Britain had committed itself to these regulations when it became a member of the Community. Non-compliance would therefore constitute a breach of the U.K.'s obligations under the Rome Treaty.

Britain's Freight Transport Association, the country's employers, and the labor unions have all criticized the EEC regulations, albeit for different reasons. The FTA, noting that it would be physically impossible to comply by Jan. 1, 1976, also pointed out that tachographs and revised driving hours would cost the road haulage industry some £650 million per year. The employers find these costs prohibitive and bemoan the potential "loss of flexibility." The labor unions regard the tachographs as "spies in the cab" and, moreover, as a threat to their members' earnings.

The current disagreements between the Commission and Britain were not confined to the road hauling sector alone, though. Emotions were also running high at Britain's intransigence over oil pricing: despite charges that it is being "un-European," the U.K. continues to insist on a high floor price to protect the country's North Sea oil interests. At the same time, another squabble developed over proposals to control pollution in rivers, lakes, and the sea. Here, Britain and the other eight member states remain as far apart as ever on the issue of setting strict, long-range standards by way of a Council of Ministers decision. The U.K.'s Environment Minister Denis Howell reportedly surprised his EC colleagues by saying that there is no need to involve the Community, since it is sufficient if the member states establish relative standards of their own.

Sweden: Major Program to Stimulate Economy

In opening the new session of the Swedish Riksdag, Prime Minister Olof Palme has presented a government program that includes a 2-billion-kronor stimulative package to help the economy weather the recession, which is expected to deepen this winter. The economic plan - backed by the Liberal and Center parties but opposed by the Conservatives - sets aside 725 million kronor for private industry. Of this, 200 million are to be spent on helping enterprises build up their inventories and on aiding production for this purpose. More than 100 enterprises - primarily in the steel and iron and pulp and paper industries - will benefit from substantial tax reductions on electric power and fuel consumption (250 million). For capital equipment investments undertaken between October 1975 and December 1976, businesses may take advantage of additional tax write-offs.

A number of other planned measures have the purpose of forestalling a rise in unemployment by stepping up public orders both for the construction sector and industry in general, improving retraining programs, and creating additional trainee jobs in the public services.

Following an expected export slump of 8% this year, the government is projecting a 6% increase next year. Demand should expand by 3% and the GNP by 1-2%. Not much of an improvement is seen for the balance of payments: the 9-billion-kronor deficit likely to accrue by the end of 1975 should be followed by another shortfall of 7-8 billion next year. As concerns inflation, the government is hoping that the easing of international price pressures will enable the Swedish rate to shrink from 10% presently to about 7%.

EURO COMPANY SCENE

British Steel

British Steel Corp. has announced it will invest some £40 million in a new company to be incorporated in Canada for the purpose of mining and pelletizing ore. The participation would give BSC a 41.7% stake in the proposed company. Majority shareholder will be state-owned steel producer Sidbec of Montreal, with a minority 8.23% stake going to Quebec-based Cartier Mining Co. BSC also stated its intention to raise the funds for its new investment from foreign banking sources.

BSC/ McKinsey/ Peter War

In other developments, BSC has commissioned U.S. consultants McKinsey & Co. and Britain's Peter War Associates to prepare proposals on attracting new industries to areas in North England, Scotland, and Wales where thousands of steel workers might lose their jobs within the next few years because of the company's rationalization programs. BSC hopes to recoup about half of the costs for these studies through European Coal and Steel Community funding.

National Steel/ Southwire/ Bauxites Parnasse

The United States' National Steel Corp. and Southwire Corp. are to invest some $125 million in a joint venture with Greece's Bauxites Parnasse Mining to establish an alumina plant on the Gulf of Corinth, according to Athens reports. Eventually, total investment is expected to reach about $250 million. The plant's initial production capacity is estimated at 600,000 tons of alumina. The two American companies reportedly will handle processing of the alumina through their joint U.S. subsidiary, National Southwire Aluminum.

Beker

Beker Industries Corp., Greenwich, Conn., plans to invest an initial DM 32 million for construction of a fertilizer production plant in Germany. Another DM 10 million has been earmarked for subsequent expansion. The contract was signed by Beker Germany, the state of Lower Saxony, and the city of Brake, near Bremen, where the facilities will be located. It calls for additional expenditure of DM 6.5 million for the improvement of state-owned Brake Harbor, with Beker to assume 1.6 million of that amount. The plant is to produce around 210,000 tons of fertilizer per year from phosphates imported from the United States.

Naarden/ UOP

One of the world's leading producers of flavors and fragrances, Naarden International of the Netherlands, has reached agreement in principle with UOP (formerly Universal Oil Products) of Des Plaines, Ill., to purchase UOP's fragrances division, according to Amsterdam reports. No financial details were released on the transaction, which is expected to be finalized early next year and for which official approval is still pending. The sale of UOP's fragrances division - with branches in 10 countries and estimated sales of $30 million - reportedly was prompted by the company's shifting of emphasis to the fields of energy, environmental resources, and technical products.

Fieldcrest

Fieldcrest Mills, Inc., the New York-based textile company, has announced its intention to build a £15-million towel plant at Kilkenny, Ireland. The decision for this production and distribution center had been preceded by marketing tests in Europe and was influenced by the availability of state financial incentives from the Republic of Ireland. Eventually, the plant is to employ some 1,200. Fieldcrest maintains 12 plants in the United States and reported sales of $300 million last year.

Common Market Reports

EUROMARKET NEWS

Issue No. 355 *Report No. 278, November 4, 1975*

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IN THIS ISSUE

Community: Discrimination Issue before European Court

The European Court of Justice will soon have an opportunity to supplement its case law on the issue of discrimination when it hands down its preliminary ruling in *R.C. Coenen et al. v. Sociaal-Economische Raad, The Hague* (Case No. 39/75). Last April, a Dutch court asked the Court of Justice for such a ruling on the compatibility with EEC Treaty Articles 59 and 60 of a provision in the Dutch law controlling activities of insurance brokers. That provision makes admission to such activities subject to the condition that the individual reside in the Netherlands. Coenen, a Dutch insurance broker, had obtained a brokerage license while still a Dutch resident. He lost it through government action after moving to Belgium and sued the Dutch government. However, the Dutch court suspended proceedings in order to get an answer on the issue from the Court of Justice.

After *Van Binsbergen*, in which the Court of Justice invalidated any discrimination based on residence (*Common Market Reports, Par. 8282*), there would seem to be no room for this form of discriminatory treatment. However, the Dutch government and several other member state governments maintain that *Binsbergen* is not applicable here because

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Discrimination *(contd.)*

that case involved a member of a chartered profession (legal consultant), while Coenen wants to engage in a non-chartered profession. It is also argued that *Binsbergen* pertained only to the right of establishment, not to the freedom to provide services. Commission attorneys believe that the Court of Justice will reject these arguments because they do not conform to the legal situation developed by the Court through its integrating case law.

Bonn Urges Pragmatism on Integration

It may very well be that the German government's new attitude toward the EC institutions and its partners in the Common Market could signal the beginning of a more pragmatic approach in the policies of European integration. The Schmidt administration has urged the Council and the Commission to concentrate on improving existing policies rather than conceiving new long-range concepts that have little or no chance of being put into practice.

So far, Bonn has come up with two concrete suggestions. First, any revamping of the common agricultural policy must start with putting some responsibility on the producers in order to avoid what are called economic miscarriages (for example, the butter mountain). Secondly, a special commissioner should watch constantly over Community expenditures and hence would have much broader powers than the Court of Auditors. (Establishment of this court was approved by the Council last July, but the new institution is not functioning as yet; the convention still has to be ratified by the national legislatures.)

Germany also has given notice to its partners that they can no longer count on disagreement among members of Schmidt's cabinet when it comes to footing substantial Community bills. While Bonn has agreed to quarrel no longer over minor expenditures, its consent to the allocation of major EC funds would depend on whether any proposed expenditure conforms to the EEC Treaty and whether it serves the process of integration (which would shed a different light on any future refusal to pay).

Germany's new position has developed over the past months and has now been officially communicated to the EC institutions and its partners. Reaction in Community circles was not as negative as might have been expected, considering Bonn's recent record of refusing to foot EC expenditures or consenting to them only reluctantly. Council and Commission officials privately have expressed understanding for the philosophy behind this new attitude. They say that it would make sense in the common agricultural policy to get away gradually from an over-perfectionist sole price support system by letting producers share responsibility for surpluses. Also, they do not expect that Community taxpayers will forever support the milk

Integration *(contd.)*

price system and the butter mountain to the tune of nearly half a billion dollars annually. The difficulty, of course, is to convince some of the other member states, especially France, to accept such a new turn in the agricultural sector.

In Brief...

Ratification by the 55 parties to the Lomé Convention (46 African, Caribbean, and Pacific countries and the nine EEC member states) is proceeding at the anticipated pace, so that Council of Ministers officials expect the treaty to go into effect during the first quarter of '76 + + + Government experts and Commission officials discussing the preliminary draft bankruptcy convention for the purpose of adjusting it to the legal concepts of the three EC newcomers are reporting progress in overcoming a major obstacle: secured rights and special preferences of claims in case of bankruptcy. The concept of preferences, rather detailed on the Continent, is unknown in the two common-law member states, the U.K. and Ireland.

France: Paris Moves to Stiffen Price Controls

In order to counteract renewed inflationary pressures on the domestic economy, the French government has announced another clampdown on prices as well as tighter surveillance of cartels and mergers. In opening the National Assembly debate on the 1976 Budget, Finance Minister Jean-Pierre Fourcade also urged the country's employees and labor unions to show restraint in their wage demands, pointing to the inflationary impact and threat to employment any excessive settlements would have.

Concerned by the consequences that reawakening consumer demand could have on price levels, the Finance Minister plans to extend to additional product categories the freeze on trade margins that has been in effect for some time. Also, the authorities intend to fix the ratios of purchase and sales prices for product areas in which irregularities have occurred. Fourcade described the upcoming regulations as "strict, but necessary" and said they would affect wholesalers and retailers as well as importers.

The government has invited trade and industry to comment on the procedures contemplated and their effect on product categories before the new rules are implemented. Businesses also will be given the option of signing so-called "price stability contracts" with the government; in fact, negotiations to that effect already are under way in some trade sectors.

As part of his Budget speech, the Finance Minister further announced that Parliament would soon receive draft legislation designed to improve surveillance of cartel

Price Controls *(contd.)*

agreements and impose additional merger controls. Businesses were warned again that any undue acceleration of price inflation would prompt the administration to reintroduce the profits-margin tax that has just been abolished.

The government's tougher stance comes at a time when the French economy shows distinct signs of recovery, though evidently at the expense of higher prices and unabated unemployment. After monthly increases of around 0.7% throughout the summer, the inflation rate again went up to 0.8% in September, which was considerably higher than the official 0.5% target. Failure by wholesalers and retailers to pass on lower producer prices were cited by Fourcade as a prime reason for this development.

Italy: Compromise on Bonuses for Tax Personnel

The Italian Finance Minister and the unions representing public service employees have come up with a tenuous compromise on the Minister's proposal to grant special allowances to the personnel of the tax offices and fiscal administrations in order to speed up tax processing and collection and thereby ensure the inflow of revenue that is badly needed to sustain Italy's strained state finances. The agreement is to the effect that these unprecedented extra benefits be paid only temporarily and that certain concessions be made to other employees in the public services as well. The unions, in return, will not insist on immediate government decisions concerning investments, employment, and industrial promotion in the Mezzogiorno, the southern regions.

The original draft legislation submitted by Finance Minister Bruno Visentini and already approved by the Senate provided for a kind of "hardship allowance" (*indemnità di presenza*) for the overworked personnel of the understaffed tax offices. Visentini, as well as Deputy Premier Ugo La Malfa, a fellow Republican, insisted on the need for such an incentive to prevent a further manpower drain in the tax administration, catch up with the tremendous backlog of unprocessed returns, and keep the tax reform efforts from collapsing. Last summer, the tax personnel had staged strikes of up to three months, and both Visentini and La Malfa had threatened to resign from the cabinet if the issue was not resolved.

As part of the compromise deal, the government has consented to the temporary nature of the allowance, which now is to be paid only until the work backlog has been cleared. Even so, this will mean total expenditure of 21 billion lire this year, it was estimated. (Also, critics are unconvinced that the "temporary" allowance will not become a permanent benefit once the controversy has died down.) The government further agreed to make advance payment toward still-to-be-negotiated pay increases for some

Bonuses *(contd.)*

500,000 employees working for the rail system, the post office, and other state enterprises. These advance payments of up to 27,000 lire per month per employee are to be retroactive to July 1.

Benelux: Summit Topics Include VAT Harmonization

Among the subjects discussed at a two-day Brussels summit meeting of the Benelux governments was the problem of harmonization of value-added tax within the three-country economic union. Speaking only for their two countries, Belgian premier Leo Tindemans and his Dutch colleague, Joop den Uyl, expressed confidence that this harmonization could be achieved within a reasonable period of time. Luxembourg's Gaston Thorn, on the other hand, said that any attempt to bring up his country's VAT rates to the higher Dutch and Belgian levels would be certain to encounter stiff political opposition at home. Still, the three partner states were able to set a timetable for two other fiscal coordination measures: harmonization of excise duties and abolishment of certain border-crossing formalities involving VAT payments in intra-Benelux travel.

The three governments further pledged to seek common positions in as many political and economic areas as possible and to present these positions with a single voice both within the European Community and outside. The Benelux leaders restated their disappointment over the fact that their countries have not been invited to the economic summit of the "Big Six" this month in Paris. They pointed out that the Benelux economic union constitutes the western world's fourth-largest economic power, after the United States, Japan, and Germany.

Germany: West Berlin Tax Incentives to Be Modified

All three political parties represented in the German Bundestag have jointly introduced several amendments to the Berlin Aid Law that would offer additional tax incentives to service industries located in that city. West Berlin firms rendering qualifying services could claim a turnover tax reduction amounting to 10% (at present 6%) of the consideration received. However, the proposed amendments would also take away some of the turnover tax advantages now enjoyed by West Berlin and West German businesses engaged in the manufacturing, processing, and converting of products in West Berlin plants.

Current law entitles a West Berlin manufacturer who sells goods to a West German customer to reduce the turnover tax by 4.5% of the sales price. The West German customer in turn may reduce his turnover tax payable to the government by 4.2% of the price. To attract new industries to the city, which depends heavily on federal grants (these totaled nearly DM 3 billion last year), a West Berlin manu-

Tax Incentives *(contd.)*

facturer may reduce his turnover tax liability by 5% of the price if he increases the value of the product by more than 50% through manufacturing, processing, or converting (*Doing Business in Europe, Par. 23,408).*

Aware of the fact that West Berlin's economic status and viability also depend on its role as a center for national and international services, the sponsors propose turnover tax benefits for Berlin-based firms and individuals that offer consulting, planning and engineering services anywhere outside the city. For example, present rules entitle an advertising or public relations agency to turnover tax benefits only to the extent that its services culminate in a proposal for a promotion campaign. This means that preparatory services such as market research do not qualify.

In the past, there have been numerous abuses of the West Berlin tax preference system as well as competitive distortions with respect to some products. Also, the city government seems to lack interest in some industries (for example, waste processing). Therefore, the lawmakers have proposed cuts in the various tax preferences, especially for meat, coffee, and copper products. West Berlin firms bringing in livestock from the West, having it slaughtered in local slaughterhouses, and transporting the meat back to West Germany could claim only 3% instead of the current 4.5%. Similarly, a business importing coffee beans for roasting in West Berlin could claim only half of the present tax benefits - 2.25% instead of 4.5%.

Britain: Questions on Future of Slater Walker

Following the abrupt and unexpected departure of British financier James Slater from Slater Walker Securities on Oct. 24, the Bank of England was forced to take decisive action to maintain City confidence in the secondary banking sector. Such action was deemed necessary since Slater's decision to step down - prompted by affairs involving the Hong Kong and Singapore companies of the financial conglomerate - had an immediate effect on the London market.

Soon after the news broke, the Bank of England implied its intention to stand behind SWS should this prove necessary. First indications were, though, that - despite plummeting share values - the company was still healthy. On the other hand, SWS's most recent financial figures dated back some 10 months, and there were suggestions that the company had since taken a rather "unconservative" view of writedowns, particularly concerning its property holdings.

A first step toward restoration of confidence in the SWS group was the emergence of Rothschilds and Hambros as joint merchant bank advisers and the appointment of chartered accountant Sir Ronald Leach as an adviser to the board. Incoming as SWS chairman was James Goldsmith, a

Slater Walker *(contd.)*

long-time Slater associate and head of the Anglo-French food and financial group that includes Génerale Occidentale, Bovril, Allied Suppliers, and others. It remained to be seen, of course, if this powerful City "team" would be able to stop a run on SWS deposits. In his resignation announcement, Slater said that he considered himself to be a liability to the company that bore his name. There were those who wondered, however, whether his decision would or would not prove even more of a liability to Slater Walker's future.

Portugal: Tougher Rules on Currency Transfers

In a further move to contain black-marketeering and the flight of capital from Portugal, the Lisbon customs authorities have imposed new controls on currency and capital transfers. With immediate effect, residents may not be in the possession of foreign currencies for more than 30 days, and all conversions must take place at authorized institutions only. Any person crossing Portugal's borders - whether citizen or foreigner - is restricted to 1,000 escudos. Foreign exchange transfers out of the country are limited to 20,000 escudos per year for Portuguese citizens above the age of 18. Violations of these rules are punishable by prison terms ranging from two to eight years.

Earlier, the Finance Ministry reported that the country's payments deficit had reached 17.4 billion escudos for the first nine months of this year and should total 30 billion for all of 1975. This would approximately double last year's deficit. The increasingly precarious situation was chiefly attributed to rising costs of imported raw materials, foodstuffs, and fuels (8 billion escudos this year through September) and the drop-off in tourism revenues and money transfers from abroad.

In related developments, reports from Brussels indicate that it may take awhile before Portugal actually will be granted the 150-million-UA, low-interest loan from the European Community, should the European Investment Bank prevail in its conservative lending practice. The EIB always insists on triple assurances: a collateral from the borrower, an affirmative decision of its board of governors (the member states' finance ministers), and a commitment by the member states in case the debt is not paid off.

Switzerland: Parliamentary Vote Brings No Big Changes

The Swiss parliamentary elections of Oct. 26 have resulted in no major political shifts and should have only negligible effects on the country's four-party coalition. The most sizeable gains were scored by the Social Democrats, who won nine additional National Council seats for a total of 55 and added another in the upper house for a total of five. The Christian Democrats also gained two mandates in the 200-seat National Council, for a total of 46.

Elections *(contd.)*

Even before the elections, both of these two parties, as well as the remaining government partners, had made it clear that there would be no changes in the coalition, which has been in power since 1959. There was some speculation, though, that the Social Democrats might exert a little more pressure in the joint efforts to shape the legislative programs for the next four-year session.

EURO COMPANY SCENE

Chrysler U.K.

Troubled Chrysler U.K. has announced plans to operate its Ryton (Coventry) plant for a total of eight days this month and for three days in December. The proposals have been countered by labor union suggestions that a complete shutdown in December would be preferable since the 3,000 men laid off would then qualify for additional earnings-related supplementary payments (which are payable after the first six days of a layoff period).

In the longer term, the Chrysler layoffs are likely to result in renewed union pressure on the government to introduce crisis measures: unemployment levels in the Coventry area are at their highest in over 30 years. A crisis package presumably would make provision for the region to be declared a special assistance area. Recent appeals to the European Community to have Britain's West Midlands treated as a special case were unsuccessful.

Pfizer France/ Coty

As part of what a Brussels spokesman for Pfizer Europe described as an "internal reorganization," one of the older French perfume makers, Coty, is being merged into its parent company, Pfizer France. For this purpose, Pfizer France will issue 33,119 new shares nominally valued at FF 100, with each share exchangeable for six FF 50 Coty shares. Coty originally was acquired by the Pfizer pharmaceutical group in 1963.

Hoffman-La Roche

Hoffman-La Roche, Inc., the U.S. subsidiary of the Swiss pharmaceutical manufacturer, for the time being has shelved its plans for a vitamin production plant at Freeport, Texas. According to these plans, the plant would have required an investment of $150 million and was to have employed 500.

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EUROMARKET NEWS

Issue No. 356 *November 11, 1975*

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Community: No Big Changes Expected for Farm Policy

Long before the agricultural ministers' Oct. 29-30 meeting in Luxembourg, it was clear that chances for basic changes in the common agricultural policy (CAP) were slim, since Germany stood rather alone with its reform plan that would have had farmers share the responsibility of surplus production and would have placed a ceiling on annual fund increases for CAP financing. These ideas would not necessarily have conflicted with the primary objectives laid out in the EEC Treaty - namely, increasing productivity and income, stabilizing markets, and ensuring supplies at reasonable prices (*Common Market Reports, Par. 405*). But strong resistance from France, the main CAP beneficiary, as well as from Belgium and the Netherlands blocked any move toward putting Germany's plan into practice.

The nine ministers did agree, though, that CAP could do better and that there are areas of marginal improvement as described in the Commission's stocktaking analysis, requested by Germany in late '74. If the Nine can agree on specific improvements this month, the heads of government could take up the matter at their Dec. 1-2 meeting and come up with clear instructions for both the Commission and the Council. One important area will be finding additional ways to speed up farm modernization, which would enable

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Farm Policy *(contd.)*

large farms to produce more efficiently, to a certain extent discouraging small farming and thus reducing aid given now. Another topic is the system of compensatory amounts that are levied on exports of agricultural commodities in order to offset losses farmers suffer from revaluation of their national currencies. This system has benefited German farmers, but it has also penalized consumers because it reintroduced different price levels in the member states and thus distorts competition.

Waning Chances for Accord on Export Credit

Hopes for progress toward a gentlemen's agreement on export credit insurance, export guarantees, and export financing are fading, since the nine EEC member states have failed again to reconcile their differences. A draft agreement had been discussed among experts from the EEC, the United States, Japan, and other OECD members, but there were many delays in the talks, which started in early 1973. This was partially because of disagreement among the EEC member states, but also because of U.S. insistence in late 1974 on broadening the scope of the draft agreement to include conditions other than interest rates and duration.

Aside from the apparent failure so far to coordinate national export financing and credit insurance policies on the broader scale of the OECD (the members account for almost two-thirds of world trade), even coordination efforts on the Community level seem to make no progress. France still insists on a 7.5% interest rate for credits to East Bloc countries that purchase French capital goods, while the other eight member states favor a minimum of 8%. Since these differences could not be resolved at the October meeting, the agreements reached on other issues are of little help. The Nine were more or less in accord on credit periods and the percentage of the first payment: a maximum period of 5, 8.5, or 10 years, depending on the per-capita income of the recipient country, and a 15% or 20% downpayment.

Commission efforts to coordinate member state policies on export credit insurance and export guarantees and financing started nine years ago but failed to produce tangible results in the Council of Ministers. Originally, both France and Italy, whose generous credit terms to exporting industries give them a competitive edge, refused to relent in their policies, which are clearly contrary to Treaty of Rome intentions (*Common Market Reports, Pars. 2922.10 and 3592*). Italy eventually did come around to accepting a common denominator recommended by the Commission, but France has not.

Failure to achieve full agreement at the EEC level has been counter-productive in that Germany is planning to improve its guarantees to exporters, thereby hoping to reduce

Export Credit *(contd.)*

the competitive disadvantage that German exporters suffer in comparison to others, especially French firms.

Britain: The Pros and Cons of Import Controls

U.K. Secretary for Trade Peter Shore has given a clear warning that Britain is quite prepared to "take action against imports" in the event of a major British industry being "really threatened." Shore's warning, delivered on a recent trip to Brussels, reflects the growing pressure exerted on the government by the country's labor unions to take protective action on behalf of U.K.-manufactured automobiles, television tubes, textiles, and footwear.

There are a number of arguments against imposition of such controls, and these have undoubtedly influenced Chancellor of the Exchequer Denis Healey not to commit himself to anything more than "narrowly selective controls in an emergency." Britain could opt for a "safeguard" under Article 19 of GATT, but it has consistently rejected such a move in the past, primarily because that Article provides that the affected exporting countries be offered compensation and, moreover, have the right to retaliate. Imposition of import controls is also rendered problematic in the light of Britain's EC membership.

Most important, however, is the fact that import controls can effectively result in a closing of many of the country's options in respect of borrowing overseas - which Britain is almost certain to do in view of its balance-of-payments deficit. The borrowing facility provided by the International Monetary Fund, for example, would be jeopardized if any trade restrictions were imposed. Further, if Britain were to seek a loan from the Middle East under the European Community guarantee program - whereby the Community borrows from an oil-exporting state under a "collective" guarantee and then re-lends to Britain - the chances of Community approval will be greatly diminished should the U.K. institute protectionist moves.

Belgium: Collapse of Employer-Labor Wage Talks

As many observers had predicted, Belgium's employers and the major labor union federations have been unable to reconcile their differences over the future form of the controversial wage indexation system and related topics. Following the abrupt termination of the talks, the government was forced to review the situation in terms of both its incomes policy plans as outlined in the recent economic stimulation program and the need to forestall the outbreak of major labor conflicts. There was speculation that, in view of the potentially explosive nature of the issues involved, the Leo Tindemans administration would first seek to revive the dialog between the two sides before considering any statutory step on incomes policy.

Wage Talks
(contd.)

The employer representatives actually had been prepared to give in to union demands that the wage indexation system be maintained, though only on the condition that the unions would "hold still" and not insist on any pay increases beyond the automatic increments granted on the basis of the cost-of-living index. The employers further sought a 2% reduction of their present social contributions burden. They pointed out that wage costs in Belgium already have risen by an average 18% this year as compared, for instance, with 6-7% in Germany.

The unions, in turn, topped their list of demands with the call for more effective measures against unemployment. Specifically, they advanced a proposal whereby older employees would be enabled to opt for early retirement, thus creating up to 40,000 job openings for younger people. To ensure the financing of such a program, the unions recommended that the employers set up an equalization fund to which profitable sectors (for instance, the chemical and oil industries) would contribute in favor of weaker industries. While the employers indicated that they would not oppose a general concept of early retirement, they did reject the idea of an equalization fund on the grounds that this would again drive up costs.

France:
Paris Moving Quickly on Price Controls

The French government has set the end of this week as the deadline for reaching agreement with various trade sectors on the price margins of products that will fall under the extended price control system. These margins will be made subject to so-called "multipliers" - for instance, a retail price may not exceed FF 120 if it is based on a purchase price of FF 100 and a multiplier of 1.2. This system has been in force since last June for 14 product categories, including numerous foodstuffs and cleaning products. Now it is being extended to additional categories such as clothing, footwear, leather goods, furniture and furnishings, hygienic and cosmetic articles, jewelry and watches, and photographic equipment. Thus, about 25% of all retailed products will be covered by controlled prices, a fact that has prompted loud complaints of too much government intervention at the retail level.

For those product categories that are to be included in the system and for which agreements cannot be achieved by Nov. 15, the government will unilaterally fix price multipliers. The "price stability contracts" that producers and trade sectors may enter into in lieu of fixed margins are to run for a six-month period, i.e., until May 15, 1976. During that time, producers also would be released from the provisions of the overall "price programming" agreements that were first established in 1972 between industry and the administration. These agreements essentially call for obligatory notification prior to planned price increases.

Germany: Leftists Push for Investment Reporting

Observers of the German political scene are not expecting any surprises when Chancellor Helmut Schmidt addresses the Social Democratic national party convention in Mannheim on Nov. 12. He will come out again against direct investment controls, which party leftists have been demanding, and there is agreement that any resolution in this direction (several will be voted on during the convention) will be defeated by a majority of the delegates. But business leaders are somewhat concerned about yet another motion that calls for the establishment of a national office for investment reporting. Party chairman Willy Brandt and other party leaders, who are also opposing investment controls but less determinedly so than Schmidt, are supporting the idea on grounds that the government knows less about what is going on in the field of investments than the management of a medium-sized multinational corporation. Actually, the government already has proposed legislation (*Doing Business in Europe, Par. 30,820*) that would give it the statutory power to obtain the facts on all facets of investments made by German individuals and corporations abroad as well as by nonresidents, individual and corporate, in Germany. But a national investment office would have the power to gather comprehensive data on investments planned and made by residents in Germany.

Brandt has pointed out that even in the absence of statutory investment controls, the government heavily influences investments in the fields of transport, energy, and low-rent housing. However, he too is opposed to any move that would interfere with management's decision about whether or not to invest.

The chances for establishment of a national investment reporting office have improved since the recent national party convention of the Free Democrats (FDP), the government coalition partners. Although even more opposed to investment controls than the Social Democrats, FDP leaders apparently would go along with the plan. A continuation of the present coalition seems likely (although the FDP will not announce its coalition intention until next May) if the voters give both parties a combined majority in the next national election, to be held in October 1976.

Switzerland: Concern over 'Camouflage' Property Firms

The Swiss authorities are watching with growing apprehension the proliferation of property firms operating in the form of small shareholding companies. Many of them, it is believed, are basically in business to "camouflage" real estate acquisitions by foreigners and to circumvent the tough official permit procedures required for such purchases. A number of legal obstacles, including the bank secrecy statutes, are making it exceedingly difficult for the authorities to trace certain transactions conducted through these companies. It is suspected that a considerable

Property Firms *(contd.)*

amount of foreign oil money is now being invested in valuable Swiss properties without official approval. According to Zurich reports, the government is concerned enough about this to consider tightening the implementing rules of the Aug. 1, 1975, decree on real estate purchases by foreigners (*Doing Business in Europe, Par. 30,813*).

As of that date, Bern had relaxed restrictions for some 100 communities and tourism centers in order to avoid hardships for the local economies and to aid the ailing construction sector. In essence, the revised rules allow builders and developers to sell to nonresidents up to 75% instead of 65% (in terms of value) of condominium and other projects. Generally, this move has not yet resulted in the elimination of overcapacities - by the end of the summer, some 35,000 condominium units were still reported unsold. However, certain cantons are now reporting renewed demand from abroad. The authorities of Ticino, for instance, are working on a backlog of unprocessed applications, primarily from Italians. (It seems that it is also in Ticino where most of the property shareholding companies are springing up - reportedly "half a dozen" per day.) Similarly strong demand by potential French buyers also has been reported from the western cantons.

As of this time, no official figures are available on the trend of foreign real property purchases in Switzerland this year. Following the termination in January 1974 of the absolute ban on such acquisitions, the authorities last year approved 3,147 applications for a total value of SF 759 million. This was about one-third less than in the year 1971, before the 1972-73 freeze went into effect.

<u>Greece: Tax Increases Not Ruled Out for Next Year</u>

In view of the fact that revenue intake this year is falling far short of original projections, the Greek Finance Minister has not ruled out tax increases for 1976, although it probably won't be possible to introduce the proposed value-added tax by then. The persisting economic recession has left the government not only with less income from direct taxes but also from customs duties, which have declined because of the import slowdown. According to procurement lists published earlier, the government this year has scaled down its own purchases abroad to 6.9 billion drachmas, which would be about one-third less than in 1974.

Athens' economic course and budgetary planning in 1976 again will be determined by the need for frugality and austerity. Prime Minister Constantine Caramanlis only recently held out hopes for "considerable economic progress in one or two years," but he also made it clear that much belt-tightening was required until then. Monetary stability rather than fast economic expansion will be the guiding

Tax Increases *(contd.)*

principle in eliminating the "legacy" left by the previous military regime in the form of a 30% inflation rate, enormous payments deficits, and an uncertain economic climate. (Another factor, of course, is massive defense spending, which officially takes up 25% of budget expenditure, but possibly more.) Meanwhile, the rate of the consumer price index has been brought down to 12%, the payments situation has noticeably improved, and business confidence has been restored to a large degree.

It is true that the government's cautious approach is not finding favor everywhere. The business community and many economic experts feel that now is the time to step in with forceful credit incentives to promote investments and production in order to overcome the domestic recession. This also would have to include tax benefits rather than a higher tax burden which, it is feared, could well result in renewed price pressures.

EURO COMPANY SCENE

CSC/ Thomson-Brandt/

Computer Sciences Corp. of Los Angeles reportedly has completed arrangements with France's Thomson-Brandt electrical group for the latter's SAMM subsidiary to acquire a 75% equity in CSC's French company, Computer Sciences International France. The Thomson-CSF combine in turn is to take a majority interest (reportedly 66%) in ECA Automation, which specializes in computerized air traffic control systems. The two deals will serve to strengthen cooperation between Thomson-Brandt and CSC and should help the French group to improve its domestic position in the mini-computer and peripherals sectors.

Singer Germany

Singer GmbH, subsidiary of the Singer Co., New York, plans to end production of industrial sewing machines in Germany with the closing of its Blankenloch (Karlsruhe) plant next year. The move, according to a company spokesman, is necessitated by the "dramatic" decline in worldwide demand for these machines as well as by the devaluation of the dollar and higher manufacturing costs in Germany. More than 90% of production is for export, primarily to the United States. The Blankenloch plant, which went into operation in 1968, last year incurred a 30% sales slump to DM 55.2 million, with no recovery in sight. Management and works council are now negotiating a "social plan" for the 600 employees who would be affected. Singer will continue producing industrial sewing machines at Elizabeth, N.J., and in Britain.

Singer Italy

The Italian Ministry of Industry has called a meeting for Nov. 13 to discuss the fate of some 2,000 employees who would lose their jobs if Singer Co. actually were to shut

Singer *(contd.)*

down its appliances plant at Leini (Turin Province). As previously reported, the company has been negotiating with the regional authorities in efforts to find a buyer who would guarantee existing jobs. Closure of the facilities appears imminent following the breakdown of negotiations with an unnamed Swiss group, which also operates an Italian household appliances plant in Asti Province.

Torrington

In related news, the Genoa city authorities have ordered the seizure of the Sestri Ponente plant of the Torrington Co. (Ingersoll-Rand), which had been occupied by its 530 employees after the company decided to liquidate the loss-ridden operation. The plant had produced industrial sewing and knitting needles. According to press reports, the city authorities apparently took possession of the facilities to pressure the Industry Ministry into action.

Amoco/ Elf

Amoco Germany, subsidiary of Standard Oil Co. of Indiana, has announced it is pulling out of the German oil market as of Jan. 1 with the sale of 396 gasoline stations and three distribution offices to Elf Petroleum GmbH, German subsidiary of France's state-owned Elf-Aquitaine concern. Not affected by the deal will be Amoco's Patchogue Plymouth branch, which manufactures synthetic materials for the carpeting industry at its Gronau/Westphalia plant. With the takeover, Elf will build up its network of stations to about 900 (eventually to be reduced to 700), thus moving up to the No. 9 rank in the German oil market. Elf previously had acquired the 200 German stations of Oxy.

Ethyl Belgium

A plant for the production of aluminum alkyl catalysts for the polymer and chemical industries currently is under construction by Ethyl SA, wholly-owned Belgian subsidiary of Ethyl Corp. of Richmond, Va. The facilities require an initial investment in excess of BF 500 million and are located on a 50-hectare site in the industrial zone of Feluy, along the Brussels-Charleroi Canal. Operations are to begin in the second half of '76.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: European Parliament Vote in '78?

Brussels observers see a good chance that the heads of government will make a policy decision on direct election of the European Parliament (EP) when they meet in Rome on Dec. 1-2. This optimistic outlook is based on the outcome of the Nov. 5-6 meeting of the nine foreign ministers. The only remaining issue to be settled is a disagreement over the election date. Eight states want the election to take place throughout the Community at the same time - on one or two days in 1978 - in order to give the electorate a sense of European identity, while the British have not as yet committed themselves. However, Community officials believe that a consensus could be achieved next year should the Rome meeting fail to result in complete agreement.

The foreign ministers' report and recommendations drew heavily on the EP's draft convention adopted last January (*Common Market Reports, Par. 9713*), according to which the future EP would consist of 355 members (double its present size), who would be elected by universal suffrage for five-year terms. At least the first election would be held according to national rules, so that requirements on voting age and a candidate's minimum age would be the same as

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Elections
(contd.)

those governing election to national legislatures. Each member state could decide whether a representative to the EP could also be a member of his home state parliament, which is current practice.

Community officials respond to criticism that direct elections will not gain additional powers for the EP by pointing to the new prestige that might help in the Parliament's drive for more powers, thus gradually changing it from a consultative body to a law-making institution. A start in this direction was made by giving the EP the final say over nonessential expenditures as of this year. This excludes major budgetary items such as the common agricultural policy and confines the Parliament's grip on the Community purse strings to administrative expenses totaling up to 5% of the overall budget, but it nevertheless demonstrates that the EP is slowly gaining in stature.

Eased Rules Sought on Movement of Vehicles

The Commission has called on the Council of Ministers to further relax conditions for the duty-free movement within a member state of private vehicles owned by residents of another state. The plea is contained in a draft directive that would make it mandatory for a member state to exempt from turnover, excise and registration taxes all motor-powered road vehicles (except commercial vehicles) temporarily imported from another member state. The tax exemptions, which would apply for a total of six months in any 12-month period, would benefit primarily individuals moving temporarily to another state for private or business reasons. Gasoline taxes and highway tolls levied in the country of temporary importation would not be included in the exemption.

A private car imported temporarily for business use would also be exempt for six months in any 12-month period from turnover, excise and registration taxes, provided that the individual importing the car retains his principal residence in his home state, does not use the car for transporting passengers, and does not lend or sell it in the importing state. Tools, commercial literature, and non-marketable samples carried in the vehicle would also be exempt if their value does not exceed 125 units of account.

Commission attorneys point out that adoption of the directive would avoid double taxation and cut red tape in border-crossing formalities, although the member states could still require proof of residence. Also, it would lead to substantial relaxation of current conditions for duty-free use of vehicles by individuals within the Community. These conditions have been established in two international conventions to which all member states adhered: the International Convention Relating to the Temporary Importation of Private Road Vehicles (signed in New York on June 4, 1954) and the International Convention on Taxation

Vehicles (contd.)

of Road Vehicles for Private Use in International Circulation (Geneva, May 18, 1956).

In Brief...

The preliminary draft directive on labeling of foodstuffs now being discussed by manufacturer and consumer organizations as well as by national governments is considered to be the most progressive piece of consumer legislation thus far proposed by the Commission: it would require a raising of standards even by those member states that are most advanced in this field. National manufacturer and trade organizations are especially opposed to the proposed rules requiring expiration dates for slowly perishable products like sugar, flour, and rice + + + Council discussions on a Commission mandate for negotiating a new type of cooperation agreement with Canada have shifted emphasis in that the agreement would be strictly a Community accord instead of being based on a joint Community-member state approach, as originally planned. The new strategy would avoid conflict situations requiring an evaluation of what action would be within the jurisdiction of either the EEC or the member states. The Canadian government asked for this clarification after France had expressed reservations about the original concept + + + According to Brussels sources, the Commission will redraft once more its draft directive on product liability to reflect the comments received from national manufacturer associations and independent experts. The Commission probably will submit its third and final draft to the Council early next year.

Belgium: Proposal for One-Year Stop on Incomes

Moving faster and more decisively than had been expected earlier, the Belgian government has reacted to the breakdown of employer-labor talks by submitting an "anti-crisis program" on the basis of a one-year freeze on incomes. The Leo Tindemans administration obviously felt it had no other choice in the matter, since all its previous measures - including a price freeze imposed earlier in the year - had done little to slow domestic inflation. Also part of the program is a BF 39-billion work procurement plan to be implemented as soon as possible and designed to safeguard some 47,000 jobs (primarily in the construction sector) for at least one year.

In brief, the proposed legislation contains the following points:

- The terms of all collective agreements that were to expire after Oct. 31 will remain in force for another nine months, beginning on Jan. 1. Index-based automatic pay adjustments will be allowed only up to BF 40,000 per month of gross wages and salaries.
- Businesses granting extra benefits beyond the index-based adjustments will not be permitted to apply these costs toward their tax deductions. In fact, such payments are

Incomes *(contd.)*

to be made subject to a 48% special levy, which is to flow into a yet-to-be-established "solidarity fund." Further, these companies would not be given authorization to effect planned price increases.

- In cases where 1976 corporate earnings exceed those of 1972-74 by more than 10%, the businesses concerned will be subject to an additional levy equal to one-tenth of corporation tax due. Revenue from this extra tax also is to flow into the solidarity fund.
- Dividend payments for 1975 may not exceed 1974 levels. Compensation paid to supervisory board members is limited to 75% of 1974 payments. Rents as well as fees and charges of the professions and of many services will remain frozen at current levels.

The government furthermore intends to subsidize the early retirement of elderly employees in companies with at least 50 employees. Eligible for early retirement at 80% of previous pay would be men above the age of 62 and women above the age of 58, providing the jobs they relinquish will go to people below the age of 30. The retirees would receive 60% of their last earnings from unemployment insurance funds (up to BF 25,000), while the employers would pay half of the difference between this amount and previous earnings.

Britain: Tripartite Pledge to Halt Economic Slump

Prime Minister Harold Wilson has announced that the U.K. government, industry, and labor unions have pledged to fully support a coordinated effort to reverse the country's economic slump. Following a top-level meeting of the National Economic Development Council, Wilson declared that the aim of the exercise was "to transform a declining economy into a high-output, high-earnings economy...based on full employment."

Among the main points of the tripartite strategy were:

- Detailed statistical analyses of 30 key industrial sectors;
- examination of the need to ease - selectively - price controls to stimulate manufacturing industry investment levels;
- the release of more government funds to bolster industrial investment and coordination of policies affecting industrial efficiency;
- a reappraisal of the unemployment picture and greater emphasis on training and retraining programs to stimulate labor mobility; and
- the establishment of a "five-year framework" plan to take full account of the likely developments in world trade and the competitive position of British industry.

Further, the government envisages a classification of industries into three categories: "those likely to be suc-

Pledge *(contd.)*

cessful; those which have potential for success, given appropriate action; and sectors of industry whose performance is most important to the rest of industry." In regard to the third category, it was understood that specific aid programs would be instituted in such flagging sectors as machine tools and iron and steel.

The most immediate criticism leveled against this "common strategy" was that it was long on good intentions and short on practicality, with Wilson himself conceding that its success depended on its being realistic, flexible, and capable of avoiding policies of confrontation. On the other hand, it was noted that the need to promote industrial efficiency more directly through additional finance and improved management should be self-evident in Britain's present situation.

Warning on Import Curbs; Reactions to Sandilands Plan

Following a Treasury announcement on Nov. 7 that the International Monetary Fund had been informed of the U.K. intention to apply for a large loan, the British government stressed that it had not as yet pledged to avoid taking any action, such as the imposition of import controls, that could be deemed in restraint of trade. Such a condition is considered "standard" in regard to any borrowing under the IMF oil facility.

It was therefore not totally unexpected that the Chancellor of the Exchequer would announce the government's readiness to apply "selective, short-term import controls" in order to protect industry sectors that could be economically viable but which "could be wiped out by external competition in the present recession." Such an announcement came on Nov. 11, when Chancellor Denis Healey addressed the parliamentary Labour Party. It was not immediately clear how his warning would affect the IMF oil facility application: Treasury sources said that there was "no great urgency" in the U.K. request - it had been submitted in order to allow the Fund to "plan the disposition of the remaining resources in the facility." This disposition would be for 1 billion special drawing rights under the oil facility and a further 700 million SDRs in regular IMF borrowings, for a total equivalent of £975 million.

In other developments, the recent Sandilands Committee Report on Inflation Accounting has been given a qualified endorsement by the U.K.'s professional accountancy bodies. While accepting that the current cost accounting system proposed is "acceptable and practicable," the professionals continue to insist, however, on supplementary information indicating changes in the purchasing power of invested capital - an echo of the accountancy bodies' earlier proposals for current purchasing power accounting.

Netherlands: New Agency to Coordinate Industry Aid

A new Bureau for Special Corporate Affairs (BBB) has been established in The Hague to coordinate the government's program of financial assistance to Dutch enterprises with more than 100 employees. Operating under the aegis of the Economic Affairs Ministry, this "welfare agency for businesses" was primarily set up to facilitate processing of a mounting number of applications for aid: so far this year, the Ministry reportedly has received more than 600 applications, half of which still need to be acted upon. Allocations approved thus far totaled approximately 300 million guilders, usually in the form of low-interest credits. In some cases, however, financial assistance takes the form of straight subsidies; in others, the state makes the granting of aid dependent on acquiring partial control of the enterprise involved.

Three major criteria are applied in reviewing an application for public aid: 1) whether such assistance would actually help the company to regain its financial health, 2) the number of employees, and 3) whether, in the event of default or closure, the employees would be able to find other jobs within a reasonable period of time.

In establishing the BBB and in redefining its industrial aid policy, the government has practically fulfilled the objectives of the country's three major labor federations for an "institutionalization" of public assistance businesses. Whereas previously this policy was basically confined to the granting of credits and subsidies, it now is often guided by the question of whether it would be in the interest of the state to acquire an equity in the debtor companies, especially medium-sized and larger enterprises. Through these direct participations, the government evidently hopes for more direct control of industry. The most recent example of such a participation involved Nederhorst, one of the Netherlands' leading building companies, a major part of which was taken over jointly by the state and the Ogem group.

Germany: Bonn Considers Ban on Price Recommendation

The German government is considering an amendment to the Law against Restraints on Competition that would prohibit manufacturers from recommending prices for their products. Many items would be exempt from the ban, but they have yet to be specified. Since the beginning of 1974, when the ban on price maintenance took effect, manufacturers have been allowed to recommend prices, but the recommendations do not have a binding character (*Doing Business in Europe, Pars. 23,506-7*). Administration officials have not concealed their disappointment over the fact that the ban did not have the hoped-for effect of lowered prices. The government believes that if a manufacturer is not allowed to recommend prices at all, wholesalers and retailers might be

Prices *(contd.)*

more inclined to calculate prices on the basis of lower margins.

Government attorneys have indicated that the bill might include yet another amendment, to be aimed at curbing abuses of marketing power by trade enterprises. Action would depend on the extent of voluntary adherence by businesses to the government's code of ethics. In November 1974, the government had published a list of some 25 types of abuses by chain and department stores and individual retailers. What Bonn hoped to achieve was to give trade enterprises a chance to curb the practices voluntarily. The government believes that retailers sometimes pressure manufacturers into granting low-interest loans or favorable sales terms and making one-time or recurring kickbacks when certain brands are ordered or displayed in favorable store locations. Other abuses are manufacturer grants toward advertising costs, rebates on large orders, and putting up or rearranging displays at the store owner's request in order to have an assured outlet for a product. Small and medium-sized enterprises can seldom afford to offer such extras, of course, and may ultimately be driven from the market as a result.

Antitrust experts are well aware of the difficulties involved in drafting legislation, considering that there is freedom of contract and that not every favorable term extracted from the manufacturer by the retailer could be labeled an abuse.

Greece: U.S. Companies Relocating from Lebanon

The civil war raging in Lebanon apparently is one of the reasons for the efforts of an increasing number of U.S. companies to establish operations in Greece. According to a report from Athens quoting a U.S. embassy spokesman, at least 40 to 50 American firms have applied for authorization to set up a Greek base, some of them planning to relocate from Lebanon. The report also cited "a reliable source" for the information that American investments in Greece totaled at least $320 million in the years 1957-74, which would be more than 50% of all foreign investments in that country during that period. The Athens government reportedly is in the process of preparing draft legislation that would further promote the current inflow of American capital, which is being viewed with "great satisfaction."

EURO COMPANY SCENE

Hoffmann-La Roche

After a two-year wrangle between the U.K. government and the Swiss pharmaceutical giant Hoffmann-La Roche, in the course of which the company's pricing policies came under heavy criticism not only in Britain but throughout the

La Roche
(contd.)

world, the two parties have now agreed to an out-of-court settlement. La Roche will refund to the government £3.75 million of its excess profits from the sale of the tranquilizers Librium and Valium. In return, it is permitted to raise the U.K. price of Librium by 50% and of Valium by 100%. The amount paid back is far below the £11 million in excess profits the company was deemed to have made on the two drugs between Jan. 1, 1970, and April 23, 1973, at which later date the British government accepted a Monopolies Commission recommendation and served a price-cutting order on La Roche. The discrepancy between the two figures was "justified," however, on the ground that the company's prices have effectively been frozen for the past two years.

Meanwhile, an appeal against a similar price-cutting order issued by the German Federal Cartel Office is still pending before the Berlin Appeal Court. Also, last July, the European Commission formally charged La Roche with violations of EEC competition rules and with unfair marketing practices in the vitamin sector. In the interim, the company appears to have adopted a markedly more conciliatory approach, as evidenced by its agreement to drop earlier allegations of impropriety against the U.K. Monopolies Commission and the government.

Preussag/
Kaiser
Aluminum

After nearly three years of negotiations and legal disputes, Germany's Preussag AG and Kaiser Aluminum and Chemical Corp., Oakland, Calif., have agreed on the restructuring of their unprofitable KAPAL aluminum group. The deal follows the German Cartel Office veto earlier this year of the proposed takeover of Preussag's interest by Vereinigte Aluminium-Werke (VAW). Under the new arrangement, Kaiser is to take over Preussag's 50% share in the group's Koblenz and Berlin plants and two plants in Switzerland and Belgium. The smelting operation at Voerde (Germany) is to be converted into a joint partnership, with Kaiser - as the partner with unlimited liability - to assume management of the company by the end of this year. The KAPAL group, which was set up in 1969, last year employed 2,500 and accounted for about 13% of German aluminum production.

As part of the agreement, Preussag also intends to withdraw by the end of this year its case against Kaiser now pending before an arbitration board of the International Chamber of Commerce in Paris. Preussag had accused its partner of failure to contribute technical know-how to the joint operations to the extent contractually agreed upon.

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IN THIS ISSUE

Community: Court Upholds Exercise of Union Activity

The European Court of Justice has further broadened workers' freedom of movement set forth in Treaty Article 48 by defining the grounds on which the member states may restrict this freedom for reasons of public policy, security, or health. In a recent preliminary ruling, the Court held that national immigration authorities must refrain from taking any measures adversely affecting the exercise of trade union rights (*Rutili v. French Minister of the Interior*, Case No. 36/75). Under the provisions of the Treaty, a ban restricting a non-national's right of residence to certain parts of the country may be imposed only in those instances and circumstances in which such measures may also be applied to nationals.

Rolland Rutili, an Italian singer born in France and married to a French national, was prohibited by the French authorities from taking up residence in four regions (*départements*) because of his trade union activities. In Rutili's suit to invalidate the ban, the French court suspended proceedings and asked the Court of Justice whether the exemption on grounds of public policy contained in Treaty Article 48 (*Common Market Reports, Par. 1001*) pertains only to member state regulations adopted with the objective of restricting free movement and residence of nationals of other member states or whether it also covers

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Union Activity *(contd.)*

decisions concerning individuals. The Paris court also wanted to know the precise meaning of the word "justified" in Article 48.

On the first question, the Court of Justice ruled that the phrase "subject to limitations justified on grounds of public policy" in Article 48 includes not only legislative provisions but also individual decisions taken in application of that legislation. Referring to the basic rights of individuals set forth in the Convention for the Protection of Human Rights and Fundamental Freedoms, to which all member states adhered, the Court said that the convention contains a specific manifestation of a more general principle of the freedom of movement: an infringement of the rights guaranteed by the convention for reasons of public order and security cannot go beyond what is necessary to safeguard order and security in a democratic society.

The *Rutili* judgment represents a refinement of the Court's *Van Duyn* and *Bonsignore* rulings (*Common Market Reports, Pars. 8283 and 8298*). In *Bonsignore*, the Court had already narrowed down public policy considerations applied in restricting freedom of movement by ruling that a member state could deport a non-national only on grounds of his personal conduct, not for purposes of deterring other aliens in the context of a general crime prevention policy. Now the Court has said that trade union membership or activities, though part of personal conduct, cannot be invoked against non-nationals.

More Flexible Stand on Co-Determination

Although the Commission believes that the basic principles of its original fifth draft directive on company law coordination (i.e., dual board system and employee representation on supervisory boards of stock corporations) remain valuable and realistic, it will present a new draft in a year or so that would be more flexible on both issues (*Common Market Reports, Par. 1401*). Commissioner Finn Olav Gundelach, who explained the change in the Commission's attitude as presented in a Green Paper on employee representation and company structure, said that this flexibility was needed in order to facilitate greater convergence of national company laws.

Gundelach said that the future proposal would contain several options in regard to the board system and employee representation during a transitional period and that the shape of each option could depend on subsequent discussions within the business community and the trade unions, especially in the U.K. and Italy. (These two countries have been stalling talks on the fifth draft directive and also on the European company draft statute.) Companies could choose between the dualist and one-board systems during a transitional period. Gundelach said that a representative body at management level with appropriate rights and obli-

Coordination *(contd.)*

gations would be the best transitional solution for companies lacking supervisory boards. In his view, collective bargaining is not the answer because only a representative body would be in a position to be informed about (and perhaps to influence) the conduct of a company's affairs, especially on major investments, production cutbacks, and closures.

Answering criticism from the governments and unions of the U.K. and Italy, Gundelach emphasized that continued European economic and political integration will not be possible unless there is also a common market for companies in addition to that for products. Stock corporations play a significant role among the various company forms, and any European action must be based on these realities, according to Gundelach. The Commissioner was less pessimistic about the fate of the European Company (S.E.), but he no longer attributed great significance to the proposal. He said he believes that "harmonization" of national company laws is not needed and that "substantial convergence" of national rules would suffice in order to come closer to attaining the objectives of the EEC Treaty.

Italy: er House ays 'Mini-Tax Reform'

The Italian Chamber of Deputies has passed the so-called "mini-tax reform" legislation and returned it to the Senate where it has to be voted on once more because of minor changes in the bill. (This is regarded as a mere formality, however.) Basically, the law consists of a bundle of assorted fiscal regulations to take effect next year. In the area of personal income tax, brackets will be modified slightly downward to compensate for inflation-caused income losses. Individual taxpayers will have to pay the income tax owed shortly after filing their returns, otherwise they will be liable to a 5% penalty charge. Payments will have to be made through commercial banks rather than tax collection agencies (this is to accelerate the revenue collection process).

Politically, the most important side effect of the legislation's passage was the decision by Finance Minister Bruno Visentini not to offer his resignation - which almost certainly would have brought on another government crisis. Visentini earlier had threatened to quit unless the personnel of the tax offices and fiscal administrations were granted a special allowance in compensation for the extraordinarily heavy work load. He then agreed to a compromise providing for such an allowance, but only until mid-1977 when the tax officials presumably will have caught up with the work backlog.

Consultation on Medium-Term Industry Plan

The Italian government presently is drafting a medium-term industrial development plan that it hopes will be realistic and flexible enough not to emulate previous "five-year

Industry Plan *(contd.)*

plan" failures. For this reason, the so-called Colombo Plan is to concentrate its priorities on industrial reorganization rather than the economy generally and is to be implemented within three to five years rather than within a rigid time period. The outlines of the new *piano a medio termine* have been sketched in a memorandum jointly prepared by the Treasury, Planning and Industry Ministries and currently the subject of consultations with the government parties, the trade unions, and the employers' federation. Following these discussions, the paper is to be shaped into draft legislation for parliamentary approval early next year, possibly even by the end of January.

The three ministers personally piloting the project - Emilio Colombo (treasury), Carlo Donat-Cattin (industry), and Ugo La Malfa (deputy premier) - propose to touch off the industrial reorganization process through public investments totaling 3,000 billion lire and to be administrated by way of a five-year special fund. The emphasis will be on eliminating overemployment in some sectors, while creating new jobs in others. One example would be the textile industry which, in order to protect its international competitiveness, would have to trim some 200,000 jobs through rationalization measures. By contrast, industrial sectors in which Italy is lagging, such as electronics or specialty chemicals, would be built up to absorb manpower released elsewhere. These underdeveloped sectors also would benefit from an 800-billion-lire allocation for research and development, likewise to be financed through a special fund.

Closely related to these efforts would be the economic development of southern Italy, the Mezzogiorno. For this purpose, the Rome planners intend to double the commitments of the expiring five-year plan to 15,000 billion lire, two-thirds of which would be spent within the 1976-80 period. Funds totaling 8,500 billion would be set aside for the energy sector, specifically for the construction of nuclear and conventional power plants. To overcome the stagnation in the public building sector, it is proposed to spend 2,800 billion within 1977-79, an expenditure that would be expected to set off additional private investments totaling 6,000 billion. (Not touched by this and already approved are 3,300 billion for new projects to be started by the end of next year.)

Germany: Another Chance for Loss Carry-Back?

German Chancellor Helmut Schmidt has announced that his administration will give more thought to the introduction of a limited loss carry-back that would benefit primarily small and medium-sized businesses. Schmidt's comments were made at the national convention of the governing Social Democrats and followed a resolution in which the over-

Carry-Back
(contd.)

whelming majority of the delegates called on the government to encourage investments through selective tax aids. With the same resolution, the delegates voted against general and broad tax incentives such as increased depreciation rates for movable and fixed assets. The Social Democrats' coalition partner, the Free Democratic party, has been demanding substantially higher depreciation rates than currently allowed (*Doing Business in Europe, Pars. 23,335-7*).

Introduction of a limited loss carry-back would mean a complete turnabout in the government's line of thinking. In June, the Schmidt administration had rejected for the time being the introduction of the concept for budgetary reasons. Its arguments were expressed in comments on a bill introduced by the Opposition-controlled upper house of Parliament which would have entitled an individual or corporate taxpayer to carry back to the two previous years losses of up to DM 5 million (*Doing Business in Europe, Par. 30,805*). Although the budgetary aspect still holds true, the introduction of the loss carry-back would represent a compromise in that it would placate the Free Democrats after their unsuccessful drive for higher depreciation rates. The government could either revive the dormant bill and propose amendments or it could introduce an entirely new measure.

France:
Paris Renews
Drive against
Tax Evasion

At the personal initiative of President Giscard d'Estaing, the French government has launched another drive against what has been called a "national sport" - tax evasion and avoidance. It follows a similar campaign undertaken in the late '60s, when Giscard headed the Finance and Economics Ministry in the Pompidou administration. Following a recent cabinet meeting devoted exclusively to this subject, it was reported that the government could collect at least an additional FF 15 billion annually, and perhaps as much as 50 billion, if it were possible to step up the frequency of audits and plug the major loopholes now being exploited by tax dodgers.

So far, businesses in France have been audited only every 17 years on the average, the professions every 33 years. To institute more frequent auditing, the association of fiscal officials has estimated that 12,000 additional agents would be needed. As it is, Finance Minister Jean-Pierre Fourcade has to be content with only 1,000 additional positions next year. In any case, the tax authorities have been instructed to crack down more severely than ever, particularly on violations of capital transfer rules.

Still, in recent years, the government has had some success in improving control procedures. Last year, for instance, the fiscal authorities audited 46,463 businesses

Tax Evasion *(contd.)*

as compared with 25,730 in 1969. The tax agents uncovered FF 4.9 billion in extra taxes and collected another 1.9 billion in fines, for a total of 6.8 billion (in 1969, this total was only 2.7 billion). Further, the tax authorities followed up on the tax declarations of 12,575 individual taxpayers and raised another FF 442 million in taxes and fines. Within the first six months of this year, the additional sums collected amounted to FF 3.6 billion from businesses and 287 million from individuals.

Britain: Employment, Industry Acts Given Assent

Among the 16 bills that received Royal Assent at the close of the U.K. parliamentary session were a number of enactments that had been accorded top priority in the Labour government's ambitious legislative program. Foremost among these were the Industry Act, the Sex Discrimination Act, and the Employment Protection Act. In addition, the Scottish and Welsh Development Agency bills - which contain measures designed to boost industrial development in those countries and grant them a degree of autonomy - were also passed into law, as was the Community Land Bill, which ensures that, in due course, major development will only be permitted on land that is in, or which has passed through, public ownership.

The Industry Act (*Doing Business in Europe, Par. 30,775*) is one of the most controversial pieces of legislation forced through by the present government. It establishes a new statutory public corporation, the National Enterprise Board, which has broad interventionist powers and whose principal task it will be to promote industrial efficiency, international competitiveness and optimal employment, to extend public ownership into "profitable areas" of manufacturing, and to foster industrial democracy. In addition, the Act provides for selective financial assistance for corporate bodies that enter into "planning agreements" with the government in regard to their future development.

The Sex Discrimination Act (*Doing Business in Europe, Pars. 30,735 and 30,779*) is designed as a complementary statute to the Race Relations Act. It outlaws any discrimination on the basis of sex (and, where appropriate, on the related grounds of marriage) in a wide range of activities and situations.

Finally, the Employment Protection Act provides for the setting up of an Advisory, Conciliation, and Arbitration Service and details the rights of individual employees in such matters as layoff procedures, unfair dismissals, union membership, remuneration and compensation, employment contracts, employment terms and conditions, picketing, and government-union consultation procedures.

Legislation *(contd.)*

The next wave of legislation has already been announced upon the opening of the new parliamentary session. Key economic proposals include: stringent price control monitoring and legislation on price display and unit pricing; renewed pledges to nationalize the aircraft and shipbuilding industries; further legislation to remove the "unsatisfactory features" of industrial relations; legislation to control North Sea energy supplies; a tax on the development of land; and increases in pensions and social security payments. From a political viewpoint, however, the extensive devolutionary proposals for Scotland and Wales were considered most important.

Austria: New, Higher Taxes Proposed in '76 Budget

In their respective statements inaugurating the new parliamentary session and presenting the 1976 Draft Budget, Austria's Chancellor Bruno Kreisky and Finance Minister Hannes Androsch have outlined a series of planned tax and rate increases. Foremost among these will be the rise of the value-added tax rate from 16 to 18% as of Jan. 1, postal rate boosts ranging from 50 to 130%, and higher rail fares (10-15%). Aside from the proposed increases of social contributions, net-worth tax rates also are to be appreciably raised as of 1977 (by 100 or possibly 200%, according to unofficial sources). Another proposal is for the introduction of freeway (autobahn) tolls and a levy on foreign freight transports passing through Austria in transit to other countries.

The 1976 Draft Budget represents a continuation of deficit-spending policies, allowing for a 36-billion-schilling shortfall on projected expenditures of 215.5 billion and revenues of almost 180 billion.

EURO COMPANY SCENE

GM Continental

The European Court of Justice has invalidated the European Commission decision of last December against General Motors Continental, Belgian subsidiary of the U.S. automobile concern, and revoked a fine of 100,000 units of account levied on the company. In granting GM's appeal, the Court did not accept the Commission claim that the company had abused a market-dominating position by charging excessive fees for automobile safety certificates it issued in Belgium (*Common Market Reports, Par. 9705*).

Chrysler U.K.

Following another round of talks between representatives of Chrysler Corp. and the British government, it was thought that a deal might be in the offing whereby the British would provide - through the Industry Act - "substantial funds" to cover not only the company's immediate financial requirements but also its longer-term manufacturing and

Chrysler *(contd.)*

marketing ambitions. In return, Chrysler would be expected to discontinue its plans for a progressive withdrawal from the U.K. market as of Jan. 1.

Babcock & Wilcox/ ACCO

Britain's Babcock & Wilcox, which earlier this year realized some $60 million from the sale to Iran of its 25% holding in Deutsche Babcock, has announced a $27-per-share offer for the 2.49 million shares of American Chain & Cable Co. (ACCO). A spokesman for the U.K. group, manufacturer of heavy mechanical engineering products, explained that the ACCO acquisition, if it goes through, would be financed from the proceeds of the Iran sale plus a seven-year $17.5-million loan.

Gulf/ Veba

Gulf Oil Corp., Pittsburgh, and Germany's partly state-owned Veba AG have discontinued discussions concerning co-operation in the international energy field and possible Veba participation in Gulf's European activities. Last March, the two companies had signed a letter of intent starting the negotiations. Although no reason was given for breaking off the talks, a Gulf spokesman said the decision was mutual.

Alcan/ Hunter Douglas

Alcan Aluminium Ltd., Montreal, is to acquire early next year a minority interest in the Netherlands' Hunter Douglas NV, parent of the Hunter Douglas industrial group. The transaction calls for Alcan to issue 666,918 new common shares for 24.9% of Hunter Douglas equity, with 60% to be retained by the present holders, and the balance to be traded on the open market. Hunter Douglas reported 1974 sales and earnings of $348 million and $9.78 million, respectively.

AMRO/ Morgan Guaranty/ Labouchere

Amsterdam-Rotterdam Bank (AMRO) and Morgan Guaranty Trust Co., New York, have started negotiations leading toward the purchase by Morgan Guaranty of a 50% interest in AMRO's wholly-owned subsidiary, Labouchere & Co. NV, Amsterdam. Under the proposal, Morgan would take over management of the bank, which is to be renamed Bank Morgan Labouchere. Morgan is to purchase its half interest by subscribing to unissued shares of Labouchere, whose authorized capital initially will be increased to 100 million guilders. The transaction is subject to approval of the Netherlands Central Bank and the U.S. Federal Reserve System.

Labouchere, founded in 1917, conducts a general banking business, including leasing and securities operations. At the end of 1974, it reported total assets of 241 million guilders and capital and reserves of 15 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 359 *Report No. 280, December 3, 1975*

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IN THIS ISSUE

Community: Draft Patent Convention to Be Signed

Experts from the nine member states and the European Commission have been meeting in Luxembourg since Nov. 17 to put the finishing touches on the draft Convention on the European Patent for the Common Market and to discuss possible amendments. If everything goes according to plan, government representatives will sign the accord - also called the Community patent convention - on Dec. 15 and thus wrap up a process that was only partly completed at the Munich conference in October 1973 with the signing of the European patent convention by the nine member states and Austria, Greece, Liechtenstein, Monaco, Norway, Sweden, and Switzerland (*Common Market Reports, Pars. 5503 and 9618*).

Of the differences between the two conventions, two are most prominent. First, while the European patent system is based on the principle that a European patent is recognized as a national patent in each of the contracting states for which it is granted, the Community patent is based on rules exclusively contained in the convention itself. The second and very important difference is that the European patent convention provides for a kind of collective patent, corresponding to a group of national patents, while the Community patent convention provides for a single

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Convention *(contd.)*

patent having a uniform character. Community patents would have equal effect throughout the Common Market and could be transferred or allowed to lapse only with respect to the entire EEC.

One of the consequences of the uniform character of the Community patent will be that member states may not invoke any reservations (permissible under the European patent convention) with respect to the duration of patents or the patentability of food and drugs. Since Italian law does not yet protect inventions in the drug sector, the Community patent would have special significance for businesses in this respect.

The Commission has repeatedly expressed concern over attempts to dilute the uniform character of the Community patent (*Common Market Reports, Pars. 9648 and 9777*). Several proposals are likely to be discussed, among them amendments to Articles 32 and 78, which prohibit partitioning of the Common Market by means of patents.

No Abuses by GMC Antwerp, Court Holds

As reported last week, the European Court of Justice has invalidated the Commission's decision against General Motors Continental (GMC), Antwerp, on grounds that, although the Belgian subsidiary has a market-dominating position with respect to the issuance of certain automobile inspection certificates in Belgium, it did not abuse it. In the Court's view, there was no doubt that GMC had attained a dominating position (*Common Market Reports, Par. 2101*) because of a combination of two factors: it exercised an exclusive function authorized by the government, and it was free to determine the price for its services.

In December 1974, the Commission had fined GMC 100,000 units of account for charging what were alleged to be excessive fees for the mandatory inspection of and issuance of certificates for Opel cars not sold through the company's Belgian distribution network but imported from other countries by individuals (*Common Market Reports, Par. 9705*). Since these fees were higher than those normally charged by GMC, the Commission believed that the company was out to discourage dealers and consumers from buying cars abroad through channels other than its own.

As in other countries, vehicles registered in Belgium must meet certain technical standards before they may be operated on public roads. As of 1973, the authority to inspect imported cars and issue conformity certificates for them was shifted from the government to the Belgian agents of the foreign manufacturers. Thus, GMC became the sole authorized agent with respect to Opel models and other cars made by General Motors.

An abuse of GMC's dominant position could have arisen, according to the Court, if the price charged for the ser-

GMC *(contd.)*

vices was excessive in relation to their value, so that parallel imports would be discouraged. Although the Court did not rule out entirely the possibility that the dominant position had been abused, it found in favor of GMC because the company had promptly reduced the fees charged for imported cars to a "real cost" level and refunded the excess to the parties concerned prior to the Commission's investigation.

In Brief...

The European Court of Justice will announce its long-awaited judgment in the "sugar cases" (*Cooperative Vereniging 'Suiker Unie' et al. v. Commission*) on Dec. 16 + + + Discussions on the Commission's merger control proposal, which has been before the Council since August 1973 without any visible progress, have taken a slightly optimistic turn since France changed its mind and joined the two backers of the draft regulation, Germany and the Netherlands. Apparently the French realized that the proposal could offer a way of controlling investments planned by third-country investors, especially from the oil-producing countries + + + The Commission is negotiating with the British government in an attempt to end the impasse over proposed environmental legislation. At the Oct. 16 Council meeting in Luxembourg, the U.K. blocked adoption of a proposed Council decision that would have granted the Community the power to introduce standards for effluents discharged into seas, rivers, and lakes. The British government not only wants to keep the Community out of the picture, but it also insists that the member states alone determine water quality objectives. This approach would obviously benefit the U.K. because the North Sea surrounding Britain is far less polluted than Continental rivers, especially the Rhine. The Council was to take up the matter again at its Dec. 10-11 meeting.

Netherlands: Employers, Unions Fail on Pay Accord

Following the breakdown last month of the employer-labor negotiations over a 1976 "social accord," the Dutch government has committed itself to an across-the-board pay raise of 4.5% to all employees falling under the collective bargaining system. The increase is to be in compensation for April-to-October price rises and will be paid out in January. In the meantime, the administration will make an effort to mediate the dispute and to persuade the parties to return to the bargaining table.

The collapse of the talks had been anticipated by many observers, since the negotiators appeared to be too far apart on the major issue. The unions had demanded that 1976 pay increases be commensurate with labor productivity growth and at least equal to the expected rise in inflation. The employers insisted that the increase in total wage costs be kept well below the union targets. The dis-

Pay Accord *(contd.)*

cussions were broken off after the employers had outlined a concept on how to make this possible - a concept immediately rejected by the unions as a step toward an "intolerable situation." Based on the premise that wage costs over the past four years had increased about 10% above acceptable levels, the plan proposed that this excess be recovered in the next four years by keeping the annual rise in wage costs to 2.5% below that in labor productivity. To make this plan work, the employers said, it would be necessary to thoroughly review the existing wage indexation system, to ensure that the rise in the legal minimum wage does not exceed that of other wages and that the automatic link of the minimum wage with other social benefits be abolished.

More Dutch Investments Going Abroad

The most recent central bank statistics on Dutch foreign investment activity abroad have been cited as proof by some factions that an inhospitable business climate in Holland is persuading more and more enterprises to transfer activities abroad. According to these figures, investments abroad totaled more than 4 billion guilders last year, about twice as much as in 1973. For the first half of 1975, however, the investments again have slowed down to slightly over 1 billion. Much of the interest of potential Dutch investors these days is concentrated on the United States: a recent Federal Reserve Board report said that Holland currently ranks third as a purchaser of stock in U.S. companies, after the U.K. and Switzerland.

Germany: Jail Terms Urged for Price Fixers

Price-fixing, joint bidding, and the dividing of markets, among other restrictive acts, should be penalized by jail terms similar to those for theft (i.e., up to five years), according to a recommendation made to the German government by a special commission. The panel - consisting of law professors, attorneys, judges, law enforcement officials, and consumer representatives - is charged with helping Bonn prepare legislation to fight growing white-collar crime. It has now proposed that all serious cases of restraints on competition should be penalized accordingly. It suggests that parties to unauthorized cartels or those engaging in concerted practices should go to jail rather than merely pay administrative fines up to a maximum of DM 100,000 (*Doing Business in Europe, Par. 23,514*).

The commission further recommends that serious violations of orders issued by the cartel authorities or the courts to make parties to cartels discontinue restrictive practices or discriminating behavior also should be subject to jail terms. In the experts' view, repeated noncompliance with administrative or judicial orders or any act that substantially changes the market to the detriment of the public should be considered a serious offense. They believe that, as a rule, such a change would occur when

Jail Terms *(contd.)*

a) competition is substantially restrained throughout Germany or a large part thereof, b) the restraints involve products or services deemed essential to consumers and that have become more expensive over a longer period of time as a result of the restrictive behavior, or c) the parties have made high profits.

The Justice Ministry basically agrees with the commission's specific recommendations and the general idea of putting white-collar crime on the same level as theft. Still, it may take a year or so before an amendment to the Law against Restraints of Competition will be drafted.

Britain: Parliament Gets Air, Ship Industries Bill

Draft legislation to secure the nationalization of the aircraft and shipbuilding industries was introduced in the U.K. parliament on Nov. 21. The Aircraft and Shipbuilding Industries Bill - which provides for the establishment of two new statutory public corporations, British Aerospace and British Shipbuilders - is largely unaltered from the bill introduced in the last parliamentary session (*Doing Business in Europe, Par. 30,798*) and subsequently allowed to lapse because of timetable congestion. Both industries are in bitter opposition to the bill's provisions, and it is inevitable that the government will be forced into some concessions, particularly at the committee stages.

Switzerland: Bern Extends Unemployment Benefits

In an attempt to soften the effects of unemployment on individuals, the Swiss government has approved additional insurance benefits with effect from November 27. As of that date, the maximum number of per-diem compensation payments will be raised from 120 to 150 annually. With this action, it is to be ensured that those who have been without work for some time will again be eligible for unemployment aid over the Christmas season. The higher 150-day maximum also will apply to all of 1976. The additional funds required are to be partially raised through subsidies by the central and cantonal governments and partially through the equalization fund of the unemployment insurance systems.

Also eased were the conditions determining eligibility of school-leavers, home workers, part-time employees, and others not yet obligated to be covered by unemployment insurance. To prevent abuses, however, the government tightened the rules on what constitutes "acceptable work": in the future, unemployed persons will have to accept job offers even if the per-diem pay is up to 15% lower than the unemployment compensation they are entitled to. (Currently, this compensation equals 65-85% of insured pay, up to SF 120 per day.)

Within the first six months of 1975, according to Zurich reports, the number of those covered by unemployment

Benefits *(contd.)*

insurance has risen by 150,000 to 700,000, which is about one-fourth of the total Swiss work force. Not all cantons require insurance coverage, and in the others the insurance obligation extends only to certain income and professional groups. In the coming months, Parliament will be working on a general reform of unemployment insurance with the aim of introducing a general obligation and spreading the insurance risk (*Doing Business in Europe, Par. 29,456*).

Withdrawal of Bid to Join Currency Float

The decision of the Swiss government to drop for the time being all efforts to have the Swiss franc join the European currency float have been generally accepted in Switzerland as reflecting "political realism." Although the countries associated with the "snake" had earlier affirmed their basic willingness to have the Swiss participate, it was no secret that France remained opposed to such a step. Paris' official argument was that "uncontrolled" capital movements centering on Switzerland could unduly influence the snake mechanism. However, an even greater reason for the French opposition was believed to be the fear that the high exchange rate of the Swiss franc would push up the central rate and thus result in disadvantages to the exports of France and of other partners.

Prior to Bern's decision on Nov. 19, the somewhat calmer conditions on the monetary scene and the Rambouill[illegible] declarations had caused many factions in Switzerland to wonder about the actual benefits of participation (even though most bankers and the export industries continued to favor it). Also, there appeared to be less official willingness to bargain for entry by offering certain concessions such as stricter capital controls and the abolishment of numbered bank accounts.

EURO COMPANY SCENE

Chrysler U.K.

The U.K. government has now adopted a much harder line in its negotiations with Chrysler Corp. It is felt that a "total rescue" of the auto maker's British operations would run counter to Britain's new "realistic" industrial policy inasmuch as a takeover of Chrysler U.K. would result in an open-ended and exorbitantly costly government commitment. It was generally believed that the terse tone of the statements emanating from Whitehall was calculated to prepare Chrysler employees for the worst and, at the same time, make clear to Chrysler chief John Riccardo that the government would not be pressured into a full-scale rescue by threats of a total withdrawal commencing on Jan. 1. (Experts have suggested that some $300 million in severance and pension payments could be involved in case of such a withdrawal.)

Harmo/ Tenneco

The U.K.'s Harmo Industries, Birmingham-based automobile replacement parts manufacturer, is the object of a £6.9-million takeover bid by Tenneco, the U.S. conglomerate. Tenneco already has substantial British interests in the form of a 50% equity in the chemical group Albright & Wilson and controlling stakes in David Brown Tractors and Globe Petroleum Sales, among others.

Akzo

The board of Holland's Akzo chemicals concern and other Dutch-based multinationals have sharply criticized Prime Minister Joop den Uyl for his public suggestion that Akzo and its troubled synthetic-fiber subsidiary Enka should negotiate with the labor unions at an international level - something that Akzo earlier had refused to do. At a congress of young socialists affiliated with the NVV trade union, Den Uyl had, in effect, conceded the international union movement the right to control the investments of the multinationals. The Akzo protest, in the form of an "open letter," was backed by such companies as Unilever, Philips, and Royal Dutch as well as by the VNO industry federation. There was a general consensus that Den Uyl's statements constituted an "embarrassment" and had damaged the chances for an improved investment climate in Holland (see page 4).

Companies Greece

Among 15 major investment contracts that the Greek government has announced it intends to renegotiate are also plant construction agreements and oil exploration concessions involving U.S. companies, according to press reports from Athens. The affected American firms and individuals and the corresponding projects were identified as LVO, Ancar Oil Co., and Ceres Co. (oil concessions); V. Vrana (electronics), and Thomas Pappas (steel, foods). Other foreign investors involved include Switzerland's Nestlé, Austria's Steyr, and France's Renault-Peugeot.

The challenged contracts were signed during the 1967-74 military regime and are deemed to contain terms not in keeping with the "national interest." The legal authorization to seek a revision of the contracts stems from a special law passed in the late summer. However, many of the businesses affected - both domestic and foreign - consider the legislation to be unconstitutional and damaging to the official efforts to attract new investment to Greece.

Lockheed/ Austin/ Westinghouse/ General Electric

The Greek government has announced the signing of contracts with four U.S. companies for the construction and management of a $120-million aerospace facility on a 70-hectare site at Tanagra, central Greece. The American firms and their functions in the project are Lockheed (overall management, airframe work), Austin Co. (architect and general contractor), Westinghouse Electric (electronic equipment and maintenance), and General Electric (engine maintenance and overhaul). After completion in 1978, the base will

Lockheed (contd.)

serve as a contract maintenance and manufacturing center for commercial airlines and will also be used by the Greek air force. According to a Lockheed announcement, it will be the "most complete aircraft support facility in the entire Mediterranean area, if not the world." Eventually, 3,000 people are to be employed there.

Siemens/ Osram/

Germany's Siemens AG has announced that it expects to receive, by year-end, the go-ahead from the Federal Cartel Office to purchase the 35.8% equity currently held by AEG-Telefunken in the Federal Republic's leading light bulb manufacturer, Osram GmbH. The Siemens bid follows the unsuccessful attempt of the other minority shareholder, General Electric (21.4%), to acquire AEG's shares earlier this year. If the new deal goes through, Siemens will own a 78% interest in Osram, while GE probably would retain its minority holding.

White Arbos

The scheduled liquidation of the Italian agricultural machinery producer White Arbos, Piacenza, is to be averted through the purchase of the loss-ridden company by its own employees. The U.S. parent, White Motor Corp. of Cleveland, Ohio, has agreed to the "symbolic" price of 100 million lire for the facilities, including technology, licensing rights, and all movable and immovable assets. To be renamed Nuova Arbos SpA, the new firm will have an initial capital base of 200 million lire. Each of the 440 employees is to contribute 500,000 lire, financed in part from severance pay due. The new company also has applied for 6 billion lire in state-subsidized credits. Eventually, White Motor is to be paid an $800 license fee for each thresher unit sold.

Salomon/ First Boston/ Hutton

According to reports that were yet to be fully substantiated, three leading U.S. banks are planning to start trading actively in the Eurobond market. Salomon Brothers, First Boston Corp., and E.F. Hutton have conceded that the recent flood of new issues has made the prospect for primary issuing houses to join the secondary market much more attractive. The fact, moreover, that U.S. withholding tax on securities owned by nonresidents is likely to be removed in the very near future should lead to a surge in European demand for U.S. fixed-interest securities.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Court Backs Commission on Export Credits

The European Court of Justice has ruled that the Community has the exclusive power to conclude international agreements on export credits and that any unilateral action on the part of the member states would be contrary to the principles inherent in the common commercial policy (CCP), set forth in Treaty Article 113 (*Common Market Reports, Par. 3882*). With this opinion (No. 1/75), the first ever given by the Court under Treaty Article 228(1), subparagraph 2 (*Common Market Reports, Par. 5292*), the Community tribunal in fact has given the Commission the negotiating powers that it always wanted but that were denied or challenged by a number of member states, especially France, Italy, the Netherlands, the U.K., and Ireland.

The Court said that any unilateral action by member states would lead to disparities in the conditions for the granting of export credits and would thus distort competition on external markets among enterprises from various member states. The Court emphasized that the CCP was conceived to defend common interests of the Community, within which the member states must try to coordinate their individual interests. The member states' claim to concurrent powers, so as to pursue their own interests separately, was deemed incompatible with the CCP concept.

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Export Credits *(contd.)*

Last July the Commission had asked the Court of Justice to give an opinion on the compatibility of a draft "Understanding on Local Cost Standards" (drawn up by the OECD) with the EEC Treaty and, more particularly, whether the Community had the power to conclude such an understanding and, if so, whether that power was exclusive. There had been considerable disagreement among the member states about the distribution of treaty-making powers between the Community and the member states. They differed on whether they alone should sign, whether they and the EEC had concurrent powers, or whether the matter rested with the Commission. Rather than having the question resolved by the Court of Justice through litigation (the Commission had been pondering the idea of bringing suit against the Council), the Commission chose the noncontentious and more economical way of obtaining an opinion, since the Court's opinion is binding upon the member states as well as the Community institutions.

The opinion means that the Commission may now seek a mandate from the Council of Ministers in order to revive the stalled export credit negotiations with the United States and Japan. These talks have been at a standstill since last May because the EEC member states failed to reconcile their differences over particular aspects (for example, interest rates) of export credit harmonization. Brussels observers believe, however, that the Commission will not ask immediately for these negotiating powers.

New Approach to Removing Trade Barriers

The modified proposal on approximation of national rules on mayonnaise recently sent to the Council by the Commission is a good example of the latter's new approach to removing national obstacles to trade. While the original proposal, submitted to the Council in 1969, called for approximation of national rules bordering on total harmonization (in effect replacing national law by Community legislation), the modified draft directive would require only as much approximation as is necessary for the free movement of goods (*Common Market Reports, Par. 3305*). This new approach to "optimal harmonization" may rescue the 48 proposals pertaining to approximation of national rules covering a variety of products that languished before the Council for years because it was impossible to reach unanimous agreement among the member states. The Commission withdrew the proposals, but it is planning to submit amended versions in the coming months.

Commission attorneys emphasize that the proposal does not attempt to achieve product standardization, which would be difficult because of the great variety of mayonnaises, but it provides for a standard, setting the minimum fat content at 80%. If a manufacturer complies with this standard, he may put the "E" symbol on his product and offer it

Trade Barriers *(contd.)*

for sale throughout the Community. Thus, a member state could not bar products carrying the E symbol even if under its own rules an emulsified sauce with a minimum fat content of 25% could be sold as mayonnaise. Domestically produced sauces still could be called mayonnaise in the home state (and might even be marketed in another state having identical rules) and they would not only compete with imported products complying with Community rules but would also retain the national and local characteristics to which consumers are accustomed.

Belgium: Modification of Incomes Policy Plans

Following massive pressures from the labor unions, the Belgian government has felt persuaded not to decide on the drastic incomes policy measures proposed earlier, of which a nine-month wage freeze was the most significant. After considerable debate, the coalition cabinet voted to abstain from intervening in the basic collective bargaining process and the controversial wage indexation system. The only exception will apply to employment incomes above BF 40,000 a month which, for a nine-month period, would not benefit from the automatic adjustments based on the rise in the cost of living.

In submitting the draft legislation, the administration appealed to the employers and unions to agree on a no-change extension of the wage agreements expiring between Nov. 1, 1975, and July 31, 1976. But, for all practical purposes, the unions still retain the right to negotiate real-term increases. Of any new increments, though, the employees actually would receive only one-half, while the other half would be used to sustain the early-retirement programs (the employers would contribute the same amount for that purpose).

The incomes policy proposals also offered additional details on the rules pertaining to dividend curbs. Thus, dividends distributed by a stock corporation could not exceed the highest dividend paid in any of the 1972-74 fiscal years. Dividends of those companies that had not made distributions within that three-year period - or which were established after 1974 - could not exceed the equivalent of 6% of capital assets.

The other elements of the Belgian anti-crisis program would remain essentially as originally outlined early last month: provisions for early retirement of older employees; measures to boost the employment of young people in both private industry and the public sector; a one-year freeze on housing and commercial rents as of Nov. 1; and a freeze on the fees and charges of the professions and certain services. Furthermore, the government plans to set up a public investment holding company with a basic capital of BF 10 billion.

Incomes *(contd.)*

The protracted political debate over this package and the heavy criticism from both industry and labor probably will prevent passage of the legislation by the end of this year, it was reported from Brussels.

Netherlands: Wage Curbs; Postponement of VAT Boost

In its latest anti-inflation program submitted to Parliament on Dec. 1, the Dutch government is seeking to keep wage cost increases down to a level of 8.5-9% next year and price rises to 7.5-8%. Earnings above 20,000 guilders annually could not be subject to increases until July 1976, aside from a one-time adjustment of 4.5% to take effect in January. Existing wage agreements are to be extended until July 1 - a measure that the unions would accept, on the condition of raising their demands in the latter half of '76. To remain in control of the situation from the start, the government is already pushing for tripartite talks with employers and labor on a framework pact for 1976-77.

In order to contain price expansion, the administration has reluctantly agreed to postpone the raising of the value-added tax rate (from 16 to 18%) until Oct. 1, 1976. Originally, the change was to have been made on July 1. This concession will cost the state some 375 million guilders, not counting the 150-million-guilder loss resulting from the 0.8% reduction of employer contributions to the family allowance system. The legal minimum wage for employees above the age of 23 (currently 16,800 guilders annually) will be raised by 7% on Jan. 1 and by another 4% on July 1.

Though the business community acknowledges the government's efforts to lift the economy out of its doldrums, it believes that too much emphasis is being placed on reducing spendable incomes of employees and the self-employed, while public expenditure is still scheduled to go up by 17% next year. Thus, it is expected that the program will have no more than an extremely modest impact. So far as most businesses are concerned, an economic recovery to a large degree will depend on a major improvement of the corporate earnings situation and its beneficial effects on employment.

Germany: Fiscal Code Adopted by Lower House

The new Fiscal Code adopted by the Bundestag on Nov. 27 will mark a new era in German taxation when it goes into effect on Jan. 1, 1977 (approval by the Bundesrat, the upper house, is considered certain). The new code (*Abgabenordnung*, or *AO*), which replaces its 1919 forerunner, seeks to strike a better balance between the government's interest in just, expeditious, and equal taxation and the taxpayer's interest in fewer bureaucratic assessment procedures and protection of his rights through due process.

Fiscal Code *(contd.)*

The new code would bring significant changes in the present procedure. In order to speed up taxation, there would be one yearly assessment, subject to review, instead of the present two assessments - preliminary and final. (A preliminary assessment would still be permissible under certain conditions, though.) While under the current law the statute of limitations for tax liability is five years, the new code would introduce another concept - a four-year statutory limitation on tax assessment. Following expiration of that period, the tax authorities could neither assess taxes nor revoke or amend an assessment notice. In other words, an assessment notice would become final sooner, which would both reduce administrative work and improve legal security.

Taxpayers as well as tax advisers will welcome the new rule requiring the tax authorities to give, upon request, binding rulings on how they intend to act on a specific case that has been reviewed by tax officials during an audit on the taxpayer's premises.

The new code lacks provisions on interest for overpayment or taxes due. The lawmakers accepted the government's view that most tax offices still do not have the computer facilities necessary to do this computation. A change is expected once all tax offices have switched to computerization of returns, which might take until 1980. However, the tax offices would be entitled to charge interest of 0.5% a month on due taxes for which an extension of payment has been granted.

The secrecy of tax returns and all other relevant data in determining tax liability would continue to be guaranteed, but even current law permits the tax authorities to turn over evidence of capital crimes or tax evasion to the state's attorney. In the future, the tax authorities could do likewise with evidence pertaining to alleged white-collar crime.

Britain: Government OKs Proposals on Accounting

The U.K. government has now given "broad approval" to the proposals set out in the Sandilands Committee Report on Inflation Accounting released in September. It has referred the report to the country's accounting bodies for detailed consideration, the target date for implementation being set for December 1977. The "current cost accounting" approach outlined in the report will, when implemented, result in a radically new concept of accounting in the United Kingdom: the much-criticized "historic costs" form of financial reporting is to be replaced by a system that will present assets and liabilities "at their value to the business." Moreover, profits would be assessed by setting off against sales the "value to the business of the assets consumed in generating those sales."

Accounting *(contd.)*

Although it was originally predicted that the Sandilands proposals would be too controversial, qualified acceptance already has been registered by leading accountancy bodies and by the Confederation of British Industry.

France: State Concerns Seek Damages from Unions

Two leading French state enterprises, Régie Renault and Air France, have filed court suits against two national labor federations for damages resulting from allegedly illegal strike actions. The automaker's complaint, asking for FF 30 million, is directed against the Confédération Générale du Travail (CGT) and involves strike-caused production losses sustained last winter at the Le Mans plant. The airline's suit for FF 10 million is directed against both the CGT and the other major leftist labor organization, Confédération Française Démocratique du Travail, for losses caused by strikes that still persisted last month.

While the French constitution specifically guarantees the right to strike, the law does not contain specific rules on the conduct of strikes. Thus, virtually all questions concerning the legality of disputed strike actions must be resolved by the courts. In these particular cases, Renault maintains that the union's strategy of deliberately organizing a series of strikes at the plant was illegal and could be considered a form of sabotage, whereas the airline's complaint concerns the occupation of company premises and failure to give prior notification of strike action as required by public sector regulations dating from 1963. The unions' position is, basically, that workers have an unrestricted right to strike, regardless of the form of such strikes, and that the employers may not take any interfering action.

The court decisions in these cases, expected early next year, will be of some significance for both sides, since they should deal with the question of who must assume the financial liability in cases of illegal strikes. Another issue could then possibly concern the problem of whether it would actually be possible to collect damages awarded.

Denmark: Draft Budget Sets Slower Spending Pace

The Budget Plan for the 1976-77 fiscal year (beginning on April 1) now submitted by the Danish Finance Minister calls for expenditures to rise from 72.5 to 77 billion kroner and provides for revenues of 66.8 billion (1975-76 = 59.7 billion). Thus, the deficit would shrink from 12.8 billion in the current fiscal year to 10.2 billion.

The official hopes for a reduced Budget deficit are mainly founded on the expected economic upswing, which would result in higher tax revenues. But Finance Minister Knud Heinesen has cautioned that all projections must be

Budget *(contd.)*

tentative at this time, since no one would know before the early part of next year whether it will be necessary then to stimulate the economy or to curb demand.

Norway: Oslo to Extend Ban on Labor Immigration

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Common Market Reports

EUROMARKET NEWS

Issue No. 360 *December 9, 1975*

IN THIS ISSUE

Community: Court Backs Commission on Export Credits

The European Court of Justice has ruled that the Community has the exclusive power to conclude international agreements on export credits and that any unilateral action on the part of the member states would be contrary to the principles inherent in the common commercial policy (CCP), set forth in Treaty Article 113 (*Common Market Reports, Par. 3882*). With this opinion (No. 1/75), the first ever given by the Court under Treaty Article 228(1), subparagraph 2 (*Common Market Reports, Par. 5292*), the Community tribunal in fact has given the Commission the negotiating powers that it always wanted but that were denied or challenged by a number of member states, especially France, Italy, the Netherlands, the U.K., and Ireland.

The Court said that any unilateral action by member states would lead to disparities in the conditions for the granting of export credits and would thus distort competition on external markets among enterprises from various member states. The Court emphasized that the CCP was conceived to defend common interests of the Community, within which the member states must try to coordinate their individual interests. The member states' claim to concurrent powers, so as to pursue their own interests separately, was deemed incompatible with the CCP concept.

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Export Credits *(contd.)*

Last July the Commission had asked the Court of Justice to give an opinion on the compatibility of a draft "Understanding on Local Cost Standards" (drawn up by the OECD) with the EEC Treaty and, more particularly, whether the Community had the power to conclude such an understanding and, if so, whether that power was exclusive. There had been considerable disagreement among the member states about the distribution of treaty-making powers between the Community and the member states. They differed on whether they alone should sign, whether they and the EEC had concurrent powers, or whether the matter rested with the Commission. Rather than having the question resolved by the Court of Justice through litigation (the Commission had been pondering the idea of bringing suit against the Council), the Commission chose the noncontentious and more economical way of obtaining an opinion, since the Court's opinion is binding upon the member states as well as the Community institutions.

The opinion means that the Commission may now seek a mandate from the Council of Ministers in order to revive the stalled export credit negotiations with the United States and Japan. These talks have been at a standstill since last May because the EEC member states failed to reconcile their differences over particular aspects (for example, interest rates) of export credit harmonization. Brussels observers believe, however, that the Commission will not ask immediately for these negotiating powers.

New Approach to Removing Trade Barriers

The modified proposal on approximation of national rules on mayonnaise recently sent to the Council by the Commission is a good example of the latter's new approach to removing national obstacles to trade. While the original proposal, submitted to the Council in 1969, called for approximation of national rules bordering on total harmonization (in effect replacing national law by Community legislation), the modified draft directive would require only as much approximation as is necessary for the free movement of goods (*Common Market Reports, Par. 3305*). This new approach to "optimal harmonization" may rescue the 48 proposals pertaining to approximation of national rules covering a variety of products that languished before the Council for years because it was impossible to reach unanimous agreement among the member states. The Commission withdrew the proposals, but it is planning to submit amended versions in the coming months.

Commission attorneys emphasize that the proposal does not attempt to achieve product standardization, which would be difficult because of the great variety of mayonnaises, but it provides for a standard, setting the minimum fat content at 80%. If a manufacturer complies with this standard, he may put the "E" symbol on his product and offer it

Trade Barriers *(contd.)*

for sale throughout the Community. Thus, a member state could not bar products carrying the E symbol even if under its own rules an emulsified sauce with a minimum fat content of 25% could be sold as mayonnaise. Domestically produced sauces still could be called mayonnaise in the home state (and might even be marketed in another state having identical rules) and they would not only compete with imported products complying with Community rules but would also retain the national and local characteristics to which consumers are accustomed.

Belgium: Modification of Incomes Policy Plans

Following massive pressures from the labor unions, the Belgian government has felt persuaded not to decide on the drastic incomes policy measures proposed earlier, of which a nine-month wage freeze was the most significant. After considerable debate, the coalition cabinet voted to abstain from intervening in the basic collective bargaining process and the controversial wage indexation system. The only exception will apply to employment incomes above BF 40,000 a month which, for a nine-month period, would not benefit from the automatic adjustments based on the rise in the cost of living.

In submitting the draft legislation, the administration appealed to the employers and unions to agree on a no-change extension of the wage agreements expiring between Nov. 1, 1975, and July 31, 1976. But, for all practical purposes, the unions still retain the right to negotiate real-term increases. Of any new increments, though, the employees actually would receive only one-half, while the other half would be used to sustain the early-retirement programs (the employers would contribute the same amount for that purpose).

The incomes policy proposals also offered additional details on the rules pertaining to dividend curbs. Thus, dividends distributed by a stock corporation could not exceed the highest dividend paid in any of the 1972-74 fiscal years. Dividends of those companies that had not made distributions within that three-year period - or which were established after 1974 - could not exceed the equivalent of 6% of capital assets.

The other elements of the Belgian anti-crisis program would remain essentially as originally outlined early last month: provisions for early retirement of older employees; measures to boost the employment of young people in both private industry and the public sector; a one-year freeze on housing and commercial rents as of Nov. 1; and a freeze on the fees and charges of the professions and certain services. Furthermore, the government plans to set up a public investment holding company with a basic capital of BF 10 billion.

Incomes
(contd.)

The protracted political debate over this package and the heavy criticism from both industry and labor probably will prevent passage of the legislation by the end of this year, it was reported from Brussels.

Netherlands:
Wage Curbs;
Postponement
of VAT Boost

In its latest anti-inflation program submitted to Parliament on Dec. 1, the Dutch government is seeking to keep wage cost increases down to a level of 8.5-9% next year and price rises to 7.5-8%. Earnings above 20,000 guilders annually could not be subject to increases until July 1976, aside from a one-time adjustment of 4.5% to take effect in January. Existing wage agreements are to be extended until July 1 - a measure that the unions would accept, on the condition of raising their demands in the latter half of '76. To remain in control of the situation from the start, the government is already pushing for tripartite talks with employers and labor on a framework pact for 1976-77.

In order to contain price expansion, the administration has reluctantly agreed to postpone the raising of the value-added tax rate (from 16 to 18%) until Oct. 1, 1976. Originally, the change was to have been made on July 1. This concession will cost the state some 375 million guilders, not counting the 150-million-guilder loss resulting from the 0.8% reduction of employer contributions to the family allowance system. The legal minimum wage for employees above the age of 23 (currently 16,800 guilders annually) will be raised by 7% on Jan. 1 and by another 4% on July 1.

Though the business community acknowledges the government's efforts to lift the economy out of its doldrums, it believes that too much emphasis is being placed on reducing spendable incomes of employees and the self-employed, while public expenditure is still scheduled to go up by 17% next year. Thus, it is expected that the program will have no more than an extremely modest impact. So far as most businesses are concerned, an economic recovery to a large degree will depend on a major improvement of the corporate earnings situation and its beneficial effects on employment.

Germany:
Fiscal Code
Adopted by
Lower House

The new Fiscal Code adopted by the Bundestag on Nov. 27 will mark a new era in German taxation when it goes into effect on Jan. 1, 1977 (approval by the Bundesrat, the upper house, is considered certain). The new code (*Abgabenordnung*, or *AO*), which replaces its 1919 forerunner, seeks to strike a better balance between the government's interest in just, expeditious, and equal taxation and the taxpayer's interest in fewer bureaucratic assessment procedures and protection of his rights through due process.

Fiscal Code *(contd.)*

The new code would bring significant changes in the present procedure. In order to speed up taxation, there would be one yearly assessment, subject to review, instead of the present two assessments - preliminary and final. (A preliminary assessment would still be permissible under certain conditions, though.) While under the current law the statute of limitations for tax liability is five years, the new code would introduce another concept - a four-year statutory limitation on tax assessment. Following expiration of that period, the tax authorities could neither assess taxes nor revoke or amend an assessment notice. In other words, an assessment notice would become final sooner, which would both reduce administrative work and improve legal security.

Taxpayers as well as tax advisers will welcome the new rule requiring the tax authorities to give, upon request, binding rulings on how they intend to act on a specific case that has been reviewed by tax officials during an audit on the taxpayer's premises.

The new code lacks provisions on interest for overpayment or taxes due. The lawmakers accepted the government's view that most tax offices still do not have the computer facilities necessary to do this computation. A change is expected once all tax offices have switched to computerization of returns, which might take until 1980. However, the tax offices would be entitled to charge interest of 0.5% a month on due taxes for which an extension of payment has been granted.

The secrecy of tax returns and all other relevant data in determining tax liability would continue to be guaranteed, but even current law permits the tax authorities to turn over evidence of capital crimes or tax evasion to the state's attorney. In the future, the tax authorities could do likewise with evidence pertaining to alleged white-collar crime.

Britain: Government OKs Proposals on Accounting

The U.K. government has now given "broad approval" to the proposals set out in the Sandilands Committee Report on Inflation Accounting released in September. It has referred the report to the country's accounting bodies for detailed consideration, the target date for implementation being set for December 1977. The "current cost accounting" approach outlined in the report will, when implemented, result in a radically new concept of accounting in the United Kingdom: the much-criticized "historic costs" form of financial reporting is to be replaced by a system that will present assets and liabilities "at their value to the business." Moreover, profits would be assessed by setting off against sales the "value to the business of the assets consumed in generating those sales."

Accounting *(contd.)*

Although it was originally predicted that the Sandilands proposals would be too controversial, qualified acceptance already has been registered by leading accountancy bodies and by the Confederation of British Industry.

France: State Concerns Seek Damages from Unions

Two leading French state enterprises, Régie Renault and Air France, have filed court suits against two national labor federations for damages resulting from allegedly illegal strike actions. The automaker's complaint, asking for FF 30 million, is directed against the Confédération Générale du Travail (CGT) and involves strike-caused production losses sustained last winter at the Le Mans plant. The airline's suit for FF 10 million is directed against both the CGT and the other major leftist labor organization, Confédération Française Démocratique du Travail, for losses caused by strikes that still persisted last month.

While the French constitution specifically guarantees the right to strike, the law does not contain specific rules on the conduct of strikes. Thus, virtually all questions concerning the legality of disputed strike actions must be resolved by the courts. In these particular cases, Renault maintains that the union's strategy of deliberately organizing a series of strikes at the plant was illegal and could be considered a form of sabotage, whereas the airline's complaint concerns the occupation of company premises and failure to give prior notification of strike action as required by public sector regulations dating from 1963. The unions' position is, basically, that workers have an unrestricted right to strike, regardless of the form of such strikes, and that the employers may not take any interfering action.

The court decisions in these cases, expected early next year, will be of some significance for both sides, since they should deal with the question of who must assume the financial liability in cases of illegal strikes. Another issue could then possibly concern the problem of whether it would actually be possible to collect damages awarded.

Denmark: Draft Budget Sets Slower Spending Pace

The Budget Plan for the 1976-77 fiscal year (beginning on April 1) now submitted by the Danish Finance Minister calls for expenditures to rise from 72.5 to 77 billion kroner and provides for revenues of 66.8 billion (1975-76 = 59.7 billion). Thus, the deficit would shrink from 12.8 billion in the current fiscal year to 10.2 billion.

The official hopes for a reduced Budget deficit are mainly founded on the expected economic upswing, which would result in higher tax revenues. But Finance Minister Knud Heinesen has cautioned that all projections must be

Budget *(contd.)*

tentative at this time, since no one would know before the early part of next year whether it will be necessary then to stimulate the economy or to curb demand.

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