Common Market Reports

EUROMARKET NEWS

Issue No. 361 *Report No. 281, December 18, 1975*

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IN THIS ISSUE

page
Community: Court Favors Liberal Pension Concept.......1
In Brief: Insurance Agents; Fertilizers; Police.......2
Germany: Compromise Reached on Co-determination.......2
France: Welfare Costs; Giscard on Reform Plans........3
Italy: Relief Sought on Social Insurance Burden.......4
Britain: Pollution Control Consent; Wealth Tax........5
Luxembourg: Higher VAT, Surcharge on Company Tax?.....6
Austria: Entertainment Expenses Lose Tax Break........6
Switzerland: Exchange Deals; Credit, Price Powers.....7
Euro Company Scene....................................7

Community: Court Favors Broad Pension Concept

The European Court of Justice has ruled that a 1971 Council regulation is incompatible with Article 51 of the EEC Treaty to the extent that it limits the aggregation of social security benefits acquired in different member states by reducing the amount of benefits the recipient is entitled to under the social security system of one member state alone. This preliminary ruling (*Petroni et al.* - Case No. 24/75) constitutes a refinement of the Court's previous case law, which has worked in favor of employees moving from one state to another by permitting them to acquire social security pensions under several national systems. But the ruling also contains an implicit assignment for the Council of Ministers to amend Article 46(3) of Council Regulation No. 1408/71.

Raffaele Petroni, an Italian, had worked for 17 years as a miner in Belgium and then for seven years in Italy until his retirement. In 1973 he began to receive an old-age pension from Belgium, calculated solely on the basis of Belgian law, and another pension from the Italian social security fund. One year later the Belgian pension was reduced by roughly 25%, in application of Article 46 of Council Regulation No. 1408/71. After Petroni's death, his widow filed an appeal, contending that her late husband's

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Pensions *(contd.)*

right to the Belgian pension was exclusive of the social security credits accumulated in Italy. She argued that the reduction was unjustified and that Article 46(3), as applied by the Belgian authorities, is contrary to Treaty Article 51. (This Article seeks to safeguard a migrant worker's vested rights by stipulating that all periods of coverage completed in several states are to be aggregated in the calculation of benefits - *Common Market Reports, Par. 1171.*)

The Belgian pension fund administration had applied the principle that a migrant worker is entitled only to a pension that is equal to the total benefits he would have accrued had he spent his entire working life in one member state. The Belgian authorities believed that this sum represented a maximum. The Court of Justice held that the purpose of Regulation No. 1408/71 is to guarantee the beneficiary a minimum pension. Treaty provisions concerning freedom of movement would fail to achieve their purpose if workers were to lose the social security benefits guaranteed them under national law, the Court said, and Treaty Article 51 pertains essentially to cases where the law of one member state in itself is not sufficient to establish a right to benefits or grants benefits that are less than the maximum.

In Brief...

The Council will be acting soon on the Commission's proposal to coordinate national insurance rules, with the major goal of granting insurance agents from one member state the right to establish themselves and provide services in another state. The remaining differences are now being settled by the Permanent Representatives + + + Council adoption in the coming weeks of the draft directive approximating national rules governing fertilizer packaging and labeling is expected to open national markets to interstate trade in a multibillion-dollar business. Widely differing national rules are considered the main cause of substantial price differences even on local markets separated by national frontiers, especially in the tri-state corner of Belgium, the Netherlands, and Germany + + + The nine member states' interior ministers will meet in late January or early February to discuss possible ways of cooperation among their national police forces. It would be the first meeting of the interior ministers.

Germany: Compromise Reached on Co-Determination

Bonn's coalition parties have reached another compromise on the controversial bill providing for equal representation of labor on supervisory boards of large companies (*Doing Business in Europe, Pars. 30,695 and 30,700*). The second compromise became necessary after doubts arose about the constitutionality of some of the bill's features (*Doing Business in Europe, Par. 30,749*) and because the Free Demo-

Compromise *(contd.)*

crats, enjoying an upward trend in 1975 state elections, felt encouraged to ask for additional concessions.

A major objection to the government-sponsored version had been that it would cripple the functioning of management and thus would be unconstitutional if the supervisory board were deadlocked and the managing board consequently could not proceed with plans requiring supervisory board approval (for example, concerning new investments and plant closures). The compromise now provides that the chairman would have a second vote to break ties. This would also mean that the shareholders would always elect the chairman; until now the bill would have provided for a shareholder-backed and labor-backed chairman in alternate years.

The Free Democrats relented on the number of board members from lower and middle corporate management (*leitende Angestellte*) who would sit on a supervisory board along with other labor representatives. Instead of the two provided for in the current bill, the compromise calls for only one member from lower and middle management. In return for this concession, the Free Democrats won their point on making the election procedure more democratic. In companies with fewer than 8,000 employees, the labor representatives would be chosen directly by the work force, unless the majority of employees favors election through electors (as the current bill provides). It has been argued that in companies employing more than 8,000, employees may not know a particular candidate, especially if he works in another plant. Therefore, election through electors would be the better method.

Although under pressure from the unions, the Social Democrats have dropped the idea of writing into the bill a clause that would have given collective bargaining partners in companies with less than 2,000 employees the right to determine how many labor representatives would sit on the supervisory board.

The Bundestag's labor committee is expected to start deliberating the measure right after the Christmas recess, and both coalition parties apparently also agreed to push the bill through prior to the 1976 summer recess and the campaign for the October national elections.

France: Welfare Costs; Giscard on Reform Plans

A controversy has erupted in France over Finance Minister Jean-Pierre Fourcade's suggestion of a "courageous solution" for the country's deficit-ridden social insurance system in the form of higher employee contributions and somewhat reduced services and benefits. The unions immediately served notice that they would resist all efforts to reduce workers' take-home pay, while the Patronat, the employers' association, agreed with the Minister, stating

Welfare Costs *(contd.)*

that the "bearable maximum" of industry's share of welfare costs has been reached.

Although Fourcade's comments during the Budget debate in the Senate were seen by some as a government trial balloon to test public opinion, the fact remains that the administration must act soon to avert a serious financial crisis in the French social insurance system. Last year's deficit of FF 3 billion has climbed to 4.5 billion in 1975 and should reach 9 billion next year. Even if FF 1.7 billion in accumulated reserves were committed for '76, the remaining shortfall of more than 7 billion would still represent a major financing problem.

Of the three main divisions of the French social insurance system - health, family assistance, and pensions - it is the health sector that has been running up most of the deficit in the last few years. The reforms that Fourcade has proposed would include not only a readjustment of contributions but also a reduction of health service personnel (now 75,000).

Currently, employer-employee contributions to the overall social insurance system total 36.2% of gross wages and salaries up to FF 2,800 per month, with the employers accounting for 29.7% and the employees for only 6.5%. Commenting that it would be inequitable and unfair to add to the burden on the employers, Fourcade suggested that, initially, employee contributions could be raised by another two points, which would make it possible to cover next year's deficits, though this would not solve the problem in the following years.

In other news, President Giscard d'Estaing has rejected charges that his administration is no longer pushing for the promised economic and social reforms because of the resistance of industry and right-wing factions. Included in legislation now being prepared, Giscard specifically mentioned a law that would permit certain employees above the age of 60 to retire early without loss of pension.

Italy: Relief Sought On Social Insurance Cost

In Italy, discussions also have been revived over the proposal that part of the heavy social insurance burden now being carried by businesses should be included in government expenditure in order to improve the cost-earnings ratios of enterprises and thereby boost their international competitiveness. The latest recommendation to this effect has come from Giovanni Agnelli, president of the Confindustria industrial federation, who argues that domestic businesses have to pay higher social contributions than most of their foreign counterparts and therefore are at a distinct disadvantage. Agnelli noted that these contributions currently make up an estimated 46% of overall wage costs and

Insurance *(contd.)*

that they include items not directly related to social benefits in industry - such as unemployment and health insurance for employees in other sectors or contributions to the national tuberculosis fund. These extraneous contributions, the Confindustria chief said, make up no less than 16% - or one-sixth - of the total social insurance bill and should become part of the state budget.

To make the argument more palatable to the government, Agnelli also offered a suggestion on how Rome could compensate for these additional commitments that the state would incur: by raising value-added tax rates in areas where few problems would be encountered and where tax evasion would be a minimal factor. Industry would get an additional benefit here through the refund of VAT on exported products.

The Agnelli proposal is now being studied in Rome to see whether it could fit into the government's blueprint for a medium-term plan to restructure Italian industry. One factor to be considered is that the proposal, if implemented, would have the effect of a mini-devaluation of the lira, since it would apply to sectors where VAT registration is mandatory (such as for automobiles and "monopoly products").

In related developments, the Finance Ministry has reported that the intake of fiscal revenue in the first seven months of 1975 effectively fell short by about 10% of the amounts originally projected, even though revenue did go up by 23.9% to 10,797.8 billion lire. Both Finance Minister Bruno Visentini and Budget Minister Guilio Andreotti have conceded that this deficit is primarily to be blamed on widespread evasion of VAT, although the economic recession also has had a negative effect on the revenue flow.

Britain: Pollution Control Plan; Wealth Tax

The United Kingdom - which lately has faced allegations that it is becoming the maverick of the European Community, notably after the Rome summit and Prime Minister Harold Wilson's stand on oil - has secured agreement in Brussels that it will be permitted to apply its own pollution control system rather than change to the method preferred by its EC partners. In effect, the Community agreement on measures to reduce pollution in rivers, lakes, and coastal seas provides that "quality objectives" may be applied rather than measures (strongly favored by the Dutch and the Germans) designed to control emission of toxic substances at the source. The principal Community approach will be based on uniform emission standards, but member states may opt for quality objectives, assuming that they can establish their effectiveness. Britain's Minister of State at the Dept. of the Environment feels confident that the U.K. can prove this to the Community's satisfaction before the new program comes into effect in about four to five years.

Pollution *(contd.)*

In other U.K. news, a parliament Select Committee report on the possible introduction of a wealth tax (HMSO London, Dec. 10) has suggested that such a tax may be less than desirable. The reservations were primarily based on the strong possibility that - when seen in conjunction with the new capital transfer tax - the overall capital taxation burden would be excessively high. (Others also believe that the tentative government proposals on the operation and effects of the tax were not sufficiently forceful to convince the Committee.)

Luxembourg: Plan to Raise VAT Rate, Company Tax

The Luxembourg government reportedly will soon present Parliament with a proposal to raise the standard value-added tax rate from 10 to 11%. The additional revenue is to be used entirely to finance an unemployment insurance program that is yet to be set up. Other funds for this program are to come from a surcharge on the corporate tax, according to the unconfirmed reports. Much of the administration's current effort is devoted to keeping unemployment as low as possible by favoring short-time work over straight dismissals. One problem here is the local economy's dependence on the steel industry - specifically the ARBED concern, Luxembourg's most important employer - which has been hit hard by the global steel crisis.

Austria: Entertainment Expenses Lose Tax Break

On the basis of legislation modifying provisions of the fiscal code (*Abgabenänderungsgesetz 75*), business entertainment expenses are no longer tax-deductible in Austria as of Jan. 1, 1976. For those businesses for which the fiscal year does not correspond to the calendar year, the new rule even applies retroactively. (On this issue, however, the industrial association currently is intervening with the Finance Minister in order to gain equal treatment for all businesses.) The only exception will be allowed for entertainment expenses that are considered a part of export transactions; details on records required and the extent of deductibility are still lacking, though. Questions also have been raised on the lack of a clearly defined distinction of certain expenses that could be billed either as entertainment expenses (*Repräsentationsausgaben*) or as promotional expenses (*Werbeausgaben*), since the latter continue to be tax-deductible.

The government action has been severely criticized by the business community generally and by the hotel and restaurant sector specifically. Particularly in Vienna, many gastronomic establishments with a large business clientele fear for their turnover next year and would not rule out reductions in staff. And the industry association has made the point that the Finance Ministry's move comes at a time when government entertainment and representation costs are going up - a fact, it was charged, that could hardly be

Expenses (contd.)

reconciled with the "equal opportunity" slogan so often used by the present administration.

Switzerland: Exchange Deals; Powers on Credit, Prices

The existing gentleman's agreement requiring the reporting of foreign exchange transactions valued at $5 million or more has been extended until June 30, 1976, by the Swiss National Bank, the commercial banks, and multinational corporations. The transactions have to be reported to the National Bank on a daily basis; larger deals require immediate notification in order to enable the central bank to forestall undesirable effects on exchange rates.

In related developments, the Swiss parliament has approved the extension until 1978 of the emergency legislation - passed during the 1972-73 oil crisis - that permits the government and the monetary authorities to control money and credit volume by way of minimum reserve requirements, credit growth ceilings, restrictions on bond issues, and other actions (*Doing Business in Europe, Par. 30,629*). The extension will still have to be sanctioned by a national referendum before the end of 1976. One modification concerns Bern's powers to restrict credit volume: it was specified that this authority can be exercised only if other interventive actions failed and if a voluntary agreement with the commercial banks was not possible. Parliament also extended the emergency legislation on price surveillance; it, too, is subject to approval by national referendum.

EURO COMPANY SCENE

Chrysler U.K.

A resolution of Britain's Chrysler dilemma seemed imminent as Chrysler Corp. chief John Riccardo returned to the United States following negotiations on Dec. 6 and 7 with the U.K. government. London sources have confirmed that a "comprehensive scheme of support" has been worked out to resuscitate Chrysler's flagging U.K. subsidiary. The U.K. government has agreed to provide some $328.3 million for the subsidiary over the next four years. It is believed that the U.K. government funds will be used to cover the subsidiary's losses and will also finance direct loans to the firm. The government will not be taking any direct equity in the subsidiary. The subsidiary's losses for this year have been estimated at between $60-80 million. The U.K. government, for its part, has asked Chrysler to increase its investment in the subsidiary. Chrysler is to pay its share of Chrysler U.K. losses and these payments are to be contributions to equity rather than loans.

Rolls Royce/ P & W

According to authoritative but as yet unconfirmed reports, the U.K.'s Rolls Royce and the United States' Pratt &

Rolls Royce/ Pratt & Whitney *(contd.)*

Whitney are engaged in a $500-million jet engine development program. The project, for the development of engines for the 1980s, will also include participation by Italy's Fiat and Germany's MTU, which together will share 12% of the effort, while Rolls Royce will have 34% and P & W the remainder. The venture is subject to approval by the U.S. Dept. of Justice and the U.K.'s Dept. of Industry. There is still some doubt, therefore, that the U.K. will participate, inasmuch as an investment of $170 million by the government would recall the RB 211 development which bankrupted the old Rolls Royce company.

Imétal/ Copperweld

Following months of legal wrangling, France's Société Imétal, key industrial holding of the Rothschild family, has announced its acquisition of a 61% interest in Pittsburgh-based specialty steel producer Copperweld Corp. An Imétal spokesman said the company has received tenders of about 1.6 million shares of Copperweld common stock (about 61% of the outstanding common) and around 2.6 million convertible debentures (64% of the debentures).

Last month, after suffering defeat in two separate court actions, Copperweld suspended legal action to block the Imétal takeover attempt.

Aquitaine/ Towne Paulsen

Aquitaine, the French oil company that is 51% owned by t[illegible] Elf-Erap group, has acquired - through its Sanofi subsid[illegible] ary - U.S. pharmaceutical producer Towne Paulsen. The pu[illegible] chase of the American company, which has annual sales of around $4 million, is in line with Aquitaine's diversification into the chemicals sector where it already maintains considerable French holdings. Financial details of the transaction were not available.

Nationale-Nederlanden/ MULIC

Agreement in principle has been reached between the Dutch insurance group Nationale-Nederlanden and Midwestern United Life Insurance Co. (MULIC), Ft. Wayne, Ind., whereby Nationale would acquire 67% of MULIC's outstanding share capital, at $19 per share. According to a statement issued in The Hague, the deal - which is expected to be finalized by the end of next year - would involve a total investment of more than 200 million guilders. This is Nationale's third bid for a U.S. company: it took over Wisconsin National Life Insurance Co. early this year and acquired a majority interest in Accident Insurance Co., Keene, New Hampshire, at the end of 1974. Nationale reported net earnings of 68.8 million guilders for the first half of this year.

Common Market Reports

EUROMARKET NEWS

LIBRARY

Issue No. 362 *December 23, 1975*

IN THIS ISSUE

page

Community: No Further Progress on Transport Policy....1

A Shaky Compromise on Water Pollution Control.........2

In Brief: 'Sugar Cases'; Mergers; Cosmetics...........3

Britain: Selective Import Curbs; Aid to Chrysler......3

Germany: No Legal Hurdles Seen for Co-determination...4

France: Details on Higher Social Insurance Payments...5

Italy: Payments Gain; Credit Terms; General Strike....6

Switzerland: 'Snake' Issue Deferred; Inflation Slows..7

Greece: Credit, Profit Levy; Draft Budget; Banks......7

Euro Company Scene....................................8

Community: No Progress on Transport Policy

The Community's common transport policy will probably remain in its present state for another year because the Council of Ministers failed this month to adopt a number of Commission proposals designed to make some headway in what is admittedly the EC's most underdeveloped field of action. Extension of existing systems by the Council until the end of 1976 means, for example, that transport rates for road haulage in interstate transport will remain the same. Rate schedules in the various states differ up to 11.5% below and above the EC-recommended level, disparities that the Commission had hoped to reduce (*Common Market Reports, Par. 1812.26*).

Access to the market of interstate road transport is still strictly regulated through quotas and will remain so for another year. At present, 2,363 transport firms from the nine states are licensed to haul goods throughout the Common Market. The Commission wanted to double the number, but Germany opposed this on grounds that any further liberalization must be accompanied, if not preceded, by harmonizing taxes in road transport. Proposals providing, among other things, for a common system of charging for the use of infrastructures (toll charges) and raising excise-tax

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Transport *(contd.)*

exemptions for fuel in tanks of trucks in interstate transport have been pending before the Council for many years, some since 1968, but without any results.

Brussels observers see some progress, however, in that the question of weights and dimensions of commercial vehicles was referred back to the Permanent Representatives for further discussion. The 1972 compromise of the original Six that called for a maximum per-axle weight of 11 tons and a total loaded weight of 40 tons is facing strong opposition from the U.K. A compromise acceptable to all nine states could be forthcoming in 1976 (*Common Market Reports, Par. 1812.35*).

Compromise on Water Pollution Control

According to the Community's Dec. 9 compromise on water pollution control, the Council will set uniform standards for the discharge of effluents containing toxic substances, but a member state could apply its own method of control by establishing water quality criteria and also monitoring procedures. Only the U.K. is expected to choose the latter method, which was agreed on only because the British had refused to go along with the other eight member states on the source-control method.

The European Commission had been forced to present the compromise formula after all efforts to persuade the U.K. to agree to the Community's concept had failed following the Luxembourg meeting on Oct. 16. Commission attorneys realize that the compromise is a shaky one because it combines two entirely different approaches, but they nevertheless believe that the formula arrived at is better than none at all. They point out that before the system is put into operation (possibly up to five years from now, because it might take experts at least two years to agree on the final list of pollutants), the British government will have to convince the Commission that the water quality criteria as well as the monitoring procedures will indeed prove effective. Since the U.K. has no quality criteria for coastal waters (present rules merely require polluters to report discharges of certain toxic substances), Commission attorneys say privately that such criteria would have to be established also for those coastlines along the North and Irish seas where there is a heavy concentration of industry. This would be an important step in removing competitive distortions, which is the second objective of the Council action.

According to the compromise, the Council would review the situation to determine whether the Community's water pollution control targets are being met. Brussels observers do not rule out another disagreement, however, should the British fail to meet these objectives.

Pollution *(contd.)*

In related matters, the Council has authorized the Commission to participate in the negotiations for the Convention on protecting the Rhine against chemical pollution. This draft convention, currently being discussed by the Council of Europe, is designed to reduce pollution of Europe's busiest waterway, which also supplies drinking water for some 20 million people, mostly in Holland and Germany. Discussions have been inconclusive in the past because both the German and French governments believed that the proposed discharge standards demanded by the Dutch could not be imposed on their industries (*Common Market Reports, Par. 9730*).

In Brief...

In the most voluminous antitrust judgment ever handed down in the EC's history, the European Court has substantially reduced the Commission's fines against nine of the 16 European sugar producers involved and canceled those against the seven others. The original fines had totaled 9 million UA. + + + Discussions on the merger control proposal are not likely to continue in the Council until the Commission has completed the changes it promised to make in Articles 1-3 of the draft regulation. Though the changes are largely designed to meet the objections raised by many member states, Council attorneys refuse to predict whether the amendments will allay criticism, especially from Italy and the U.K. + + + Council officials note progress in the discussion of the draft directive that would establish standards and labeling requirements for cosmetics. So far, these talks have sidestepped a major problem: the composition of the "negative list" of substances that any cosmetic may not contain.

Britain: Selective Import Curbs; Chrysler Aid

Although the European Community and Britain's major trade partners elsewhere criticized the import controls announced by the U.K. government on Dec. 17 as part of an economic package, there was nevertheless considerable relief over the fact that the curbs were extremely selective and fell far short of the kind of protectionist measures that could have invited massive retaliative action from abroad. In making the announcement in the Commons, Chancellor of the Exchequer Denis Healey stated that Britain did not want an international trade war, but that some limited controls were unavoidable.

These controls involved the requirement of individual import licenses for all color TV sets and smaller black-and-white sets; quotas on certain yarn and fabric imports from Spain and Portugal; and the bid to continue restraints on imports of shoes and men's woolen suits from East Bloc countries. Other economic measures pertained to the relaxation of consumer-loan installment conditions; provision of

Import Curbs *(contd.)*

an additional Ł14.5 million to boost employment; and an allocation of Ł70 million in the current fiscal year to finance steel stockpiling by state-owned British Steel Corp.

A day earlier, on Dec. 16, the House of Commons was told by Industry Secretary Eric Varley that the government was prepared to sink Ł162.5 million into Chrysler U.K. in order to avert the collapse of the Chrysler Corp. subsidiary. The alternative, Varley said, would be the company's liquidation and the loss of 25,000 Chrysler jobs plus an equal number of layoffs in supplier industries. As it is, the government's proposal will not prevent the dismissal of some 8,000 workers at the Ryton and Linwood (Scotland) plants. The government's financial commitment to Chrysler includes the underwriting of the 1976 losses and half of the possible losses through '79 (up to Ł65 million) plus loans and guarantees totaling Ł90 million.

Germany: No Obstacles Seen on Co-Determination

German experts on constitutional law are generally in agreement that the final compromise by Bonn's coalition parties on equal representation of labor in large companies is likely to survive constitutionality tests, should the law be challenged before the Federal Constitutional Court. All provisions in the original version of the government bill that had been doubtful in this respect have now been removed or rewritten in order to pass the major hurdle posed by Constitution Article 14, which guarantees property and property rights (*Doing Business in Europe, Par. 30,749*).

Giving the supervisory board chairman a tie-breaking vote would leave the shareholders in control of that board and, hence, of management. (The supervisory board appoints members of the managing board, controls that board, and must give its consent to policy decisions such as on new investments.) .The property guarantee of Article 14 would not be violated because numerically equal representation of labor and management on the supervisory board would not cripple the functioning of a business. The two strongest opponents of the original bill, the American Chamber of Commerce in Germany and the National Employers' Association, have indicated that they will not challenge the constitutionality of the future law. Leaders of the opposition parties have also come out in support of the compromise.

The coal and steel industries have had co-determination since 1951, and the system has worked well, as has the old co-determination formula (labor with one-third representation) that has been applied in companies with more than 500 employees (*Doing Business in Europe, Pars. 23,222 and 23,441*). Thus, the situation in the board rooms is not expected to change a great deal. However, many company ex-

Representation *(contd.)*

ecutives are still apprehensive about the prospect that among about 2,600 labor representatives who are going to be on the supervisory boards of approximately 650 companies, nearly 800 would be union representatives (who need not be employees). It is feared that the sometimes radical ideas of unionists could rub off on other labor representatives and thus, possibly, introduce a new element of confrontation. Management executives also anticipate a growing case load for the labor courts because the possibility of conflicts cannot be ruled out even under the final compromise. For example, a union represented in a company might challenge the nomination of a member of lower or middle management on grounds that the individual is merely a salaried employee.

France: Plan to Raise Social Fund Contributions

As reported last week, the French social insurance system is operating with ever higher deficits, and for this reason the government has now worked out a four-part financing plan designed to prevent the FF 9-11 billion shortfall that would otherwise materialize in 1976. It involves the raising of contributions by both employers and employees, the lowering of value-added tax on prescription drugs, the revamping of internal fund accounting, and miscellaneous savings measures.

The main impact of the plan is expected to come from the higher contributions, from which the employers would not be spared, even though the Finance Minister earlier had stated that the social insurance cost burden on businesses had reached the acceptable limit. The employer-employee contributions as of Jan. 1 would be stepped up by 0.75% each, i.e., from 35.2% presently (not 36.2, as reported last week) to 36.7% of gross wage costs. The health insurance contributions would go up from 15.95 to 16.95%, with the employers' share to rise from 12.45 to 12.95% and that of the employees from 3.5 to 4%. The contributions to the old-age pension fund are to be raised from 10.25 to 10.75% (employers: 7.25 to 7.5%; employees: 3 to 3.25%). Altogether, these increases would improve social insurance revenue by FF 6.9 billion next year. The 9% family allowance contributions payable by employers only would remain unchanged.

The government also seeks to gain passage next year of legislation lowering the VAT rate on pharmaceuticals from 20 to 7%, to become effective in mid-'76. This would cut reimbursable drug costs and would, in annual terms, lighten social insurance expenditure by FF 1.25 billion, while burdening the treasury by some FF 2 billion. About 2 billion will be saved, though, through the reorganization of internal fund accounting. Various other austerity measures would then cover the remainder of next year's projected deficits.

Contributions *(contd.)*

Predictably, the administration's plan was given a chilly reception by both industry and labor, since both initially had hoped for coverage of the deficits out of the state Budget. The employers immediately protested the proposed increase as being highly unfair under present economic conditions, whereas the unions previously had indicated their opposition to any proposal that would indirectly amount to a pay cut for employees.

Italy: Payments Gain; Credit Terms; General Strike

For the third time this year, Italy's balance of payments has closed out a month with a small surplus - in October, with 38 billion lire. Thus, for the first 10 months of this year, the payments balance deficit amounted to "only" 440 billion, which was considered a major improvement over the same 1974 period, which had shown a 3,156-billion deficit. Actually, the 10-month balance would have shown a surplus of 150 billion, the central bank reported, if it hadn't been for the partial repayment of loans that Italy took up last year.

The EC Council of Ministers, meanwhile, has revised the terms attached to the $1.44-billion Community loan to Italy that in December 1974 had been converted to a medium-term facility (at 7.5625% interest until 1978). According to the new conditions, the increase in total credit volume for the Italian economy should not exceed 31,000 billion lire next year (the 1975 ceiling had been set at 24,700 billion). The Council also accepted the European Commission's proposal to raise the recommended limit of Rome's treasury deficit from 8,000 billion lire this year to 14,800 in '76. Public expenditure should not exceed 1975 levels by more than 15%, and the central bank should contribute no more than 5,700 billion lire to the financing of the Budget deficits. Finally, Rome was encouraged to step up investments for infrastructural improvements and to work toward greater efficiency of the tax system.

While in certain sectors the Italian economy is showing definite improvements, others continue to stagnate and even decline. On Dec. 12, the unions called an eight-hour general strike which practically paralyzed the country's production machinery. The walkout was to draw attention to the government's alleged laggardness in its policy concerning the underdeveloped southern regions, to the seriousness of unemployment and underemployment, and to the increasing propensity of the multinationals to withdraw from Italy or at least limit their investments there. Meanwhile, Rome's internal deliberations over a medium-term plan to aid industry and overcome the recession have gone into the third month because of differences of opinion among key cabinet members. It was expected, though, that Parliament would receive the draft legislation before the Christmas recess.

Switzerland: 'Snake' Issue Deferred; Inflation Slows

The finance ministers of the European countries that are joined in the currency "snake" (France, the Benelux states, Germany, and Denmark plus associated members Sweden and Norway) on Dec. 15 "tentatively deferred" the issue of Switzerland's association in the currency bloc. The decision followed agreement that it had been impossible to establish a consensus on the modalities of association, although a reconsideration at a later date was not entirely ruled out. The ministers did agree, though, that the central banks of the countries involved would maintain daily consultations with the Swiss monetary authorities (the same system is being followed in regard to Sweden and Norway). Switzerland last month had withdrawn its bid to attach itself to the joint float, following persistent French objections against such a move.

In other news, it was reported in Bern that the Swiss cost-of-living index at the end of November was only 3.7% higher than a year earlier. Thus, the index rise has remained under 4% for the first time since July 1970.

Greece: Credit, Profit Surcharge; Budget; Banks

In order to cover the anticipated 10-billion-drachma deficit in the 1976 Budget, the Greek government intends to impose a one-time levy on credits and profits next year. Thus, businesses that took out investment credits in the 12-month period ending in October 1975 will be required to pay a levy of 15% on such outstanding loans above 5 million drachmas plus 10% on outstanding regular credits signed for during that period. This levy reportedly may be financed via special credit arrangements yet to be worked out by the government.

Enterprises not affected by this levy - primarily those in the trade sector - are to pay a 20% surcharge on net profits above 2 million drachmas earned in 1974. However, the government has reserved the right to impose this surcharge also on those businesses for which the levy on credits would be lower than that on profits. Foreign businesses operating in Greece would be subject to the credit levy but not to that on profits, according to reports from Athens. Details of the new regulations are to be spelled out in upcoming legislation, which also is to list those sectors that would be spared.

Greece's Regular Budget for 1976 foresees record expenditures of 171.5 billion drachmas, with defense spending to rise by about 30% (1975 = 34.3 billion). In addition, Athens has projected 35.5 billion drachmas for public investments, which will have to be financed entirely through bond issues. The same goes for another 8 billion drachmas for agricultural subsidies and procurements. As of next year, higher-income groups will be subject to stiffer taxes; the import duties on automobiles will be raised by 25%.

Surcharge *(contd.)*

In other news, the government has assumed control over three commercial banks following central bank allegations that they had violated currency and foreign exchange regulations. The banks were identified as the Commercial Bank, the country's second-largest; the Ionian and Popular Bank, the third-largest; and the Investment Bank. The majority interest in all three banks is being held by Stratis Andreatis, a banker-industrialist. The government's action does not constitute nationalization of the banks involved, Athens reports said.

EURO COMPANY SCENE

Northrop

After being assured that there was no evidence of improprieties in connection with the proposed transaction, the upper house of the Swiss Parliament has voted unanimously to approve the purchase of 72 F-5E Tiger fighter aircraft from the United States' Northrop Corp. The deal is valued at SF 1.17 billion. Earlier this year, Northrop reportedly disclosed that, as part of its efforts to promote sales abroad, some funds had also been channeled to a company based in Switzerland.

Philip Morris

Philip Morris Europe has announced plans to "expand, modernize and restructure" its cigarette manufacturing facilities in Belgium and the Netherlands. The program will involve the construction of a $45-million plant at Gembloux, Belgium, employing up to 1,000 by the mid-1980s, and the expansion of existing facilities in the Netherlands. Philip Morris presently employs over 1,250 in its Benelux plants which have been in operation since 1969.

Merrill Lynch/ Brown Shipley

U.S. stockbrokerage firm Merrill Lynch is to boost its stake in London-based consortium bank Merrill Lynch-Brown Shipley from the present 74% to 95%. The transaction is to be effected by means of the purchase of a 21% interest now held by U.K. accepting house Brown Shipley. No financial details have been disclosed. The acquisition is in line with Merrill Lynch moves to establish its European headquarters in London. According to unofficial reports, Merrill Lynch's Paris-based Eurobond operation will shortly be shifted to London also. Following conclusion of the deal with Brown Shipley, the consortium bank will be renamed Merrill Lynch International Bank Ltd.

Common Market Reports

EUROMARKET NEWS

Issue No. 363 *Report No. 282, December 30, 1975*

IN THIS ISSUE

page
Community: No Abuses by Oil Concerns, Report Finds....1
Narrow Price Range Cited in 'Sugar Cases' Ruling......2
In Brief: Equal Opportunities; Conflicts of Law.......3
Britain: No Wealth Tax Introduction Next Year.........3
Voluntary Price Restraints on Essential Items?........4
Ireland: Unions Asked to Cooperate on Pay Freeze......4
Italy: OK for Budget; Guaranteeing Worker Incomes.....4
Germany: Bill Due on Windfall Oil Profits Tax.........5
Netherlands: Two Largest Unions Join in Federation....6
Portugal: Sweeping Reform Program, Austerity Moves....6
Euro Company Scene....................................7

LIBRARY

Community: No Abuses by Oil Firms, Report Says

The European Commission is satisfied that the international oil companies did not abuse their undoubtedly market-dominating position in the Community during the 1973-74 oil crisis. This finding is contained in a report on the oil multis' conduct from October 1973 to March '74 (*Common Market Reports, Par. 9724*). Actually the report credited the companies with the fact that the Netherlands and Denmark, after the Arabs had announced a total oil embargo of these two countries, did not suffer more than other EC member states because the oil concerns took effective action by rechanneling supplies.

Commissioner Albert Borschette, who presented the report to the public on Dec. 18, said that the oil companies, because of their international standing and experience, made an important contribution in alleviating the serious repercussions for those countries hit most by the oil embargo. At the same time, the Commissioner underlined some other conclusions, namely: that the oil multis have a disproportionately high degree of influence on the member state economies, and that, if there is no action, the states' dependence on these concerns would remain uncon-

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Oil Firms *(contd.)*

trolled. Borschette acknowledged that most member states have taken steps to clarify their relationships with the oil companies (in Germany, for instance, through a system of consultation). He said he believes that there must be a better balance of the roles played by the public authorities and the companies, and the best approach would be through a common energy policy.

According to the report, there was never any real shortage of fuel during the oil crisis but rather a shortage "syndrome" that affected the independent distributors and less powerful companies more than the consumer. They had to pay more because of decreed price increases and thus lost some of their markets. Still, the Commission failed to establish any behavior that was contrary to Treaty Articles 85-86.

On the other hand, the Commission has decided to launch inquiries into several other markets. It believes that the existence of specific market situations and price differences for jet fuel and naphtha (there are oligopolies of both suppliers and buyers) justify closer investigation. The Commission, using its powers under Council Regulation 17 (*Common Market Reports, Pars. 2511-12*), will also check into the oil companies' use of references to Platt's Oilgram quotations and their supply contracts with utility companies producing electricity.

'Sugar' Ruling Cites Narrow Price Range

As reported last week, the European Court of Justice has substantially reduced the fines against nine sugar producers and distributors and cancelled those against seven others on grounds that the EEC's common sugar market organization left little room for competition because of its narrow price range (*Cooperative Vereniging "Suiker Unie" et al. v. Commission*). The organization's quota system divided the EEC into national markets instead of creating a common market, according to the Court, and the system even helped the sugar producers to continue to operate in a noncompetitive manner. Consequently, they could not be judged as severely as normally would be the case when companies take advantage of a free, unregulated realm of business.

Commissioner Albert Borschette said that he was entirely satisfied with the judgment because (except on the issues pertaining to the Italian market) the Court of Justice largely shared the Commission's viewpoint. But the Commissioner, who is responsible for antitrust matters in the EC executive, also admitted that the Commission has learned to choose a softer approach in attacking companies that have attained a market-dominating position because of EC or national rules. Borschette drew a parallel to the recent GMC case in which General Motors Continental, the U.S. car maker's Antwerp subsidiary, had been authorized by the Belgian government to issue road safety certificates

'Sugar' Ruling *(contd.)*

for GM imports and, to this end, had attained a market-dominating position. (The Court has annulled the Commission-imposed fine since GMC had not abused this position.)

Commission attorneys said that they were not surprised by the decision in the sugar cases. They knew all along that their case against the Italian companies was weak because Italian regulations, for all practical purposes, reduced competition for sugar imports from France, Belgium, and Germany. Thus, the Italian companies' concerted practices could not adversely affect intra-Community trade. Advocate General Henri Mayras had stressed this point in his conclusions and said that the Commission should have brought action against the Italian government to seek repeal of regulations that were contrary to Treaty Article 92. Commissioner Borschette said that the Commission has now initiated such proceedings against Rome.

In Brief...

The Council of Ministers has adopted the draft directive on equal opportunities in employment. Because of the problems many member states are facing in putting the equality principle into practice, the deadline will be 30 months instead of the usual 18 months from the date of Council adoption. Germany had asked for 36 months + + + The Commission has sent to the Council a draft directive aimed at solving conflicts of law that might arise, for example, when an employee working for a subsidiary in one member state is transferred to a subsidiary in another state.

Britain: No Wealth Tax Introduction Next Year

The U.K. Chancellor of the Exchequer Denis Healey has now confirmed that the Labour government's commitment to introduce a wealth tax definitely will not be fulfilled next year. The announcement was made in the form of a written answer to Parliament on Dec. 18. Healey stated that his intentions had been frustrated due to the fact that the Select Committee on the Wealth Tax had "taken a good deal longer" than he had hoped.

The Committee report has, in effect, clouded rather than clarified the issue: it could not offer a clear recommendation as to the implementation, structure, or timing of the tax. Indeed, the document consisted of no fewer than five "rival" reports containing openly contradictory suggestions. In short, the Committee's report offered the Inland Revenue and the Treasury no guidelines on which to base clauses for a viable Finance Bill.

In what has been widely construed as a retreat, therefore, the Chancellor has stated that the Inland Revenue will "continue with its preparatory work" and that he will consider "draft clauses for public discussion next year." Opposition to the proposed tax has been heated, not least

Wealth Tax *(contd.)*

because the imposition of a further capital taxation burden could, as one committee member said, be "economically suicidal at a time when the nation is on its knees."

Voluntary Price Restraints on Key Items?

The U.K.'s Secretary for Prices and Consumer Protection, Mrs. Shirley Williams, is expected to announce next month details of a voluntary program to check price increases of key household items. The move, which would have important psychological implications rather than any real impact on the retail price index, would depend, however, on the compliance of the sectors involved - such as foodstuffs, textiles, clothing, footwear, hardware, and electrical goods. In the absence of such voluntary restraints, the Secretary would have to apply to Parliament for statutory powers. The "psychological" implications are clear: price restraints on key items will make more palatable to the country's labor unions the inevitable and stringent Stage Two package on pay which will be introduced when the present £6-per-week maximum rise expires on Aug. 31, 1976.

Ireland: Unions Asked to Cooperate on Pay Freeze

Stiffer controls on non-employment incomes - not excluding dividends, directors' fees, and rents - are to be made an essential feature of the Irish Republic's upcoming Budget if the trade unions pledge their cooperation on a temporary pay freeze next year. This offer was held out by Prime Minister Liam Cosgrave as he sought early indications of union and employer attitudes on wages. As part of the Budget - expected to be introduced on Jan. 28 as one of the toughest ever submitted in peacetime - the government proposes a pay freeze of at least nine months, i.e., from April until the end of '76. It is also expected that the Budget will provide for higher taxes on personal incomes, luxury goods, gasoline, liquor, and cigarettes.

Italy: OK for Budget; Guaranteeing Worker Incomes

In its last session before the holiday recess, the Italian Chamber of Deputies, by a vote of 237 to 208, has given approval to the government's 1976 Draft Budget, which already had been accepted by the Senate. It marked the first time in many years that the Budget passed Parliament within the normal deadline. Approaching what Treasury Minister Emilio Colombo termed the limits of what is "economically acceptable," next year's total deficit has been budgeted at a record 11,515.5 billion lire, topping the 1975 shortfall by 4,343 billion. Based on the officially projected GNP of 130,000 billion in '76, the new deficit would amount to 8.8% of GNP. Budgeted expenditure was given as 36,874 billion lire (plus 7,609 billion over 1975) and revenue as 26,556 billion (plus 3,355 billion).

As part of its concept for a medium-term plan to restructure Italian industry on a broad scale, the Aldo Moro

Budget OK *(contd.)*

government - through Industry Minister Carlo Donat-Cattin - has made a proposal on how to safeguard, for a period of up to five years, the incomes of workers affected by this conversion process. These would be individuals temporarily unemployed or underemployed while their companies or industries are undergoing modernization or reorganization. For this purpose, Donat-Cattin said, compensation payments as presently provided through the existing equalization and supplemental fund systems would be limited to two years. Then, during the remaining three years, special unemployment compensation ranging from 80 to 100% of previous wages would be paid directly out of the public budget. The percentage would depend on participation in vocational training and retraining courses to be organized on regional levels.

In effect, the Industry Minister's concept would fulfill the unions' demands for practically total job or incomes guarantees while the ambitious reorganization program is being implemented. Recently, the major labor federations had served the government with an ultimatum that they would refuse to join the discussions over the medium-term plan for industry unless Rome puts a stop to further mass dismissals and plant closures.

Germany: Bill Due on Windfall Oil Profits Tax

After months of studies, the Schmidt administration has decided to propose to Parliament a special tax to be levied on companies that have earned exceptionally high profits by exploiting oil and natural gas resources in Germany. Details, especially on the tax rate, will be decided next month, but the government has indicated that it wants to skim off only part of the profits. The administration also is calling on the state governments to substantially increase charges levied on firms drilling for oil or natural gas on state territory. Lower Saxony, the state having some 95% of Germany's oil and natural gas deposits, is already imposing a 5% charge based on the source price of oil or natural gas.

The basic objective of the windfall profits tax is to eliminate distortions of competition that came about when world market oil prices increased. In 1974, for example, prices went up from DM 50 to 200 per ton within weeks, while exploitation costs in Germany rose by only DM 10 per ton. Although domestic production of some 6.5 million tons of crude annually does not amount to much when compared with the 105 million tons imported in 1975, government experts have calculated that the oil firms - all subsidiaries of large foreign-owned oil companies - realized windfall profits of DM 1 billion in 1974 on oil and DM 800 million on natural gas.

Economics Minister Hans Friderichs denied speculation that Bonn is trying to open up a new revenue source. He

Profits Tax *(contd.)*

said that the revenue would not flow into the general budgets of the federal or state governments but would be earmarked for future expenditures in the energy sector. Friderichs mentioned the construction of huge storage facilities for oil and gas, financing the development of new technology based on domestic coal, and funding a national coal reserve (to relieve the coal mines of excess stockpiles).

Netherlands: Two Largest Unions Form New Federation

Holland's two largest labor unions, the Socialist NVV and the Catholic NKV, after years of off-and-on negotiations have joined by forming the Federatie Nederlandse Vakbeweging (FNV). The federation's 1.05-million membership is made up of the 695,000 members of the NVV and the 360,000 of the NKV. Although the fusion has now been formalized, there still continues to be disagreement among the rank-and-file on the wisdom of the merger, which the labor leadership sees as giving the two unions a more powerful voice in achieving the goal of a "renewal of society" via a "collective influence" on businesses and the economy in general.

Not joining the new federation are the 228,000-member Protestant CNV and the 130,000-member union of employees in intermediate and management positions (the latter is not yet officially recognized as a collective bargaining partner).

Portugal: Austerity Moves; Foreign Investments

In announcing a sweeping economic austerity program - to include tax and financial reforms, energy conservation measures and, probably, income controls - Portugal's Sixth Provisional Government also has stated that a separate state agency would be established to control the inflow of foreign capital, to negotiate with potential foreign investors, and to authorize investments from abroad. A foreign investment code (which had been repeatedly discussed by previous administrations) would guarantee the property rights of foreign investors and would assure a "transitional period of adaptation" for those already operating in the country. The code furthermore would regulate dividend transfers and capital repatriation in keeping with "internationally recognized procedures."

The major part of the government statement released on Dec. 18 concentrated, however, on the economic program which was described as being long overdue and which would require "voluntary and conscious acceptance of sacrifices" by the Portuguese people. It includes immediate price increases for such items as cigarettes (up 60%), pipe tobacco (30%), coffee, and gasoline and higher taxes on non-essential goods and automobiles. Property and farm taxes will be modified so as to favor lower-income groups. Energy

Austerity *(contd.)*

conservation measures will include driving bans for motorists on alternate weekends, on the basis of odd-numbered and even-numbered license plates. Also being prepared were income curbs in the form of wage ceilings and other restrictions.

In order to offset the budgetary deficit for 1975, the administration announced it would float an internal loan of up to $740 million and issue bonds to the former shareholders of the Bank of Portugal, the Bank of Angola, and the National Overseas Bank, all of which had been nationalized early this year. Reportedly, there also have been pressures by the International Monetary Fund for a major devaluation of the escudo, possibly in the area of 30%, before Portugal could take up its allocation under the IMF oil facilities (some $160 million). So far, the Lisbon government has staunchly rejected the idea of a devaluation on grounds that this would have negative effects on the remittances of Portuguese workers abroad, which are primarily responsible for keeping the country's payments balance in surplus. The general psychological effect of a devaluation on the strained economy also cannot be discounted, administration officials have argued.

EURO COMPANY SCENE

United Brands

Spokesmen for United Brands Co. in Europe have said that the company would appeal to the European Court of Justice a decision by the European Commission imposing $1.2 million in fines for violations of EC antitrust regulations. Following an investigation, the Commission found that United Brands - seller of "Chiquita"-brand bananas - had abused its market-dominating position by selling at discriminatory prices in different countries of the Community, preventing its distributors from reselling green bananas (and thus inhibiting large-volume sales), and refusing to sell bananas to a major Danish wholesaler for a period of more than two years. It had been this wholesaler's complaint that triggered the investigation in Brussels.

In addition to being fined, United Brands was ordered to reduce its wholesale banana prices in Germany, Denmark, and the three Benelux countries by at least 15% in respect to the prices currently in effect in Germany. An additional fine of $1,160 per day would be imposed for every day of non-compliance. Finally, the Commission said it would monitor United Brand's pricing policies in the aforementioned countries for a period of two years.

Siemens/ Osram

Germany's Federal Cartel Office has approved the year-end purchase by Siemens AG of AEG-Telefunken's 35.8% interest in light-bulb manufacturer Osram GmbH. The acquisition -

Siemens/Osram *(contd.)*

valued at DM 93 million - will increase the Siemens stake from 42.8 to 78.6%. Finalization of the deal follows months of negotiations and the unsuccessful attempt by minority shareholder General Electric (21.4%) to acquire the AEG equity earlier this year. GE is to retain its minority holding in Osram, which reported 1974 losses of DM 8.1 million on a turnover of DM 617 million.

Polaroid/ Eumig

The United States' Polaroid Corp. and Austria's Eumig are in the final stages of negotiating an agreement whereby Eumig would manufacture Polaroid-developed "instant" movie systems for the American company in Europe. The production for Polaroid would require considerable investments and additional hirings on the part of Vienna-based Eumig but would not affect the company's own manufacture of amateur cameras and projectors.

Linde/ Tyler/Clark

Linde AG of Germany as of Jan. 1 will acquire all shares in Tyler Refrigeration International GmbH from Clark Equipment Co. of Buchanan, Mich. Financial details of the transaction were not released. Tyler produces commercial refrigeration equipment for food stores and supermarkets and will continue to operate under its own name. Linde ranks among the leading European manufacturers of cooling and refrigeration systems and expects to consolidate its position with the Tyler takeover.

44 ...

Common Market Reports

EUROMARKET NEWS

Issue No. 364 *January 6, 1976*

LIBRARY

IN THIS ISSUE: Europe at the Turn of the Year

page

Community: Nonetheless, a Functioning Partnership.....1

Belgium: Government Appeals for 'Solidarity'..........3

Britain: Still No Turning Point for the Economy.......3

Denmark: Hopes Pinned on International Recovery.......4

France: Deliberate Delay on Key Reform Plans?.........5

Germany: Recession Softened by Countermeasures. 5

Ireland: Prices, Unemployment - the Twin Problems.....6

Italy: Labor's Role to Determine Future Climate.......7

Luxembourg: The Impact of the Steel Crisis............8

Netherlands: Much Uncertainty over Policy Plans.......8

Community: Nonetheless, a Functioning Partnership...

What the year 1975 proved above all else was that the Community functions even in the face of massive problems and that the governments of the Nine can work together. One of the weightiest issues of the year was the British stay-or-leave question, which virtually stalled all Council work in the months prior to the June 5 referendum.

The year saw a flurry of political activities, of which the dialogue with the Arab states was the most important. Hopes for progress in the Common Market's trade relations with East Bloc countries were not fulfilled because the Commission-Comecon contacts did not lead to the necessary dialogue. However, the Community did gain prestige as an entity when Peking sent a special envoy to Brussels to represent the world's most populous country. Also, the Community's new association agreement with 46 developing nations marked a new era of cooperation in that it departed from the previous approach of unilateral development aid by assuring the 46 African, Caribbean, and Pacific countries stable revenue for their raw materials and by making them more independent of world market price fluctuations.

On the legislative side, two events stand out: adoption of the physicians directives, which set a precedent

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Partnership *(contd.)*

for Council work on proposals involving other liberal professions, and - even more important - the Council's consent to two pharmaceuticals directives, both of which mean a big step toward creation of a genuine common market for drugs. Council passage of the shipbuilding aid directive, which provides for the phase-out of national aids to shipyards, may save the Community some of the headaches experienced by major shipbuilding nations like Japan. Prior to the summer recess, the Council took definitive action toward expanding the European Parliament's budgetary powers. By consenting to the Commission's consumer protection program, the Council has committed itself to the legislative priorities in this field, i.e., improving health and safety standards for a wide range of products. The Council was also active on the environmental scene, adopting four major directives (among them, waste disposal and the limitation of sulfur in heating oil and diesel fuel), and in early December it reached a weak compromise on water pollution control by bowing to Britain's demands.

One of the characteristics of the Commission's activities in 1975 was that it kept sight of the realities that preclude attainment of an economic and monetary union in the foreseeable future. No bold plans were conceived or presented, but to businesses at least two proposals are important and stand a good chance of realization, though this may take up to a decade. They are the draft directive on harmonizing national corporate income taxes and withholding taxes on dividends and the Green Paper on employee representation and company structure.

In 1975, the Court of Justice for the most part solidified previous EC case law. In *Commission v. Germany*, it reiterated its position on the free movement of goods by holding Germany in default of its Treaty obligation because of its 1971 wine legislation, and in *Rutili* the Court objected to the French administrative practice restricting free movement of persons. The Court expanded previous case law protecting individual basic rights by sustaining claims for damages brought under Treaty Article 218(2).

This year, the Commission is expected to present a number of proposals on consumer protection, the long-awaited products liability directive, and a proposal for a European trademark. The Council is expected to adopt some 20-odd directives designed to remove the technical obstacles to trade, with the one on fertilizer packaging and labeling considered the most important. Businessmen and corporate lawyers are anxiously awaiting the outcome of several trademark cases pending before the Court of Justice, since the tribunal is expected to clarify its previous trademark case law.

Belgium: Government Appeals for 'Solidarity'

To judge by the proliferation of bad news toward the end of 1975, Belgium's expectations for the new year are modest, at best. Most alarming has been the renewed jump in unemployment: in November, the number of people out of work had climbed by another 8,300 to 217,000, which corresponded to a median jobless rate of 8.2%. In several areas and industry sectors, however, this national average was easily exceeded, and short-time work also was at its highest level ever. These problems were compounded by the persistence of inflation - in '75 it had averaged a rate of about 12%, and the most recent estimates are for only a slight improvement this year, perhaps to around 10%.

So far, it appears that neither private investment activity nor public programs can be expected to give the sagging economy a lift. The corporate profits picture remains discouraging: on the basis of the financial reports that had been released by the end of October by some 260 of the country's top companies, net earnings had declined by an average 6.4% as compared to the 1973-74 fiscal years. In November, Finance Minister Willy de Clercq had to concede that the Budget deficits had accumulated at an unexpected rate, although he felt that the difficulties were not insurmountable so long as the domestic money and capital markets retained their liquidity. Still, De Clercq did appeal to all factions to demonstrate "solidarity" in helping to ease the enormous pressures on the public finances, which not only have had to bear the brunt of the recession but also the large-scale commitments (totaling BF 850 billion) of previous governments.

To some observers, the solidarity appeals were indicative of the government's increasingly vulnerable position. The most recent evidence of this, they say, was the retreat from a proposed program of tough income policy measures centering on a one-year freeze on incomes and a temporary neutralization of the wage indexation system which has been blamed for much of the "homemade" inflation. In the end, however, Brussels came up with a package that spared the system and made no attempts to interfere in the collective bargaining process and as such, critics charged, lacked the substance to deal with the crisis effectively.

Britain: Still No Turning Point for Economy

By any standards, the U.K.'s economic situation at the end of 1975 could only be described as serious, and it appears that the peak of the recession experienced by most other industrialized nations some time ago is only now really being felt in Britain. Unemployment reached a post-war high of 1.25 million last August, and a genuine reversal is not yet in sight. Inflation is still running at around 25% as measured by the retail price index, but there are signs that the rate of wage increases appears to be moder-

Economy
(contd.)

ating following the introduction of the Labour government's "voluntary" incomes policy, which restricts wage increases to a maximum of £6 a week through August '76. In fact, it is expected that the consumer price increases will drop from the probable 21% average in 1975 to a 10-15% range this year. In the latter part of last year, another deterioration of Britain's payments balance set in, due at least in part to extra payments for the supply of North Sea oil rigs and an increase in crude oil inventories in anticipation of a further price boost.

A feature of the past year was the government's apparent inability to cut public spending, at the expense of a growing Budget deficit, which is being financed essentially by means of massive borrowings. (It was asserted in some quarters that future revenues from North Sea oil have already been mortgaged to provide short-term funds to bolster the economy.) Also, certain key industrial sectors such as textiles, automobiles, engineering and electronics have been under strong pressure by foreign competitors, so that the Chancellor of the Exchequer at the end of the year took steps to impose limited import curbs - an action much criticized at home and abroad.

On the legislative front, 1975 saw the enactment of comprehensive "labor-oriented" legislation to improve terms and conditions of employment, health and safety at work, equal opportunities for women, and to avoid sex discrimination. The controversial capital transfer tax introduced under the 1974 Finance Act has proved so onerous that the proposals for a wealth tax may now be shelved. The government also pressed ahead with proposals to nationalize key sectors such as aerospace and shipbuilding, and the new Industry Act conferred upon the Industry Secretary unprecedented discretionary powers of intervention in private industry.

__Denmark: Hopes Rest on Recovery of World Economy__

As a small country that absolutely depends on the well-being of its neighbors and major trade partners, Denmark presently is resting its hopes on a speedy recovery of the world economy - only then can some relief be expected for its most pressing domestic problems. In its attempts so far to keep the economy from sinking too fast, the government has been forced to pursue a deficit-spending policy that has put severe strains on public finances. Thus, in the 1975-76 fiscal year, 13.2% of expenditure again has to be financed on the capital markets. A major factor here has been the persistence of high unemployment, still at 6%, which has required outlays of some 4.2 billion kroner annually.

At the moment, a big worry of Denmark's economic planners and the business community is that renewed domestic inflation pressures could prevent the country's export in-

Recovery *(contd.)*

dustries from taking advantage of the recovery of the international markets if and when it comes. The political parties are now negotiating on how to hold down excessive wage increments this spring, knowing full well that the economy cannot afford to take the risk of further price expansion (in '75, the inflation rate averaged about 10%).

France: A Deliberate Delay on Key Reforms?

Observers of the French scene have noted that the Giscard d'Estaing administration lately appears to be making exceptional efforts to gain industry's confidence in its policies and that, at the same time, the steam seems to have gone out of the government's most ambitious reform plans in the areas of taxation and corporate and labor law. There was the inference that the wooing of the business community and the alleged slowdown of reforms were somehow related. But the President himself immediately rejected these suggestions by pointing to the series of reform laws thus far passed, such as those on unemployment insurance, the lower voting age, urban land, and liberalized abortion. Other legislation would soon follow, Giscard said.

Still, it can be assumed that the government currently has to devote more time to minding another part of the store, namely, the domestic economy. While economic activity does show signs of picking up, this is only because of improved consumer demand. To bring on a real recovery, however, industry would have to lead the way with new investments - and this has yet to happen. Paris has been trying to sweeten the bait in various ways, including tax incentives. But even the 10% value-added tax reduction on capital equipment purchases, granted from May through December '75, has not elicited the hoped-for response.

Under these circumstances, it would seem logical for the administration to do everything in its power to convince business that the upturn is for real and that last fall's FF 30-billion stimulation program - the most ambitious since the war - is beginning to take hold. While the French GNP in 1975 declined for the first time in 30 years, the government was successful in reducing the inflation rate to about half and in virtually eliminating the foreign trade deficit. New investments are now badly needed to deal with unemployment (over 1 million jobless): here, decisive action would seem to be indicated to avoid the serious political consequences for the government that many observers already had predicted for last fall.

Germany: Recession Softened by Countermoves

Like all of its EC partners, Germany encountered difficulties throughout 1975 as its economy failed to shake off the longest recession since the end of World War II. But because of a stable political climate, the government had a

Recession *(contd.)*

freer hand than others in making marginal improvements. Although unemployment was still high at year-end (over one million out of jobs and about 700,000 on short-time work), the inflation rate dropped to slightly below 5% - a figure surpassed only by Switzerland. When it became obvious that its tax incentives of late '74 would not bring the predicted upswing, the government decided against further tax relief measures such as the loss carry-back. Instead, last August, it came up with a DM 5-billion public investment program concentrating on new roads, schools, and hospitals and on aids to private housing.

But the Schmidt administration also was forced to push through some unpopular measures in order to cope with an unprecedented deficit of nearly DM 60 billion at all levels of government. (This deficit had resulted both from costly reform legislation sponsored by the previous Brandt/Scheel administration and from the recession's impact on revenue.) Unemployment insurance contributions were raised from 2 to 3% as of Jan. 1. Public spending cuts - especially on education, vocational training, the civil service, and some subsidies - will save approximately DM 8 billion a year.

The government could count on the unions' support for most of these measures, with one notable exception: the co-determination bill (which probably will pass Parliament in the early summer) would grant labor numerically equal representation on supervisory boards of large companies but would still leave shareholders in control. Aside from the co-determination bill, Parliament faces a heavy work schedule this year in regard to other draft legislation interesting to businesses: various consumer protection measures, the white-collar crime bill, the drug bill, and increases in sales and excise taxes.

National elections are scheduled for Oct. 3, and Bonn observers note that Chancellor Schmidt's pragmatic policies should make it difficult for the Opposition to unseat his administration, especially since the Free Democrat minority partners have practically committed themselves to a continued alliance with the Social Democrats on the federal level.

Ireland: Unemployment, Prices - the Twin Problems

With a brief exception early in '74, the Irish economy has been in a state of decline since 1973. The twin problems of inflation and unemployment continue to plague the country: by mid-1975, unemployment had topped the 100,000 mark and, more recently, a jobless rate of about 12% was predicted for this year. Last summer, the situation had become so critical that the Minister for Finance was forced to introduce an emergency Budget that included value-added tax reductions on a wide range of commodities, staples, and essential services as well as public transport and utility rate cuts. Short-term subsidies were offered to prospec-

Twin Problems *(contd.)*

tive or potential employers in the manufacturing and farm sectors. Still, net employment in manufacturing has fallen by 4,000 due to layoffs and plant closures, despite the 16,000 new jobs the government had managed to create (in 1974).

On the legislative front, the principal development of note has been the introduction of a series of capital taxes in the form of a capital gains tax, a gift (or capital transfer) tax, and a wealth tax, the last of which has yet to be passed into law.

Italy: Labor's Role Will Determine Future Climate

Whatever the official pronouncements on the state of the Italian economy and business climate these days, there is one indicator that speaks its own plain language: the "liquidation fever" now spreading among both domestic and foreign companies, brought on mainly by low labor productivity, strikes and militant labor actions, and the impossibility of effecting any rationalization measures that would necessitate layoffs. Within the first 10 months of last year, 139.3 million work hours were lost due to strikes, and it has been estimated that private and public industry in 1975 lost some 1,500 billion lire because of surplus labor on the payrolls. It is now feared that the recent liquidation of British Leyland's Innocenti plant will set off a chain reaction of further closures, especially among medium-sized companies. Among the foreign investors, this trend has been apparent for some time, with U.S. and British firms leading the exodus.

No wonder then that the Rome government presently is according top priority to a medium-term plan to restructure industry's most critical sectors, thereby also strengthening employment and, presumably, eliminating some sources of labor-management conflict. How tough this task should be was again demonstrated last month when the unions presented the Aldo Moro administration with a virtual ultimatum to ban all further closures and dismissals in both private and public industries as a precondition to discussing the reorganization proposals with labor.

For all these and other miseries still weighing on the Italian economy, at least two problems that posed a grave threat a year ago have taken a decided turn for the better. First, the rate of inflation dropped from 25.1% in January 1975 to 12.1% in October. Secondly, for the first 10 months of the year, the balance-of-payments deficit had shrunk to 440 billion lire compared with more than 3,100 billion in the same 1974 period. But almost everywhere else the situation continued to be bleak: production was down by 12.5% (through September), domestic demand for capital goods by 8% (estimate for the whole year), while unem-

Labor *(contd.)*

ployment hovered between 1.3 and 1.8 million (through November) depending on the statistical sources.

Luxembourg: Steel Crisis Hurts Local Economy

The past year probably has been the worst since World War II for the Luxembourg economy, though this must be viewed in relative terms. With an inflation rate of 11.5% in October, the Grand Duchy no longer ranked among the low-inflation countries, but it still stayed more than a full point below the EC average of 12.8%. The worldwide recession in the steel markets is having a major effect on the local economy, since the ARBED steel concern - by far the most important employer - operates at reduced capacities and requires considerable subsidies to keep the labor force on the payrolls. To foreign businesses, Luxembourg's status as a financial hub remains undiminished: in mid-'75, the country's share of the Eurodollar market reportedly amounted to 17%, a percentage that is bound to climb higher.

Netherlands: Frustrations for Businesses in Many Areas

Holland's economic and industrial relations scene at the turn of the year was overshadowed by disagreements on 1976 wage and incomes development and by growing disillusionment on the part of businesses over government policies in many areas. For the second year in a row, employers and labor unions had failed to reach voluntary agreement on a "central accord" for the new year, thus forcing The Hague to step in with statutory income and price restraints. Business frustrations in particular extended to the areas of taxation and social insurance contributions, the volume of public spending, and government ambitions pertaining to incomes redistribution. There were numerous reports that more and more Dutch enterprises were shifting activities abroad because of the inhospitable business climate at home.

The below-par performance of the domestic economy last year generally reflected the impact of the recession on all West European economies. Industrial orders, production, investment, and profits all declined, as did foreign trade. The inflation rate still lingered at around 10%. In September, the government introduced a 3-billion-guilder reflationary package and made budgetary provision for a record deficit of 15.1 billion guilders this year. The partial freeze on incomes and the tightening of price controls decided on at the end of '75 was intended to bring the inflation rate down to 6-8%. The 2% increase of the standard VAT rate was postponed until Oct. 1, 1976. Also, for 1975 only, the corporate tax rate was lowered from 48 to 47%. But there was widespread agreement that massive investment incentives will still be required in order to pare unemployment, now at 5.5%.

Common Market Reports

EUROMARKET NEWS

LIBRARY

Issue No. 365 *Report No. 283, January 13, 1976*

IN THIS ISSUE

page

Community: European Court to Hear Trademark Cases.....1

Brussels Requests Mandate on Export Credit Talks......2

Italy: Cabinet Resigns after Clearing Industry Plan...3

Belgium: Notification Rule Follows Price Freeze.......4

Britain: Warning on Further Income Controls...........4

Germany: Energy-Saving Measures for Buildings.........5

Luxembourg: Official Report on Euromarket Status......6

Norway: Commission Recommends VAT Abolishment.........6

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

Community: Court to Hear Trademark Cases

On Jan. 27 the European Court of Justice will hear oral arguments in three important trademark cases (Nos. 51, 86, and 96/75), giving it the opportunity to clarify its position in the *Hag* and *Centrafarm* rulings (*Common Market Reports, Pars. 8230, 8246, and 8247*). The cases, sent to Luxembourg by three courts in the U.K., Denmark, and Germany, involve the British recording company EMI Records Ltd., London, and the British, Danish, and German subsidiaries of CBS, the U.S. company. All three courts have asked for a preliminary ruling on essentially the same question: May the EEC Treaty, especially its provisions on free movement of goods and free competition, be interpreted to mean that manufacturer A (here EMI Records) is precluded from exercising his rights flowing from a trademark registered in a member state to the extent that he cannot prevent manufacturer B (here the three CBS subsidiaries) from selling records bearing the Columbia trademark in the member states when these records are made and marketed in a third country where manufacturer B is authorized to use this trademark?

EMI Records owns and has registered the Columbia trademark in all EEC member states. CBS sells records under the same trademark in the United States and in countries outside the Common Market. When the British, Danish,

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Trademarks *(contd.)*

and German subsidiaries of CBS started importing records into these three countries, EMI Records sought to enjoin them from importing and selling Columbia records. At this point the national courts asked for a preliminary ruling.

The Court of Justice is expected to define its position taken in the *Hag* and the two *Centrafarm* rulings. Because the principle of free movement of goods overrides trademark and patent rights considerations, the Court said in *Hag* that the owner of the Belgian Hag trademark had no right to stop imports of Kaffee Hag products from West Germany that carried the identical trademark, one that was originally held by the German company's Belgian subsidiary but was expropriated after World War II.

The Court reaffirmed its position in the subsequent Centrafarm cases but made a distinction between patents and trademarks. In its *Centrafarm/Sterling Drug* judgment, the Court declared that the exercise of patent rights could take precedence over free movement of goods in situations involving patents whose owners are legally and economically independent, but in its *Centrafarm/Winthrop* judgment the Court failed to make a similar assertion with respect to the Negram trademark.

In the EMI cases the Court must clarify its position because the Columbia trademarks lack common origin, the main characteristic in the *Hag* case. EMI's legal predecessor had obtained the Columbia trademark for Europe from another company prior to World War II, and the CBS parent company of today was a subsidiary of that company. So, there are no legal or economic links between EMI and CBS.

Brussels Seeks Mandate for Export Credit Negotiations

Sooner than expected, the European Commission has taken advantage of a recent Court of Justice opinion and has asked the Council of Ministers for a mandate to negotiate an agreement on export credits with the Community's main trading partners. In that opinion, the first ever handed down under Treaty Article 228(1), the Commission was given the negotiating powers, and now it is asking for formal authorization for a mandate plus directives for a gentleman's agreement with the United States and Japan. Affirmative Council action would make the Commission the sole negotiator on the Community's side of the table.

If the Commission receives the mandate, the EC executive would not have to start from scratch: member state and Commission officials have been negotiating with U.S. and Japanese government representatives since May 1974 to find a contractual basis for a gentleman's agreement aimed at curtailing growing international outbidding in the export credit field. This rivalry for retaining or opening up foreign markets has considerably distorted competition among companies in the western world's most industrialized

Export Credits *(contd.)*

nations and also has increasingly burdened national budgets.

In the discussions so far, the participants have succeeded in achieving a large degree of consensus with respect to the scope and structure of any agreement. Still, differences remain not only between the member states and the U.S. and Japan but also among the Common Market countries themselves. The U.S. has insisted on broadening the scope of the agreement to include conditions other than interest and duration of credits. In the Community, France wants a 7.5% interest rate for credits to East Bloc countries buying French capital goods, while the other eight member states favor a minimum of 8% (all states basically agree on credit periods and the percentage for the credit recipient's first payment).

The Commission has played an active role at the negotiating table, and at the same time it has tried to convince the national governments to help find solutions to problems in this area because of the major costs of continued outbidding during the economic recession.

Italy: Cabinet Clears Industry Plan, Steps Down

One of the final acts of the Aldo Moro cabinet prior to its Jan. 7 resignation was the passage of the 23-billion-lire plan to reshape Italian industry and at the same time advance the economic development of the Mezzogiorno, the southern regions. Of the total investment projected for the five-year period of the *piano economico a medio termine*, the Mezzogiorno alone is to benefit from 16,500 billion lire, or roughly two-thirds. The remainder is to be spent on "structural assistance" for ailing industrial enterprises, research and development programs, financial aid to small and medium-sized industrial firms, and the restocking of credit facilities available to enterprises in which the state holds a total or partial equity. Aside from its huge financial commitment, the two-bill draft legislation provides for the novelty of transferring coordination of official industrial policy to a ministerial committee, which would be in "permanent consultation" with the industrial federations and the trade unions.

The entire package contains a broad assortment of direct aids and incentives designed to increase private investment activity. For instance, projects requiring an investment in the range of 100 million to 10 billion lire would benefit by up to 30% from special credit facilities and up to 40% from subsidized-interest credits. Investments in excess of 10 billion lire would be favored with a direct subsidy of 3% beyond the 10-billion level plus low-interest loans of up to 40%. Further incentives would be available if the investments were made in selected industry

Industry Plan *(contd.)*

sectors and in designated provinces or development areas. Enterprises settling in the Mezzogiorno would be granted a special bonus for each newly hired employee.

Still another set of aids and incentives would apply to enterprises availing themselves of the structural aid funds, i.e., funds specifically designated for industrial reconstruction programs and available for periods of up to three years rather than five. This area includes the proposal to guarantee, for a period of up to five years, at least 80% of previous pay to employees laid off or put on short-time work as a result of their companies' or industries' reorganization.

The resignation of the Christian Democrat-Republican coalition government came after the socialist PSI withdrew its parliamentary support, charging that its proposals had been given insufficient consideration in official policy. The administration now continues in a caretaker role.

Belgium: Price Freeze Followed by Notification

The price freeze for selected products, which the Belgian government had first imposed in May 1975 for a two-month period and which subsequently was continued in a modified form, formally expired at the turn of the year. However, to make sure that this does not trigger immediate price boosts on a broad front, the cabinet again has approved a system whereby planned increases would have to be notified to the Economic Affairs Ministry, which would have three months within which to make a "recommendation." If an enterprise accepts the recommendation, the new prices could be applied immediately. Nonacceptance of the recommendation would lead to another, two-month waiting period, during which the price control authorities and the affected businesses would attempt to reach agreement.

The new regulations, which still require parliamentary approval, would concern only businesses with annual turnover in excess of BF 7.5 billion (prior to the price freeze, the cutoff figure was BF 5 billion). The draft legislation further provides that the accumulation of rising costs to be reflected in the new price of products and services is not to exceed 80% of that (consumer) price. Also, the bill prohibits the adjustment of any industrial or commercial prices to the consumer price index or any other price indexes.

Britain: Added Controls on Incomes Predicted

Both Prime Minister Harold Wilson and Chancellor of the Exchequer Denis Healey have already warned that Britain faces a further period of belt tightening and austerity as the country "begins the long haul back to economic stability." The Chancellor also gave a clear indication that the wages policy implemented late last year (imposing a limit of £6

Controls *(contd.)*

per week on wage increases up to the end of August 1976) would be followed by further controls on incomes. At the same time, however, increased subsidies would be made available for essential items - notably milk, butter, and bread.

Despite claims that the economy is now being put right, leading analysts have been quick to point out that a proper balance will not be feasible until there are massive cutbacks in public sector expenditure. At the same time, unemployment figures continue to rise, and the Chancellor is under serious pressure to reflate the economy.

Most alarming of all, though, are the conclusions presented in a Dept. of Industry survey published on Jan. 5. This reveals that, following a drop of some 13% last year, the volume of capital spending in the manufacturing sector is expected to fall by a further 5 to 8% during 1976. Leading manufacturers were quoted, on the other hand, as saying that they "intend a large increase in 1977." For the immediate future, the report predicts greater-than-average declines for the metal manufacturing, coal, and petroleum product groups, noting that there could be a significant drop in the chemical industry as well.

In short, irrespective of various measures taken by the government to stimulate investment, capital outlays remain depressed. This is particularly disheartening for Healey, who has castigated British firms for clinging to the "irrational tradition" of investing only at the top of the cycle so that the new capacity is on stream when the cycle has swung downward.

Germany: Energy-Saving Measures for Buildings

The German government has proposed legislation designed to save energy in buildings by forcing contractors to conform to insulation standards for roofs and outer walls, regulate the operation and maintenance of heating units, and require double-glazed windows. The proposed rules would apply for the most part to new buildings, but those on the operation and maintenance of heating units in offices and plants would also apply to existing buildings, especially when the owner applied for installation or expansion of such units or switched to another kind of energy. Administration officials say that the new rules, which would be costly to builders, would eventually pay off in energy savings.

The government's proposal may seem inopportune in the face of growing coal stockpiles (Bonn is planning to raise subsidies for the hard-pressed mines), less consumption of electric power because of the economic recession, and temporary fuel surpluses on the world market. But administration officials point out that economical use of energy remains a necessity in the long run. They say that the

Energy *(contd.)*

short-term fluctuation due to the business cycle or mild winters should not distract from the long-range objective of slowing the depletion of existing fossil fuel sources and of decreasing Germany's dependence on imports.

The heating of offices, plants, and private homes accounts for 30-40% of the total energy consumed in West Germany, officials say, and energy losses from this usually uneconomical use of energy could be reduced by 25-35%. Government officials are aware that the rules would further aggravate the situation in the coal mines because of anticipated surpluses of 160 million tons of coal by 1985. The energy savings should reduce oil imports to the tune of DM 15 billion in foreign exchange in the next decade.

Luxembourg: First Report on Euromarket Standing

On the occasion of the 30th anniversary of the Luxembourg Banking Commissariat, the institution has issued for the first time a detailed report on the function and status of the Grand Duchy as an international financial center. (In the future, similar studies are to be published on an annual basis.) In illustrating the rapid growth of the local Euromarket, the report compares the balance sheet total of the Luxembourg-based financial institutions with gross national income: whereas this total did not quite match national income in 1960, it was 13 times as high in 1975. Within 10 years, the number of banks quadrupled to 83, while their combined balance sheet total multiplied 20 times to more than LF 1,000 billion. Now numbering 18, the U.S. banks represent the largest foreign contingent, followed closely by the German banks (17), multinational institutions (10), and banks from Switzerland (8), France (5), and Belgium (4). Only nine banks are of local origin.

Of total Euromoney market volume in mid-'75, Luxembourg held a share of 9.6% in foreign-currency accounts and 9.2% in obligations. On the basis of net volume (without interbank transactions), these percentages rise significantly to 19.5 and 12.2, respectively. Specifically on the Luxembourg Euromarket, deutschmark transactions totaled 45% in 1974 (compared with 16% overall), slightly ahead of dollar dealings, at 42% (71% overall). In the first half of last year, Luxembourg-based banks participated in 44% of all Eurobond issues, to the equivalent of more than $1 billion, as compared with less than 30% at the end of 1973 and 6.6% in '68.

Norway: Commission Favors VAT Abolishment

The problems of control and evasion of existing value-added tax plus the cost of administrating it would make it advisable to abolish this tax and replace it with a simpler system, an official commission has proposed. The consumer, however, probably would not benefit from such a change -

Abolishment *(contd.)*

the majority of the commission recommended that the present 20% VAT rate also be retained for the subsequent retail sales tax. In addition, it favored the imposition of extra taxes on luxury goods and "products which for social, health or resource reasons ought to be discouraged." VAT had been introduced in Norway in 1969.

In other developments, the Norwegian parliament last month passed a 1976 Budget that deviated somewhat from the budget draft first presented by the government in October. In its final form, the Budget now provides for a deficit in excess of 9.1 billion kroner, which is roughly one-fifth of total expenditure (50.5 billion). The public finance plan is bound to be modified again in the course of this year, though, since the government has announced it would react "flexibly" to changes in the economic situation.

EURO COMPANY SCENE

Westinghouse/ French nuclear industry

The French Commissariat for Atomic Energy (CEA), the state utility Electricité de France, Westinghouse Corp., Creusot-Loire, and Framatome have now signed a series of agreements clearing the way for a major reorganization of France's nuclear sector. As far as the U.S. group is concerned, the deal basically involves Westinghouse's sale to the CEA of two-thirds of its present 45% equity in Framatome, the French nuclear contractor. The CEA will meet the price of $16.66 million in the form of uranium deliveries to total 1,200 tons over six years. The remaining one-third is to be sold by Westinghouse by 1982, when Framatome's licenses for Westinghouse pressure water reactor systems expire. Interested in this 15% stake would be the Franco-Belgian Creusot-Loire group, which currently owns a 51% equity in Framatome.

In addition, Westinghouse, Framatome, the CEA, and EdF have agreed on a joint research and development program until 1982, with the object of improving PWR technology. This effort will require a joint investment of FF 630 million, according to one report.

CII- Honeywell Bull

After long negotiations, contracts finally have been signed in Paris on the formation of a Franco-American computer group emerging from the fusion of Cie. Internationale pour l'Informatique (CII) and Honeywell-Bull. The deal, which retroactively took effect on Dec. 1, provides for the French government and the Cie. Générale d'Electricité to acquire a part of Honeywell Information System's equity in Honeywell-Bull and to transfer it to Cie. des Machines Bull. Thus, the latter's holding in Honeywell-Bull will rise from 34 to 49%, while Honeywell Information's equity will shrink from 66 to 51%. The new company, CII-Honeywell

CII-Honeywell Bull *(contd.)*

Bull, will be subsidized to the tune of some $280 million over a four-year period, according to Paris reports. Honeywell reportedly will receive $58 million for the shares it transfers.

Chrysler U.K.

The U.K. government and Chrysler Corp. have concluded the controversial £162.5-million rescue package involving the automaker's troubled British subsidiary. The plan was given parliamentary approval on Dec. 18, but it was not until early this month that the deal was "ratified" by the labor unions representing Chrysler's 25,000 workers in Britain, even though their go-ahead meant that over 8,000 employees will lose their jobs. Specifically, the package provides that the government will underwrite Chrysler's predicted £40-million loss in 1976 and any additional losses (up to a total of £65 million) between 1976 and '79; provide a £55-million loan to Chrysler for capital, plant, and model development; guarantee a medium-term bank loan of up to £35 million; and name two "government directors" to the board of Chrysler U.K.

Thorn

Following discussions with the government, the U.K.'s Thorn Electrical Industries has decided to shut down color television tube production in Britain by its subsidiary Thorn Colour Tubes Ltd., in which RCA Corp. has a 49% stake. Thorn blames the demise of the market on the lack of control of foreign imports (which account for more than half of the U.K. TV tube market) and on the new 25% rate of value-added tax which has cut sharply into demand for color tubes.

Jurid/Bendix/Bohlen

As of Jan. 1, one of Germany's leading manufacturers of brake and clutch linings, Jurid-Werke GmbH, has become the wholly-owned subsidiary of Bendix Corp. of Southfield, Mich., which previously held a 49% equity in Jurid. The remaining 51% was taken over from Bohlen-Industrie AG; financial details were not disclosed. Jurid, founded in 1914, employs 3,600 and last reported a turnover of DM 250 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 366 *January 20, 1976*

LIBRARY

IN THIS ISSUE

page

Community: Mixed Reaction to Tindemans' Report........1

Council Gets Second Proposal on Direct Insurance......2

In Brief: Company Law; Algeria; Lomé Convention.......3

Italy: Business Anger over Latest Crisis in Rome......3

Germany: Compromise on Pollution Control Powers.......4

Britain: Healey Concedes Record Current Deficit.......5

Norway: Government Change; Environmental Rules........5

Sweden: 1976 Draft Budget and Economic Policy.........6

Portugal: Lisbon Acts on Food Prices, Shortages.......7

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

Community: Mixed Reaction to Tindemans' 'Union' Report

Brussels observers are unanimous in commending Belgian Prime Minister Leo Tindemans for the efforts that went into his report on a European Union, but they disagree on the degree of success his suggestions might have toward achieving an economic and monetary union. The 75-page document outlines the present status of the Community and manifests the disarray in several fields that precludes attainment of a European economic and monetary union in the foreseeable future (no date or time period is suggested or even hinted at). In fact, Tindemans believes that further disintegration can be prevented only by rallying the political will of the member states and by improving existing policies, extending collaboration in fields not covered by the EEC Treaty (for example, foreign and defense policies), and strengthening existing major Community institutions, especially the European Parliament.

Tindemans is assuming that the proposal on direct elections of the European Parliament will go through (which is generally expected) and suggests that the Parliament should be given the right to initiate policies and make proposals - an area now exclusively reserved for the Commission. Observers see here, too, a chance for realization because the Council's prerogative to function as the Com-

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Report *(contd.)*

munity's legislature would not be impaired in any way. But Tindemans' suggestion that majority voting in the Council become a regular practice for all matters covered by the Treaty of Rome is seen as no more than a reference to the Council's own 1974 resolution on majority voting which so far has not been applied once in any substantive issue.

The chances for a common foreign policy are considered marginal, and observers are even more skeptical of recommendations concerning the monetary field. According to Tindemans, the U.K., Ireland, and Italy should join the monetary "snake," and the European Monetary Fund gradually should be developed to enable it to assume functions of a central bank, with powers to intervene on the foreign exchange markets. Tindemans suggests that the Community should take on additional tasks in industrial, research, energy, regional and social policies. Only slight chances for progress are seen in industrial and social policies, and attempts at a genuine common energy policy have failed in the past.

Many Council and Commission officials fear that the Tindemans Report and its well-meant suggestions might share the fate of other, soon-forgotten reports should the general economic recession continue or take a turn for the worse. This would make the member state governments even more inclined to pursue an individual course of action and thus lead to further disintegration.

Council Gets Second Draft on Insurance

The Commission has taken another step toward establishing a common insurance market by proposing a directive to the Council that would coordinate the member states' rules governing direct insurance other than life insurance and at the same time ease the exercise of the freedom to offer insurance across national frontiers. Companies registered in one state and wanting to establish themselves in another and offering direct insurance there through agencies and branches will be allowed to do so after Feb. 1. This is the date when the right of establishment to engage in direct-insurance activities other than life insurance becomes a matter of law in all member states (*Common Market Reports, Pars. 1349.35, 9596*). The Council of Ministers had adopted the appropriate measures in July 1973. (A proposal concerning freedom of establishment in the field of life insurance is presently pending before the Council and so is another on co-insurance - *Common Market Reports, Pars. 1349.354, 9626, and 1349.343, 9660,* respectively.)

Although the *Van Binsbergen* ruling removed all national discriminatory restrictions hampering the freedom to provide services, it could not eliminate the legislative and administrative discrepancies existing between member states, and this is the objective of the Commission's proposal. The various discrepancies make it difficult, and

Insurance *(contd.)*

sometimes even impossible, for an insurer established in one state to insure risks in another. These differences manifest themselves in government agencies exercising controls over insurance companies for different reasons, but especially to protect the insured. The proposal would not do away with all government supervision but would eliminate double controls - in the insurance company's home state and in the state where it insures risks. Supervision of a company exercising the freedom to provide insurance services would, as a rule, become the task of the government agencies in the state in which the company has its registered office. National approval of insurance policy conditions and insurance rates would no longer be required for transport, credit and surety insurance if certain conditions are met or, in the case of property and liability insurance, if coverage exceeds a specific amount. Further, the insurer and insured would be practically free to choose the national law that would govern their insurance contract.

In Brief...

Commission attorneys are expecting adoption of the second Council draft directive on company law coordination by June, since virtually all problems have been solved + + + The negotiations between the Commission and Algeria are expected to be wound up within four weeks, thus completing the Community's contractual package with the three Maghreb countries (Morocco, Tunisia, and Algeria) that involves trade, economic cooperation, and a policy on migrant workers + + + Luxembourg has deposited the instruments of ratification of the Lomé Convention, thus becoming the seventh EC member state to complete the procedure. Also, 38 of the 46 ACP (African, Caribbean, and Pacific) states have sent their instruments of ratification to the Secretariat of the Council of Ministers.

Italy: Business Anger over Latest Crisis in Rome

The resignation of the Aldo Moro government early this month could not have come at a more inopportune time, as far as the Italian business community is concerned. The most immediate economic consequence of the political crisis is that the two bills providing for the 25,000-billion-lire, five-year plan for the restructuring of industry are stalled in Parliament for the time being. This delay could well deal a fatal blow to many businesses that are in desperate need of immediate financial assistance if they are to survive. In fact, the government itself, just prior to its dissolution, had issued a list of industrial enterprises already operating under an emergency status. The list, presented by Industry Minister Carlo Donat-Cattin, is headed by companies in the textile and apparel sector (including the Montefibre group) and also names subsidiaries and branches of U.S., British and other foreign groups (including Leyland Innocenti, Singer, White Arbos, Richardson-

Crisis
(contd.)

Merrell, and Torrington). Aside from major industrial companies, there are, of course, a large number of small and medium-sized firms either already shut down or hovering on the brink of insolvency and closure.

The latest political crisis in Rome is particularly angering business leaders because they are suspicious of the reason officially given by the Socialist PSI for its sudden withdrawal of parliamentary support from the Moro government. (The Socialists claimed that they were not adequately consulted on the layout of the medium-term industry plan - an allegation sharply rejected by Deputy Premier Ugo La Malfa.) Spokesmen for the Confindustria industrial federation feared that the political vacuum will add to the problems of the economy, and the chairman of the small business association insisted that the Socialists should be held accountable for the damage caused by the delay in aid to thousands of struggling businesses.

The employers, furthermore, are extremely worried that the absence of an effectively functioning government will prejudice their position in the upcoming collective bargaining rounds in a number of key industries. Not knowing the extent to which they will be able to avail themselves of structural aid facilities, many industry sectors and individual companies would find it hard to judge the limits of the concessions they could still afford.

Germany: Compromise on Water Pollution Control Powers

The German government coalition parties and the parliamentary Opposition have reached a compromise on the distribution of water pollution control powers between the federal government and the states, thereby preserving the system provided by the Constitution that empowers the federation to enact framework legislation only and leaves the states largely free to fill in the details. In 1971, the federal government had asked for a constitutional amendment plus new rules necessary to prevent contamination of streams, lakes, and coastal waters. A solution seemed to be forthcoming when, during the 1972 election campaign, the Opposition also supported the amendment on grounds that uniform and strict rules were vital to safeguard the nation's water supplies (*Doing Business in Europe, Par. 23,549B*). But since then, the Opposition has withdrawn its support for the measure.

Instead of being able to force its will on the states through detailed federal legislation, the Bonn government must now work harder to convince the state, to adopt at least some common standards as to requirements, such as for the storage and transfer of hazardous substances (for example, toxic metals). Although all states have enacted laws designed to cope with certain aspects of water pollu-

Compromise *(contd.)*

tion, all these laws are different, and so are their implementing regulations. Strict, uniform federal rules establishing storage conditions for many other substances (federal rules exist for flammable substances, for example) would not only help reduce water pollution but also would eliminate distortions of competition inherent in differing state rules.

The compromise does not settle the same constitutional issue involved in another measure pending before the Bundestag, which would require businesses and communities to pay a levy for discharging effluents into rivers, canals, and lakes (*Doing Business in Europe, Par. 30,718*). Deliberations by the Bundestag's legal committee had proceeded on the assumption that passage of the constitutional amendment giving the federation water pollution control powers was certain. The remaining major disagreement involved the methods of calculating the levy (a solution is expected nevertheless). So far, none of the states has established any standards whatsoever because, under pressure from local governments, they have either refrained from setting criteria for the discharge of effluents or have been lax in enforcing them, so as not to discourage established industries as well as new investments.

[illegible]tain: Healey Admits to Record Budget Deficit

Chancellor of the Exchequer Denis Healey, in submitting the U.K.'s formal application to the International Monetary Fund for loans totaling some ₤1 billion, has officially acknowledged that the government faces a large increase in its 1975-76 Budget deficit. Thus, he confirmed persistent speculation that public expenditure has been rising far above forecast. Public sector borrowing - i.e., the difference between expenditure and revenue - might amount "to as much as ₤12,000 million," Healey said - the largest deficit on record and equivalent to a staggering 12.5% of national income.

Healey maintains that little can be done to narrow the gap until the economy recovers, an argument that his opponents find circuitous, at least. Nonetheless, the Chancellor continues to adhere to the view that the present level of unemployment in the U.K. is such that there can be no prospect of cutting the borrowing requirement until 1976-77 at the earliest, not least because further rises in unemployment could prove politically disastrous for the Labour government.

Norway: Change of Government; Environment

The Norwegian minority government has passed from one Labor administration to another, following the voluntary resignation on Jan. 9 of Prime Minister Trygve Bratteli, 66. Bratteli's intention to step down had been known for some

Government *(contd.)*

time, and he chose the beginning of the new year for the move in order to give his successor, Odvar Nordli, 48, enough time before the next general elections in the fall of 1977. Oslo observers do not expect any fundamental changes in official policy as a result of the leadership switch, given the present balance of power within the governing Social Democratic Labor Party. Upon taking office, Nordli included six new ministers in his 16-member cabinet, but most key positions were left unchanged.

In other developments, Oslo has reaffirmed its determination to have Norwegian industry meet the 1984 deadline for adhering to the new and rigorous environmental standards, despite the fact that costs probably will be twice as high (4.3 billion kroner) than estimated three years ago. According to a White Paper published last month, half of this estimated investment will have to be made by the end of next year, although industry can count on substantial state assistance in the form of long-term, low-interest credits of up to 70% of the required investments and exemptions this year and in '77 from the investment tax on antipollution investments. In principle, however, industry will have to pay for reducing the pollution it causes.

Among the environmental targets the government has set for the future are proposed steps to reduce sulphur dioxide emissions, cope with waste disposal, introduce a comprehensive pollution control law emphasizing prevention rather than cure, and use taxation to discourage "environmentally harmful products."

Sweden: Slower Spending Rise to Reduce Foreign Debt

Public expenditure as projected in Sweden's 1976-77 Budget will rise by 10.4% to 110.2 billion kronor. This, Finance Minister Gunnar Sträng pointed out in his Budget message on Jan. 12, is appreciably less than the 20% increase for the current fiscal year ending on June 30 and reflects the government's determination to restore an equilibrium to the balance of payments within the next few years. The major portion of the budgeted spending increase will be due to the pension reform: as of July 1, the legal retirement age will be lowered from 67 to 65 years, basic retirement benefits will be raised, and pensioners will be given the choice of alternate benefit systems that would still permit employment income from hourly or part-time work. As concerns economic policy, the government will continue to emphasize the support and development of industry through tax incentives for capital equipment purchases, regional and selective investment aids, and funds for the reconstruction of the shipbuilding sector.

With another Budget deficit of 12 billion kronor in 1976-77, Sträng said, Sweden's foreign debt is estimated to go up to 15-20 billion for the 1974-76 period as opposed to

Spending *(contd.)*

a 5.3-billion payments surplus in 1973. This shortfall developed in the two years following the oil crisis as Stockholm promoted industrial investment and stockpiling in order to maintain full employment. However, the time has now come, Sträng said, when the government must again strive to regain a sound payments balance (targeted for 1980), and the proposed Budget should be viewed as a first step in that direction.

Portugal: Lisbon Acts on Food Shortages, High Prices

The Portuguese cabinet has decreed price ceilings for a number of basic foodstuffs and also promised to permit stepped-up imports in order to help overcome the growing food shortage, to move against profiteering and hoarding, and to push for wage adjustments reflecting the higher cost of living. The price ceilings apply to such products as pork and veal, poultry, eggs, fish, and certain vegetables. A reorganization of distribution channels in the future is planned to eliminate the "enormous differences" between producer and consumer prices.

The mounting problem of ensuring adequate food supplies, particularly in the cities, has been complicated by threats from the farmers to withhold their products from the markets. This is in protest of Lisbon's controversial agrarian reform law that has led to illegal land occupations, seizures, and expropriations. Although, earlier this month, the political parties represented in the Sixth Provisional Government had agreed to bar any further land seizures north of the Tagus River, there are still fears among the farmers that eventually small and medium-sized farms will also come under state control. It was announced, though, that a modification of the reform law would spare holdings of less than 30 hectares, but that otherwise the reform would be carried through as planned.

The farmers' protests have coincided with extensive union and leftist unrest over the most recent series of economic austerity measures, particularly the extended wage freeze and numerous price increases in the public realm. These were accompanied by the passage of the 1976 Budget, with expenditures totaling 105 billion escudos and revenue only 70 billion. The record deficit is partially due to public sector investments aimed at stimulating the economy and reducing unemployment, now at a rate of 15%. It is to be covered through state bond issues. In the meantime, the government conceded that it had sold, on an "exploratory" basis, a small portion of its gold reserves.

EURO COMPANY SCENE

Akzo/ McKinsey

In a continuing effort to resolve the problems plaguing its worldwide synthetic fiber operations, Holland's Akzo in-

Akzo/ McKinsey *(contd.)*

dustrial group has commissioned U.S. management consultants McKinsey & Co. to do a study on the group's activities in the United States, the Far East, and Europe. Last year, McKinsey had completed a study of Akzo's Enka Glanzstoff subsidiary, which resulted in the implementation of rationalization measures, including production cutbacks and layoffs. Holland's two industrial trade unions, the NVV and the NKV - which had strongly opposed McKinsey's Enka recommendations - have thus far expressed no definite opinion following the announcement of the new studies to be launched. Akzo's synthetic fiber operations account for almost half of its sales, and the worldwide setbacks in this sector have resulted in huge losses for the group in recent months.

Volkswagen

The supervisory board of Germany's Volkswagenwerke AG is to make a final decision by the end of April on whether or not to undertake automobile production in the United States. The company reportedly is considering the Pittsburgh, Cleveland, and Detroit areas as possible sites for assembly plants (with the Chrysler Corp. said to be still negotiating to sell its New Stanton, Pa., plant to VW). If a site is approved by VW's supervisory board, the company initially would ship to the U.S. for assembly parts manufactured in Germany. Production capacity would be around 200,000 units annually. Despite recent reports to the contrary, Volkswagen apparently has not ruled out the possibility of a cooperative venture with an American partner.

Du Pont/ Metallgesellschaft/ Pigment

Du Pont de Nemours & Co., Wilmington, Del., has sold to Germany's Metallgesellschaft AG its 26% stake in Pigment-Chemie GmbH, making Metallgesellschaft the sole owner of the GmbH. Pigment-Chemie, a producer of titanium oxide, in 1959 had been jointly established by Du Pont and another German company which meanwhile has been taken over by Metallgesellschaft.

Common Market Reports
EUROMARKET NEWS

Issue No. 367 *Report No. 284, January 27, 1976*

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IN THIS ISSUE

page
Community: Council Work Concentrates on Next Summit...1
Changed EC Position on Territorial Waters Issue.......2
In Brief: Canada; Substances; European Company........2
Germany: Bonn Relents, Proposes Loss Carry-back.......3
Britain: EC Opposes Government Stockpile Funding......4
Call for Environmental Agency; Cigarette Curbs........4
France: Patronat Scores Company Reform Targets........5
Netherlands: Major Firms Air Concern over Policies....6
Belgium: Price Control Procedures; Potato Shortage....6
Euro Company Scene....................................7

Community: Council Work Concentrates on Next Summit

Although work in the Council of Ministers is continuing on numerous drafts involving mostly harmonization of national rules in many fields, Council officials presently are concentrating on a number of priority proposals that should either be ready for the March 15-16 summit meeting in Luxembourg or at least far enough advanced for adoption shortly thereafter. Gaston Thorn, prime minister of Luxembourg and president of the Council of Ministers during the first half of 1976, has put emphasis on the draft convention providing for direct elections to the European Parliament. Discussions have advanced to a stage where Council officials are confident that the heads of government could formally approve the draft and thus clear the way for ratification by the national parliaments. Work on the proposal for a uniform passport is also progressing satisfactorily and was expected to be finished prior to the Luxembourg meeting.

Among the highly political topics are Greece's request for full EC membership, the resumption of trade negotiations with Spain, and the EC's Mediterranean policy. Council attorneys see a good chance that the heads of government will take positive action on Greece's request when they meet in Luxembourg. But finding a common position on

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Summit
(contd.)

what to do about Spain has proven difficult, despite the fact that the nine foreign ministers, at their Jan. 20 meeting in Brussels, agreed in principle to a resumption of trade negotiations with Madrid. A final decision is expected at the next meeting on Feb. 9.

The possibility of Spain's becoming a member of the EEC is not being openly discussed as yet, but the German government has started to rally support for Madrid's bid to gain full membership eventually. The Schmidt administration believes that a positive attitude on the member states' part at this time - without a formal commitment - could encourage the Spanish government to move faster on the road toward democracy.

Commission Changes Stand on Territorial Waters Issue

In a document that is expected to be turned into a communication addressed to the national governments, the European Commission has stated that, in its opinion, the 200-mile territorial limit applied by Iceland and several African and South American countries will eventually become the rule rather than the exception in international law. This represents a change of attitude on the Commission's part, since, two years ago, it had opposed the idea of extending territorial waters even beyond the 12-mile limit. That view was expressed in a document sent to the Council in March 1974, three months before the United Nations Conference on the Law of the Sea, in Caracas, Venezuela. The EC executive took a stand at the time in order to make the Nine adopt a common position at the conference. The purpose of the Commission's recent communication is the same, since the conference will continue in Geneva on March 20.

As far as the fishing dispute between Iceland and the U.K. is concerned, the Commission is in an awkward position. Iceland claims a 200-mile limit because its economy depends almost exclusively on its fleet of trawlers and the fish processing industry. The Commission believes that an increasing number of developing countries will now also seek to extend their territorial waters to that limit and claim the right to exploit oil and other seabed resources up to 200 miles from their shores. The Commission supported these claims prior to and during the Caracas conference, and it has not changed its mind on that issue. But it is aware that any change in the still-prevailing 12-mile limit would involve the arduous job of changing the common fishery policy (it was to be reviewed first in 1982) and amending the EEC's agreements with Iceland and Norway. The U.K. is bound to be far more affected by any change than any other member state, standing to lose more than it would gain, and it is here that the real difficulties and consequences of the Commission's changed attitude lie.

In Brief...

The request for a Commission mandate to negotiate a <u>cooperation agreement with Canada</u> is hinging on a minor reserva-

In Brief *(contd.)*

tion by the Danes, who want to use stronger language on one point: nondiscriminatory access to Canadian resources, a topic the Commission wants to discuss with the Canadian government anyway + + + The Council working group has wound up its deliberations on the Commission's draft directive limiting the marketing and use of certain dangerous substances and preparations, especially polychlorinated biphenyls (PCB). Adoption by the Council and subsequent member state action would eliminate the possibility of PCB contamination of human and animal food products, pharmaceuticals, and veterinary products + + + The Permanent Representatives will shortly start discussions on the proposal on a European company (S.E.) draft statute in spite of the Council working group's negative report on the draft regulation on the S.E. Council of Ministers president Gaston Thorn wants a decision during his term - for or against.

Germany: Bonn Relents, Proposes Loss Carry-back

Giving in to pressure from within and outside its ranks, the German government has decided to propose a limited loss carry-back after all. The measure would entitle an individual or corporate taxpayer to carry back to the previous year losses of up to DM 5 million incurred in 1975. An important innovation in the proposal would be that all types of income (for example, rental income) would be subject to the carry-back or the carry-over of losses. At present, the loss carry-over is allowed only with respect to income from commercial activities, self-employment, and farming.

A carry-back would be allowed only in computing individual and corporate income taxes but not the business tax (*Gewerbesteuer*). Inclusion of the business tax in the loss carry-back would be too much of a strain for local government budgets because it is a main revenue source for the communities. Even now, Finance Minister Hans Apel believes that the measure would cut revenue by DM 300-400 million; the inclusion of business tax in the carry-back would have meant a loss of DM 150 million for local governments alone.

The business community and the Opposition had been hoping for a broader measure that would have allowed taxpayers to spread 1974 losses of up to DM 5 million back to the tax returns of 1972 and 1973 - the years when most businesses still made good profits. Nevertheless, the proposed limited measure is considered a good move. It also represents a modest victory for the Free Democrats, who had favored the concept but were originally overruled by their major coalition partner.

During the upcoming deliberations, the lawmakers will still have to solve a problem that ties in with yet another tax bill - the corporate tax reform. A major objective of the latter is to give shareholders credit for the corporation income tax withheld by companies when paying divi-

Carry-back *(contd.)*

dends. The problem here is to make sure that a company receiving a tax refund as a result of the loss carry-back does not also include in its calculation that portion of tax withheld in paying dividends that would be credited to the shareholders' income tax liability.

The two coalition parties have just introduced a bill in the Bundestag in order to speed up deliberations on the measure. Any government-sponsored legislation normally goes first to the upper house and then to the lower house, but this should not be necessary in this case because the Opposition's upper house majority had favored the loss carry-back all along and had even passed a bill of its own in February 1975 (*Doing Business in Europe, Par. 30,770*). The latter was a much broader measure that did not succeed in the lower house because of the administration's stern opposition for budgetary reasons (*Doing Business in Europe, Par. 30,805*).

Britain: EC Opposed to Government's Stockpile Plan

The United Kingdom's industrial recovery strategy received a blow this month when Willy Schlieder, head of the European Commission's directorate-general for competition, expressed the Community's total opposition to the proposed plan to use government funds to stockpile manufactured goods until the industrial sales climate improves. This practice was central to the plans announced by Sir Ronald McIntosh, chairman of Britain's National Economic Development Council, who advocated "as much sensible stockpiling as possible" for goods that otherwise might not be produced until 1977-78.

To date, the Community's competition department already has rejected two such programs - one for machine tools and one for steel - on an informal basis. These programs were abandoned as soon as they encountered Brussels' opposition. In the future, however, any stockpiling will be the subject of "formal" opposition from the Community.

Environmental Agency Urged; Cigarette Curbs

In its fifth report to date (Cmnd. 6371, HMSO London, Jan. 15), Britain's Royal Commission on Environmental Pollution has called for the establishment of a pollution control authority (Her Majesty's Pollution Inspectorate) and has reiterated its conviction that the most viable approach to environmental problems is one of cooperation rather than confrontation. The U.K. method of control based on the doctrine of "best practicable means" is, says the report, inherently superior to any form of control by nationally fixed and rigid emission standards. A central authority is vital, however, in that "pollution of the air cannot be looked at in isolation from pollution of land or water." Nevertheless, the official approach will depend on "a continuing balance between the cost and benefits of pollution

Environment *(contd.)*

abatement for industry and society," according to the Commission's report.

The U.K.'s Minister for Health, meanwhile, has announced new measures to impose curbs on cigarette manufacturers. Cinema advertising is to be limited to "X" category film programs, tar content will have to be indicated on all cigarette packs, television advertising of cigarillos and miniature cigars will be banned, and controls (in the form of licenses) will be imposed on the introduction of synthetic materials being developed as tobacco substitutes. Further, talks will be held with the relevant tobacco and cigarette manufacturers to limit their sponsorship of sports. The Minister said the curbs would have been even more stringent, except that the Chancellor of the Exchequer would hardly welcome measures depleting treasury income from tobacco tax.

France: Patronat Scores Company Reform, Policy Aims

At its annual general meeting this month, France's employers association, the Patronat, has come out categorically against the government's corporate reform proposals and also took issue with its economic and social policy. In reference to the report last year of the official Sudreau Commission, the Patronat rejected all formulas aimed at "unionizing and obstructing the management of our enterprises" by way of co-determination. In a resolution, the industrialists not only condemned all efforts that would lead to co-determination ("a false mythos") but also those toward worker "co-surveillance." The election of worker-directors would weaken the position of the corporate owners and damage the enterprise itself. The creation of a stock corporation based on the German model - management board plus supervisory board - would be viewed as a "shameful" method of introducing the co-surveillance concept.

The Patronat also lashed out at the government's calls for restrained economic growth as a way of keeping inflation in check. Rather, it urged a "dynamic" economic policy on the basis of an annual growth rate of 5-6% over the next three years: only such a policy would succeed in cutting the 1.2-million level of unemployment, without necessarily fueling inflation. If moderation is called for, the Patronat said, it should be in the area of social and incomes policy. Finally, the industrialists demanded the reinstatement of full "price freedom," arguing that industry is emerging "financially exhausted" from the recession and needs to replenish its resources before new investments are undertaken. The continuing price controls are defeating these aims, however, the Patronat said.

The undisguised aggressiveness of the employers in their attack on the government, it was noted, stems to a large degree from the business community's anger over hav-

Reform (contd.)

ing been made the nation's whipping boy in regard to many issues. Spokesmen for the Patronat said industry has been "harassed and degraded," and they urged an end to this "campaign."

Netherlands: Major Companies Sound Warning to Politicians

In an unusual open letter to the government and Parliament, the heads of nine major Dutch concerns have warned that unless certain "dangerous trends" were reversed, Holland's economic situation and investment attractiveness would continue to deteriorate. The chairmen declared that internal structural problems are a greater cause of the current economic ailments than the worldwide recession. One of these is the "poor climate" in industry and the fact that the government's policies contribute only "inadequately" to the revival of business confidence and the realization of future potentials. The consequence, the letter said, is a lack of new investments: "Particularly for an internationally orientated economy like that of the Netherlands, such a development is extremely dangerous." The businessmen urged steps to regain business profitability as a way of combating unemployment, a reduction of the cost burden, and a radical change of the business climate generally. The latter could be brought on if government, labor, and industry would cooperate on a new policy to safeguard employment and the country's future prosperity.

It was seen as the first time that such a joint statement was issued by individual business leaders rather than by the Dutch industrial associations. The letter was signed by the chairmen of AKZO, Amro-Bank, Estel, Nationale Nederlanden, Philips, Rijn Schelde Verolme, Royal Dutch/Shell, Unilever, and VMF.

Belgium: Price Control Procedures; Potato Shortage

New price notification rules published in Belgium at the turn of the year apply to all businesses with an annual turnover of BF 7.5 million, including value-added tax (not 7.5 billion, as reported in the Jan. 13 issue). As outlined at that time, upon notification of a proposed price increase, the Economic Affairs Ministry has three months within which to accept, reject, or offer a compromise with respect to the proposed price. Should the Ministry accept the proposed price, or should the company accept a compromise offered by the Ministry, the new price may be applied five working days after a further notification to the Ministry that the new price is going into effect. Similarly, should the Ministry take no action at all during the three-month period, the new price may be applied five working days after the announcement that the price is going into effect.

Should the Ministry request that a given price not be applied or offer a compromise price that is unacceptable to

Price Controls *(contd.)*

the company, the latter must file notification indicating its intention to apply the higher price in spite of the Ministry's recommendation. In this event, notice of application of the price must be given at least two months prior to the intended application date. During this two-month period, the Ministry is empowered to block prices fo· the individual company, for a line of products, or within an economic sector.

Finally, should the Ministry formally reject a price increase, it may prohibit application of the new price for a further period of up to six months.

Further draft legislation on prices that is still pending before Parliament deals with a ban on price adjustments tied to consumer or other price indexes. This proposed legislation is not directly related to other price regulations, but is part of the government's proposed general economic plan.

Meanwhile, the Belgian government has intervened to stop price manipulations that have occurred as the result of a serious potato shortage. The Economic Affairs Ministry decreed a maximum retail price of BF 10 per kilogram after slowed wholesaler deliveries had pushed prices up to BF 20. It also threatened confiscation of supplies, should the wholesalers persist in withholding potatoes from the markets. It was not ruled out that the government would ban potato exports. (In view of the potato shortage in all EEC member states, the Council of Agricultural Ministers has suspended the duty on imports of old potatoes from third countries until March 28. The duty on newly harvested potatoes will remain unchanged.)

EURO COMPANY SCENE

Bulova

Negotiations aimed at resolving the dispute between management and employees of the Bulova Watch Co. assembly plant located at Neuchatel, Switzerland, have been broken off and, according to Swiss reports, the plant's 189 striking workers have seized some 200,000 watches valued at SF 20 million. The facility has been occupied since Bulova's U.S. management recently decided to shut down the Neuchatel operation and concentrate production at the main plant in nearby Biel. The employees reportedly are angered by the fact that the American parent did not earlier advise its Swiss branch, the local authorities, and the unions of the proposed production transfer. Restructuring measures last year resulted in Bulova's trimming of its Swiss work force from 1,300 to 800 and in significant production cutbacks, particularly in watches for export.

Singer/ Gepi

According to press reports from Milan, no private buyer has been found for the Singer Co.'s plant at Leini (Turin prov-

Singer/ Gepi *(contd.)*

ince), which produced electrical household appliances before it was shut down. Consequently, the Industry Ministry in Rome and the regional authorities have now agreed on the plant's takeover by the state-owned Gepi group, the reports said. No details were given on the financial terms of the transaction and on the extent of unavoidable layoffs among the plant's 1,900 employees.

Sumlock Anita

The high cost of assembly has led to the decision by the U.S. electronics group Rockwell International to shut down the calculator assembly plant of its British subsidiary, Sumlock Anita, at Portsmouth. The move will result in the layoff of some 220 employees. About the same number out of a total of 1,000 already had been dismissed last summer, and a small Scottish plastics plant also had been closed. Rockwell had acquired Sumlock Anita in 1973 to get a foothold in the U.K. market. In the meantime, however, there has been a trend toward contract assembly of consumer calculators in Far East countries, where labor costs are very much lower.

Moodies

Moodies Services, one of the two financial news card services in the U.K. (the other being Extel), has announced it has ceased trading due to a sharp decline in business in the London stock market, mergers of several brokerage houses, and the severe contraction of the secondary banking sector. Noting that Moodies had "no hope" of challenging Extel's market dominance, John Gwynn, managing director of U.S.-controlled parent company Dun and Bradstreet, noted that Moodies would continue to market U.S. financial information cards in the United Kingdom, but that priority was on expansion in continental Europe.

Common Market Reports

EUROMARKET NEWS

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Issue No. 368 *February 3, 1976*

IN THIS ISSUE

page
Community: Moving on with Customs Harmonization.......1
Action to Ease Inter-State Mail Order Sales...........2
In Brief: Mergers; Employee Rights; Immigration.......3
Ireland: Budget Plan Sets Higher Indirect Taxes.......3
Britain: Unions Warn Government on Employment.........4
Italy: New Credit, Import Curbs Considered Likely.....5
Germany: Bid to Improve Counseling of Consumers.......6
Austria: Favorable Reaction to Stimulative Package....7
Switzerland: More Curbs on Foreign Exchange Deals?....7
Euro Company Scene....................................8

Community: Moving on with Customs Harmonization

Following up on its 1975 action program for approximation of national customs legislation, the European Commission has sent to the Council of Ministers a draft regulation on the refund or remission of import and export duties. The main purpose of this proposal is to eliminate distortion in the treatment of Community importers of products from third countries, thus avoiding deflection of trade.

Although national rules on the refund or remission of import duties vary considerably, they nevertheless are governed by two principles: a refund or remission is allowed when customs authorities erred in computing the duty and when the recipient simply cannot use the cleared products for the intended purpose. Circumstances and conditions differ, however, and Articles 2 and 3 of the draft regulation set forth the criteria for a refund or remission for mere errors in computation, mistakes in interpretation of the law by applying individual elements (value, origin, tariff classification), or mistakes in the law's application (imposing duties on goods that should not be subject to duties). Articles 4 and 5 of the draft would allow a refund or remission of duties in cases involving mistaken customs clearance, when the goods actually should have been placed elsewhere in the customs structure (bonded ware-

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Customs Rules *(contd.)*

house, for example, or inward processing). Situations of this kind may occur when the person declaring the goods is not the actual consignee but a customs agent acting either on his own account or under inaccurate instructions. A major condition for a refund or remission would be the good faith of the actual consignee.

The member states apply the second principle (when the recipient cannot use the imported products for their intended use) in varying degrees: some follow the liberal guidelines recommended by the Customs Cooperation Council, while others apply stricter rules. Since Community and national rules already offer a wide range of facilities (bonded warehouses, temporary admission, opportunity to examine goods prior to clearance), the Commission believes that once a product has been cleared, it should be treated accordingly.

However, Articles 6 and 11 of the draft would provide for certain exceptions for the benefit of the importer to cover situations that do not imply negligence or deliberate action on his part. The refund or remission of import duties would be granted if 1) the goods are defective or do not meet contract specifications, 2) they could not be delivered to the consignee for reasons not involving fault by the declaring party, 3) the consignor addressed the goods improperly, 4) the goods are unsuited for the intended use because of an error in the order, or 5) complete or partial exemption from customs duties was requested at the time of clearance but was denied after the goods were cleared.

Article 14 of the draft would empower the Council to allow refund or remission of customs duties in other situations where equitable treatment so warrants.

Mail-Order Sales in EC to Be Eased

The Commission has started to examine ways and means of eliminating obstacles in inter-state mail-order sales. Although benefiting from the removal of customs duties and quotas and from reduced customs formalities, such sales have not expanded in proportion to the greatly increased volume of intra-Community trade generally. The reasons for this are a number of obstacles that still remain, for the most part in the form of red tape. For example, a mail-order buyer who pays value-added tax on imported goods faces more formalities in making this payment than other importers. Also, although he eventually may succeed in returning an unsatisfactory item (a right that domestic buyers enjoy), it may be difficult, if not impossible, to recover VAT already paid. It is not easy for a customer in another state to obtain credit for mail-order purchases, whereas domestic buyers usually have no problems in this respect. Finally, national rules on discount sales and advertising differ substantially.

Mail Orders *(contd.)*

Several mail-order houses have set up subsidiaries in other member states in order to overcome these obstacles and to expand sales. But the operating costs of fully stocking a subsidiary are very high, and a subsidiary carrying only a limited range of products must forward to the headquarters store orders for items not in stock.

The Commission's search for ways of eliminating the obstacles was prompted by complaints from mail-order houses and consumers throughout the Community, although the growing significance of mail-order sales has been recognized in Brussels for some time. These amount to 3.6% of total retail sales in Germany and to 5% in Britain (in the other states they are still below 2%).

Commission attorneys believe that the refund of VAT for returned items will be the major problem. But the technical difficulties involving the payment of VAT on imported items could be solved in several ways: for example, either the mail-order house could buy tax stamps in bulk from the customs office of the state of destination, affixing the appropriate amount to each shipment, or the member states could set up a clearing system operated by the banks (similar to systems existing in other fields).

Brief...

The Commission has sent to the Council of Ministers several amendments to its 1973 merger control proposal, hoping to revive the stalled discussions. However, Commission and Council attorneys are skeptical about the chances of rescuing the proposed measure + + + The Council's social action group has started discussions on the proposal designed to protect employees' acquired rights in case a company changes ownership. Community officials are confident that the deliberations will be wound up in time for Council action in June + + + The Commission is considering methods of making the member states adopt stricter measures against illegal immigration of persons from third countries and especially against their illegal employment. No decision has been reached as to what form the proposal would take - a draft directive or recommendation. The Commission believes that the legislative and administrative measures taken by most states are not sufficient to reduce the number of illegal residents holding jobs that otherwise would be available to the unemployed (5 million in the EC). It is estimated that there are from one to two million illegally employed in the Community.

Ireland: Indirect-Tax Increases in Budget Plan

The immediate reaction to the Jan. 28 Budget speech of Irish Minister for Finance Richie Ryan was that his package was one of the toughest in the country's history. On closer examination, however, the measures proposed are perhaps less drastic than originally feared. The reason for some "emotional" commentaries on the Budget was probably that

Budget
(contd.)

the standard areas were again singled out for price increases.

Ryan disclosed plans to raise £124 million by boosts in indirect taxation, the brunt of which will be borne by the motorists. As of Jan. 29, the price of gasoline was raised by a hefty 10p to 85p per gallon; furthermore, vehicle license fees were increased by between 25 and 40%. These measures alone will generate public revenue totaling some £44 million per year. Increases were also imposed on beer (an extra 5p levy), on tobacco (some 3p per pack of cigarettes), and on wines and spirits. In addition, Ryan announced that the "general rate" of value-added tax, until now set at 6.75%, is to be increased to 10%, while the higher rates of VAT will be imposed on a wider range of luxury goods.

It was significant that no move has been made to impose any increases in direct taxation: this decision is mainly political in nature in that the government must continue to woo the country's labor unions and persuade them to agree to a voluntary pay pause. Ryan's promise to clamp down on tax avoidance by professional persons and the self-employed must also be viewed as a political gesture to placate the wage and salary earners who contend that they have been assuming more than their fair share of the overall tax burden.

Ryan made a special point of venting his anger over terrorist activities which, he contended, are a drain on the country's economy: if it were not for the staggering security costs, "nearly £100 million could have been released to provide jobs to create sustainable wealth."

Britain: Unions Warn Government on Employment

The U.K. labor unions have given the Wilson government a warning that it is "on trial." The root cause of the unions' discontent is the rapid increase in unemployment, part of which can be ascribed to the government's unwillingness at the present time to reflate the economy. The motion tabled for the Commons debate on employment neatly summarizes the administration's position: the government "welcomes the reduction in the rate of inflation and the improvement in the balance of payments as an essential basis for economic recovery but expresses its deep concern at the rise in unemployment." The motion also notes the government's "determination to take all possible measures to reduce unemployment so as to ensure continuing growth with stable prices."

It is not clear, however, what form such measures will or could take. Further, it must be stressed that these measures would be political in character, whereas leading economists have insisted that the real need is for a stimu-

Warning *(contd.)*

lus to industrial investment. This, though less "spectacular" in its political impact, would automatically have the effect of boosting employment. There is yet another factor that clouds the (un)employment debate, namely, that the distressed state of the nation has affected people in the lower-income bracket to the point where - as in the case of British Steel Corp. and Chrysler - many are eager to accept voluntary dismissal in order to receive cash severance pay.

Spokesmen at the Trades Union Congress' London headquarters were unable to specify clearly what the desired measures might be. Instead, the emphasis was on such generalities as "job creation," more training facilities, higher layoff (or temporary unemployment) subsidies, more financial assistance to companies to accelerate industrial investment projects, and extra government finance for industrial stockpiling (the last-named being already heavily criticized by the European Commission in Brussels).

Italy: New Credit, Import Curbs Held Likely

Against the background of Italy's latest political and monetary crisis, there was considerable speculation at home and abroad as to the steps that would have to be taken once a new government is installed in Rome and the official foreign exchange market is reopened (the assumption being that these two events would be closely related). In the interim, in order to retain some control over the situation, officials of the Aldo Moro caretaker government and the monetary authorities have been negotiating around the clock with the International Monetary Fund, the U.S. Federal Reserve Board, and European governments in efforts to rally financial support for the lira. (In unofficial trading, the lira had suffered a devaluation of 6-7% up to the end of January, following the Jan. 21 closure of the foreign exchange market.) The outcome of these negotiations - i.e., the extent of the new credit facilities to be made available to Rome - will largely determine the basis on which the next government could plot another set of anti-crisis measures.

Despite official denials of the lame-duck administration, many observers are convinced that some credit restrictions on the basis of higher interest rates will be unavoidable. (As of the last week in January, the 6% discount rate set in October 1975 was still in effect.) Further restrictions were foreseen for the import trade, possibly again in the form of some import deposits, import curbs on "nonessential" consumer goods, and a higher value-added tax rate on certain imports. Another increase in fuel prices also was considered a likely possibility.

No matter what the makeup of the new government, it will have to act fast to forestall a monetary breakdown of the magnitude experienced in 1974-75. The latest pressures

Curbs *(contd.)*

on the lira were brought on partly by the political crisis in Rome but also by the concurrent capital flight and the most recent erosion of the payments balance. In the week preceding the closure of the foreign exchange market, that capital drain averaged 20 billion lire a day. For November, the payments deficit amounted to 378 billion lire - nearly half as much as the total for the first 11 months of 1975 (812 billion). This still compares favorably, of course, to the same 1974 period when the shortfall had reached 3,500 billion. Still, Italy's foreign exchange reserves at year-end totaled only 800 billion lire, and the monetary authorities are hardly in a position to touch the considerable gold reserves ($10-11 billion at market value), since these are vitally needed to sustain Rome's international credit worthiness.

Germany: Consumer Counseling, Protection

The Bonn government has called on the German states to extend to consumer information centers the right to counsel consumers. Lawyers practically have a monopoly on counseling under a 1935 federal law, save for some limited exceptions provided in that law (for example, for accountants and other individuals advising on social security matters). In the government's view, the right of Germany's 105 official consumer information centers to offer legal advice on all consumer matters would be a meaningful part of its legislative program. Officials of the information centers feel that they are muzzled by the 1935 law - in cases of consumer inquiries on what legal action should be taken, they are forced to withhold advice.

In its request, the federal government is seeking the voluntary cooperation of the states because the administration of justice is a constitutional prerogative of the latter. Should Bonn's appeal go unheeded, administration officials said, the government would propose an amendment to the 1935 law.

In other developments, the government has received unexpected help in its consumer protection drive. In a recent ruling, the Supreme Federal Civil Court held that the federally funded Warentest foundation enjoys broad freedom of expression in criticizing manufacturers' products that do not measure up to standards desirable from the consumer's viewpoint. Three types of ski bindings of a Bavarian manufacturer had been rated as "merely satisfactory" and "nonsatisfactory" by the Berlin-based foundation. The appellate and supreme courts rejected the manufacturer's damage suit, and the Supreme Court also rejected the manufacturer's attempts to stop Warentest from publishing the test results and to have them revoked (judgment of Dec. 9, 1975; Case No. VI ZR 157/73). These results had been provided by Bavaria's Technischer Überwachungsverein (TÜV), a special state agency applying federal rules in testing products.

Austria: Industry, Labor Back Economic Incentives

Industry and union spokesmen in Austria have reacted favorably to the announcement of an 11-billion-schilling package with which the government hopes to stimulate domestic demand and investment activity this year. The funds are to be made available in the form of public orders and temporary tax suspensions on investments.

From the so-called economic equalization budget (*Konjunkturausgleichsbudget*), Vienna will release 3 billion schillings, with two-thirds of this to be allocated to the building sector. Some impact on the employment situation, especially in small and medium-sized construction firms, is expected from an accelerated depreciation of 50% that would be permitted on building investments started and completed in 1976-77. Similar objectives are being pursued with the suspension this year of the 4% investment tax within the value-added tax provisions. Finance Minister Hannes Androsch estimated that this should cause a revenue deficit of 6-7 billion schillings; however, the tax liability will remain, and the tax is to be paid retroactively in the years 1977-79.

In cooperation with the National Bank and the commercial banks, some 2 billion schillings are to be made available for long-term industrial financing and for the improvement of various credit guarantee facilities and for export promotion programs.

While all these proposals generally were well received, the same cannot be said for the government's plan to raise the gasoline and oil tax by 0.50 schillings per liter as a way of adjusting revenue to higher fuel prices. This would improve oil tax revenue by about 1 billion to more than 10 billion schillings. (A date for the tax change has yet to be set.) An additional 1 billion, in annual terms, is to come from the doubling of the motor vehicle tax (based on piston displacement) as of October 1976. Finally, the government is still considering the introduction of a levy on foreign freight transports passing through Austria in transit.

Switzerland: Further Curbs on Foreign Exchange Deals?

Discouraged by Switzerland's tough restrictions on Swiss-franc deposits by nonresidents ("negative" interest of 40% on amounts exceeding SF 100,000), many major international investors have been purchasing Swiss francs through the foreign subsidiaries and branches of the big Swiss banks, especially in London and Luxembourg. To close this gap, Swiss monetary authorities reportedly are negotiating a gentlemen's agreement as part of which the domestic banks would pledge not to engage in foreign exchange deals abroad that would be considered undesirable or be subject to punitive interest in Switzerland.

According to reports from Zurich, the monetary authorities are also considering the possibility of tightening

Curbs
(contd.)

the notification rules now applying to certain foreign exchange deals. An existing agreement provides that transactions valued at $5 million or more have to be reported to the National Bank on a daily basis (for large deals, immediate notification is required). This rule apparently has been skirted in numerous instances when the amount of the deals fell just short of the $5-million limit. It has been speculated that this limit could now be lowered to $4 or even $3 million.

EURO COMPANY SCENE

Bulova

The striking workers of the Bulova Watch Co. assembly plant at Neuchatel, Switzerland, have ended their plant occupation organized in protest of the decision by Bulova's U.S. management to shut down the operation and concentrate production at the main plant in nearby Biel. The conflict was resolved with a compromise agreement proposed by the Neuchatel authorities and approved by the unions. Under the terms of the agreement, the decision to transfer watch assembly to Biel will be reconsidered at the end of 1977. Should a relocation still be deemed necessary at that time, any employees not wishing to transfer would be given compensation of up to three months' salary. Meanwhile, full production has been resumed at the plant.

Framsid/
Yale Steel

In line with the growing trend of French industrial firms to extend their activities to the United States, three companies of the Schneider group - Creusot-Loire, Société Métallurgique de Normandie, and Socopa SA - have set up jointly the Société Franco-Américaine de Sidérurgie (Framsid). The new firm, with a share capital of FF 5 million, has acquired a majority interest in Yale Steel Corp., Wallingford, Conn., which is presently constructing a 150,000-ton-a-year steel works scheduled for completion the first half of this year. A steel mill is to be completed late in '76. Minority shareholders of Yale Steel include Consid, Inc., New York, a subsidiary of Paris-based Consid SA.

Chrysler U.K.

Even as Chrysler executive vice-president Gwain Gillespie told a House of Commons committee that Chrysler's recovery in the U.K. depended on an economic upturn and, particularly, on improved labor relations, some 6,000 workers went on strike at the company's Linwood (Scotland) plant, halting production. It was warned that the walkout could jeopardize the recent £162.5-million deal with the British government: unless Chrysler's productivity and strike record improve, further payments of the government's grant and loan aid program will not be made.

Common Market Reports

EUROMARKET NEWS

Issue No. 369 *Report No. 285, February 12, 1976*

LIBRARY

IN THIS ISSUE

page
Community: Coordination of Share Admission Rules......1
Council Adopts Draft Directive on Packaging...........2
In Brief: European Company; Amaranth Additive.........3
Germany: Committee Debates Corporate Tax Reform.......3
Appellate Court Orders Roche to Cut Prices by 28%.....4
Britain: 'Refinements' in U.K.-U.S. Tax Treaty........5
Government Considers Investment, Production Boosts....5
Italy: Parties Discuss Outlines of Crisis Program.....5
Greece: Angry Reaction to Brussels' Recommendation....6
Euro Company Scene....................................7

Community: Coordination of Securities Admission

The European Commission has proposed to coordinate differences in the conditions for the admission of securities to quotation on the national stock exchanges. These differences, among other things, stand in the way of the creation of a European capital market. The draft directive complements the prospectus proposal sent to the Council in 1972 and amended last December. The stated purpose of that proposal is to coordinate national provisions governing the content and the official examination and the distribution of prospectuses to be published when securities are admitted to official stock exchange quotation in a member state (*Common Market Reports, Par. 1405*). Still, the underlying objective is to provide better information to the public by aligning disclosure rules, thus making securities investments more attractive to the public and thereby improving capital availability.

The Commission believes that the differences in national conditions for admission of securities to official quotation entail the same disadvantages that result from the differing requirements governing the content of the prospectus to be published by a company prior to admission of securities to quotation. A company may succeed in hav-

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Securities
(contd.)

ing its bonds or shares admitted to official quotation in its home state but may be unsuccessful in another state because of the stricter requirements there. The varying requirements may ultimately determine management's choice of the stock exchange on which it requests quotation of its securities. This, in turn, may channel the flow of capital in a way that would not occur if conditions for admission were harmonized.

During the discussions preceding the drafting of the proposal, the Commission met strong resistance from several states against complete coordination of national rules. The proposal therefore seeks to establish minimum conditions, giving member states the option of imposing tighter conditions and even additional ones. The Community rules would apply to all securities issued by companies or public authorities, but not to securities issued by open-end investment companies or mutual funds.

The basic conditions for the admission of shares would be that the states would have to demand, among other things, a foreseeable market capitalization of the shares for which admission is sought or, where this is impossible to determine, a minimum capital of one million units of account. A company would have to present proof of its profit-making capacity for the past two financial years as well as for the current and the following year. There are also a number of conditions relating to the shares themselves.

Council Adopts Directive on Packaging

The Council of Ministers has formally adopted the draft directive approximating member state laws relating to the makeup by weight or by volume of certain prepackaged products. The basic agreement was reached last December. The directive applies to all products except liquids (covered by another directive adopted last year) that are prepacked and sold either in units of weight or volume of not less than 5 grams or 5 milliliters and not more than 10 kilograms or 10 liters. There are two fundamental principles in the directive and its two annexes: 1) an easing of intra-Community trade by removing obstacles caused by different national rules and 2) consumer protection. All member states have enacted rules in this field, but these differ to such an extent that four member states (Belgium, the Netherlands, Britain, and Ireland) have been given a respite until the end of 1979 to comply with the directive, while the other five states have the usual 18 months.

The labels of all prepackaged products must indicate nominal weight or volume. For the benefit of the British and Irish consumers, the U.K. and Ireland have discretion in asking packers selling on the British and Irish markets to print the ounce/pound equivalents next to the mandatory metric units of measurement.

Packaging *(contd.)*

Since it is possible that individual items sometimes contain less than the stated weight or volume as a result of assembly-line production or processing, the directive also specifies acceptable negative tolerances. It further provides for a reference method for controls in order to ensure that the packaging conforms to the rules.

According to the directive, it is the responsibility of the packer (or importer) to make sure that the prepackaged items meet the Community requirements. This checking may be done by sampling. But where actual contents are not measured, the packer must establish by other means that the quantity is effectively ensured. This condition is fulfilled if the packer makes production checks in line with national rules and if he can certify that such checks were carried out and that adjustments, if necessary, were properly and accurately made. In the case of third-country imports, the importer - instead of measuring and checking - may provide evidence that he is in possession of all the necessary guarantees enabling him to assume responsibility.

In Brief...

The Council has asked the Commission to indicate by the end of this month which issues affecting the European company (S.E.) draft statute should have priority in the discussions of the Council's working group. The Commission's Green Paper on employees' representation is now being discussed by the Economic and Social Committee. The suggestions of the Committee (with its heavy union and management representation) might contribute to solving the problem + + + The Commission will make up its mind in terms of legislative action concerning the amaranth additive (Red No. 2) after an expert group has presented its findings on the alleged health hazards that prompted the U.S. Food and Drug Administration to act. These findings will be available by the end of this month. Under Community rules, member states are allowed to permit use of amaranth in food items only until the end of 1978, but the experts' findings could prompt the Commission to propose an earlier ban.

Germany: Corporate Tax Reform in Committee

The German Bundestag's tax committee has finally opened discussions on the government's 1973 corporate tax reform bill. A major concept of the bill is that shareholders receiving dividends would, when filing their individual income tax returns, be credited with the corporation tax paid by the company at the time of dividend distribution (*Doing Business in Europe, Par. 23,395*). The committee is scheduled to wind up deliberations before the Easter recess, which does not give it much time, considering the novelty of the concept. However, most committee members (the Opposition and the Free Democrats have been supporting the measure all along) believe that with the good will of all concerned, the measure could be returned to the floor after

Tax Reform *(contd.)*

Easter. This would allow enough time for further debate in the full house and adoption prior to the summer recess.

The progress of the measure had thus far been impeded by the resistance of several influential Social Democrats, especially union-affiliated individuals, in both the tax committee and the party itself. Pointing to the fact that the legislation would cost Bonn DM 500 million in revenue, they questioned the wisdom of letting the rich "off the hook," while the average taxpayer would have to pay more just to maintain his standard of living. (The sales tax is scheduled to go up by two percentage points generally and by one point for most food items by Jan. 1, 1977 - the same date on which the corporate tax bill is slated for enactment.) However, other Social Democrat experts have urged their colleagues not to close their eyes to the need for the reform.

There are still several problems for which improved solutions have to be found. They concern primarily the treatment of foreign investments in Germany (*Doing Business in Europe, Par. 30,666*). Adoption of the bill in its current version would require renegotiation of the Germany-U.S. tax treaty, which has long been a bone of contention. Until recently, the Schmidt administration did not see any urgency for such renegotiations, but it has now initiated this step.

Appeals Court Orders Roche to Cut Prices by 28 Percent

The German Court of Appeals (cartel division) in Berlin has basically upheld the position of the Federal Cartel Office by ordering the German subsidiary of Switzerland's Hoffmann-La Roche pharmaceutical group to reduce by 28% its producer prices of the tranquilizers Valium and Librium. The company was given one month within which to effect the price changes. However, Hoffmann-La Roche has announced that it will now take the case to the Federal Supreme Court. The value of the issue at stake was set at DM 60 million, which is twice the amount of the price reductions ordered. Roche is to assume 70% of the court costs and the Cartel Office 30%.

In October 1974, the Cartel Office had ordered the drug manufacturer to lower its prices for Valium and Librium by 40 and 35%, respectively, charging that the excessive prices resulted from the company's dominating position on the German market. One month later, the appellate court ruled that Roche would not have to reduce the prices as of Jan. 1, 1975, as the cartel authorities had ordered, and that the outcome of the litigation should be awaited. In calculating the 28% price cut, the Court of Appeals considered Roche's pricing policies on foreign markets, since the German prices are not based on a competitive situation. The court held that the reduction would not lead to an "unreasonable impairment" of profitability or research capacity.

Britain: 'Refinements' Noted in U.K.-U.S. Tax Treaty

The United Kingdom-United States convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital gains was signed on Dec. 31, but still awaits ratification by the British government and the U.S. Senate. In spite of objections raised by the State of California, it is expected that the convention will become effective in its present form.

The consensus among U.S. attorneys in the U.K. is that the new convention is appreciably more sophisticated than the existing one and that it shows a number of "refinements" over the OECD model convention. In particular, they point to the increased emphasis on the prevention of fiscal evasion, to the more stringent provisions with respect to transfer pricing, and to the more generous powers conferred on the respective fiscal authorities in the area of exchange of information.

The most significant effect of the new convention, however, may well be that U.S. corporations will reassess the advantages and disadvantages of subsidiary as opposed to branch operations: the convention provides (in Article 10) that U.S. corporations will be able to obtain part of the U.K. tax credit paid on dividends from their subsidiaries in cash and the remainder by way of a U.S. credit.

Possible Boosts for Investment, Production

The British government is currently considering the introduction of measures designed to foster private investment in industry and to boost productive capacity in anticipation of an upturn in world demand. The measures have yet to be finalized but there is no doubting their urgency: it has been a traditional feature of U.K. industrial investment that it has regularly come too late - namely, at a juncture after the economic cycle has peaked. Whatever the measures may turn out to be, they will certainly be geared to a short time limit, possibly as little as six months, in order to "force" companies to avail themselves of the incentives immediately.

In specific terms, the government is considering a possible concession on the proportion of new investment that can be written off against advanced corporation tax and is also toying with the idea of offering concessions through the indirect taxation (VAT) system. What can be ruled out, however, is any concession in the form of a reduction in corporation tax rates.

Italy: Parties Discuss Outlines of Crisis Program

One month after the outbreak of Italy's latest government crisis, the still-incumbent Prime Minister Aldo Moro has submitted to his own party (the Christian Democrats) and to the Socialists the draft of an emergency plan outlining ways of dealing with the country's rapidly worsening eco-

Crisis Program *(contd.)*

nomic situation. It will primarily depend on the Socialists - who brought on the fall of the Moro administration over disagreements on economic policy matters - whether or not a new government can be formed soon.

While negotiations in Rome were continuing, the lira came under renewed pressures, with its effective devaluation vis-à-vis the dollar totaling 12% within 10 days following the Jan. 21 closure of the official foreign exchange markets. On Feb. 1, the discount (bank) rate was raised from 6 to 7%, but this step failed to reverse the decline of the lira. For this reason, Treasury Minister Emilio Colombo predicted extremely harsh and unpopular measures against currency speculation and capital flight. It was also reported that the government and the Bank of Italy would propose an emergency plan providing for higher minimum reserves of the banks (currently 15%), higher obligatory bank investments in state bonds and obligations (currently 30%), and the reintroduction of import cash deposits. In contrast to 1974, these deposits could perhaps be staggered - from 20% for important staples to 100% for luxury goods, the reports said.

Although details were not immediately available, these monetary measures could possibly be supplemented by a fiscal package - reportedly in the area of 2,000 billion lire - on the basis of emergency decrees to be confirmed by subsequent parliamentary action. Next to increases in indirect taxes, it also could provide for tougher moves against tax evasion and capital drain, the latter commonly being practiced in the form of artificially inflated import vouchers and underbilling on exports. The Socialists in particular, whose approval of the entire emergency program is essential, are also advocating tight controls on bank transactions in conjunction with foreign trade.

Greece: Angry Reaction to Brussels' Recommendation

The Greek government and most of the country's other political leaders reacted with anger and disappointment to the European Commission's Jan. 29 proposal that Greece should go through a period of economic and other adjustments before becoming a member of the Community. The fact that the Commission specifically recommended that the nine member-state governments approve in principle Athens' bid for membership did not keep the Greek government from filing an immediate, formal protest. Prime Minister Constantine Caramanlis told the ambassadors of the nine EC states that his country was not prepared to accept membership on "morally and politically unacceptable" terms. He said he hoped the member states would act to correct the Commission's "error."

Similar positions were taken by other Greek politicians and by the press. George Mavros, former foreign min-

Reaction *(contd.)*

ister and leader of the Center Union opposition party, said the economic reasons cited by Brussels were weak inasmuch as the Greek economy has progressed to a level comparable to that of Ireland, an EC member. Newspaper reports even referred to "blackmail" in connection with the Commission's mention of the Greek-Turkish dispute and Greece's current indeterminate position within the NATO alliance.

The Community's foreign ministers met to take up the official Greek protest at their Feb. 9 meeting. The issue is not without political controversy among the member states, as indicated by the fact that only a very narrow majority of the Commission had voted for a delay of formal membership negotiations with Athens. The French and Italian commissioners, including President François-Xavier Ortoli, had favored early admission but were outvoted. At the Feb. 9 meeting the nine ministers rejected the Commission's recommendation and agreed to Greece's bid for membership. Negotiations will begin in about six months.

EURO COMPANY SCENE

Volkswagen/ Chrysler

In both Germany and Detroit it was confirmed that Volkswagenwerk AG and the Chrysler Corp. have reached basic agreement on a "significant" contract whereby VW will deliver to Chrysler about 300,000 base engine units and 120,000 manual transaxles annually for installation in a new subcompact car. In Detroit, it was unofficially estimated that the deal would have a total value of DM 500-700 million. The VW four-cylinder, 1.7-liter engines and the other components are to be used in a Chrysler model developed on the basis of the Simca Alpine and to be introduced late in 1977.

Last fall, Volkswagen had concluded a similar contract - for 115,000 engine units - with American Motors Corp.

Erie Electronics/ ITT

Erie Electronics, British subsidiary of the United States' Erie Technological Products, has been taken over by STC-ITT and will become part of ITT Components Group Europe. Erie Electronics, producer of ceramic and wound capacitors and resistors, has been forced to trim its work force from 4,000 to 2,300 since 1974 in order to maintain profitability. It is hoped that Erie's present turnover of around £13 million will be substantially improved with eased access to European markets via the ITT operations.

Disston/ Sandvik

Lengthy discussions between Disston, a leading U.S. manufacturer of hand saws and lawn care equipment, and Swedish specialty-steel producer Sandvik are expected to result in an imminent takeover bid by the latter. Disston, with a

Disston/ Sandvik *(contd.)*

net worth of $26 million, has announced that it expects to receive an offer of $13 for each of its 2 million shares - a price to which the company's directors have tentatively agreed. Disston reported 1975 net profits of $898,711, appreciably down from the $2.9 million for the previous year.

Leybold-Heraeus/ Infiko/ Hamilton Standard

Germany's Leybold-Heraeus, by its own account one of the largest manufacturers of vacuum systems and scientific and technical instruction equipment, is set to strengthen its position in the United States with the takeover of Infiko, Inc., of East Syracuse, N.Y., and of the electron-beam welding equipment division of Hamilton Standard, Windsor Locks, Conn. No financial details were revealed. Ownership of Leybold-Heraeus, which has a net worth of DM 21.3 million, is equally divided among three German companies: Degussa, Metallgesellschaft, and W.C. Heraeus.

Timex Portugal

According to press reports from Lisbon, the Portuguese government has ordered the management of the Timex Corp. to cancel the scheduled dismissal of 668 of about 1,900 employees working in the U.S. company's watch production plant, the country's largest. Timex had scheduled the layoffs in connection with the two-week closure of the plant. Upon resumption of operations on Feb. 9, the remaining 1,258 employees were to be put on a 50% work schedule because of the lack of export orders as well as cost pressures, the reports said.

Common Market Reports

EUROMARKET NEWS

Issue No. 370 *February 17, 1976*

LIBRARY

IN THIS ISSUE

page

Community: Council Backs Greek Plea for Membership....1

Another Push for Public Procurement Draft Proposal....2

In Brief: Canada Agreement; Petroni Judgment..........3

Italy: Moro Heads One-Party Minority Government.......3

Netherlands: Compromise on Expanded Worker Rights.....4

Belgium: Heavy Public Investments to Aid Economy......5

Britain: Unions Offer Cooperation, List Demands.......6

U.K. Proposes Tighter Rules on Secondary Banking......6

Spain: Surprise Devaluation of Peseta.................7

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

Community: Council Backs Greece's Plea for Membership

Acting at its Feb. 9 meeting on Greece's request for EC membership (*Common Market Reports, Par. 9752*), the Council of Ministers has chosen to disregard the cautious approach suggested last month by the Commission by agreeing that future discussions should proceed on the concept of full membership. By contrast, the Commission had recommended a pre-membership status as the initial step.

The Council's positive position (yet to be put into a formal agreement) is not surprising because the Greek government, which had counted on full membership right away, found support from several member state government leaders, most recently from West German Chancellor Helmut Schmidt. Even the Commission itself was divided on the issue: only seven of the 13 commissioners favored the cautious approach, while the remainder supported full membership with concessions during a transitional period - the treatment given to the U.K., Ireland, and Denmark.

Brussels observers see many difficulties once the discussions on accession start in earnest (negotiations are expected to last at least two years). Most of these have been identified in the Commission's opinion, without solu-

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Membership *(contd.)*

tions being proposed. According to the Commission, in spite of the progress the Greek economy has made over the past two decades and the benefits it has drawn under the association agreement (*Common Market Reports, Par. 5344*), it is still underdeveloped, and alignment will take time and money. The Commission believes that full membership for Greece would mean additional EC Budget outlays of roughly 300 million units of account annually (at current prices) to finance price supports for Greek farm products and expenditures for social and regional funds. Aligning Greek prices with the higher EEC prices would be likely to stimulate Greek production of wine, fruits and vegetables, and olive oils - already surplus commodities in the Community. Accession would further dilute the decision-making process, a weakness of the EC deplored in the Tindemans Report. Also, the Commission is still occupied with solving the difficulties that followed the accession of the last three newcomers. Another problem would be the obvious administrative consequences - every document would have to be translated into Greek.

Another Effort on Public Procurement Draft Proposal

The public policy draft directive, a long-dormant proposal, has been put on the agenda of the Permanent Representatives by the president of the Council of Ministers, Luxembourg's Prime Minister Gaston Thorn. Its purpose would be to remove intra-Community barriers in the area of supplying goods and services to government agencies, and its adoption would mean that a manufacturer in one state could offer products to government agencies of another as well as compete with suppliers there.

Progress on this issue so far has been prevented by the French and Italians who would not like to see domestic manufacturers (many of them state-controlled) lose out against out-of-state competition, especially from Germany. The French government, which has done a lot since the end of World War II to develop a domestic electronics industry, is afraid that its industry presently could not keep up with German giants like AEG and Siemens which, just to mention one sector, have made the German telephone system one of the best in Europe and have contributed to the establishment of systems in many other countries.

The Commission has long supported Germany's position that to exclude electronics from the scope of the proposal would essentially limit the range of products that a manufacturer could sell to public authorities of another state. There is agreement among Brussels observers that such curbs would practically limit suppliers to "paper, pencils, and erasers." Commission and Council officials will not make any predictions about the outcome of the initiative by Luxembourg, which has no major industry that would be affected by the measure and therefore need not assume a protection-

Procurement *(contd.)*

ist role. Renewed discussions could reveal, though, whether there still is a chance for a broad proposal. Keeping the draft alive could also offer the opportunity for a compromise in conjunction with other controversial pieces of proposed legislation.

In Brief...

The Council of Ministers has given the Commission the go-ahead to negotiate a new cooperation agreement with Canada, but on Denmark's insistence it expressly instructed the EC executive to extract from Canada the commitment to sell oil and raw materials to the EC member states at domestic prices + + + The legal services of both the Commission and the Council have joined efforts in preparing amendments to Council Regulation No. 1408/71 to reflect the Court of Justice's recent Petroni judgment (Case No. 24/75). Last December, the European Court of Justice invalidated Article 46(3) of that regulation to the extent that it worked to prejudice a migrant worker's accumulated pension benefits, and it is hoped that the amendments would meet any further tests in the court.

Italy: Moro Heads New Minority Government

About one month after the Jan. 7 resignation of his previous administration, Aldo Moro has succeeded himself as the head of a new Italian government. This time, however, his cabinet is made up solely of Christian Democrats and depends entirely on the cooperation and parliamentary support of other political factions if it is to survive for any length of time. As such, it has been described as the weakest and most vulnerable government in Rome since World War II. The first major test for the new administration should come when Parliament votes on the economic austerity program which Moro had proposed to the parties earlier this month: it is highly doubtful whether the Socialists and Republicans, both former coalition partners, can resolve their differences over important details of the proposed plan. Many observers are predicting anyway that the one-party government will not last much longer than March when the party conventions of both the Christian Democrats and the Socialists could bring new political complications.

Earlier, the caretaker government and the monetary authorities had taken a number of steps in defense of the lira. The raising of the discount rate from 6 to 7% was followed by three ministerial decrees with immediate effect:

- The mandatory minimum reserve quota for the commercial banks was raised from 15 to 15.75%, which will reduce the banks' total liquidity by about 750 billion lire.
- The maximum period for the conversion of foreign exchange revenue from export transactions was cut from 30-60 to 15 days, a move designed to discourage speculation in a further deterioration of the lira.

Government *(contd.)*

- Italians working abroad will be allowed to open foreign currency accounts at Italian banks. Capital remissions from such individuals had slowed considerably lately because of the unfavorable exchange rates.

Netherlands: Compromise on Expanded Employee Rights

Following long and difficult negotiations in the five-party coalition cabinet, the Dutch government was able to avert a possible political crisis by reaching a tenuous compromise on the most basic issues concerning expanded employee participation and co-determination. The proposal will now be sent to the parliamentary committees, where final details are to be hammered out.

The new draft legislation focuses essentially on amendments of Holland's existing 1971 works council law. As opposed to Germany, the works councils in the Netherlands so far include representatives of both management and labor. The members are elected by the employees, with the exception of the managing director or owner's representative who automatically assumes the chairmanship of the council. It has been noted that this system generally has served to assure a permanent dialogue between management and labor in the decision-making process.

Under the future system, management no longer would be represented in the works council, which - as under the German model - would be made up solely of employee representatives. However, the compromise provides for a "consultative assembly" of management and works council on all essential issues on which management plans or decisions deviate from recommendations or decisions of the council. In this way, emphasis would still be placed on a joint solution to any major problems.

The proposed legislation further would expand the co-determination of the works council in such areas as work safety and certain social and remuneration matters. The works council would have to be consulted in connection with the hiring or dismissal of directors and prior to mergers, major investments, and the expansion or reduction of operations. It could also appeal certain management decisions.

According to the basic agreement reached by the cabinet, the new rules would apply to all large and medium-sized enterprises in Holland, with the minimum size of such companies yet to be determined. Also, no decision has been made as to the number of works council representatives and on election procedures. Another open point concerns the influence of employees on the decisions of supervisory boards in large enterprises: here, the government will commission a study by the Social-Economic Council.

The discussions of this entire "industrial democracy" concept have revealed deep splits within the government

Employee Rights *(contd.)*

coalition. The leftist factions - headed by Prime Minister Joop den Uyl's Progressives and the trade unions - have been favoring final decision-making powers for the works council, a concept unacceptable to the Center parties in the coalition. Even the compromise as now agreed upon is viewed by the business community as a throwback to labor-management confrontation rather than cooperation.

Belgium: Government Pushes Public Investments

The Belgian government has set aside a total of BF 71.1 billion for public sector investments in the first four months of this year in order to stimulate the business cycle and lessen unemployment, it was announced in Brussels. For the whole of 1976, the government has allocated a record BF 162.3 billion for the public investment program in hopes that this will create about 150,000 new jobs. Unemployment continues to rank as the No. 1 economic ailment: as of Jan. 31, the number of jobless totaled 229,236, which meant that 8.7% of all Belgians covered by unemployment insurance were out of work.

However, there is now some evidence that the economic outlook is brightening somewhat. In its annual report for 1975, published this month, the Belgian National Bank said that the worst of the recession appears over, as evidenced by higher employment in certain key industries, notably the electrical and construction (housing) sectors. The Bank would not venture a prediction on general reversal of the labor situation, though, pointing to industry's need to rationalize in order to remain competitive - a process that would require further manpower reductions. Noting that, despite the high unemployment rate, Belgium was still relying on some 300,000 foreign workers, the Bank suggested a possible revaluation of work criteria in favor of manual labor and at the expense of white-collar jobs. Also, there should perhaps be greater emphasis on short-time work.

In its review of the year 1975, the National Bank said that Belgium's GNP dropped by about 2% as compared with a 4% rise in '74. With the successive lowering of the discount rate from 8.75 to 6% and eased credit curbs, the Bank said it could merely give relief on financing costs for businesses but not stimulate demand. Belgium's growing public indebtedness came under massive attack in the report: at BF 928 billion, it amounts to nearly half of GNP. Last year's Budget deficit of BF 103 billion (1974 = 58 billion) was largely attributed to inflationary influences rather than anti-cyclical policy. The interest burden on the public debt in '75 alone amounted to BF 65 billion and thus exceeded total public investment. Last year's deficits could still be easily covered on account of large private savings. In the long run, however, it was warned, a redistribution of resources could be achieved only via higher taxation.

Britain: Unions Offer Cooperation, List Demands

The U.K.'s labor leaders have called on Chancellor of the Exchequer Denis Healey to encourage "balanced growth" of the economy in exchange for their future cooperation with government policies designed to curb inflation. The proposals, set out in a TUC draft policy document, suggest that a £2-billion boost to the economy by the forthcoming (April) budgetary measures would raise Britain's economic growth rate by some 3% - given the introduction of "selective but wide-ranging import controls."

Noting that the "battle against inflation is being won" (a claim that seems justified in the light of the most recent figures), the draft document accepts the continuation of the official incomes policy as based on the "social contract" between the government and the unions. It declines to offer, on the other hand, any commitment to detailed figures for the next pay policy stage following the present "£6-per-week limit" phase. At least part of this reluctance can be ascribed to union disenchantment with the government's decision to eschew a broad reflationary policy which would ease unemployment.

Among the unions' specific demands (yet to be approved in council) are a new "low-income" tax rate and improved family allowance deductions. It is suggested that the new tax rate might take the form of an intermediate rate, below the standard 37% rate, which would apply to the first £500 "band" of taxable income. Together with improved family allowances, this concession would cost some £1 billion, part of which could be defrayed by limiting existing tax deductions on mortgages, pension contributions, and retirement annuities. In addition, the unions are calling for a further injection of £1 billion in the form of reduced VAT rates for specified industries and more funds for the Manpower Services Commission and the National Enterprise Board, housebuilding, job creation and/or temporary employment subsidies, industrial stockbuilding, and higher pensions.

It is impossible to predict how many, if any, of these proposals will find favor with Healey. What can be predicted, however, is that he will be obliged to listen to them carefully if he and Labour are to continue to count on union support.

U.K. Proposes Tighter Rules on Secondary Banking

Following the Dept. of Trade report on the collapse of London & County Securities, the secondary bank, the U.K. Trade Secretary has announced plans to tighten secondary banking regulations under the Protection of Depositors Act 1963. Among the new requirements would be that a) details of loans to property companies must be specified in the bank's accounts, b) loans on which interest is deferred should be shown separately, c) more details should be given for the period for which advances are made, and d) loans to

Banking *(contd.)*

associated companies should be disclosed under separate headings.

The London & County affair, which has received much publicity because one of the bank's directors was Liberal Party leader Jeremy Thorpe, has prompted severe criticism of U.K. auditing standards generally and, in particular, of L & C's auditors Harmood Banner & Co., part of the Deloitte group.

Spain: Surprise Devaluation of Peseta

Although there had been some speculation lately on a possible devaluation of the Spanish currency, most financial observers were still taken by surprise when the Bank of Spain on Feb. 9 announced a change in its intervention policy to permit the peseta to slide to a level equivalent to an 11% devaluation. The official new intervention rate was set at 66.54-66.60 pesetas to the dollar. The Bank explained its step with the extraordinary fluctuations on the foreign exchange markets in the past weeks, in the wake of the Bank of Italy's decision to let the lira float freely.

The Spanish finance minister, Juan Miguel Villar Mir, conceded that the devaluation was seen as an initial step to provide an economic stimulus. The move was particularly welcomed by the country's exporters who have been worried about the competitiveness of their products on the foreign markets. So far, the authorities repeatedly had rejected all suggestions of a devaluation, obviously in order not to encourage still-further illegal capital outflows and speculation. However, other factions - especially in the banking community - have warned of the negative impact of the devaluation on the rate of domestic inflation, which officially has been put at 14-15% for 1975. Any possible benefits from higher export and tourism revenue, it was argued, will in no way make up for the cost pressures now faced by the economy.

EURO COMPANY SCENE

Jensen Motors

A buyer - rumored to be "foreign, probably American" - has come forward for Jensen Motors, the U.K. specialist automobile manufacturer which has been run by a Bank of America-appointed receiver for the last six months. Before the deal can be finalized, however, the unnamed buyer is allegedly seeking government assurances that Jensen losses in the first year be underwritten or that a low-interest government loan be provided.

Fidelity Life

The British insurance company Fidelity Life has informed its policyholders of the 70% payout on outstanding claims and maturities recently sanctioned by the U.K. High Court. The company's difficulties were compounded by the crash of

Fidelity *(contd.)*

London & County Securities and of Guardian Properties, in which Fidelity lost ₺500,000 and 250,000, respectively. To the surprise of the Dept. of Trade, Fidelity's parent, Fidelity Corp. of Richmond, Va., refused to put up ₺750,000 of new capital, despite pressure being exerted on the U.S. company - which is not an insurer - by the Virginia Insurance Commission to stand by its U.K. policyholders.

Computer Sciences

Computer Sciences Corp. (CSC), El Segundo, Calif., has extended its "Infonet" remote computing service to Europe with the opening of a Brussels office linked by satellite circuits to the Infonet communications network in the United States. CSC will provide both low-speed time-sharing and high-speed production processing via the satellite link. The company said that the extension of the communications network adds a "new dimension" to CSC activities in Europe, where its subsidiary, Computer Sciences International Europe, has been engaged in developing an advanced air traffic control system in Germany and military command and control systems for NATO forces. CSC also has signed an agreement for an Infonet network to be established in Spain by the end of this year and plans to open additional offices soon in Paris, Frankfurt, and London.

Digital Equipment

As part of its continuing effort to meet the demands of the expanding European computer market, Germany's Digital Equipment GmbH - subsidiary of Digital Equipment Corp. (DEC), Maynard, Mass. - has announced the leasing of a production plant near Ayr, Scotland. The facility will be primarily used for the manufacture of computer and peripheral equipment for the European market. Construction of a supplementary plant is scheduled for completion by mid-year.

Corning/ Radelcor

Corning International Corp. holds a 49% stake in Radelcor Instruments Ltd. which has been established in Budapest together with two Hungarian partners, Radelkis and Metrimpex. The new company will be engaged in the production and distribution in Hungary of medical instruments and equipment. It has been provided the existing facilities of Radelkis, a local manufacturer of electro-chemical equipment. Some special components will be delivered by Corning plants in the United States and Britain. The agreement marks the first joint venture of an American company in Hungary and is also Corning's first in an East Bloc country.

Common Market Reports

EUROMARKET NEWS

Issue No. 371 *Report No. 286, February 25, 1976*

IN THIS ISSUE

page

Community: 'Practical' Approach Planned for '76.......1

Formal Council Adoption of Equal Treatment Rule.......2

In Brief: Social Security; Union Officers............3

Italy: Basic Community Okay on $1-Billion Loan........3

Belgium: Freeze on Drug Prices; F-16 Orders...........4

Germany: Criticism of Bill on Data Protection.........4

Britain: Government Takes Price, Consumer Actions.....5

Green Paper on Direct European Assembly Elections.....6

Switzerland: Third Investment Plan; VAT Rates.........7

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

LIBRARY

Community: Brussels Plans 'Practical' Approach in '76

The present European Commission will end its term of office in 1976, and Commission President François-Xavier Ortoli, in presenting the 1975 Activities Report, told the European Parliament that he wants to make it "a key year in the building of Europe." According to Ortoli, the Commission's work this year will be devoted to projects of a practical nature. Ortoli, in his address, did not reveal the details of legislative proposals to be submitted to the Council, but an accompanying memorandum testifies to the Commission's intentions for an active year. Of interest to businesses are the following:

In the field of tax law harmonization, the Commission plans to submit proposals for harmonizing national systems of taxation on transactions of securities, mutual funds, and investment funds. In another measure, it will propose assistance and cooperation between national internal revenue authorities.

Since the Council of Ministers already is considering several "problem" proposals in the field of company law coordination (for example, the European company draft statute), the Commission plans to submit only one proposal, which would seek to coordinate national rules governing corporate groups.

This issue is in two parts, consisting of 126 pages. This is Part I.

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Approach *(contd.)*

There will be two proposals in the antitrust field: a draft regulation that would grant an exemption from the cartel ban for certain types of patent licensing agreements and a proposal that would make the rules of competition applicable to air transport.

Contrary to earlier intentions, the Commission does not plan to submit a draft convention on the European trademark; instead, it will merely present a memorandum on the matter. The Commission needs more time to prepare a proposal on such a controversial issue, and it will, of course, have to study the European Court of Justice's judgment in the EMI and Terrapin trademark cases (Cases Nos. 51, 86 and 96/75 and Case No. 119/75, respectively).

The Commission intends to continue implementing the environmental action program adopted by the Council in late '73 (*Common Market Reports, Par. 9590*). One proposal will concern the transport, storage, and treatment of toxic and dangerous wastes, and another would establish controls for the use of chemical substances likely to harm health and the environment. An additional proposal would concern protection of groundwater against pollution.

Consumer protection will again play an important role (*Common Market Reports, Par. 9743*). The Commission plans to send eight proposals to the Council, including measures on the labeling of foodstuffs, door-to-door selling, consumer credit, and the standardization of containers for certain prepackaged goods. The proposal on standardization would be accompanied by another on unit pricing of foodstuffs sold by weight or volume.

Equal Treatment Rule Formally Adopted

Following the basic agreement reached on Dec. 18, the Council of Ministers has formally adopted the directive on the implementation of the equal treatment principle for men and women (*Common Market Reports, Par. 9718*). It is a measure that will have many legislative consequences for all member states and, eventually, for employers, too. Because so much legislation will be affected, the member states have 30 months (until August '79) instead of the usual 18 to take the action necessary to guarantee equal treatment for men and women with respect to access to jobs, vocational training, advancements, and working conditions (the directive does not cover social security).

The measure complements another directive, formally adopted in February 1975, that requires the member states to eliminate discrimination against women in terms of pay for equal work (equal pay directive). Although Article 4 of the equal treatment directive also requires the member states to eliminate all discrimination based on sex or marital or family status, women are bound to benefit most because of discrimination existing in their jobs. The member

Equality *(contd.)*

states may exclude from the directive those occupational activities in which a person's sex is a determining factor - for example, acting or modeling.

Commission attorneys point out that enforcement will be a major task. The directive obligates the states to make sure that employees are not dismissed for complaining to the employer that he or she does not get equal treatment. Individuals must also have opportunities to challenge infringements - either directly in court or after recourse to the authorities.

In Brief...

The Commission is preparing a draft directive that would provide for gradual implementation of the equal treatment principle in matters of social security, an area not covered by the equal treatment directive just passed by the Council. Several member states had opposed inclusion of the principle, reasoning that an identical retirement age for men and women would be too great a burden for the national social security funds + + + The Council of Ministers has formally approved the amendments to Council Regulation No. 1612/68 (free movement of workers within the EC) that enables member state nationals to hold union offices in any member state.

Italy: Basic Approval for $1-Billion Community Loan

The basic willingness of the EC finance ministers to grant Italy a five-year, Community-guaranteed loan of $1 billion has been registered with considerable relief in Rome, where the newly installed government needs all the help it can get in fighting the strong pressures on the lira and the payments balance. It is believed, however, that the terms and conditions to be imposed on the Italians will be even tougher than those applying to already-existing credit arrangements - a fact that could have political consequences in Italy, given the weak position of the Moro administration when it comes to the introduction of new austerity measures.

It has been proposed that the funds to be made available to Italy would come from loans granted by the OPEC countries to the Community as well as from Eurodollar borrowings. Considering the problems encountered lately in arranging for petrodollar loans in the desired quantities, it appears that a considerable share of the funds would have to be raised on the Euromarkets. No decision has been made as yet on the interest rate and other details of the loan to Italy - a proposal for a floating interest rate based on the London interbanking rate was opposed by Germany and the majority of the EC partners. The matter has now been turned over to the EEC monetary committee, and a final decision is expected at the March 15 meeting of the finance ministers.

Loan *(contd.)*

(In agreeing in principle on the Italian loan at the Feb. 16 conference, the finance ministers also approved a five-year, $300-million loan for Ireland. The annual interest rate was fixed at 9.2%, pending the settlement of some last-minute differences with the Saudi Arabian Monetary Agency, which will provide the funds to the Community.)

Rome's renewed need for further financial assistance is partially explained by the fact that the Bank of Italy, in the first 20 days or so of the new year, was forced to come up with more than $500 million out of its foreign exchange reserves to support the slumping lira. With the new EEC loans, these reserves again would reach a volume of $1.5 billion, not counting a $530-million tranche still to be called up from the International Monetary Fund.

Belgium: Freeze on Drug Prices; F-16 Orders

The Belgian Ministry of Economic Affairs has issued a decree freezing retail prices of numerous pharmaceuticals at the level of Aug. 11, 1975, which means that many drug prices have to be rolled back. In addition, the decree sets limits for permissible trade margins: the wholesale margins may not exceed 13.1% (without value-added tax) or BF 73, while pharmacies' maximum margins were fixed at 31% (without VAT) or BF 250. According to unofficial reports, the new price provisions apply to 20 pharmaceutical items for which costs are reimbursable under the health insurance plans as well as to 700-800 other drugs.

In other developments, the Belgian government has warned Washington that it will not sign the final purchase order for 102 General Dynamics' F-16 fighters, unless the United States honors its promise to give Belgium substantial compensation orders in return. According to reports from Brussels, one problem seems to be that Belgian industry is unable to perform subcontract work within the price range asked by the U.S. side, the reasons being not only domestic cost and price pressures but also the need to finance in advance the necessary investments for high-technology aerospace production. Cuts in the U.S. defense budget, on the other hand, reportedly threaten the proposed order for delivery of 15,000 tank guns by Belgium's FN-Herstal armament plant. It was this proposal that had heavily influenced Belgium's decision to join the Netherlands, Denmark, and Norway in ordering a total of 306 F-16s from General Dynamics.

Germany: Criticism of Bill on Data Protection

The German business community has expressed concern over several amendments that have been written into the government's data protection bill (*Datenschutzgesetzentwurf*) by the Bundestag's interior committee. The bill would provide some safeguards against unauthorized files on private indi-

Data Bill
(contd.)

viduals and use of personal data stored by businesses and government agencies. Public concern over the need to protect citizens from the misuse of computerized personal data has been spreading, and businessmen so far had not challenged either the objectives or the extent of protection sought by the originally-proposed measure, inasmuch as it aimed at a fair compromise between the increasing public and private business need for data processing systems and the need for protection of the individual's private sphere. (It is estimated that some 9,000 German businesses are already using EDP equipment for storing data on their employees and customers.)

The German bankers' association and the national federation of industry object to several amendments that, in their opinion, go too far. One would allow the disclosure of personal data to a third party only if the transmitter (a bank, for example) is not legally bound to keep the information secret. The original version would have allowed the disclosure of data if the transmitter were acting in furtherance of its own interests or those of a third party, provided that the vital interests of the individual were not affected. If the committee version is approved by the full house, banks would be prohibited from transmitting information on the credit standings of their customers to the national credit bureau. The bankers also maintain that the rewritten measure might even jeopardize collaboration with the state attorneys' offices because they would not even be allowed to transmit information about fraud through use of credit cards, bad checks, etc.

Above all, the business community objects to the committee amendment that also would subject to the law data used only internally (such as files on customers) and would require the permission of each person affected before personal data could be computerized. Businessmen say that the concept of protecting the individual does not apply here, because nothing is released to the outside. Also, the costs of informing individuals would be substantial. An ombudsman with broad administrative powers to secure a high standard of data protection could open the door to further government controls on businesses, according to industry executives.

Britain: Consumer, Price Actions by Government

Last week was a decisive time for consumers in the United Kingdom:

- The Dept. of Prices launched a new, albeit voluntary, "price check" policy, which proposes a six-month, 5% price increase limit;
- Chancellor of the Exchequer Denis Healey sounded a cautiously optimistic note on statutory price maintenance, provided some commitment is forthcoming on a wage in-

Consumers *(contd.)*

crease limit commensurate with the present £6-per-week rate; and

- the government announced in a Green Paper proposals that would greatly strengthen powers to enforce consumer safety (Consumer Safety, Consultative Document, Cmnd. 6398, HMSO London).

Central to the Green Paper is the question of whether the Secretary of State should be given powers to ban the sale of a product or class of products if such a move appeared necessary for safety reasons: this would result in the authority to require persons who had supplied "dangerous goods" to recall them at their own expense and to issue appropriate hazard warnings.

While the proposals are still in the embryonic stage, the government is clearly anxious to introduce at least some form of legislation to supplement the present Consumer Protection Safety Act 1961, which applies solely to the sale of goods in the course of business. On the other hand, it is equally anxious to avoid the imposition of "unduly onerous safety requirements which restrict choice, prevent the marketing of potentially useful products or substantially increase unit costs." This being the case, it is clear that any measures introduced will be as a result of "wide consultation."

Green Paper on Direct European Assembly Vote

The U.K. government on Feb. 17 released a Green Paper entitled "Direct Elections to the European Assembly," a document described as "exploratory" in character. Certain major issues are raised, however, particularly in Part II which covers issues on which "the government will need to take a position" in discussions with the Community. The highlights:

- It is felt that "devolution" for Scotland and Wales can be dealt with as a separate issue.
- The target date for the first direct elections - May or June 1978 - "should not be rushed."
- The working group considers that agreement among the Nine will be necessary on such points as the banning of double voting and "the establishment of a list of Community offices, the holders of which would not be eligible for assembly membership."
- The number of seats held by each member state is "the most difficult issue": the government did not commit itself on the Strasbourg proposal of 67 British seats in an expanded 355-member parliament.
- Each member state should decide on its own electoral system and procedures.
- The above will necessitate the drawing up of new parliamentary "constituencies."

Switzerland: 3rd Investment Plan; Proposal on VAT Rates

Following up on two similar packages passed last year, the Swiss government this month has proposed a Third Investment Program to stabilize the domestic economy and further slow the pace of recession. With projected costs to the government of SF 730-760 million (of which up to 320 million is to be spent this year), it is hoped to generate total orders in the area of SF 2 billion. In a message released upon presentation of the proposal, the Bundesrat described as the major aim of its economic policy "balanced economic growth on the basis of high employment of domestic labor, optimal utilization of existing means of production, and maintenance of the most stable price levels possible." But Bern again pointed out its limited powers in applying stimulative measures, given the federalist structure of the public sector, fiscal inflexibility, and the country's high dependence on the international markets.

The major portion of the latest program involves investment credits that would cost the government SF 649 million and would be expected to trigger an order volume of SF 1.2 billion, with concurrent benefits for employment. Recipient sectors would be public transport (160 million), defense (322 million), housing (120 million), plus orders partially financed by the federal government (600 million). The second part of the program would provide for a 10% investment bonus toward cantonal and communal construction projects and procurement orders that so far have not benefited from federal subsidies. Favored would be smaller projects and those with an immediate impact on employment. For this reason, the maximum limit on subsidies would be SF 500,000 per project, and projects would have to be completed by the end of next year (in exceptional cases, by the end of '78). This portion of the program would create orders worth up to SF 1 billion, at a cost to Bern of 70-100 million.

In addition, another SF 11 million would be allocated for various supplemental measures - chiefly to reduce unemployment among young people (job promotion), to aid research and development, and for industrial and tourism promotion abroad.

In other developments, the government has said it is considering a 10% rate for the value-added tax that is to replace the turnover tax as part of the planned fiscal reform. A reduced rate of 3% is being considered for essential consumer items.

EURO COMPANY SCENE

Hahn/ Johnson & Johnson

The cartel division of the Berlin Appellate Court has set aside, over a technicality, the Nov. 18, 1974, decision of the German Cartel Office prohibiting the takeover of

Hahn/ Johnson & Johnson *(contd.)*

Dr. Carl Hahn GmbH, Düsseldorf, by Johnson & Johnson of the United States. The U.S. company had appealed the decision on procedural grounds, maintaining that the Cartel Office had exceeded the one-year statute of limitations by 10 days, an argument that the Court accepted. The Cartel Office may appeal the case to the Federal Supreme Court, but has not yet made a decision on this.

Counsel for Johnson & Johnson/Hahn on Nov. 9, 1973, had submitted to the Cartel Office the documentation on the 90% takeover of Hahn as well as a list of companies in the U.S. concern and their consolidated turnover. Ten days later, the lawyers submitted a supplemental statement concerning two additional companies in the concern, but this information was deemed nonessential for the proceedings at issue. However, the cartel authorities - apparently erroneously - viewed the day of receipt of this information as the starting date for the one-year period within which they had to make a decision on the permissibility of the merger.

The Cartel Office's prohibition of the acquisition was based on merger control provisions that rule out a link between a dominant domestic producer and an even larger foreign producer. Hahn, with sales of DM 200 million in '75, controls about 80% of the German sanitary tampon market. The products of Johnson & Johnson make up about 50% of Hahn's turnover.

Schumacher/ Boise Cascade

A 50% participation in Schumacher GmbH, a German producer of corrugated cardboard, has been announced by Boise Cascade Corp. of Boise, Idaho, which also has taken over management control. Within three years, Boise plans for 100% ownership of Schumacher and for a new, larger plant outside Nürnberg, the company's base. In Europe, Boise has been engaged in corrugated cardboard production for some years through Austria's Duropack; the Schumacher participation, however, is the first such investment in the Common Market.

Bruxelles Lambert/ Witter

According to reports from Brussels, Belgium's Cie. Bruxelles Lambert SA intends to raise in two stages its participation in William D. Witter, the New York brokerage firm. As a first step, the bank holding company will increase its share in Witter by $4 million to expand its equity from currently 20% to 50%. Subsequently, another $4 million is to be invested. In addition, the Belgian bank - represented by the Lambert Brussels Corp. in New York - reportedly will provide Witter with a long-term loan to promote the further expansion of the company, which ranks itself among the 10 leading Wall Street brokers.

Common Market Reports

EUROMARKET NEWS

Issue No. 372 *March 2, 1976*

LIBRARY

IN THIS ISSUE

page
Community: Comecon Sends Trade Memo, Draft Treaty.....1
Brussels, Ottawa Gearing Up for Closer Contacts.......2
In Brief: Lomé; VAT; Business Cooperation Center......3
Britain: Public Spending Study Highlights Crisis......3
France: Tighter Controls on Foreign Property Deals....4
Italy: Resumption of 'Controlled Float' for Lira......5
Germany: Bonn Tries to Calm Fears on Power Plants.....5
Denmark: Two Bond Issues to Finance Budget Deficit....6
Switzerland: SF 2-Billion Budget Deficit in '75.......7
Euro Company Scene....................................7

Community: Comecon Sends Trade Memo, Draft Treaty

The Council of Mutual Economic Assistance (Comecon) has presented the Council of Ministers with a memorandum and a draft agreement to be concluded between Comecon and the EEC as well as between the EEC and Comecon member states. Commission officials so far have refused to comment on the document because legal and linguistic experts have not completed their analyses (both documents are in Russian, and the attached French translation was apparently poor).

According to Brussels sources, Comecon and its member states call for broad trade links that would cover agricultural products, preferential tariffs for industrial products, and financial questions. Brussels observers tend to agree that Comecon's move represents a de facto recognition of the EEC, which could culminate with a de jure action upon conclusion of a formal trade agreement. Talks in Moscow a year ago broke down when Comecon insisted on being recognized by the EEC as the trading negotiator. The European Commission, backed by experts in international law, maintained that the Comecon secretariat does not have the treaty-making powers that the Community has. This position prompted the Commission to offer trade links to the individual Comecon members rather than to the Comecon secretariat itself. Commission officials say privately that Come-

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Comecon *(contd.)*

con apparently now has accepted this position, a notion also corroborated by Denmark's foreign minister after his recent discussions with Hungarian government leaders.

One internal problem for the EEC in the upcoming negotiations will be to draw the line between trade and cooperation. The Commission has exclusive treaty-making powers for the former, the member states for the latter (they are merely required to consult the Commission). Major substantive problems are expected once the negotiations get started. Brussels observers see little hope regarding the East Bloc countries' desire to expand sales of farm products to the EEC, not only because of existing Community surpluses of most items but also because increased exports would be at the expense of domestic consumption in the socialist countries. An increase in sales of industrial goods will depend largely on the extent to which the state-controlled enterprises are capable of meeting quality standards in the Common Market, including packaging and after-sales services. Also, financing of exports to the socialist countries has always been hampered by the inconvertibility of the East Bloc currencies.

<u>EC, Canada Gearing Up for Closer Contacts</u>

Last week's visit by Commission President François-Xavier Ortoli to Canada and the opening of an EC information office in Ottawa (the third in a non-Community country - the other two are in Washington and Tokyo) must be seen as a prelude to closer contacts between Canada and the Community. Negotiations between Canadian and Commission officials on a framework agreement for economic and commercial cooperation will start shortly, now that the Council of Ministers has given the green light for the talks (*Common Market Reports, Par. 9750*).

Both sides have great hopes for the future agreement, the first of its kind between the Community and an advanced industrialized nation. Canada sees it as a way of lessening American corporate influence by attracting European investment in processing industries rather than in the extraction and export of minerals and other raw materials. Also, the development of additional markets, especially the expanding Common Market, would make Canada less vulnerable to economic fluctuations in the United States, which takes about 65% of Canada's exports and supplies around 70% of its imports. The Community would benefit from the fact that Canada could play an even bigger role in the future as a supplier of raw materials and as an importer of European capital, know-how, and technology.

To alleviate fears from other nations, especially the United States, and to avoid repercussions under GATT, the agreement would be non-preferential and non-discriminatory in character. Cooperation could cover all fields and would be encouraged and directed by a joint cooperation committee.

Canada *(contd.)*

A work program for the committee is expected to be drawn up during the negotiations. The Council of Ministers' guidelines contain a major concession to the member states in that the agreement would only complement, not replace, existing or future cooperation between Canada and individual EC countries.

In Brief...

The Lomé Convention will take effect on April 1, since all EC member states and 42 of the 46 African, Caribbean, and Asian countries (a two-thirds majority of the latter was a requirement) have deposited their instruments of ratification + + + Council working group discussions on the sixth VAT draft directive have reached an important juncture with the question of whether the rendering of consumer services should be subject to or exempt from value-added tax. The Commission opposes total exemption for budgetary reasons because 1% of the states' total revenue would flow into the EC budget. All member states are against full taxation for political reasons. Council attorneys see a good chance for a compromise + + + The member states are opposing the Commission's idea of expanding the Business Cooperation Center. Since the center has done well in establishing contacts among businesses from various states, the Commission thought that the center's staff could be expanded and perhaps be given additional functions. But the member state governments are satisfied with the center's work and believe that two years' experience is not a sufficient basis for expansion into additional areas.

Britain: Public Spending Study Reaffirms Crisis Status

The U.K. government's White Paper on "Public Expenditure to 1979-80" (Cmnd. 6393, HMSO London, February 1976) has triggered a fresh wave of criticism of official policies and has highlighted once more the long-term crisis in the British economy. The stark facts of the situation are that in the last three years public expenditure has grown by almost 20% in volume to a staggering £62.5 billion or, expressed in even more striking terms, to over 60% of the country's gross domestic product. At the same time, output over the same period has risen by less than 2%.

Chancellor of the Exchequer Denis Healey has recognized that the British economy cannot function while such a percentage of its spending passes through the government's hands in the form of provision of public goods and services (hospital beds, police force, etc.), public investment (such as power plants and the Concorde), and "transfer payments" (pensions, social security payments, family allowances, etc., including grants to ailing industrial sectors). At present, Britain continues to limp along, and the government can genuinely claim that its price control policies are beginning to reduce the rate of inflation. What is not generally emphasized, however, is that the U.K.

Spending *(contd.)*

is on borrowed time because it is subsisting on borrowed money, some 20% of government expenditure having been financed by foreign funds, most of them from Arab oil states.

All of this points to an austere Finance Bill and Budget in a few weeks' time: in theory, the Chancellor can only balance the nation's books by cutting public expenditure by some 20% or by introducing new rates of taxation. He is in no position to do either, since lower public spending would entail a sharp rise in unemployment at a time when unemployment figures are at record levels, while raising taxes is equally difficult in a situation in which the top rate is already 98% and the lowest rate already applies to incomes that are below the official "poverty line." The conclusion, therefore, is that the government will opt for wage controls that are both harsh and permanent, and it will continue a policy of subsidizing inefficient industries on the condition that they do not further add to unemployment. At the same time, it will have to persuade the labor unions that any increase in worker living standards in the year ahead will have to be in the form of tax cuts rather than wage increases.

France: Tighter Rules on Property Deals Abroad

In evident reaction to the renewed, numerous instances of capital flight in the form of "speculative" real property purchases abroad, the French authorities have moved to tighten the foreign exchange controls on such purchases by French citizens. In a memorandum statement sent to the commercial banks and published in Paris, the Bank of France reminded of the existing rules and reemphasized the ban on real property purchases abroad, except for principal or second residences for personal use. In other words, property acquisitions strictly for investment purposes or for leasing or rental to third parties are prohibited. Also, only one second foreign residence may be purchased. The purchase price for a second residence may not exceed the equivalent of FF 300,000 (generally not including such extra costs as notary fees, taxes, etc.). The purchase must be documented through the presentation of the purchase contract or similar proof. Upon the resale of a principal or second residence, the foreign exchange proceeds must be transferred to France and must be exchanged for francs at a French bank.

According to Paris reports, the French monetary authorities have evidence that existing capital controls are being frequently bypassed as many French residents seek a safe haven abroad for their capital. It is an open question of whether the sharp rise in capital outflow recently has come as a result of the franc's weakening or in anticipation of the government's planned introduction of capital gains taxation, or both.

Italy: Resumption of 'Controlled' Lira Float

To the surprise of the banking community and most financial observers, the Italian monetary authorities announced on Feb. 25 that the Bank of Italy would resume, as of March 1, its supportive intervention on behalf of the lira which had been discontinued in January. The decision for an early resumption of the "controlled float" evidently was prompted by the dangerous extent of the capital outflow - which, as of Feb. 24, resulted in an effective devaluation of 12% for the lira - and by the prospect of financial assistance from Italy's international partners.

The return to an interventionist policy was accompanied by measures designed to reduce bank liquidity, although harsh credit restrictions were to be avoided. As of Feb. 25, the discount rate was further raised to 8%, after having already been stepped up from 6 to 7% on Feb. 2. At the same time, the central bank moved up from April to March the effective deadline for the previously announced increase in obligatory minimum reserves. Certain lira-denominated interest subsidies for small and medium-sized exporters have been rescinded. The two latter actions were expected to reduce liquidity by some 1,100 billion lire.

Earlier, the country's old and new prime minister outlined as part of his inaugural address an economic program that only faintly resembled the austerity plan submitted to the political parties and the unions early last month. Critics noted that vague formulations substituted for precise proposals - a direct reflection on the admitted "transitional" status of Aldo Moro's *monocolore* administration. However, Moro did state his government's intentions to introduce legislation providing for penal instead of administrative sanctions against violations of capital export rules and for tougher controls on tourism-related currency transactions. Also, it is intended to crack down harder on tax evasion and to intensify spot audits of tax returns. Rome is determined to keep the public sector deficit within 14,800 billion lire - a condition imposed by the international lenders. The previously proposed special levy on excess profits probably has little chance of going through.

Germany: Bonn Tries to Calm Fears on Power Plants

The Bonn government and the governments of Germany's 11 federal states are seeking ways to lessen environmentalist opposition to new nuclear and conventional power stations and to speed up licensing procedures for new projects. Industry has expressed concern over long delays on the part of the states' regulatory agencies, which have been rather cautious in granting licenses in the face of environmental opposition and judicial actions. Sometimes two courts would treat similar situations differently - upholding the license in one case and stopping construction of a plant in another.

Power Plants *(contd.)*

While nothing can be done about the independence of the judiciary, the federal and state governments believe that a solution could be found if the public were better informed. The federal government has launched a campaign designed to take the steam out of the public debate over the risks involved in the operation of nuclear-fueled power plants, maintaining that there is no realistic alternative to atomic energy for meeting the energy needs of the coming decades. Bonn has told the public that the construction and operation of nuclear-fueled power plants would not be at the expense of human safety. (A bill recently introduced in Parliament would apply the polluter-pays principle to the safe disposal of atomic waste created by power plants and industry. To reduce the possibility of damage from atomic waste, the measure would provide for its disposal at one single place, a former salt mine owned by the federal government. The costs of disposal would be borne by the disposers.)

Meanwhile, the *Technische Überwachungsvereine*, the state agencies entrusted with checking the safety of facilities, have decided to improve and speed up the licensing procedure for new nuclear power plants. A central office would guarantee uniform tests and evaluations of similar technical facilities.

Denmark: State Bonds to Finance Budget Deficit

Following protracted consultations with the Opposition parties, Denmark's Social Democrat minority government has paved the way for parliamentary authorization of a package of credit policy operations at the start of the new fiscal year on April 1. It is the aim of the joint effort of the Finance Minister and the National Bank to sift off liquidity to the tune of at least 17 billion kroner, which corresponds to the projected deficit in the upcoming Budget. Also, by way of a complicated maneuver amounting to a "split" of the capital market, the National Bank wants to depress long-term interest rates, while raising those for short-term issues.

Finance Minister Knud Heinesen is seeking authorization to float two state bond issues. The larger of the two is to raise 14 billion kroner and would have a life of 3-7 years. The second one, for 5 billion, would run for only 1-2 years but would be renewable (revolving). It would mark the first time that Denmark financed the entire Budget deficit on the capital markets - in the current fiscal year, it had been sufficient to float a 6-billion-kroner issue and to raise another 3 billion by way of tighter deposit rules.

In its parallel "split" operation, the National Bank would build up short-term rates to keep industry from financing its exports on the domestic market rather than

Bond Issues *(contd.)*

abroad, since this would renew pressure on Denmark's foreign exchange reserves. At the same time, though, lower long-term rates would be encouraged in order to stimulate lagging activity in the areas of capital investments and housing construction. To carry this off, the National Bank would borrow from the commercial banks and the public in the amount of 3-6 billion kroner and use this money to purchase mortgage bonds, thereby lowering the long-term rates. The parallel sale of National Bank deposit certificates would help "dry up" the short-term capital markets, causing rates to go up.

Switzerland: '75 Budget Winds Up with 2-Billion Gap

The Swiss federal government last year collected SF 11.026 billion in fiscal revenue, which was 763 million or 6.5% less than originally budgeted. This caused the Budget deficit to rise from the SF 458 million forecast to 1.3-1.4 billion. In addition, however, Bern will have to cover a National Bank deficit of approximately SF 650 million (as opposed to 105 million budgeted), so that the total shortfall will come to about SF 2 billion.

Fiscal revenue in '75 improved by SF 105 million or about 1% over '74. The most disappointing results were recorded for the indirect taxes, which account for some 60% of all federal revenue. Here, income from all taxes fell short of expectations, with the exception of the surcharge on fuels (plus SF 6 million). Revenue from turnover tax was SF 315 million below projections - a direct consequence of the economic recession - and that from customs duties 230 million. Even federal income from the tobacco tax, which had been raised by 27% as of July 1, 1974, fell short by 148 million. The reasons for this were the virtual end of tax rebate-aided cigarette exports and slumping cigarette sales to tourists and border crossers.

Fiscal revenue from income and net worth taxes remained only slightly below expectations. The direct federal tax (*Wehrsteuer*) contributed SF 64 million less than budgeted and stamp duties 12 million. Revenue from the anticipatory tax (*Verrechnungssteuer*) on income from securities exceeded projections by SF 7 million.

EURO COMPANY SCENE

Chrysler

The general sense of uneasiness in the U.K. that has surrounded the agreement between the British government and the United States' Chrysler Corp. - a £162.5-million injection of state money in exchange for Chrysler's continued U.K. presence - has been in no way dispelled by news from Detroit that the U.S. parent had reported a $260-million loss in 1975, the greatest loss in American automotive in-

Chrysler *(contd.)*

dustry history. Chrysler U.K. contributed $80 million of this massive deficit.

Dana/ Brown Brothers

The United States' Dana Corp., a vehicle components manufacturer, has secured a controlling interest in the British firm of Brown Brothers Corp., a distributor of automotive parts and electrical products. The original offer, made at the end of last year, was for some 16.5 million Brown Brothers shares at 22p - equivalent to over 36% of the U.K. company's equity. At the time of the bid, Dana stated that it already held over 27% of Brown Brothers shares.

Siemens/ Intel

Germany's Siemens AG and Intel Corp. of Santa Clara, Calif., have signed a cooperation agreement in the area of micro-computer systems, where Intel ranks among the world's foremost manufacturers. Micro-computers are primarily used in industrial production, communications, transport, and for home electronics products. As part of the cooperative venture, Intel will provide much of the technology, while Siemens intends to rely on its worldwide presence to open up further markets. In Europe, the market for micro-computers is expected to grow from an estimated DM 53 million this year to 400 million by 1980.

St. Regis/ Celcarta

St. Regis Paper Co., New York, one of the world's leading paper, pulp, and packaging products concerns, has acquir[illegible] a 32% interest in a new Swiss paper products group, Celca[illegible]a Holding AG. The other partners are the Indeled subsidiary of the Swiss Banking Corp. and the Incepa Holding AG. Celcarta maintains majority and minority shareholdings in several Swiss and Italian paper companies.

Common Market Reports

EUROMARKET NEWS

Issue No. 373 *Report No. 287, March 10, 1976*

LIBRARY

IN THIS ISSUE

page
Community: Call for Uniform Patent Interpretation.....1
Brussels Not Expected to Challenge Credit Accord......2
In Brief: Drug Committees; EMI Trademark Cases........3
Britain: Commons Gets Development Land Tax Bill.......3
Tories' 'New Labor Strategy' Woos U.K. Unions.........3
Germany: Bonn Gains Investment Reporting Powers.......4
Netherlands: Higher Tax Revenue from Motorists........5
Italy: Steep Rise in Credit Costs Worries Business....5
France: Price, Trade Problems Mar Economic Upswing....6
Euro Company Scene....................................7

Community: Call for Uniform Patent Interpretation

The European Commission has called on the member states to reach a common position on the interpretation of one provision in the Implementing Regulations to the Convention on the Grant of a European Patent (*Common Market Reports, Pars. 5503 and 5683*). Since the Convention was signed not only by the member states but also by other European countries, the Commission wants those countries, too, to adopt this common position.

Rule 35(12) of the Implementing Regulations (*Common Market Reports, Par. 5718*), in conjunction with others, provides that units of weight and measure used in any patent application "must be expressed in terms of the metric system" and that "for other physical values, the units recognized in international practice shall be used..." The Commission believes that this terminology is unclear and is bound to lead to difficulties in the interpretation and application of Rule 35(12). This is because there is more than one metric system - for example, the c.g.s. system (centimeter, gram, second) and the M.T.S. system (meter, ton, second). Even some of the original six member states used these systems until Council Directive 71/354/EEC prescribed the use of the international system (SI units).

This issue is in two parts, consisting of 152 pages. This is Part I.

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Patents *(contd.)*

The Commission is also concerned that in the French text temperatures are expressed in "degrees centigrade," while the German and English versions use "Celsius," the only term recognized internationally. The Commission further objects to other, apparently unscientific terminology.

It does not matter to the Commission how the member states bring about clarification so long as they reach a common interpretation of Rule 35(12) and its wording is subsequently improved.

No Challenge Seen on Export Credit Accord

The fact that Germany, France, Italy, and the U.K. have reached a gentlemen's agreement on export credits with the United States and Japan has been registered with some disappointment in Brussels, since the agreement actually was concluded behind the Commission's back. The Commission did not receive a copy of the text of the accord, which has yet to be formalized, nor was it even informed about the outcome of the talks. (Negotiations within the OECD had been going on for a decade, though without results because of France's intransigence on credit conditions.)

As of last week, the Commission was still waiting for the four member states to notify it of the export credit accord, which would be a normal procedure under existing consultation rules. Commission attorneys at this point reject the suggestion that the EC executive might consider legal action against the four on the basis of a recent Court of Justice opinion (No. 1/75) confirming the Community's exclusive power to conclude international agreements on export credits. It was this opinion that prompted the Commission in early January to formally request a mandate for negotiations from the Council of Ministers. The six-country agreement does contain a clause that would permit the accession of other countries, including the five remaining EEC member states. Should this happen, there would still be a strong possibility of preserving the Community approach.

There is still another reason weighing against the likelihood of legal action: the Commission has always supported negotiations on this issue and can take credit for keeping the talks going on more than one occasion. Commission officials point out that the EC executive could not have prevented the agreement anyway and, in view of the results achieved, would see no reason to go to court over procedural technicalities.

The agreement basically is on interest rates and credit periods. For export credits running from two to five years, the parties would charge a minimum interest rate of 7.5%. For credits extending from five to ten years (the latter being the maximum), the interest rate would be at least 8%. It could be higher, depending on the economic development of the borrowing country. Buyer countries

Credit Accord *(contd.)*

would be placed into one of three categories based on annual per-capita income: below $1,000, $1,000-3,000, and above $3,000.

In Brief...

The EEC Pharmaceutical Committee, one of the two committees provided for in the Council's second pharmaceuticals directive and charged with discussing problems of health policy, has met for the first time and selected the topics it plans to talk about initially: the marketing of medicinal products, advertising, and the effect of the national health insurance pricing and reimbursement policies on the free movement of pharmaceuticals. The Committee for Proprietary Medicinal Products will not be established until late this year. This committee will be of more immediate concern to the drug industry because it could become instrumental in helping drug manufacturers obtain market authorizations for their products in other member states + + + After several delays, the European Court of Justice on Feb. 24-25 finally heard legal arguments in the three EMI trademark cases (Nos. 51, 86, and 96/75). Their outcome is expected to influence the final shape of the future European trademark convention (a preliminary draft has been in existence for several years).

[illegible]tain: Commons Gets Development Land Tax Bill

The Development Land Tax Bill introduced in the House of Commons on Feb. 27 is expected to have far-reaching implications for the U.K. construction industry and the large-scale private property market. The crucial clauses are those relating to the imposition of tax on pension funds in regard to their property investment.

In effect, it is feared that the proposed new tax on development value arising from land sales will, if the bill is passed in its present form, be applied to pension funds, which traditionally have been exempted from income and capital gains taxes. In such an event, the funds obviously would pull out from major property developments, thereby depleting the capital available by as much as £4 billion.

The most immediate question is, obviously, where the pension funds would put their money: it has been hypothesized that the development land tax is designed so as to prompt a switch to industrial investment - one of the government's priorities and something that industry itself has been reluctant to do.

Conservatives' 'New Strategy' Woos Unions

As the U.K. government continues to pave the way for a further wage freeze by maintaining an uneasy peace with the country's labor unions, the Conservative opposition party has made overtures to the unions in the form of a "new industrial relations strategy." The traditional "hostility" between the Conservatives and the unions (which was directly responsible for the demise of the last Tory government

Strategy *(contd.)*

under Edward Heath) was, according to Opposition leader Margaret Thatcher, "one of the most absurd myths of Britain's national and political life."

The new Conservative strategy - which emphasizes the need for a "strong and responsible trade union movement" - is actually composed of a series of conciliatory measures. The present labor union legislation (which replaced in part the Conservatives' Industrial Relations Act 1971) would not be repealed. Further, the Conservatives encourage greater "rank-and-file participation" in union affairs, the promotion of industrial democracy (but not the institution of worker-directors), contracts with companies to ensure subsidized training programs, and free collective bargaining (eventually) in respect of wages.

While the Conservative package is clearly political/ electoral in nature, it has not gone unwelcomed by leading unionists. However, the Tories must tread a wary line inasmuch as any blatant attempt to woo the labor unions may backfire in the form of alienation of Conservative white-collar support.

Germany: New Powers on Investment Reporting

The German Bundestag's unanimous approval of the amendments to the Foreign Trade Law (*Aussenwirtschaftsgesetz*) means that the federal government will shortly have the power to issue regulations on investment reporting (the measure does not require Bundesrat consent). Bonn thus is following the lead of other European countries where such mandatory rules already are being applied. Future regulations will be forthcoming soon; government officials were drafting them while the bill was in committee (*Doing Business in Europe, Par. 30,820*).

On the basis of the new regulations, the government could demand from residents, both individual and corporate, disclosure of the volume of foreign investment and other specific information on such investments. It could seek the same information from nonresidents with respect to their investments in Germany. Bonn has always deplored the fact that it did not know enough about the volume, type (direct or indirect), and location of German investments abroad and foreign investments at home.

The business community in the past was not greatly worried about the government's desire for comprehensive information on investments. Nevertheless, it expressed its concern last year when the bill was introduced, and this concern has not waned. Section 26(2) gives the federal government regulatory powers to demand reporting of certain transactions between individual and corporate residents and nonresidents as well as other data on asset ownership, not just for the limited foreign trade aspect (i.e., for balance of payments purposes) but for broader policy consider-

Reporting *(contd.)*

ations as well. Administration officials have had some success in reassuring business representatives who fear that this approach could eventually lead to investment controls.

Netherlands: Higher Tax Revenue from Motorists

To improve fiscal revenue generally, the lower house of the Dutch parliament has passed the proposal of Finance Minister Willem Duisenberg to raise the price of gasoline by 2.3 cents per liter. The additional income resulting from the increase would not be set aside for any particular purpose, specifically not for projects related to roads or automobile traffic - the government has made it clear that individual transport must take a backseat to public transport.

The Hague is pushing hard for speedy passage of the gasoline price increase, because each month of delay means a loss of some 8 million guilders in revenue. The increase is all the more necessary, it is argued by the administration, since parliamentary pressures had prevented the automobile tax from being raised to the extent originally planned. However, it is not intended to compensate for this by introducing a special sales levy on higher-priced automobiles: the revenue that could actually be expected from such a surcharge would not be proportionate to the administrative problems involved.

Duisenberg said that the gasoline price increase would have no appreciable impact on domestic price development in general and does not constitute a departure from the government's existing price policies.

Italy: Business Fears Big Jump in Credit Costs

The Italian business community is reacting with considerable apprehension to the worsening climate on the domestic capital markets following the March 1 reopening of the foreign exchange markets and a series of drastic credit curbs. On the heels of the two-step increase in the discount rate from 6 to 8% and other liquidity-reducing measures, the commercial banks lost no time in boosting the prime rate from 12 to 14%. Another factor in the rapid change of the interest rate situation could be Rome's plans for a major medium-term Eurobond issue - unofficially, it was rumored that this would be the largest issue ever floated on that market.

The sudden jump in the discount and prime rates has once more put interest rate levels in Italy far ahead of those prevailing elsewhere in Europe and in all industrialized countries and, effectively, spells an end to the easy-money policy that the government and the central banks lately had been forced to pursue in order to soften the effects of the economic recession. This is being worriedly

Credit Costs *(contd.)*

registered by business spokesmen who submit that there is now even less hope for a revival of investment activity, which has been lagging in view of underutilized production capacities. Small businesses in particular fear that the rate of credit costs will again be driven up to a level of around 20% and that the banks again will favor large and medium-sized borrowers over small ones.

In other news, the government as of March 1 issued revised regulations on the foreign exchange allocations for travel purposes, ending much speculation in this regard. According to these rules, the basic annual per-capita allotment of 500,000 lire remains unchanged. However, of this total, only 65,000 lire may be exchanged into foreign currencies and travelers' checks. The remainder must be drawn in Italy in the form of letters of credit, money orders, or nontransferable bank drafts. This will give the authorities the means of checking whether the purchasers of foreign currencies actually spend these funds abroad themselves. Evidently, this is to prevent Italian residents who do not travel abroad from drawing their allotment and reselling it at a profit.

France: Upswing Marred by Price, Trade Developments

A new rash of price increases in France has caused many economic observers to wonder whether the government can achieve its goal of limiting the rate of inflation to 7.5% this year. The official cost-of-living index climbed by 1.1% from December to January, for a 12-month average of 9.6% (in Germany, by contrast, this rate was 5.3%). The industrial production index even went up by 4% within a month, and there was no indication that this trend would be slowed in January. Last month, consumers learned of imminent price rises in several sectors, including utilities (electricity by 15.4%, gas by 7.5%) and restaurants (8%).

The unions, led by the Confédération Générale du Travail, for the past weeks have criticized the government statisticians for using questionable methods in the computation of the indexes, thereby understating the true extent of inflation. According to the CGT, the cost of living for average households has risen by 13.6% rather than 9.6% over the 12-month period ending in January.

Unquestionably, the recovery of the domestic economy, now gathering speed, has also contributed to higher prices for domestic products and these, in turn, are being blamed for stagnating exports and more rapidly rising imports since December. With the French trade balance for January closing off with a deficit not too far below the FF 1-billion level, it is feared that the International Monetary Fund prediction of a French payments deficit of $2.6 billion for the current year could well materialize (the OECD, in its latest survey on the French economy, even put its

Upswing *(contd.)*

estimate at $3.3 billion). Traditionally, a period of economic recuperation in France is accompanied by an import boom without a matching export performance. Since France is still suffering from the underdeveloped structure of its export industries, observers say, there is little reason to expect a different situation in 1976.

As concerns the domestic economy, the government can be satisfied that the massive stimulative measures taken about six months ago have finally begun to show results. Whereas the upswing was first apparent in the consumer goods sectors in the last quarter of '75, it is now also reported in the capital equipment and supplier industries. Further, business liquidity has been improving, especially for the larger enterprises, a fact partially reflected on the stock markets, where some share prices have reached two-year highs.

EURO COMPANY SCENE

Commercial Union

Commercial Union, the United Kingdom's largest general insurer, has announced a record £94-million loss on its 1975 insurance underwriting. CU chief executive Gordon Dunlop revealed that, of this total, no less than £75 million could be attributed to the company's U.S. operations, in regard to which CU had "certain wrong expectations." The company's U.S. activities have been sharply curtailed: six major branches have been closed, agency agreements have been cancelled, and the payroll has been halved.

Owens-Illinois

One of the world's leading manufacturers of packaging materials and specialized glass products, Owens-Illinois, Inc., Toledo, Ohio, is set to list its common shares on the Swiss stock exchanges in Zurich, Geneva, and Basel, pending formal approval (expected sometime in April). Owens-Illinois introduced its common stock on the London exchange in 1973, but this will be its first listing on the European continent. The company, which is presently preparing to issue 2 million new common shares, is a major European supplier of packaging products and holds an 80% participation in Germany's Gerresheimer Glas AG and a 50% interest in Britain's United Glass Ltd. Other non-U.S. activities include projects in Southeast Asia and South America.

Digital Equipment

The European headquarters of Digital Equipment Corp. (DEC) in Geneva, Switzerland, has announced it has reached agreement with the city of Annecy le Vieux (Haute-Savoie), France, and the French industrial development agency Datar on its purchase of a 322,000-square-foot site on which the company plans to construct a new plant to be completed by the end of the year. The agreement also gives Digital an option to purchase additional land for further expansion.

Digital Equipment *(contd.)*

The new plant, which is to produce computer systems and peripheral equipment, will be the third such DEC operation in Europe, in addition to the already-existing facilities in Ireland and Scotland. DEC, headquartered in Maynard, Mass., is, by its own account, the world's largest manufacturer of mini-computers.

Alfred Teves

Alfred Teves GmbH (Ate), Frankfurt, a member of the ITT concern, has established a U.S. subsidiary, Alfred Teves, Inc., which plans to build a production plant for disc brake systems in Culpeper, Va. Manufacture for the American markets is scheduled to begin next year. In Germany, it was reported that, with this step, Teves will contribute its know-how as the U.S. automobile manufacturers concentrate more on smaller and lighter cars. Also, the company wants to get a better share of the spare parts business, since a considerable percentage of the 10 million import cars in the United States are equipped with Ate brakes. Teves ranks as the No. 1 independent producer of disc brakes in the world.

McKinsey/ Sabena/ KLM/ Luxair

U.S. management consultants McKinsey & Co., commissioned last July by Belgium, the Netherlands, and Luxembourg to study the feasibility of cooperation among the national airlines Sabena, KLM, and Luxair, have now submitted their final report to the three governments, the airlines, and their works councils. The major conclusion of the study that a complete merger of the three carriers offers the best chance for returning them (especially Sabena) to profitability. The report claims that such a fusion could improve earnings by some BF 3 billion by 1980. The findings are expected to be challenged in a number of areas, especially in regard to the difficulties that would be involved in integrating the air traffic rights of the airlines and the question of possible layoffs. The Benelux transport ministers have indicated they will strive to reach a final decision on the proposed merger by the end of this year.

Common Market Reports

EUROMARKET NEWS

Issue No. 374 *March 16, 1976*

LIBRARY

IN THIS ISSUE

page

Community: Farm Consensus Fails to Ease CAP Woes......1

'Chicken War' Shaping Up between EEC, Germany?........2

In Brief: Company Law; EEC Court Convention..........3

Britain: Companies Bill Proposes Some Reforms.........3

France: Tax Break for Businesses; Job Action Plan.....4

Cautious OECD Projection for French Economy...........5

Italy: Stiff Penalties on Illegal Capital Exports.....6

Germany: Financing Gap for Health, Pension Systems....7

Andorra: Tax Paradise Threatened by Budget Deficit....7

Euro Company Scene....................................8

Community: Farm Consensus Fails to Ease CAP Woes

The Council of Ministers' latest agreement on EEC farm prices for 1976-77, coming after four days of negotiating, has demonstrated again that there is no way out of what has been labeled the "economic humbug" in the Community's common agricultural policy (CAP). Aside from raising intervention prices for agricultural commodities by an average of 7.5% (consumer price increases for individual farm products will vary from state to state), the Council also agreed to continue the price support system, especially for milk, with all of the consequences it entails for both consumers and taxpayers. About 400,000 tons of milk powder will be used to feed animals, including cows, which will produce more milk, thus forcing intervention agencies to buy up excess milk and have it converted into powder or butter. Storage of milk powder surpluses will cost approximately 3 billion units of account in the next 12 months. Everyone, not just the experts, can see the day when the milk powder and butter mountains become so high that part will have to be sold below cost or otherwise reduced.

Even Bonn, which has strongly urged the revamping of CAP, has recognized that the Treaty's four objectives - balancing supply and demand, providing fair farm incomes,

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CAP
(contd.)

stabilizing agricultural markets, and ensuring fair treatment of consumers, as provided in Article 39 (*Common Market Reports, Par. 406.03)* - simply cannot be reconciled, not even in the foreseeable future.

The Council did make some progress in regard to the excess of Community wine that has strained relations between Rome and Paris and has led to violence by French wine growers in protest of imports of cheap Italian wine. Wine production is to be reduced by putting a two-year ban on new planting and by cutting back the cultivation of vineyards laid out especially for mass-consumption wines. An additional 4 million hectoliters will be removed from the market through distillation. With these decisions, the Council of Ministers has followed some, but not all, of the Commission's suggestions made last June (*Common Market Reports, Par. 9756*).

France's consent to abolish the wine tax on Italian imports, as welcome as it must be for the Commission, has put the EC executive in an awkward position with respect to its suit brought reluctantly against France last November (Case No. 117/75): the rules of procedure of the European Court of Justice prevent it from withdrawing the case at this stage.

EEC-Germany
'Chicken War'
Shaping Up?

Another "chicken war" is threatening the Common Market, this time pitting the Commission and eight member states against Germany. The causes are the proposed EEC veterinary standards for frozen poultry meat and the recently enacted German legislation, considered the strictest poultry law in the world. The other "chicken war," in the '60s, involved the United States and the Community over EEC tariffs and duties. Still, U.S. poultry exporters are just as concerned over this latest dispute as they were a decade ago because the outcome will determine the standards their exports to the EEC must meet.

Two years ago the Commission submitted a draft regulation to the Council that would limit the water content of frozen chickens to 8%. Most of the water is absorbed during the spinchilling process, whereby the chickens are dipped in water to be cleaned and chilled in one step. The Commission says that "dry" preparation of poultry is impossible, while the wet process inevitably involves some contamination that cannot be avoided.

The German government vehemently disagrees. According to tests, one of every two chickens sold in Germany contains salmonella bacteria; however, the reason that few people become ill is that the bacteria are destroyed during cooking. Health experts maintain that most people do not realize that the cause of less severe reactions such as headaches and stomach disorders can be traced to handling

Chicken War *(contd.)*

thawed chickens prior to cooking and then spreading the bacteria to other foods. For this reason alone the spin-chilling process should be replaced by one less hazardous to human health. Government officials also point out that the water content in chickens, averaging an estimated 13%, is unfair to customers. Last month Germany's parliament approved the government-proposed legislation that, as of Jan. 1, 1977, would bar the marketing of chickens containing more water than is technically avoidable. Experts say that is around 2%.

Although the German government seems to have all the health and consumer protection arguments in its favor, it is not likely to win the battle at this point because the proposed Council regulation is based on Article 43 of the EEC Treaty (*Common Market Reports, Pars. 425 and 471*), and here Germany, like any other member state, can be outvoted. So far, the Commission and the other states have rejected Bonn's argument that the issue does not involve merely a market organization, covered by Treaty Article 43, but rather harmonization of veterinary and consumer legislation under Treaty Article 100, and adoption of any measure requires unanimity (*Common Market Reports, Par. 3301*).

In Brief...

The Council working group has wound up its discussions of the second Council company law coordination draft directive and has solved all but three problems, for which the Permanent Representatives must seek solutions: 1) minimum stated capital (the spectrum of opinions ranges from 25,000 to 200,000 units of account), 2) treatment of investment companies (Luxembourg wants them excluded, for obvious reasons), and 3) a revision clause. The latter presents the toughest problem because it would obligate the Commission, upon a member state's request, to present proposals whenever a state experiences insurmountable difficulties in application of the directive + + + The Court of Appeals at The Hague has asked the European Court of Justice for a preliminary ruling on the Community provision that would have implications in both international litigation and incidents of pollution. Its question concerns interpretation of Article 5(3) of the EEC Convention on the Jurisdiction of Courts and the Recognition and Enforcement of Judgments. The Court's answer could settle whether "the place where the injury occurred" means the location where the damaging act was committed or where the actual damage was sustained (*Common Market Reports, Par. 9813*).

Britain: Companies Bill Proposes Some Reforms

The introduction of the Companies (No. 2) Bill in the House of Lords received less attention in Britain than it might otherwise have warranted, falling as it did in the middle of a sterling crisis, during which the pound plummeted to an all-time low and the Bank of England was forced to in-

Companies Bill *(contd.)*

tervene. Nevertheless, the Bill proposes certain small but important reforms in British company law. (Major company legislation is not expected until the Committee of Enquiry on Industrial Democracy submits its report - hopefully, by the end of 1976.)

The Bill's proposals fall into four main categories - filing company accounts, new requirements in respect of auditors, new rules on inventories and "work in progress," and the closing of various loopholes in the present law. Specifically, the Bill proposes that public companies be required to file under the Companies Act 1948 (the principal act) within seven months of their reference period, i.e., generally speaking, the appropriate financial year. Private companies, on the other hand, would enjoy a 10-month grace period.

The proposals on auditors are the most "exciting," due to the recent censure of that profession implicit in the Department of Trade inspectors' report on London & County Securities. Apart from proposing tighter auditor qualifications and calling for a resolution at the annual general meeting to reappoint the auditor, the Bill also sets out to compel the auditor to act when management attempts to remove him: in effect, his notice of resignation would have to state whether he considered that any circumstances connected with it should be brought to the attention of the company's shareholders or creditors.

The "redefinition of accounting records" will have the most impact on company prospectuses, a good many of which include a qualification that records on inventory and work in progress are "not available." Experience has shown that many companies that come to the market with this qualification tend to hit financial trouble soon after flotation: henceforth, therefore, stock records would have to be preserved for no less than six years.

Notable among the proposals to close loopholes is a provision that overseas companies active in the U.K. market be made subject to closer scrutiny as regards the business name under which they trade: at present, there is virtually no restriction on their choice of name (with the result that a one-man operation could, in theory, bill itself as a worldwide enterprise).

France: Tax Suspension for Companies; Job Action Plan

Acting within existing Budget authorization, the French government has made a decision allowing businesses to pay only 50% of the corporate tax installment that would have been due on Feb. 20, with the remainder now to be paid on Dec. 15. The same will apply to private businesses that are subject to income tax. Payments already made may be reclaimed by up to 50%, it was announced by a government

Tax Suspension *(contd.)*

spokesman. The cabinet decision was expected to result in a temporary revenue shortfall of FF 5-6 billion.

The partial postponement of tax payments is designed to improve business liquidity and thereby help the still-serious employment situation. Another reason is that, within the scope of the economic stimulation program enacted last September, businesses had been permitted to defer a portion of the corporation tax then owed to March 15, 1976, for payment: without the latest partial moratorium, businesses would have been forced to pay not only last year's remaining tax debt but also make the full installment normally due now.

Related to the tax measure was cabinet passage of an "action program" to promote employment. Basically, it provides for the creation of a special commission in each of the country's *départements* which are to focus their attention on establishing new jobs - especially for young people and in small and medium-sized businesses. The commissions are to meet at least once a week to review the local labor market and to propose and implement solutions (for instance, by helping employers arrange for financing). In certain cases, the fiscal authorities would be empowered to grant suspension of tax payments.

Pointing to the fact that many French employers are still looking for ways to trim personnel rather than hire new people, critics have dismissed the plan as an "action program without real action": a recent (unofficial) industrial survey has shown that 57% of the companies polled have no intention of hiring more workers at this time, while 26% are even considering further layoffs.

OECD Cautions on Economic Upturn in '76

In its latest survey on France, the Organization for Economic Cooperation and Development (OECD) has sounded a cautious note on France's expected economic progress this year. Among the report's main conclusions is that, while the country appears to be pulling out of its worst postwar recession, it is doubtful that a lasting period of recovery can be sustained. Despite a brighter outlook in late '75 on the heels of the government's reflationary package introduced in September, "...it is not certain that the upswing will hold throughout 1976, and underutilization of capacity might become even more pronounced. Moreover, the danger that a price/wage spiral will develop still looms large."

The OECD survey also points up several discrepancies between the economic projections of the Paris-based organization and those of the French government. It forecasts a growth rate of about 3% for the current year (following a "negative" rate of 2% in 1975), whereas the government has set its sights on a 4.5-4.7% rate. Even if this latter

OECD Report *(contd.)*

target actually can be met, OECD experts note, this in itself would result in additional problems in the form of renewed pressures on prices and the trade balance. In this context, a difference of opinion also concerns the rate of inflation: the government sees a good chance of cutting it down to 7-8%, while the OECD economists consider 10-11% a more realistic figure. Unemployment will continue to persist, and the OECD expects it to rise still further from the present level of above 1 million to some 1.2 million by the end of this year.

Italy: Penal Sanctions for Illegal Capital Exports

Following the government announcement in February on upcoming draft legislation to contain illegal capital exports, the Italian Council of Ministers meanwhile has approved a bill setting down stiff penal sanctions for violations in this area. Essentially, the bill follows a proposal submitted by the Justice Minister late last year. According to the draft law, the illegal export of Italian currency, foreign exchange, checks, securities, and other means of payment could be punishable with imprisonment of up to six years if the amount involved exceeds 5 million lire. In cases of serious damage to the national economic interest, the maximum could be 12 years (the Justice Minister had even recommended 15 years). As before, the statutes also would provide for confiscation of the illegally transferred funds as well as for fines. Violations would be deemed particularly serious if more than three persons were involved or if bank officers had a part in them. (Recently, the commercial banks have been publicly accused of condoning clandestine capital transactions by accepting, for instance, artificially inflated import invoices. The banking association has urged its members to check such invoices more carefully, although it is felt that this should be the responsibility of the customs authorities.)

The bill furthermore would make certain transactions effected by residents abroad subject to special permission by the Italian authorities: the opening of bank accounts, the purchase and sale of real property, and the operation of finance companies and related businesses. Also, there are provisions permitting government tax agents, under certain circumstances, to gain access to bank and postal records on customer transactions.

Although the cabinet so far has not decided on the introduction of new taxes or tax increases, it did consent to some measures designed to improve the inflow of fiscal revenue. Approved was a proposal by the Finance Minister to cut from four to two the number of annual income tax installment payments by individual taxpayers. Those taxpayers who fail to adhere to existing self-assessment procedures in the future would be liable to a surcharge of 15%

Capital Exports *(contd.)*

instead of the present 10%. Late tax payments would be subject to an annual interest rate of 12%.

Germany: Financing Gap for Pension, Health Systems

Administration leaders in Germany have chosen to stay in the background of the public debate over soaring government spending in the areas of health and social security and finding ways to finance the ever-widening gap between revenue and costs. The business community takes a keen interest in the debate because more than 75% of the overall costs are financed by contributions shared by employers and employees.

With this being an election year (national elections are scheduled for Oct. 3), the administration does not want to publicly share the fears of the Opposition and independent experts over future financing of benefits - especially of old-age pensions, paid to approximately 6 million people. For the late '70s, the experts predict a substantial deficit in the government pension funds that cannot be financed except by increasing current contribution rates by several percentage points. The present rate is 18%, shared equally by employers and employees (*Doing Business in Europe, Pars. 23,453 and 30,836*).

Several facts seem to point to an increasing danger of not being able to finance the gap. Old-age pensions are paid out from the monthly employer-employee contributions and this revenue has been cut by DM 6 billion each month because of the unemployment of some 1.3 million people and short-time work for nearly another half-million. The number of those taking up employment is expected to drop in the coming years as a result of the falling birth rates. On the other hand, the number of people receiving old-age pensions is increasing as more self-employed individuals join the program. Finally, pensions have been going up, just as employee incomes have risen, despite the recession, and no one wants to make a change here.

Government officials privately no longer rule out that the administration may have no other option but to propose an increase in the contribution rates some time after the elections.

Andorra: Tax Paradise Threatened by Budget Deficit

One of Europe's last true tax-haven countries, the tiny mountain republic of Andorra, may soon have to change its privileged status: for the first time ever, the Budget plan shows a deficit, and the 24-member General Council (parliament) has been warned that the introduction of income and, possibly, capital gains taxes may be unavoidable. The 1976 Budget provides for 600 million pesetas in expenditure, but for only 455 million in revenue.

Deficit *(contd.)*

So far, some 80% of the finances of the 700-year-old republic located in the East Pyrenees has been provided by import levies, mainly on fuel. Foreigners - who outnumber native Andorrans in the total population of about 20,000 - have had to pay only a token fee for the right to establish residence and, like everyone else, did not have to worry about taxes. For centuries, Andorra has remained virtually independent, although it is subject to the joint suzerainty of the president of France and the Bishop of Urgel, Spain.

EURO COMPANY SCENE

IBM/ British Airways

International Business Machines in the U.K. received something of a setback when British Airways earlier this month announced the cancellation of its IBM maintenance contract. British Airways sources disclosed that there was reason to be dissatisfied with IBM's service performance and charges. A more fundamental reason, however, would appear to be the squabbles among the major computer companies over the proliferation of what are referred to as "plug compatibles," i.e., machines made by other manufacturers which can be tied in to the IBM mainframe. In addition, the trend - in Britain, at least - now seems to favor the mini-computer, a trend that could accelerate if new mini-computer linking systems prove to be as successful as demonstrations suggest. Finally, the economic slump in the U.K. is also playing a part in cost-saving decisions: in British Airways' case, to name only one major user, it was decided to purchase a secondhand IBM computer rather than opt for a new model.

Revlon/ Wölm

Revlon, Inc., the New York cosmetics group, has announced its takeover of the chemical and pharmaceuticals producer M. Wölm, German subsidiary of International Chemicals & Nuclear Corp., Pasadena, Calif. Wölm reported a turnover for the last fiscal year of over $25 million, and Revlon reportedly paid about the same amount to acquire the German firm.

CEAG/ Trio

Germany's CEAG Dominit AG and Trio Laboratories, Inc., Plainview, N.Y., have reached a broad cooperative agreement whereby CEAG will assume technical and sales responsibility for Trio's European and U.K. activities. The cooperation specifically extends to the area of specialized electronic power supply units, transformers, and components for use in the computer, medical, telecommunications, and defense sectors. The new arrangement is expected to strengthen the worldwide positions of both companies and to promote the future development of new systems.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

page

Community: Equal Pay Issue before European Court......1

Brussels Objects to Lira Payments of Sugar Fines......2

In Brief: Canada Pact; Insurance; Jurisdiction........3

France: Free Floating of Franc Termed a Setback.......3

Italy: Okay for $1-Billion EC Loan; Higher VAT........4

Britain: Consequences Weighed after Wilson Resigns....5

Germany: Doubts over Levy on Land Value Increases.....6

Sweden: Government, Labor Proposals for Companies.....6

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

Community: Equal Pay Issue before European Court

March 10, 1976, could become a date to remember in the Community's history should the European Court of Justice follow the conclusions of Advocate General Alberto Trabucchi, who on that day recommended that women receive equal pay for equal work retroactive to Jan. 1, 1962. If the Court were to follow this recommendation in Case No. 43/75, the result could be numerous suits brought by women against their employers throughout the Common Market, and there would be serious implications for the legal structure prepared on the basis of Article 119 of the Treaty (*Common Market Reports, Pars. 3942.01 and 9599*). An affirmative ruling would also run contrary to the view of the Commission and legal experts that Article 119 is not a self-executing provision but rather provides a mandate for the Community to require member states to apply the equal pay principle through legislation. The Council of Ministers' directive adopted on Feb. 10, 1975, is based on that view.

In this particular case, airline hostess Gabrielle Defrenne had brought suit in a Brussels labor court, charging that her employer, Sabena Airlines, discriminated between male and female flight personnel. The Brussels court asked the European Court of Justice last May for preliminary rulings on whether Article 119 was directly applicable

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Equal Pay *(contd.)*

and whether Community legislation had been adopted to ensure its application. All governments that chose to submit comments agreed that Article 119 was not self-executing and actionable. The Commission had modified its previous stand by making a distinction that many legal experts have found questionable: Article 119 is self-executing insofar as it concerns the government as an employer, but it is not self-executing for private employers.

The Court of Justice is not bound to follow the AG's conclusions or any government's comments, and most Brussels observers would be surprised if the tribunal did indeed accept Trabucchi's line of thinking (and not just for political reasons). Given the lack of a European Court ruling on the subject so far, Article 119 has always been understood to embody a mere principle, not a directly applicable provision. Most experts on European law have held this position, and the Council of Ministers' equal pay directive is based on it. Adopting the AG's conclusions would not only invalidate recent EEC law but could also produce unpredictable economic consequences for private and public employers, in addition to the possibility of exposing the national courts to a sharply increased volume of back-pay claims. The Court's judgment was expected within one month.

Opposition to Lira Payments of Sugar Fines

Commission attorneys are studying possible legal steps against those companies that drew fines in the European Court of Justice's sugar case judgments and have chosen to pay their fines in Italian lire, taking advantage of the steep decline of that currency. The savings to the French, Belgian, and Dutch companies are considered to be near 45% of the total fines imposed, or 517 million units of account (UA). For the time being, the Commission has confined itself to writing letters to all companies involved, including those that have not yet paid their fines. The Commission insists that the fines be paid in the respective national currencies.

Last Dec. 16, the European Court of Justice substantially reduced or canceled the Commission's fines imposed in 1974 on 16 European sugar producers and distributors (*Common Market Reports, Par. 9570*). In line with the Court's practice, fines are expressed in units of account as well as in the particular national currency. For example, in the case of one French company, the Court set the fine at 100,000 UA or FF 555,419. Instead of paying the latter, the company reportedly transferred to the Commission's account 62.5 million lire, for which it paid only FF 340,000.

Commission attorneys agree on the inadequacies of the unit of account, the denomination in which Community transactions usually are made: it is no longer representative of its reference denominator (1 UA = $1 of pre-Smithsonian

Lira Payments *(contd.)*

times), nor does it reflect the rise of such currencies as the German mark or the decline of the lira. (The German government has been trying to persuade the Council of Ministers to make a corresponding adjustment here.) It has been pointed out that the fines were clearly intended as a monetary punishment for violating the EEC antitrust rules and that this purpose could not be fully achieved if offenders were allowed to pay less than was intended. Commission attorneys concede, though, that taking the companies back to the Court of Justice would involve intricate legal problems.

In Brief...

Negotiations between Commission and Canadian officials for a cooperation agreement between the Community and Canada started two weeks ago, and both sides are optimistic about the chances of winding them up by the end of this year. During the preceding intensive contacts, negotiators already had come close to a consensus on the content of the agreement + + + Discussions between Swiss government and European Commission officials on an agreement to liberalize liability insurance services between the EEC and Switzerland have been completed. The agreement, which requires the consent of the EC Council, would enable Swiss insurance companies to insure risks in the Common Market on a nondiscriminatory basis + + + Member state and Community experts have wound up their discussions aimed at adjusting the EEC Convention on the Jurisdiction of Courts and Recognition of Civil and Commercial Judgments to enable the three newcomers (Denmark, the U.K., and Ireland) to live up to their commitment of acceding to the Convention.

France: Free Floating of Franc Termed a Setback

Last week's decision of the French government to again detach the franc from the European currency "snake" was seen in France as an embarrassing political blow for the Giscard d'Estaing administration and elsewhere as another setback to international monetary stability and the concept of European unity. France had taken this step once before: in January 1974, at the height of the world oil crisis, the franc had departed from the joint float for the first time, returning to it last summer after an 18-month absence.

The "Black Monday" announcement of the renewed free floating of the French currency came after the EEC finance ministers, at their March 15 conference in Brussels, had failed to come up with a better answer on how to support the weakened franc. Finance Minister Jean-Pierre Fourcade initially had proposed to modify the snake mechanism - for instance, by broadening the plus/minus 2.25% band within which the aligned currencies may fluctuate. But this did not find backing among his colleagues, with the exception of Germany's Hans Apel. (Unofficially, it also was reported that the French had tried to persuade the Germans to re-

Franc Float
(contd.)

value the D-mark by 3%, in return for a franc devaluation of the same percentage.)

Under the circumstances, the return to the independent floating of the franc was widely regarded as a sensible step. It resulted in an immediate de facto devaluation of 4-5% on the international currency markets. According to some reports, the Bank of France had been forced to commit FF 2 billion in January, 4 billion in February, and 8 billion this month to keep the franc from dropping below the intervention level. Paris decided that it could not permit any further drain of its foreign exchange reserves, but Fourcade said that the Bank of France would not allow an uncontrolled floating of the franc either and would stand by to support it within reasonable limits. In this connection, the Finance Minister accused London and Rome of having contributed to the crisis situation by having permitted a "wild devaluation" of their own currencies.

Foreign reactions to the French decision were marked by understanding. The governments of Germany, the Benelux countries, and Denmark - the EC member states still associated in the joint float - expressed the hope that the franc would soon rejoin the currency snake, though probably at a lower level. The European Commission said that the French step once again demonstrated the vulnerability of Europe's monetary system and that there would be no improvement until the member states are really willing to work for a closer integration of their economic and monetary policies.

Italy:
$1-Billion
Community Loan;
Higher VAT

At their March 15 meeting, the EEC finance ministers also approved the record $1.3-billion loan to be raised by the Community on behalf of Italy and Ireland. The agreement was to be formally signed on March 22. The $1-billion Italian portion reserved for balance of payments assistance to that country is to be managed by an international banking consortium led by Germany's Deutsche Bank. A $300-million issue is to be floated on the Euromarkets for a five-year term, $500 million will be placed with the banks, while another issue of the same amount will be in the form of public debentures.

Approval of the huge loan package was tied to a set of tough conditions pertaining to Italy's economic and monetary policies and specifically included the demand to abstain from any trade restrictions in the form of import curbs or export subsidies. With the new Community loan plus existing and newly negotiated credit facilities arranged through the International Monetary Fund, the U.S. Federal Reserve Bank, and other institutions, Italy's indebtedness abroad reportedly has climbed to $15 billion and will necessarily result in a crushing interest burden (which in 1976 alone amounts to $3.4 billion, according to

Loan
(contd.)

recent Bank of Italy estimates). Many observers consider it highly questionable whether Rome will be able to meet these obligations, given the disheartening state of the economy and the numerous political uncertainties.

In other developments, it was expected that the government would move to raise various value-added tax rates. Thus, it reportedly was planned to increase the VAT rate for textiles and apparel from 6 to 12% and that for certain other consumer products from 12 to 18%. It would be the purpose of this action to slow down consumption, particularly of certain imports, and to improve fiscal revenue.

Britain: Consequences Weighed after Wilson Resigns

The sudden and - for outsiders, at least - totally unexpected resignation of U.K. Prime Minister Harold Wilson on March 16 immediately prompted speculation as to the political position of his successor and as to the possibility of a general election in the near future. While the nation considered this aspect of the situation, however, other speculation of an entirely different order is also a matter of interest.

Wilson gave assurances that his decision was not motivated by any financial or economic crisis "that the British people are not aware of." Nevertheless, the consequences of his move are being viewed in some quarters as extremely grave, both for the Labour Party and for the country. Since the beginning of this month, the pound has slipped alarmingly to an all-time low against the dollar, and Britain was accused of causing the French a great deal of monetary hardship which, the French claim, has forced them to leave the European currency snake. Within the party, left/right confrontations have been bitter. Should Wilson's successor be from Labour's right wing, it is probable that left-wing reaction will prompt further troubles on the labor union front. (These already have been foreshadowed in the government's defeat in the Commons - due to a lack of support from within its own ranks - in the first debate on the recent public expenditure provisions.) Conversely, if his successor is from the party's left, there will be swift moves to reflate the economy, a course that economic forecasters believe could lead to disaster.

In the event of failure of the government to unite behind a new leader, it is virtually a matter of constitutional and parliamentary tradition that it will go to the people to seek a mandate of sorts. Should the Conservatives be returned to power, it would be safe to predict a series of modifications to Britain's present economic planning, not least in regard to state interventionism, social security, labor relations, and tax reform.

Germany: Doubts over Levy on Higher Land Values

The German government may have to forego an important feature of proposed urban land reform legislation unless it compromises with the Opposition-controlled Bundesrat. The Schmidt administration and the Opposition strongly disagree over who should compute a levy that would be payable by real estate owners when selling or building on property that has increased in value through developments, improvements, or rezoning effected by local governments. Failure to achieve a compromise could possibly defeat the plans for the levy.

The administration says - and the amendments to the Federal Building Law passed by the Bundestag so provide - that local boards should compute the levy. The Opposition parties have some strong arguments for wanting property valuation to be handled by the tax offices, which already assess property values for the purpose of local real estate and federal net worth taxes. The Opposition also demands an increase in the local real estate tax, together with a realistic valuation of real estate. (Meanwhile, both sides may find support for their arguments in an unpublished study prepared by the Finance Ministry's advisory council for tax matters and submitted to the administration last week. The experts say that there is no ideal way of solving the problems that a special levy to skim off increased land values would bring. They therefore refrained from making any detailed proposals.)

There is general agreement, however, that real estate owners should pay a levy on property value that has risen without any effort on the owner's part. Such a consensus also applies to virtually all other features included in the amendments. These are: local governments would gain preemptive rights in acquiring land at prices charged prior to development (though the Opposition would like to see local governments sell some of the land holdings to individuals); time-consuming expropriation procedures would be speeded up; and local governments would have more planning rights, but also an increased obligation to publicly disclose any plans at an early date.

The draft legislation is now in conference, and its ultimate shape is uncertain. It is also doubtful whether the government will be able to maintain its time schedule: originally it wanted the measure ready for signing prior to the Easter recess.

Sweden: Government, Labor Proposals for Companies

Two controversial issues currently are of much concern to the Swedish business community: the labor federation secretariat's proposal on the gradual transfer of parts of private enterprises to "collective labor ownership" and government consideration of a plan to place central and

Proposals *(contd.)*

local government representatives on the supervisory boards of large companies.

The union draft proposal - which has a good chance of passage at the trade union convention in June - provides for all private Swedish enterprises with at least 50 employees to transfer 20% of their annual net profits in the form of shares to a "central equalization fund." The capital as such would remain with the companies, but dividends earned would be used by the central fund to purchase additional shares. This procedure eventually would lead to union representation on the company boards. A special nomination/election formula on union/government representation would apply once union equity in a company exceeds 20%. (The equalization fund derives its name from the proposal that dividend shares would be distributed among additional "sector funds" in such a way as to build up weaker industry sectors.)

The entire concept would not spare Swedish subsidiaries and branches of foreign companies: a special clause, yet to be drafted, would seek to prevent multinationals from reporting lower profits for their Swedish offshoots in order to avoid or minimize partial union ownership.

Because of the controversy of the labor draft proposal, Prime Minister Olof Palme and his Social Democratic minority government do not plan to make it an issue during the upcoming election campaign (general elections will be held in September). Palme indicated that the proposal probably would not be taken up by Parliament before 1979.

Regarding the administration's own ideas on what has been termed "institutionalized co-determination," it is proposed to nominate public representatives to the supervisory boards of about 60 major domestic enterprises. As part of the system, some of this representation would be by local governments in the case of companies that are "regionally dominating or of major significance to the local authorities." The Swedish industry and employer associations have jointly protested these plans as leading toward a "public exercise of power without democratic controls."

EURO COMPANY SCENE

Shell/ Northern Gas

The Anglo-Dutch oil group Shell is currently negotiating the sale of part of its production from the North Sea Brent Field to the U.S. gas utility Northern Natural Gas of Omaha, Neb. On the basis of an outline agreement (a firm contract is not expected until summer of 1976), deliveries would begin in 1979 and would peak at 25,000 barrels per day in the early '80s. The value of the contract to Shell would be around $90 million. The export of North Sea

Shell/ Northern Gas *(contd.)*

production to the United States (in this case, in the form of the liquid petroleum gases butane and propane) is a delicate issue politically, particularly since this deal, the first of its kind, would involve a company that, along with Exxon, is opposing "voluntary" U.K. government participation in its North Sea development.

Dow Chemical

Dow Chemical U.K. is negotiating with Britain's Dept. of Industry and Energy to set up an ethylene plant based on ethane feedstock from the Brent Field and with a capacity of 450,000 tons. The results of a feasibility study are expected shortly, and there is an indication that the U.K. government is anxious that it prove favorable: a recent National Economic Development Council report on the prospects for Britain's chemical industry stressed that much more needed to be done in order to attract foreign investment in this sector. It is expected that the government would, in one form or other, "partner" Dow in any such venture. For Dow, the prospect of "going the ethane route" is very attractive, since its European ethylene production so far is naphtha-based, whereas in the U.S. it is ethane-based. The cost of naphtha has risen by about 50% in the course of last year.

In related news, final agreement was expected this month between Dow Chemical and Yugoslavia's Industrija Nafte (INA) on the construction of a petrochemical complex on the northern Adriatic island of Krk. The two companies signed a letter of intent over a year ago, at which time it was agreed that the complex would be built in several phases from 1976 to '82, with the first plant scheduled to begin production in '79. With an estimated value of around $700-800 million, the project would be the largest single industrial investment in Yugoslavia.

Kernkraftwerk Graben/ U.S. Steel

Switzerland's Kernkraftwerk Graben AG reportedly is negotiating with U.S. Steel Corp., Pittsburgh, with a view to participating in the exploitation of an 8-million-lb. uranium deposit in southern Texas. An unnamed American power company is also said to be interested in becoming a partner in the operation, according to Swiss reports. No financial or technical details of the proposed transaction were disclosed.

Common Market Reports

EUROMARKET NEWS

Issue No. 376 March 30, 1976

LIBRARY

IN THIS ISSUE

page
Community: Little Chance Seen for EC Export Bank......1
PCB Draft Directive Ready for Approval by Council.....2
In Brief: Equal Pay; Oil Reserves; Companies..........3
Italy: Austerity Plan to Halt Lira, Economy Slide.....3
France: Modification of Industrial Price Controls.....4
Germany: Postponement of Capital Ownership Plan.......5
Britain: Government Withdraws Metrification Bill......6
Law Society Opposes Worker Participation Systems......6
Switzerland: No to Co-determination, Tax Proposals....7
Euro Company Scene....................................7

Community: Little Chance Seen for EC Export Bank

The European Commission's proposal for the establishment of a European Export Bank has little chance for realization at this point, according to Council of Ministers officials, since Germany and France are maintaining a negative attitude toward the project, and even the British and Irish governments have some reservations. Only Denmark, the Benelux countries, and Italy have unequivocally welcomed the idea.

The main function of the European Export Bank (EEB) would be to help businesses located in several member states with financing of exports (both goods and services). The EEB would have an initial capital of 100 million units of account, which would be provided from the Community budget (*Common Market Reports, Par. 9818*). An increase in the capital would be obtained by borrowing on national and international financial markets, and the Community would guarantee borrowings up to a ceiling yet to be established. The Commission believes that the future EEB could fill a gap in Community financing and could help reduce differences in national export credit insurance practices.

The objections of Bonn and Paris are not new. In fact, they are the same as those raised in July 1975, when

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Export Bank *(contd.)*

the Commission first advanced the EEB concept in a communication to the Council. Both countries believed then that the idea was premature and that there was no real need for a new Community institution. Industry executives and bankers also saw no urgency in setting up the EEB, pointing out that multinational contracts are relatively few in number and, moreover, do not present financial problems that cannot be solved by existing financial facilities. Only the European association of savings institutions welcomed the idea and even wanted the range of EEB activities expanded to include financing of imports. The Council of Ministers will make a decision on the proposal after the recommendations of both the European Parliament and the Economic and Social Committee have been received, which should be in June.

PCB Directive Ready for Adoption

The Council of Ministers will shortly adopt the draft directive on the disposal of polychlorinated biphenyls (PCBs) and polychlorinated terphenyls, a measure that will have consequences for businesses within and outside the Community. The measure is complementary to a broader proposal, still being debated in the Council, that would limit the marketing and use of certain dangerous substances, including PCBs, and thus avoid contaminating human and animal food products, drugs, and veterinary products by PCBs (*Common Market Reports, Par. 9737*). Since only a few member states have acted on their own to curb the use of PCBs (France and Germany, for example), thus distorting competition and affecting the proper functioning of the Common Market, the proposal would also eliminate these distortions within 24 months - the time period within which the member states must introduce corresponding national rules or amend existing ones.

Polychlorinated biphenyls and terphenyls are synthetic substances that - because of their excellent electrical insulating properties, nonflammability, and stability - are used as liquid coolants, hydraulic liquids, and dielectric liquids in condensers and transformers. Although the EEC's annual PCB consumption, estimated at 15,000 tons, is gradually decreasing, PCB pollution through accidental distribution has increased ever since these substances were introduced in the 1930s. PCBs are nonbiodegradable, have a tendency to accumulate in living organisms, and are very insidious in their toxicity.

Since industry has yet to find substitutes for PCBs, the proposal does not place a ban on their use. It does obligate the member states, though, to prohibit the uncontrolled discharge and dumping of waste PCBs and of objects and equipment (such as refrigerating units) containing them. The states would have to introduce legislation to control the disposal of PCBs in a way that would avoid harm

PCB Directive *(contd.)*

to man and his environment. The states also would have to promote reuse of waste PCBs, including those still contained in unusable objects and equipment.

Businesses would be required to hold any PCB available for disposal by installations and establishments designated by the national governments. The states would fill in all the important regulatory details except one: the cost of disposing of PCBs would, in accordance with the polluter-pays principle, have to be borne by the holders and producers of PCBs or of the equipment containing them.

In Brief...

The Commission has rejected the Irish government's plea for a one-year postponement in applying the Council directive on equal pay. Adopted on Feb. 10, 1975, the directive required the member states to amend national rules by Aug. 10, 1975, and to apply the equal-pay principle not later than as of Dec. 31, 1975. Although the Commission showed understanding for Ireland (which hopes to attract more foreign investors), it chose not to grant a temporary waiver because other member states might then also apply for it + + + The Commission has brought suit against Belgium, Germany, Ireland, Italy, and the Netherlands for failure to bring national legislation in line with Community rules. A 1972 Council directive obligated the states to raise by January 1975 their crude oil reserves from a 65-day to a 90-day supply. Only Denmark, France, Luxembourg, and the U.K. have amended their rules accordingly + + + Talks among experts on adjusting the Convention on the Mutual Recognition of Companies are scheduled to begin this fall.

Italy: Austerity Plan to Halt Lira, Economy Slide

An increase of four points in the Bank of Italy's discount rate - from 8 to 12% - headed the list of economic emergency measures announced by the Rome government on March 18 following consultations with the political parties. The action, which amounted to a doubling of the discount rate since the latest lira crisis began, immediately prompted the major commercial banks to lift their prime rates also by four points (to 18 1/8%). As far as the Italian business community was concerned, these developments effectively killed all chances for a revival of industrial investment, just as the economy was showing some signs of pulling out of its deepest postwar slump.

Other provisions of the economic austerity package - which was put together under dramatic circumstances and against the background of a still-faltering lira - included an increase in the state-controlled gasoline prices from 350 to 400 lire per liter (premium). Value-added tax was raised from 12% to 18% on small automobiles and from 30% to 35% on large ones. It was also increased by 6% for wine, beer, liquors, cocoa, and for turnover of restaurants and

Austerity Plan *(contd.)*

bars. The alcohol production tax was increased by 10% and that on beer production by 50%. The Aldo Moro government did, however, abstain from imposing what would have been one of the most unpopular measures - the proposed closing of butcher shops for 15 days per month and higher VAT on beef and pork as a means of curbing the consumption of meat, most of which is imported.

The austerity package will reduce liquidity by some 1,200 billion lire, to which 300 billion will be added as a result of previously decided actions. This amount is within the European Community recommendations attached to the granting of the EC's $1-billion loan to Rome. But Treasury Minister Emilio Colombo let it be known that the extra revenues will be wholly needed just to help cover the state deficits and that nothing would be left for public investments.

Though the emergency program resulted in a temporary stabilization of the lira on the foreign exchange markets, it came under bitter attack by both industry and the unions. Spokesmen for the automobile industry in particular complained that the higher VAT rates on car purchases will be certain to cause a renewed slump in demand and thus threaten the hoped-for recuperation in that sector. At Alfa Romeo, 20,000 workers went on a two-hour protest strike, and a four-hour general strike was called for March 25 by the union federation.

France: Paris Removes Price Curbs for Some Products

The removal of controls on industrial prices of aluminum, certain chemical products, office and school furniture, and footwear has been announced by French Finance Minister Jean-Pierre Fourcade to the National Prices Commission, which is composed of representatives of industry and commerce, agriculture, and consumer organizations. The move follows the lifting of price curbs on most capital goods about six months ago and is intended to stimulate competition in the industries involved. But Fourcade cautioned that the newly granted price freedoms must not lead to "excesses" of the kind earlier practiced in the automobile industry, where prices rose an average 30% over an 18-month period following the removal of controls. Should this happen, the Minister warned, the administration would stand by to reimpose the profits margin tax that had been rescinded last year.

The action on industrial prices was supplemented by the blocking of importers' trade margins at the levels applying prior to March 12, i.e., the date when the French franc again was detached from the European joint currency float. This freeze is to be applied in absolute value terms, not on a percentage basis, and seeks to prevent importers from raising prices for existing inventories in re-

Price Curbs *(contd.)*

action to the latest monetary developments. The wholesale and retail sectors will continue to have to submit to percentage-based ceilings on their trade margins for a number of products.

The existing system of price surveillance, Fourcade said, in the future will be more strictly applied to the trade and service sectors in an effort to check undue inflationary trends. In this connection, the Finance Minister also revealed that the government draft legislation on improved controls of mergers and cartels would be submitted to Parliament next month.

Meanwhile, following its departure from the European currency snake, the French franc held relatively steady on the international markets, a development attributed mainly to a lower foreign trade deficit reported for the month of February and, more specifically, to the fact that exports currently are growing faster than imports. Unemployment dropped by 3.9% in February to below the one-million mark (seasonally unadjusted), and industrial activity continues to pick up. These positive trends were duly emphasized by the Giscard d'Estaing administration, which is looking for ways to brighten its image following the political setbacks in the recent nationwide cantonal elections and the monetary problems caused by the weakened franc.

Germany: Plan on Capital Ownership Postponed

Legal and tax problems have prompted the German government to give more thought to a plan to spread capital ownership among employees, a concept that former chancellor Willy Brandt at one time had given top legislative priority but which quickly became entangled in legal and economic arguments. Although the Council of Economic Advisers recently recommended giving employees a modest stake in their employers' capital to compensate for smaller wage increases, the legal and tax problems are so complex that the experts need more time.

In a way, they are facing the same difficulties that previously led to the shelving of the 1974 concept, which called for a levy of up to 10% of a company's after-tax profits. The revenue derived from this levy was to have been paid into decentralized funds and redistributed to employees through certificates. A problem that could not be solved at the time was how to assess the 20,000 companies whose shares were not publicly traded. Government experts say they have not yet found an equitable way to valuate limited-liability companies and partnerships limited by shares.

The administration also has ruled out an amendment to the *Drittes Vermögensbildungsgesetz*, which would have raised the ceiling of tax-supported savings from DM 624 to

Ownership
(contd.)

936. Under this so-called DM 624 Law, employees who save DM 624 annually and freeze this amount for six years (12 years in the case of life insurance) are entitled to a government grant of 30% of the total (40% when the saver has more than two children). Any contribution made by the employer on his own or on the basis of collective bargaining agreements is tax-deductible. After the six-year period, the accumulation of principal, interest, and grants amounts to DM 7,000. The grant is paid out by employers along with the paycheck and is tax-free. In 1975, about DM 9 billion was saved this way, and total government grants amounted to approximately DM 2.3 billion. Raising the ceiling of qualifying savings to DM 936 would cost the government an additional DM 1.5 billion annually, which it cannot afford for budgetary reasons.

Britain:
Metrification Bill Withdrawn by Government

The U.K. government has announced the withdrawal of its metrification bill (the weights and measures bill) in order to "allow time for further discussions." The proposed legislation, designed to speed up the conversion to weights and measures expressed in metric terms, has led to what has been denounced as "metric confusion" and "an arrogant and arbitrary imposition." According to the U.K.'s Metrification Board, the switch to the metric system is several years behind schedule.

The Opposition has now called on the government to state whether it will avail itself of a European Community directive which would allow Britain to delay until after 1980 the metrification of certain goods "which form an important part of the budgets of pensioners and poorer families." It has been conceded that the government's reluctance to set conversion dates and to request consumer safeguards has rendered it open to censure. What is more significant, perhaps, is the apparent lack of acceptance on the part of the general public that metrification is beneficial, since the earlier switch to decimalization of the currency is now recognized as having been tantamount to de facto devaluation.

Lawyers Warn on Worker Participation

The U.K.'s Law Society, in a written response on March 24 to an inquiry by the government's Committee on Industrial Democracy (Bullock Committee), has warned that "no single system of worker participation should be imposed in the United Kingdom." The Society's view, which runs counter to that expressed by the country's labor union policy-making body, the Trades Union Congress, is that to make it mandatory by statute that one-half of the top board of directors in a two-tier board system be elected by the trade unions would involve fundamental changes in company law and practice, would complicate the decision-making process, would

Participation *(contd.)*

impair efficiency, and would compromise the interests of "higher echelons of employees" whose views might well be different from those of the rank and file. The TUC's proposals, said the Society, are such that "emphasis rests on the extension of the influence of trade union organizations, without any corresponding extension of responsibility."

Switzerland: Defeat for Co-Determination, Tax Proposals

A few days after parliamentary passage in Germany of legislation broadening worker co-determination in large companies, Switzerland's voters rejected two proposals that would have paved the way for some form of co-determination in that country. Also defeated in the March 21 national referendum was an initiative for a revamping of the Swiss tax system.

By a vote of 968,000 to 472,000, the electorate turned back a union-sponsored initiative for a constitutional amendment that would have authorized the federal government to issue regulations on "co-determination of workers and their organizations in companies, enterprises, and administrations." Parliament would have had to decide on the content of these regulations which, if the unions had their way, would have included a works council law as well as co-determination on a parity basis for supervisory boards of companies with more than 500 employees.

Also defeated by a similar 2:1 margin - 973,000 to 434,000 - was a counterproposal by parliamentary Conservatives aimed at limiting co-determination strictly to companies and their employees and in such a way as not to encroach on management's decision-making powers. This initiative had been supported by the major industrial associations, which favor a form of co-determination that would still leave room for voluntary contractual arrangements between management and labor.

The voters' rejection of both proposals - by which they followed a recommendation of the Christian Democrats - was not interpreted as an absolute "no" to co-determination per se but as a call on all parties to come up with a system located somewhere between the two defeated concepts. Actually, the Christian Democrats as well as union groups already have worked out new drafts loosely patterned on a government proposal that had not made it through Parliament two years ago. These drafts basically provide for a system that would preserve the proper functioning and viability of business enterprises on a non-parity basis and without outside union influence.

EURO COMPANY SCENE

Singer/ ICL

The Singer Co., New York, and Britain's International Computers Ltd. (ICL) have reached agreement in principle on

Singer/ ICL *(contd.)*

the purchase of Singer's international business machines division by ICL. The acquisition is to take effect on April 1; however, full integration is not expected until the end of this year. A final purchase price has not yet been agreed upon, but ICL reportedly will make an initial payment of $2 million, with the remainder to be paid out over the next three or four years. Singer had announced last fall that it was shutting down its business machines operations after recording losses in this area for four out of the last five years. The international side of Singer's business machines division, however, is reported to be operating profitably and had sales for last year of $137 million. The North American activities of this division will continue to be run by TRW, Inc., in cooperation with ICL, Singer, and Singer's Cogar subsidiary. The new agreement does not call for ICL to assume the manufacture of Singer products, but this may change in the future.

ICL/ Control Data

In other news, it has been announced that ICL and Control Data Corp. of the United States have agreed in principle to set up a new company which will be called Control Dataset Ltd. and will have initial assets of some £2.5 million. The new enterprise - which will be 75% owned by Control Data and 25% by ICL - is to assume responsibility for the U.K. business products activities of Control Data and of ICL's wholly-owned subsidiary Dataset Ltd. Control Data's South Wales plant will not be affected by the agreement.

ICL/ GE

Speculation as to possible future changes in the shareholdings in International Computers Ltd. has heightened with the recent confirmation by General Electric in the U.K. that it wishes to shed its 18.2% holding in ICL. ICL's major shareholders include the British government (10.5%) and systems manufacturer Plessey.

Hercules

U.S. chemicals producer Hercules, Inc., Wilmington, Del., has announced that an 80,000-ton-per-year polypropylene plant based on Hercules technology is to be erected at Burgas, Bulgaria, by the German engineering firm Lurgi. The new facility, to begin production in 1979, will be the first polypropylene plant in Bulgaria. Hercules, a leading producer of polypropylene with a capacity in excess of 700,000 tons by the end of 1976, currently is also constructing a plant at Paal, Belgium; it will have a yearly capacity of 100,000 tons.

Diamond Shamrock

Announcement has been made of the imminent listing on the Frankfurt, Germany, stock exchange of the chemicals, oil and gas group Diamond Shamrock Corp. of Cleveland, Ohio.

Common Market Reports

EUROMARKET NEWS

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LIBRARY

IN THIS ISSUE

page
Community: Court Rules on State Monopoly Practices....1
Progress Reported on Technical Harmonization..........2
In Brief: Employee Rights; Product Liability.........3
France: Tighter Conditions for Installment Loans......3
Luxembourg: Government Granted Special Powers.........4
Belgium: Green Light for State Holding Company........5
Germany: Bonn Plans Big Aids for Computer Industry....5
Britain: Cabinet Paper Deals with Energy Policies.....6
Euro Company Scene....................................7

Community: EC Court on State Monopoly Practices

The European Court of Justice has given the EEC member states a solid reason to adjust their state trading monopolies: in two recent decisions, it held that the two types of German customs levies imposed on imported alcohol or alcoholic beverages were contrary to Treaty Articles 37 and 95. Specifically, the Court said that it was discriminatory to subject imported products to a method of computation different from that used for domestic products and that a charge imposed only on imported products in order to compensate for their lower price was in violation of Treaty Article 37 (Cases Nos. 45/75 and 91/75).

Under Article 37, the member states must adjust their trading monopolies. Also, all discrimination was to have been ended by 1970 (*Common Market Reports, Par. 356.05*). Although all states have made progress in adjusting their monopolies (for example, by relinquishing the import monopoly), they have not done so completely. A major drawback here is that the Treaty confines the Commission to merely making recommendations, and Brussels has done this in a number of instances, with varying success. (Besides Germany, the other two states with monopolies of considerable significance are France and Italy.)

This issue is in two parts, consisting of 168 pages. This is Part I.

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Monopolies *(contd.)*

Under German law, imported alcohol and alcoholic beverages are subject to a charge, called the *Monopolausgleich*. An importer of Italian vermouth had challenged an assessment in a fiscal court because he saw an element of discrimination in the method of computation, which allegedly favored domestic products over imported ones because the latter were assessed on a lump-sum basis and domestic products according to graduated rates. The fiscal court asked the Court of Justice for a preliminary ruling on the interpretation of Articles 37(1) and 95(1). The Court said that Article 95 prohibits the application of a different method of computation for imported products, even if the burden on domestic and imported products differs only in a few cases. The German government had tried to defend the method of computation by saying that customs offices have no way of establishing all data relevant for assessment (such as prices, for example), but the Court did not accept this reasoning. Instead, it said that subjecting both domestic and imported products to the same method of computation (lump-sum assessment or fixed amount based on rates) would be one way of avoiding discrimination. The European Commission had made this recommendation in 1969, but Bonn declined to follow it.

The Court was equally outspoken with respect to the special compensatory charge on imported alcoholic products (*Preisausgleichsabgabe*), which is calculated on the difference between the basic price used in establishing the price paid by the monopoly to domestic alcohol producers and the lowest price at which pure alcohol is obtainable in the exporting state. The Court saw this type of charge as being clearly in violation of Treaty Article 37.

Progress Seen in Technical Harmonization

The Permanent Representatives are slowly progressing toward agreement on 16 out of 18 proposals designed to harmonize national provisions on a variety of products. Adoption by the Council of Ministers in the coming weeks would demonstrate that, in spite of setbacks in several areas (e.g., monetary policy and European Parliament elections), the Community is at least making progress in this sensitive legislative area aimed at removing the remaining barriers to inter-member state trade. (Last year the Council adopted a total of 12 technical harmonization directives.) Council officials point out that agreement on the entire package could be possible because individual member state governments gave in on some issues and obtained concessions on others.

Nine of the 18 draft directives would require the member states to continue harmonizing rules on motor vehicles and tractors (*Common Market Reports, Par. 3371*). They pertain partly to the installation of lighting and signaling devices, passenger seats, and the noise level for tractors. The one proposal in the motor vehicle sector that has

Harmonization *(contd.)*

caused more difficulties for Community officials than any other concerns the compulsory use of laminated glass for car windshields, proposed in a 1972 draft directive. The French and the Germans, previously under pressure from domestic manufacturers, in principle no longer oppose the introduction of Italian windshield glass, which is considered to be the best and the safest. The remaining issue to be settled is the deadline for compliance, but Council attorneys are expecting quick agreement on this, too.

Four proposals deal with a variety of measuring instruments (for instance, clinical thermometers and alcoholometers). One draft would establish maximum levels of radio interference caused by electrical household appliances, portable tools, and similar equipment, while another would do the same with respect to fluorescent lights.

Important for manufacturers and consumers alike will be the proposal containing a list of colorants that cosmetics producers may use in their products. It is still doubtful whether discussions will be wound up in time for adoption along with the other directives, but Community and national experts have reached a consensus to proceed with the compilation of the lists of permissible substances.

In Brief...

The Council working group discussing the Commission's proposal on the retention of employees' acquired rights in case of merger or other changes in ownership is facing a difficult problem, one that can best be described by an example: Should the works council of an Irish subsidiary of an American company be consulted when that company wants to merge with another U.S. company? The proposal implies that the answer is "yes." But several member states, especially Ireland and the U.K., fear that such a requirement could discourage investments from third countries. A solution is not yet in sight + + + Presentation of the Commission-drafted product liability directive has been delayed, reportedly because the Consumers Consultative Committee's opinion on the proposal contains several points that the Commission believes should be considered. Originally, the draft was to have gone to the Council last December.

France: Tighter Terms for Consumer Credits

Acting on the recommendation of Finance Minister Jean-Pierre Fourcade, France's National Credit Council on March 24 slightly restricted conditions for consumer installment loans, thereby effectively canceling the more generous terms granted last September as part of the economic stimulation package. The maximum duration of credits for the purchase of new and used automobiles has been reduced from 30 to 24 months. For other types of installment loans - such as for household appliances and furniture - the maximum period for repayment has been trimmed from 24 to 21 months. The required down payment for all consumer goods purchased on the installment plan remains unchanged

Credits *(contd.)*

at a minimum 20%, and interest rates on such loans also are not affected.

The modification of consumer credit conditions was explained by the need to ward off renewed inflationary pressures caused by the depreciation of the franc following its March 7 departure from the European joint currency float and to restrain somewhat the fast-growing volume of consumer loans. The government fears that the revival of domestic demand for consumer products could invite new price increases and, at the same time, cause French industry to concentrate on satisfying this demand at the expense of its export business. (It was reported that the number of new-car registrations in the first two months of 1976 was 26% higher than in the same period last year and that this figure was 29% for radio and TV sets and 7.5% for household appliances.)

Luxembourg: Special Powers for Government; Economic Hopes

The Luxembourg Chamber of Deputies has approved legislation authorizing the government to impose on an administrative basis urgent economic and financial policy measures without necessarily having to consult the legislature. The new law succeeds similar legislation that expired last year. Originally, the government had considered doing without the special authorization but then submitted the draft legislation after all in order to ensure itself of an effective policy instrument in the event of critical economic situations.

Earlier last month, Prime Minister Gaston Thorn - in a review of the Grand Duchy's economic scene - said that a slight upturn cannot be expected before fall. As always, the local economy depends vitally on the well-being of Arbed, the steel concern that accounts for some 20% of the small country's GNP and ranks as its No. 1 employer. Last year, Arbed suffered a loss of more than LF 3 billion, having had to cut production by 27.2% and prices by about 30%. In 1974, the company had still reported earnings of LF 1.74 billion.

For this year, the government expects an economic growth rate of 3% as contrasted with an 8% slump in '75. Some progress is foreseen in reducing inflation, which last year averaged 10%. Luxembourg does not have a serious unemployment problem, mainly because the government has accelerated its public works program and tends to be generous with subsidies to employers who schedule short-time work rather than layoffs. To finance the budget deficit, an LF 1-billion bond issue has been floated this year. For the next three years, Thorn is predicting annual deficits of LF 1.5 to 2 billion, which also are to be covered by public borrowings. Any reforms that would constitute an additional strain on the state finances are being postponed for the time being.

Belgium: Green Light for State Holding Co.

The Belgian parliament has given final consent to government plans for the creation of a state holding company with the aim of furthering the interests of the Belgian economy through a more active role in industry. Actually, the concept involves the conversion and restructuring of the existing National Investment Corp. (SNI/NIM), which already has the authorization to acquire equities in private enterprises and which will continue to function as an industrial development bank. A major change will be that the administrative board members who now represent the private shareholders will be replaced by state representatives.

Through the holding, the state gains the legal means of creating new enterprises and of acquiring control of existing ones; but the holding is not seen as a vehicle of nationalization or as a competitor of private business. It will operate on the same principles as a private holding, except when it plans to acquire more than a certain percentage of a private enterprise or its stock without the consent of that enterprise's management or when it plans to set up a 100% state-owned enterprise. In these cases, it will be required to consult a special committee made up of representatives of private industry. The committee's report, while nonbinding on the holding, will have to be submitted to the government for evaluation. If the government concurs with the investment plans of the holding, Parliament will have to be informed accordingly (a parliamentary right to regular information also exists with respect to the holding's activities in general). Private industry will have the first option of taking over any participation that the holding plans to shed.

In answer to fears by the Belgian business community that the holding and its offshoots could become powerful, uncontrolled competitors, the Minister of Economic Affairs early this year said that the state ventures would be treated in the same way as private businesses when it came to the bidding for and the awarding of public orders and contracts. Also, they would be required to be profitable, which would rule out dumping prices and the emergence of "dishonest competition." Among the areas in which the state enterprises are expected to become active, the Minister named public transport, nuclear energy, defense, and the environment (for example, processing of waste oil and poisonous wastes).

Germany: Big State Aids Planned for EDP Industry

The German government has decided to aid the domestic computer industry through financial injections amounting to DM 1.6 billion during the 1976-79 period. The program - conceived after the failure of attempts at European cooperation between German, French, and Dutch firms in the Unidata project - would essentially benefit the electronics giant Siemens AG and six small and medium-sized computer

EDP Aid
(contd.)

manufacturers. The grants would be used to encourage research and development and broader industrial use of data-processing equipment.

The program represents a turnabout in official attitude, but the government feels that it has to assist an industry that should become even more vital to the domestic economy in the coming decades when the export of know-how is expected to become perhaps as important in terms of maintaining a high level of employment as sales of manufactured products abroad.

By the early '80s, Bonn hopes to have set up the basis for a viable computer industry that is capable of developing, manufacturing, and servicing systems (except large units) needed in all branches of industry and government. Ideally, this industry would compete effectively with foreign (especially American) companies and become a potential partner for international cooperation.

Britain: Cabinet Paper Details Future Energy Policies

A cabinet office paper released by the U.K. government on March 24 spells out a warning for Britain in regard to the country's energy policies. The document (Future World Trends) argues that a crisis may be facing Britain by the end of the '80s. The paper notes that future energy policy centers on three main factors. First, energy is the crucial resource inasmuch as shortages in any other area can be alleviated, provided that sufficient energy is available. Second, the energy gap by the end of the next decade will be equivalent to as much as 100 million tons of coal per annum: this gap will have to be closed by the employment of non-fossil fuels, i.e., by nuclear power. Third, sufficient nuclear power can be generated only by fast-breeder reactors, since these are 50 times more effective in terms of uranium consumption and are unaffected by the cost fluctuation of uranium because they generate more fuel than they consume. Furthermore, Britain at present has sufficient quantities of uranium to produce the equivalent of 50,000 million tons of coal - if the uranium is burned in fast-reactor form.

While Britain's nuclear industry is aware of the desired solution, the government has refused to make even a provisional commitment to the construction of fast reactors and so far has not reacted to industry's plea that some decision must be made at governmental level before the industry can hope to join in ventures with other partners in the fast-reactor field - specifically, the French and/or the Germans. However, the costs involved - some £600 million per reactor - are such that Britain cannot afford to develop a network of fuel plants from its own limited financial resources; for that matter, it does not have a sufficiently large domestic market to support a purely independent nuclear industry.

Energy (contd.)

In the absence of any positive preliminary step by the government, industry says it cannot make any plans of its own. Indeed, if the government does not act now, industry spokesmen say, Britain's future energy needs will not be met, unless some form of licensing agreement is reached with, say, the French. Meanwhile, the United States continues to move ahead with its fast-reactor programs and appears to be working itself into a position of world market dominance. Thus, Britain eventually may be forced to "purchase" its future energy. Should that happen, industry critics warn, there is at the moment no way of assessing either how much this might cost or how the country would manage to pay the bill.

EURO COMPANY SCENE

Thermo King/ Blue Bell/ A.O. Smith/ Analog Devices

Irish Prime Minister Liam Cosgrave has announced that several U.S. companies have finalized plans to establish manufacturing facilities in the Republic of Ireland, involving a total investment in excess of $100 million and creating some 3,000 new jobs. The companies named were Thermo King Corp. (a subsidiary of Westinghouse Electric), which is to manufacture truck and bus refrigeration and air conditioning equipment in Galway; Blue Bell, Inc. (denim jeans in Mayo); A.O. Smith Corp. (electric motors in Wicklow); and Analog Devices (integrated circuits in Limerick). The firms will benefit from Ireland's "tax holiday," whereby tax exemption until 1990 is granted on profits from export sales. In addition, cash grants are to be made available by the Industrial Development Authority (IDA) for plant construction and equipment.

Esselte/ Oxford Pendaflex

Esselte, the Swedish office equipment, printing, publishing, and packaging conglomerate, has taken over Oxford Pendaflex Corp. of New York, a leading producer of office filing equipment and systems. The takeover, valued at some 130 million kronor, makes Esselte a front-runner in the international office equipment market since it also had acquired the U.K.'s Benson International Systems last year.

Dow Chemical/ INA

Dow Chemical has now signed the final agreement with Yugoslavia's Industrija Nafte (INA) for the joint construction of a $700-million petrochemical complex, based on Dow technology, on the island of Krk, in the northern Adriatic. Dow will hold a 49% interest in the venture and INA the remaining 51%. Management will be on a 50:50 basis. To be built in three stages over the next six years, the complex eventually will have an annual capacity of 1.8 million tons of petrochemical products.

Union Carbide/ Ste. Financière

Union Carbide Corp., New York, and Luxembourg's Société Financière have jointly established a new company, Gulf

Union Carbide/ Société Financière *(contd.)*

Coast Olefins, which has taken over an ethylene production plant previously wholly owned by Union Carbide and is to construct another one in Louisiana. Combined annual production capacity of the two plants is expected to be in excess of 1 billion lbs. of ethylene. Further, Gulf Coast Olefins has purchased from Union Carbide the Ucar Pipeline, Inc. The cooperative venture of the American and Luxembourg companies reportedly was financed with a $296-million loan arranged through the Bank of America and involving 16 U.S. banks.

Varta/ Barrett

Germany's Varta Batterie AG, which ranks itself among the world's leading producers of batteries, has acquired majority control of American dry-cell battery maker Barrett Battery, Inc., Toledo, Ohio. Varta, owned by the Quandt Group, had a turnover last year of over DM 1 billion. Barrett reported 1975 sales in the equivalent of some DM 15 million. The acquisition is in line with Varta's efforts to expand its international operations and represents a significant strengthening of its position on the U.S. market. Barrett mainly produces batteries for electric-powered industrial vehicles such as fork lifts and hauling carts.

BTR/ SW Industries

BTR Ltd. of London (formerly BTR Leyland Industries), a maker of industrial rubber products, has made a bid to acquire SW Industries of the United States. The offer of $30 million, or $42 per share of SW common stock, reportedly has received initial approval of the SW board. SW manufactures materials-handling and web-handling equipment and industrial roll coverings.

Oscar Mayer/ General de Mataderos

Oscar Mayer & Co., Madison, Wis., one of the largest meat processors and packers in the United States, has announced its purchase, for an undisclosed price, of a 40% interest in the Spanish meat processing firm General de Mataderos SA. The Spanish company, with eight domestic processing plants and operations, will henceforth be known as Oscar Mayer SA and will offer its products on the Spanish market under the Oscar Mayer name.

Hanson Trust/ Hygrade

The U.K.'s Hanson Trust, via its chief U.S. subsidiary Hanson Industries, Inc., has acquired some 70% of the shares of U.S. meat processor and packer Hygrade Food Products Corp.

Common Market Reports

EUROMARKET NEWS

Issue No. 378 *April 13, 1976*

LIBRARY

IN THIS ISSUE

page

Community: Advocate General's EMI Conclusions.........1

No Real Results at Luxembourg Summit Meeting..........2

Britain: Healey Submits 'Most Crucial' Budget.........3

Belgium: Spending Cuts to Trim Supplementary Budget...4

Rent, Dividend Curbs; Some Income Checks..............5

France: Paris Pledges to Aid Smaller Businesses.......6

Italy: GNP Declines for First Time in 30 Years........6

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

Community: Adv. General's Conclusions in EMI Cases

In the three EMI cases before the European Court of Justice, Advocate General Jean-Pierre Warner has now delivered his conclusions in which he strongly favored the legal position of EMI Records Ltd. Warner believes that neither the EEC rules on free movement of goods nor antitrust considerations could stop EMI from using its trademark rights to bar imports of identically branded records into the member states concerned.

EMI is the plaintiff in three proceedings before national courts in the U.K., Denmark, and Germany. The defendant in each case is a subsidiary of CBS, Inc., the American company. Both groups have been using the Columbia trademark for records sold in different parts of the world - EMI in most of Europe (including all EC member states), Africa, and Asia, and CBS in North and South America and several countries elsewhere. The disputes arose when CBS subsidiaries in the U.K., Denmark, and Germany imported U.S.-made records bearing the Columbia trademark. A British, a Danish, and a German court essentially granted relief to EMI but at the same time asked the Court of Justice for a preliminary ruling on the issues of EEC law involved.

Advocate General Warner, supported by seven member state governments which had submitted comments, strongly

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EMI Cases
(contd.)

rejected CBS's contention that the EEC rules granting free movement of goods within the Common Market should also benefit products imported from third countries. The seven EC states (all except Italy and Luxembourg) had argued that it would be unfair to grant to American companies rights that are not extended to Common Market-based companies in the United States (last year, CBS was successful in a New York district court in blocking EMI imports).

Counsel for CBS originally maintained that the Court's principles developed in its *Hag* judgment (*Common Market Reports, Par. 8230*) also should be applied here by way of analogy. Subsequently, however, CBS shifted its defense by invoking antitrust rules, saying that EMI had a dominating position (Art. 86) and, at any rate, would be subject to Article 85. On the latter point CBS was supported by the Commission. Both argued that Article 85 applies in a situation in which an agreement prohibited by that article, although terminated, continues to have effects in the Community. The Commission contended that EMI is not entitled to protection against identically branded products imported by CBS because EMI's trademark rights originate from previously existing market-sharing agreements between the two groups. These agreements were not illegal, since they existed before the EEC treaty came into force, but they nevertheless could have illegal connotations because trademarks carry restrictive elements in themselves. In the Commission's view, the past CBS and EMI relationship, revived briefly by a number of minor agreements during the 1962-71 period, still bore the stigma of antitrust violations committed in the past.

Advocate General Warner disagreed, saying that the agreements were concluded long before the Treaty went into effect and thus were entirely legal at the time. If the Court agrees with the Commission, it would have to either clarify or revise the post-effect doctrine touched upon in its *Sirena* judgment (*Common Market Reports, Par. 8101*). It would also mean that EMI could not bar imports of identically branded records into the member states concerned.

The results of the EMI and other trademark cases (especially the Terrapin-Terranova case) pending before the Court of Justice are expected to influence the future European trademark law. Commission experts have completed the draft memorandum on EEC trademark policy, and the document will probably be approved by the Commission in early May.

No Real Results at Luxembourg Summit Meeting

The Luxembourg meeting on April 1-2 of the EC's nine heads of government and foreign ministers did not produce any positive results, but neither did it turn up a threat to the continued existence of the Community, which many Brussels officials had feared. Direct elections to the European Parliament, economic and monetary problems, and the

Summit
(contd.)

Tindemans Report were the topics on the agenda. Agreement on EP elections was blocked not by the well-known British and Danish reservations but rather by Italy's sudden resistance. Italian Prime Minister Aldo Moro, whose government is facing severe political problems at home, apparently believed that additional consultations in Rome were necessary.

Economics took up most of the two-day talks (evaluation of the Tindemans Report was left to the foreign ministers, who met the following week). Many Community officials tended to agree with German Chancellor Helmut Schmidt's opinion that lack of discipline in economic and monetary matters on the part of several member state governments could not only ruin the remaining chances for an economic union but could even threaten the mainstays of the Common Market - the customs union and the common agricultural market.

It was not difficult for Schmidt to talk about economic discipline, observers said, since the German unions basically accept his arguments for wage restraint and the government can point to additional accomplishments of its own (such as the lowest inflation rate in the Community). In the U.K. and Italy as well as in France, it was noted, the governments have not been successful in persuading the unions to scale down their wage demands in the interest of the national economies. So, the European Commission's suggestion that the Council of Ministers adopt binding economic policy guidelines and impose sanctions on noncomplying member states could not be considered as more than an attempt to enliven the discussions, observers said.

Britain: Healey Submits 'Most Crucial Budget'

Chancellor of the Exchequer Denis Healey presented what he termed the "most crucial Budget of this Parliament" on April 6, only one day after the Labour Party and the country had acquired a new leader and a new prime minister, respectively, with the election of James Callaghan. Among the highlights of the package were the following:

- increases on beer, spirits, wine, and sherry, as well as on gasoline (1p per gallon), diesel fuel (7.5p), cigarettes (3 to 3.5p per pack), and an equivalent increase on cigars;
- value-added tax rate on "luxuries" such as electrical appliances, cameras, jewelry, and boats halved to 12.5% (no change in the standard 8% VAT rate);
- pensions raised to £24.50 for married couples (up 3.30) and to 15.30 for single persons (up 2.00) as of November 1976;
- family income supplement limits for one child up from £31.30 to 39 (plus £4.50 for each additional child);

Budget
(contd.)

- increased social security benefits (details to be announced);
- tax relief raised by £60 per child and by £60 for single persons over 65 and £130 for couples over 65 (subject to a £3,250 ceiling);
- temporary employment subsidy doubled to £20 per week;
- new powers for the Board of Inland Revenue to examine bank accounts (as part of a program to contain tax avoidance and evasion); and
- restriction of certain fringe benefits, e.g., by imposition of heavier taxes on company automobiles and low-interest loans.

In addition, the Chancellor announced that an extra £40 million would be available for "certain approved schemes" receiving government aid under Section 8 of the 1972 Industry Act. Furthermore, the corporation tax burden on small firms would be eased by raising from £25,000 to 30,000 the ceiling of profits benefiting from the preferential rate. The basic rate of corporation tax for 1975-76 remains unchanged at 52%.

The most striking aspect of the Budget was an innovation in regard to the income tax changes: in brief, the Chancellor offered income tax relief amounting to some £1.3 billion per year on the condition that the labor unions agree to accept a pay raise limit of some 3% (to follow the present £6-per-week limit). Healey said that he hoped for agreement with the unions "at the latest by early June." In pointing out that the Chancellor was staking the success of his anti-inflation policies on a bargain with the Trades Union Congress, Conservative and Liberal party spokesmen referred to an "abdication of government" and "taxation without representation."

It remained to be seen whether the unions would accept Healey's argument that they will gain more "real purchasing power" by reducing their wage claims in exchange for tax cuts. The first response was extremely cautious: while professing to be "interested," union leaders felt that the limit was too low and that it would deny them room to maneuver.

Belgium:
Major Cuts in
Supplementary
Spending

With drastic curbs on additional public spending rather than broad tax increases the Belgian government hopes to trim by BF 23 billion (to about 35 billion) the 1976 supplementary Budget. Not affected by this is the regular Budget of BF 719 billion. Prime Minister Leo Tindemans earlier had repeatedly declared that the burden on the economy in the form of taxes and social welfare contributions has approached the point where it begins to paralyze

Spending Cuts *(contd.)*

investment activity of businesses and working morale generally. However, the government does not want to do entirely without some tax boosts: it proposes to raise cigarette prices by BF 1 per pack and the automobile insurance tax from 3 to 5%.

The major impact of the proposed austerity program would be on state enterprises and certain public administrations, which have been warned to become more "self-sufficient." Their deficits no longer would be automatically covered out of the Budget but would have to be made up through rationalization and improvement of revenues. This message was specifically directed at the health insurance funds, which have been suffering from chronic deficits for a long time; they have been asked to restrict reimbursements of costs for drugs, hospitalization, and doctors' house calls.

Furthermore, Finance Minister Willy de Clercq announced a drive to improve tax collection as well as to fight tax evasion and avoidance. The latter, De Clercq said, would require more international cooperation, and the government in the future plans to avail itself of the legal means provided by the double-taxation treaties with other countries. The profits of multinational corporations are to be made subject to stricter controls: last year, it was reported, the government uncovered BF 1.75 billion in income that oil companies had not declared. The tax returns of self-employed persons are to be reviewed more thoroughly. In the case of the medical profession, for instance, the fiscal authorities would make spot checks of the records submitted to the health insurance funds.

Rent, Dividend Curbs; Some Income Checks

Belgium's latest budgetary moves were preceded by other measures, most of which the government had initially proposed last fall but for which it did not get parliamentary approval until March 26. These measures took effect on April 1 and include a general freeze on rents until the end of the year (rents normally are tied to the cost-of-living index). Dividends on 1975 profits are being limited to the highest payout in the '72-74 period. All businesses employing more than 100 and all public administrations are required to provide for at least six months a certain number of "trainee" jobs for unemployed individuals up to the age of 30. (More than one-third of the jobless people in Belgium are below the age of 25.)

The government was not successful, however, in pushing through the severe incomes controls for which it originally had aimed: union resistance in particular blocked a blanket freeze on wages and the abolishment of the controversial wage indexation system. The program does provide, however, for a suspension of indexation of higher incomes until the end of this year. Also, only half of the pay in-

Curbs
(contd.)

creases negotiated in collective bargaining will be paid out to employees, while the other half - together with employer contributions in an equal amount - will be paid into a fund to finance early retirement of men above the age of 62 and of women above the age of 58.

France:
Paris Pledges to Aid Smaller Businesses

Relations between the government and the French employers' association, the Patronat, reportedly have become a little more cordial after the Giscard d'Estaing administration promised action to help small and medium-sized businesses and to encourage hiring by all employers. Only a few weeks ago, Paris had found itself under heavy attack by business and industry over its economic and monetary policies generally and its company and tax reform proposals in particular. Meanwhile, Patronat president François Ceyrac has indicated the basic willingness of his organization to support the government's "battle for economic recovery."

Aside from new or improved aids to companies that hire young people, the proposed measures include tax, financial, and administrative assistance for small and medium-sized businesses. The plan seeks to promote the formation of smaller firms and to encourage expanded activities - for instance, through exports. The government would like to see small businesses cooperate as joint bidders, especiall on the supplier markets. The existing regional developmen companies would receive government bonuses for engaging themselves in the formation and expansion of small and medium-sized enterprises. In addition, Paris has raised from FF 7 to 10 billion this year's credit line for the financing of export investments - a move also intended to aid small exporters.

These latest actions have been interpreted as a slight shift in government policy, which in the past tended to favor almost exclusively the rapid growth of large enterprises to make French industry more efficient and internationally more competitive. Some observers say that the government apparently has recognized that smaller businesses have adapted more flexibly to the economic recession, whereas many of the giant industrial groups are finding themselves faced with major problems.

Italy:
GNP Declines for First Time in 30 Years

Major political disagreements over abortion reform legislation have brought on the possibility of another government crisis and new elections in Italy at a time when the gravity of the country's economic condition was acknowledged by all domestic factions. How desperate the situation has again become was demonstrated by the data contained in the economic report on the year 1975, which the Aldo Moro cabinet cleared early this month for submission to Parliament.

GNP Decline *(contd.)*

The official report showed that, for the first time in 30 years, the Gross National Product had declined (by 3.7% in real terms). Inflation averaged 17.5%, public spending rose by 35%, and the public deficit still totaled 14,500 billion lire, despite the fact that revenue had gone up by 22% to 24,000 billion. Concerning the industrial and labor statistics, the 1975 results were similarly discouraging: industrial production was down by more than 9%, investments declined by 24% in real terms, industrial labor costs rose by 20.8% in nominal terms, unemployment increased by 26.8%, and the number of short-time work hours more than doubled to 346 million. Under these circumstances, the government could not get much satisfaction out of some positive figures concerning the sharply reduced payments deficits, improved trade results, and slightly higher farm incomes.

To many observers, the report seemed to back up the statement by Giovanni Agnelli, Fiat chairman and head of the Confindustria employers' federation, that Italy was "on the verge of collapse." Agnelli blamed international monetary authorities for a "lack of realism" in making stringent liquidity controls a condition for credit concessions to Italy, inasmuch as these controls constitute a heavy burden on domestic industry and thus contribute to spreading unemployment. This evidently was in reference to the Rome talks between the government and International Monetary Fund officials on the terms and conditions for a $530-million IMF loan.

EURO COMPANY SCENE

Norton-Simon/ Orlane/ Morton-Norwich

Norton-Simon, Inc., the New York-based financial holding company, has announced its acquisition of the Paris cosmetics and perfume producer Orlane from Morton-Norwich Products, Inc., also of the United States. (Earlier reports said that the purchase price was $21 million in cash.) From Paris it was reported that the new owners may plan to merge Orlane with the French offshoot of their Max Factor subsidiary. The strong position of Orlane, especially on the French market, was seen as a "solid basis" for further expansion in Europe. Earlier this year, Norton-Simon shares were listed on the London, Zurich, and Frankfurt stock exchanges.

Amerchol

A plant to manufacture lanolin-based derivatives and other chemicals for Europe's cosmetics and pharmaceutical industries was inaugurated in Vilvoorde, Belgium, by Amerchol of Edison, N.J., a unit of CPC International. Known as Amerchol Europe, the new facility is located adjacent to CPC Europe's industrial research and development center. CPC International, headquartered in Englewood Cliffs, N.J., is a worldwide group of food companies with 1975 net sales of

Amerchol *(contd.)*

$2.74 billion. CPC Europe's net sales in 1975 exceeded $1 billion.

Strucol/ National Starch/ Gelatine Delft

Strucol BV, a chemicals producer previously belonging to Holland's Akzo Plastics group, has been acquired by Delft-National Chemie NV, which is jointly owned by the National Starch & Chemical Corp. of the United States and Holland's Gelatine Delft. With the takeover, the Dutch-American group expects to strengthen its position on the European markets for adhesives. An earlier potential buyer for Strucol had been Koninklijke Scholten-Honig NV, which, however, had to withdraw its bid due to its own financial problems.

Carrier/ Philips

According to reports from the Netherlands, Dutch Philips and Carrier Corp., a U.S. manufacturer of heating equipment, have agreed to consider joint studies and activities in the area of solar energy, involving solar-assisted systems for commercial and industrial applications. The Philips participation would also be through North American Philips Corp.

Fabrique Nationale d'Armes

In Belgium it was noted with satisfaction that the U.S. Army has decided to purchase 14,000 Belgian-made machine guns for about $30 million. The Belgian MAG-58, manufactured by the Fabrique Nationale d'Armes in Herstal, was selected over the American M-60 model.

Steinway/ Grotrian

A Braunschweig court has affirmed the right of U.S. piano maker Steinway & Sons to the exclusive use of the "Steinway" name and, at the same time, prohibited a German competitor, Grotrian-Steinweg of Braunschweig, from employing the "Steinweg" name. The court did not grant damages to the American company, however. The legal proceedings followed similar litigation in 1926 of the two companies, both of which trace their beginnings to the 19th-century German piano maker Heinrich Steinweg. Following the recent ruling, the Braunschweig company established the Grotrian Piano Company GmbH, which in the future will export pianos to the United States under the Grotrian name only.

Common Market Reports

EUROMARKET NEWS

Issue No. 379 *Report No. 290, April 21, 1976*

LIBRARY

IN THIS ISSUE

Page

Community: Aligning Rules on Security Transactions.....1

Draft Directive on Standardized Work Safety Signs......2

In Brief: Equal Pay Judgment; United Brands............3

Germany: Bonn Continues to Push for VAT Increases......3

Britain: Unions Seen in Control of 'Fiscal Future'.....4

Netherlands: U.S. Investments; Oil, Gas Profits........5

Switzerland: More Details on Fiscal Reform Plans.......5

Norway: Worker Rights; Central Wage, Price Accord......7

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

Community: Aligning Rules on Security Transactions

In order to move on with the establishment of a genuine European capital market, the Commission has proposed to the Council of Ministers partial harmonization of national rules governing transactions in securities. The ultimate goal is still far off, although a first step was taken in 1969, when the Council acted to compel member states to abolish the stamp duty on securities and to apply a harmonized capital duty on transactions such as stock corporation formations. Another action followed in 1973, when the Council established common rates for capital duty as of Jan. 1, 1976 *(Common Market Reports, Pars. 3031-33)*. Still, a great deal of discrimination exists in the treatment of nonresidents and in taxation of foreign securities. Also, double taxation and other disparities (especially in the tax rates) in national rules are hampering not only the normal intra-EC flow of capital but also capital movements to and from third countries.

The proposal would not eliminate all of these obstacles but would at least limit double taxation by defining the member states' powers so that a single interstate transaction in securities could not give rise to taxation in two or more states. Both the acquisition and disposal of securities for consideration would be deemed separate

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Securities *(contd.)*

taxable transactions (a Commission innovation), so that a German selling a certain number of shares to a Frenchman would pay a tax on the sale in Germany, while the latter would pay a tax on the purchase in France. This solution would have the seller and buyer share the tax burden. Also, it would not deprive a state of the revenue that none of the Nine is inclined to forego - a major reason for the Commission not to propose abolishment of national securities taxes (although this remains Brussels' ultimate objective).

Revenue considerations, among other things, also prompted the Commission to propose a waiver for the U.K. and Ireland, which apply the highest rates in the EC, since the budgetary impact would be greater on these two countries than on the others. The waiver would authorize both states to retain their present systems, under which acquisition and disposal of registered (not bearer) securities are considered a single transaction.

Proposal on Uniform Work Safety Signs

A recent Commission-proposed Council draft directive calling for the mandatory use of standardized safety signs and emergency instructions in factories and offices throughout the Community has a good chance of speedy deliberations in the Council, according to Community officials. The proposal was prepared with the cooperation of the national governments and the EC Advisory Committee for Job Safety, Hygiene, and Health Protection.

Its main objective is work accident prevention. Although the free movement of workers within the Common Market - as provided under Articles 48-51 of the EEC Treaty *(Common Market Reports, Pars. 1001-1201)* - has greatly contributed to the international division of labor in production, it has also led to a higher rate of job-related accidents among foreign employees than among domestic ones, the language barrier being the major reason for this. The proposed safety signs are of a simple and clear design and do not require any knowledge of the local language.

The recommended signs are for the most part identical to those being considered by the International Standardization Organization (ISO). Their adoption, according to the Commission, would end wide discrepancies in the shapes, colors, and symbols of the signs now being used in various states.

The proposal would not apply to signs used in the transportation sector or in connection with the transport of dangerous substances (in the latter area, the Council has already acted - *Common Market Reports, Pars. 3451-53*).

In Brief...

In *Defrenne v. Sabena* (Case No. 43/75), the European Court of Justice has ruled that the equal pay principle set forth in Article 119 of the EEC Treaty has been directly applicable law in the original six member states since Jan. 1, 1962, and in Denmark, Ireland, and the U.K. since Jan. 1, 1973. For political and legal reasons, the Court precluded suits for back-pay claims in national courts by saying that Article 119 may not be invoked for any period prior to April 8, 1976, the date of the judgment. (A report on the case will follow in next week's EUROMARKET NEWS.) + + + In a temporary injunction granted on April 5 to United Brands Co. (UBC) against the Commission, the European Court suspended part of the Commission's December 17, 1975, decision requiring, among other things, the U.S. firm and its Dutch subsidiary to reduce prices for "Chiquita" bananas in Germany, Denmark, and the Benelux countries *(Common Market Reports, Par. 9800)*. The interim measure essentially means that, pending a judgment on the merits of UBC's appeal against the Commission decision (Case No. 27/76), UBC need not lower its banana prices nor does it have to lift the ban on distributors/ripeners' reselling green UBC bananas. Earlier, the Commission had chosen not to impose periodic penalty payments for each day of noncompliance on UBC's part. Also, it did not object to the suspension.

Germany:
Bonn Continues to Push for VAT Increases

The German government is resisting heavy political pressures to drop its legislative plan calling for substantial increases in value-added tax rates as of Jan. 1, 1977. A bill now in a lower-house committee would raise the standard rate from 11 to 13% and the reduced rate for most food items from 5.5 to 6.5% *(Doing Business in Europe, Par. 30,825)*.

The Opposition still rejects the proposed increases, having vowed all along to block the measure in the upper house. This alone could be reason enough to forego the plan, but now even several Bundestag members of the governing Social Democrats have suggested dropping the unpopular bill because of the national elections in the fall. Still others urge retention of the 5.5% rate for food. Another reason for withdrawing the bill is seen in the fact that tax revenue lately has been on the rise, reflecting a modest economic upturn. The government has pointed out, though, that the estimated DM 3.4-billion increase in the first 1976 quarter over revenue in the last 1975 quarter would cover only a small portion of the fiscal deficits.

Passage of the bill would bring an estimated DM 11 billion in additional annual revenue, and even this amount would still be insufficient to close the budget gap of DM 37 billion in 1976 (DM 22 billion in '77). Retention of the 5.5% rate for food would cut anticipated revenue by

VAT Increases *(contd.)*

only DM 1 billion, and administration leaders reportedly are prepared to go along with this change in plans.

The Opposition has been arguing that the deficit should be reduced by spending cuts rather than through tax increases, which might spur inflation and dampen business activity. So far, however, it has not said where the cuts should be made. Administration leaders point out that the Opposition, too, must share responsibility for the huge deficit, since part of the higher expenditures was programmed into legislation by previous federal governments. Also, Opposition-controlled state governments are not in any better financial position, they say, arguing that it would be dishonest to drop the bill now and present it again after the October elections.

Britain: Unions Seen in Control of 'Fiscal Future'

One of the principal criticisms leveled against the April 6 Budget of Chancellor of the Exchequer Denis Healey was that it was open-ended: the crucial provisions in regard to income concessions were made contingent on Britain's labor unions accepting a "voluntary" wage rise limit of 3% over a 12-month period starting in August. The unions already have made it clear that the 3% limit can only be viewed as a "basis for discussion." Healey himself conceded at the end of the Budget debate in the Commons that a higher limi was a distinct probability, which gave rise to charges th the country's immediate fiscal future was now in the hands of the unions.

The debate over the "open-ended" Budget, meanwhile, did not help alleviate the crisis of the British pound. Only the most confident bankers and dealers were prepared to commit themselves on exchange rates beyond a few days, although there seemed to be a consensus that a fall of the pound to $1.75 would be "realistic." A standard argument was that an undervalued pound will effectively boost export demand for British products, while other factions maintained that a weaker pound will result in "importing inflation" due to the escalating cost of raw materials.

The official attitude at Treasury level is that sterling is being oversold. It is conceded that Britain's rate of inflation is such that a drop of the pound was inevitable; however, Treasury officials did not see any new economic justification for the dramatic slide since April 1. This view was shared by most observers, inasmuch as the resignation of Harold Wilson and the election of James Callaghan, together with the reshuffling of the Cabinet, had been acknowledged as a "new factor." Furthermore, it was seen as self-evident that, if the unions are successful in securing settlements higher than those proposed by the Chancellor, Britain's inflation rate will start to rise again.

'Fiscal Future' *(contd.)*

The Bank of England has been less active in attempting to check sterling's slide than many bankers had hoped. Although it did step in with well over £1,000 million to bolster the pound, it subsequently withdrew again from the currency front. One theory was that the Bank could exert a "bear squeeze," i.e., force up short-term sterling interest rates in order to pressure those speculators who borrowed pounds in the hope of buying them back later at a cheaper rate. Another theory was that sterling could be boosted by simply "making pounds scarce."

Netherlands: Higher U.S. Investments; Gas, Oil Stakes

The book value of direct U.S. investments in Holland rose from $2.35 billion at the end of 1973 to $3.2 billion in '74, according to the recently published annual report of the American Chamber of Commerce in the Netherlands. The oil industry alone accounted for nearly $1.2 billion ($850 million) of the total. By the same token, the report said, Dutch direct investments in the United States increased from $2.5 to 2.8 billion during the same period, making Holland the third-largest foreign investor there after the U.K. and Canada. Here, too, a major share of the investments ($1.55 billion) was in the oil sector.

The Chamber report also noted that Holland has become the third-largest European export market of the United States - after Germany and Britain - with imports from the U.S. valued in excess of $4.1 billion last year. At the same time, Dutch exports to the U.S. declined by more than 30% to 2.44 billion guilders, which was slightly better than the 1973 results. However, it was pointed out that 1974 was an unusual year because of the large volume of Dutch oil exports.

In related news, Parliament was expected to approve government measures providing for greater state participation in profits resulting from the exploitation of gas and oil resources in Holland's sector of the North Sea continental shelf. The percentage of participation in new gas concessions is to be raised from 40 to 50%; oil finds in the future also would be subject to a 50% rate. Royalties and taxes would be raised from 50 to 70%. Exploration permits would be issued for only 10 instead of 15 years. After six years (now 10), half of the concession would revert to the state. Other charges and fees also are to go up.

The association of oil operators affected by these changes has warned that the new rules could cause many of its members to leave the Dutch North Sea sector.

Switzerland: More Details on Proposed Fiscal Reform

Additional details on Switzerland's proposed fiscal reform *(Doing Business in Europe, Par. 30,859)* were made public late last month after the government had presented the draft measure to Parliament. In the event of parliamentary

Fiscal Reform
(contd.)

approval, the legislation will be submitted to a national referendum in the spring of 1977.

As previously reported, the reform centers on the introduction of the value-added tax, which would replace the cumulative turnover tax now imposed at wholesale and retail level. There has been no change in the proposed VAT rates: 10% for the standard rate and 3% for the reduced rate on foodstuffs and essential items. Not taxable would be the turnover of farmers, passenger transport, insurance and certain banking services, the health and education sectors, real estate transactions, and small businesses. The new system would take effect in 1978 and improve federal revenue by an additional SF 3.5 billion annually. The fiscal burden on the average Swiss household would rise from 2.7 to 5% of its total spending on goods and services. Also, the share of indirect taxes in total federal, cantonal, and municipal revenue - which during the last years had fallen to 30% - would again amount to about 40%.

This would also be facilitated by the reform of the federal income tax, which would cost Bern some SF 400 million. The modification would help make the switch from turnover tax to VAT more palatable to the taxpayers as well as compensate for partially higher cantonal and municipal taxes and social contributions. Exempted from federal income tax would be annual incomes of up to SF 25,000 (currently 9,700); this would benefit two-thirds of those now subject to this tax. Additional relief would be provided for incomes up to SF 200,000, for which the tax-free allowance would be raised by 20% and the rates modified. However, the burden would be heavier on higher incomes, with the top progression rate to be raised from 11.5 to 14%. For companies, the top rate would be lifted from 9.8 to 11.5%, although the supplemental capital tax would be lowered from 0.825 to 0.75 pro mille.

With these changes, the government says, the burden on higher incomes would reach the limit of what is tolerable, and for this reason Bern recommends the rejection of a Social Democrat-sponsored initiative for the introduction of a wealth tax.

In order to speed up the reform, the government proposes that the amendments of the constitutional articles concerning VAT and the federal income tax (Article 41 and 41 *quater*) as well as the respective implementing rules be lumped in one package for the purpose of the national referendum. Also part of this package would be the vote on the wealth tax initiative. On a separate basis, Bern would submit a new Article 42 *quinquies* concerning the harmonization of cantonal taxes; details have yet to be revealed on this controversial subject, which involves the alignment of no less than 25 fiscal systems.

Norway: Worker Rights; Central Wage, Price Accord

As part of a two-phase legislative program, the Norwegian government has now submitted a bill providing for extended employee rights concerning work hours, dismissals, notice periods, and related issues. (Last fall, Oslo already had published a bill dealing with the job environment.) The proposed law would give more weight to employee interests in connection with rationalization measures, production cutbacks, and shift and overtime work. Dismissals scheduled as part of rationalization or production cutbacks would no longer be permitted if the workers affected could be given other jobs within the company. Workers would be able to refuse overtime work for "important health or social reasons." Notice periods would be extended - for instance, employees over 60 with a minimum of 10 years' service would be entitled to a six-month notice period. The new law also would provide for new arbitration procedures.

In other developments, an unprecedented central wage and price accord has been negotiated by the government, industry and labor, and the farmers' organization in a joint effort to fight inflation. In basic terms, the two-year agreement provides in 1976 for an average 3% pay increase for most employees, while the government has agreed to the attempt to prevent price rises from exceeding 9% (1975 = 11.7%). This will require public expenditures in the amount of 2.3 billion kroner to be set aside in a supplemental Budget. Specifically, Oslo intends to ease the personal income tax burden by a total of 1.1 billion, reduce by 1.2% the employer contributions to the social security system, and raise family allowances and minimum pensions. Also, the program foresees an emergency fund of 200 million kroner to subsidize lower price levels (the regular Budget already includes 1.3 billion for this purpose, especially for food price supports). This will be necessary because of a recent parliamentary decision that farm incomes be moved up to the level of industrial wages within a certain period of time.

EURO COMPANY SCENE

ITT France/ CGCT/ LMT

According to reports from Paris, International Telephone & Telegraph plans to prepare the ground for gaining a stake in a multibillion-franc order for switching gear for the French postal authorities by relinquishing control of one of two French subsidiaries. The companies named were Cie. Générale de Constructions Téléphoniques (CGCT), which ITT owns 100%, and Le Matériel Téléphonique (LMT), in which ITT has a 68% majority participation. The reports quoted industry sources as saying that the sale of either CGCT or LMT - probably to the Thomson-Brandt concern - would be a precondition for ITT's winning a major part of the French market for telecommunications equipment.

Astral/ Diamond Shamrock/ Dacral

Astral SA, a French subsidiary of Holland's Akzo Coatings, and Diamond Shamrock of Cleveland, Ohio, have agreed on the formation of a joint subsidiary, Dacral SA, to be located in St. Denis, France. Capitalized at FF 6 million, the new company will be the European distributor of metal coating systems that have been successfully marketed in the United States and Japan, especially in the automobile industry. Diamond Shamrock maintains its European headquarters at Wauthier-Braine near Brussels and operates plants in France and the U.K., in addition to affiliated facilities in Germany, Italy, Norway, and Spain.

Acme-Cleveland

Cleveland Twist Drill Nederland NV, the Dutch subsidiary of Acme-Cleveland Corp. of Cleveland, Ohio, plans to shut down operations at its Maastricht plant, according to reports from Holland. The U.S. machine tool manufacturer reportedly justifies the closure with low profitability and an uncertain market outlook.

Reckitt & Colman/ National Paragon

The RT French Co., U.S. subsidiary of Britain's Reckitt & Colman, is planning a $17.5-million tender offer for National Paragon Corp. of New York, according to London reports. The offer, at $12.75 per share, would be for all shares, providing at least 67% of the capital is tendered. National Paragon produces needlework kits and other leisu[re] market products. Reckitt & Colman's activities include foods, pharmaceuticals, and household products.

Löwenbräu/ Philip Morris

Löwenbräu of Munich has announced an agreement with New York-based Philip Morris, Inc., for the production, under license, of Löwenbräu draft beer in the United States. The beer will be brewed by the Miller Brewing Co., a Philip Morris subsidiary, which is currently investing an additional $81 million in its Fulton, N.Y., brewery. German reports said that the Löwenbräu beer presumably would be produced at that plant.

Volkswagen

Following lengthy studies and deliberations, the supervisory board of Germany's Volkswagenwerk AG on April 23 was to make the final decision on whether or not the automobile manufacturer will build an assembly plant in the United States. Various statements by company officials so far tended to indicate that the vote would be in favor of this step, which VW chairman Toni Schmücker had advocated for some time. The company's recent agreement with Chrysler on the supply of VW engine units and transmissions apparently has quelled fears over possible dismissals at Volkswagen's Emden Plant if assembly of the "Rabbit" model for U.S. export is actually transferred to North America.

Common Market Reports

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IN THIS ISSUE

page
Community: Parliament Comments on Lawyers Proposal...1
Implications of EC Court's Equal Pay Judgment........2
In Brief: Tractors; PCBs; Food Coloring Matters......3
Britain: Income Tax Proposals Still Provisional......3
France: First Action to Initiate Company Reform......4
Capital Gains Taxation of 'Speculative' Profits......5
Italy: Capital Export Rules Termed Unenforceable.....6
Germany: VAT on Private Use of Company Car?..........7
Euro Company Scene...................................7

Community: Parliament on Lawyers Proposal

The European Parliament (EP) has called on the Commission to initiate studies immediately for the purpose of submitting proposals that would grant lawyers who are member state citizens the right to settle and practice law in any of the member states. This request is contained in a resolution on the Commission's revised draft directive aimed at facilitating the effective exercise of lawyers' freedom to provide services *(Common Market Reports, Pars. 9765 and 9782)*. The EP is aware that extending the right of establishment to lawyers will present problems greater than those involving other professions, such as physicians, because of the differences in member state laws. (The Council of Ministers adopted the two directives concerning physicians in June 1975.) The members of the EP's legal affairs committee, all lawyers from the various states, do not have ready answers to these problems, especially to that on the mutual recognition of diplomas. They did, however, offer one possible solution: the creation of international law firms staffed with lawyers from the various states, on the premise that such firms are particularly necessary to cater to the needs of large companies. The Commission is now examining this idea.

The European Parliament has made only a few recommendations on the body of the draft directive. Several

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Lawyers *(contd.)*

of the recommended amendments are merely of an editorial nature and aim at clarification. The only instance where the EP is rather critical concerns Article 7, which deals with the extent of the member states' obligations to notify the Commission about legislation. The EP says that the Article serves no particular purpose in its present form; the Commission would be informed in any case, just as in other fields that are subject to Community legislation. It therefore recommends that the original version be restored, so that the Commission would have to be informed of all subsequent measures in the form of laws, regulations, or administrative actions that the member states consider for adoption in this area.

The Council working group is expected to start with the debate on the revised proposal in a few weeks.

Implications of Equal Pay Judgment by European Court

This month's ruling by the European Court of Justice to the effect that Treaty Article 119 gives women an enforceable right to equal pay in the national courts is bound to have numerous legal and economic implications *(Common Market Reports, Pars. 3942.01 and 9599)*. With the judgment, in *Defrenne v. Sabena* (Case No. 43/75), the Court asserts itself as a truly independent Community institution, observers say, pointing out that all member state governments had put pressure on the tribunal to follow their way of thinking, which was identical to that of the Council of Ministers and, on most of the issues involved, also to that of the Commission.

According to legal scholars, the judgment demonstrated once again that, for all their progressiveness, the judges were not unmindful of the possible economic and social consequences that their ruling could have. Thus, the Court ruled that while women have had an enforceable right in the original six member states since Jan. 1, 1962, and in the three newcomer states since Jan. 1, 1973, no back-pay claims would be allowed for periods prior to April 8, 1976, the date of the judgment. The Court believed that to carry out the legal doctrine as developed by Advocate General Alberto Trabucchi could have meant bankruptcy for some companies. Commission attorneys maintain that the judgment, with this condition, loses all its practical significance in that it applies only to cases now pending before national courts.

A major legal implication of the judgment is that for all practical purposes, Council Directive 117/75, adopted on Feb. 10, 1975, becomes moot. This measure was based on the rarely disputed legal doctrine that Treaty Article 119 is not a self-executing provision but rather contains a mandate for the Community to make the states apply the equal pay principle through legislation. The Court said

Equal Pay *(contd.)*

that the Council directive has no bearing on the direct effect of Article 119 and that the respite provided therein has no effect on the dates established by the Article and the Treaty of Accession (the states were given until Aug. 10, 1975, to enact corresponding legislation and were to apply the principle not later than Dec. 31, 1975).

Commission attorneys say that the *Defrenne* ruling does not remove all doubts concerning the equal pay issue. Although most states either enacted equal pay legislation long before the deadline set by the directive or simply relied on constitutional provisions (meaning that women would have to sue their employers on the basis of those provisions), some states left it up to the unions and employers to negotiate equal pay conditions for women employees. Observers say that it seems rather doubtful now whether this practice still would be permissible.

In Brief...

In legislative action at its Luxembourg meeting early this month, the Council adopted three measures with major implications for trade, environment, and consumer affairs: 1) the directive on the approximation of member state laws relating to the braking devices of wheeled agricultural and forestry tractors, 2) the directive on the disposal of polychlorinated biphenyls (PCBs) and terphenyls, and 3) the fifth amendment to the Council directive on the approximation of member state laws concerning the use of coloring matters in foods intended for human consumption (removing nine coloring matters from the list of banned chemicals).

Britain: Income Tax Proposals Still Provisional

As a direct result of the decision of U.K. Chancellor of the Exchequer Denis Healey to make his income tax proposals for the fiscal year 1976-77 conditional on the labor unions agreeing to a "voluntary" wage increase limit of 3%, the Finance Bill released on April 15 was not regarded as "definitive." Healey himself noted that the proposals are provisional and will be implemented only if and when the unions indicate their compliance. Should they fail to do so, wide-ranging amendments will have to be brought into the Bill as introduced.

Part I of the Bill makes provision for duties on alcoholic beverages, tobacco products, hydrocarbon oils, and vehicles excise: the applicable increases are set out in Clauses 1 to 13 of the Bill and in Schedules 1 and 2. Part II makes provision for reduction of the 25% rate of value-added tax to 12.5%, effective April 12, 1976.

Income tax, corporation tax and capital gains tax provisions are set out in Part III. Income tax for the year 1976-77 is to be charged at the basic rate of 35% and, in respect of so much of an individual's total income as ex-

Income Tax *(contd.)*

ceeds Ŀ4,500, at higher rates: Ŀ4,500 to 5,000 at 40%, Ŀ5,000 to 6,000 at 45%, etc., up to a maximum of 83%. Investment income is charged at 10% for the first Ŀ1,000 and at 15% for the remainder. Corporation tax for 1975 is charged at 52%, the rate of advance corporation tax thus being set at 35/65ths. The small-companies rate for '75 is set at 42%. Clause 26 of the Bill spells out conditional alterations for personal reliefs.

Clauses 33 to 36 deal with capital allowances: Section 168 of the Taxes Act 1970 (as amended) - providing for capital allowances to be set off against general income - has been restricted, notably to the effect that an individual will not be given relief if it appears that "arrangements have been made" to the effect that the sole or principal benefit that might be expected to accrue to the individual is a reduction in tax liability.

Part III, Chapter II, deals with "fringe benefits," i.e., benefits derived from employment by company directors and others in "higher-paid employment" (at an annual rate of Ŀ5,000 or more). Essentially, such benefits as company cars, zero-interest or low-interest loans, and shares issued on preferential terms are to be made fully taxable.

The Bill's principal features in regard to capital transfer tax relate to reliefs for business and agricultu[r]al property; conditional exemption for works of art, historic buildings, etc.; mutual and voidable transfers; and dispositions that are not transfers of value.

Finally, concerning the "miscellaneous and supplementary" provisions (Part V), mention should be made of Clause 106. It stipulates that stamp duty shall not be chargeable on any transfer of loan capital except when the latter a) carries a right of conversion into shares or other securities or a right to interest, the amount of which exceeds a "reasonable commercial return on the nominal amount of the capital," or b) is determined to any extent by reference to the results of a business or to the value of any property, or c) carries a right on repayment that exceeds the nominal amount of the capital and is not reasonably comparable with what is generally repayable under the terms of issue of loan capital listed in the Official List of the Stock Exchange.

France: First Action to Initiate Company Reform

About 15 months after the release of the official Sudreau Report on company reform and worker participation, the French government has formulated its first concrete proposals in this area and submitted them to Parliament. Personally outlined by President Giscard d'Estaing on television on April 13 and published a day later, the proposed legislation falls far short of the goals originally envisioned

in 1974 when the present administration assumed office. Nevertheless, the President expressed the hope that the reform effort might be initiated by the end of the year.

Mindful of the fierce opposition of both industry and labor on the issue of employee co-determination, the government merely refers to an "active and systematic debate" between management and labor, which only later is to evolve into a "real participation (by workers) in corporate life." Initially, it is to be left to enterprises employing more than 2,000 to accept designated or elected employee representatives on their supervisory board. Thus, the draft proposal offers only a legal framework for voluntary action on the part of companies.

A second part of the cabinet proposal deals with an "early warning system" to protect enterprises against economic and financial dangers. It would give works councils, minority shareholders, and auditors the right to seek from management or the supervisory board information on the company's business activities and status and on plans to remedy apparent problems. This route could be chosen in the event of evident danger signals such as mass layoffs, heavy losses, and late tax payments. In the cases when the interested parties would be unable to obtain satisfactory answers from management, they could appeal to the appropriate commercial court, which could then order an audit of the company's books.

Finally, the administration proposals also aim at the improvement of working conditions, specifically job safety. At the time of his hiring, each employee is to be briefed on safety regulations. Further, safety rules for the operation of machinery and equipment are to be tightened, and medical care for workers is to be improved. The introduction of flexible work schedules also is to be promoted.

Draft Bill on Capital Gains Taxation

Another reform proposal approved by the French government this month and sent to Parliament deals with the taxation of certain capital gains. By putting a tax on "speculative" profits realized from the sale of movable and immovable assets, it is hoped to lessen some of the admitted fiscal inequities still existing in France. Although final details remain to be worked out, the principal elements of the proposals have already been reported.

Taxable gains would be basically defined as the difference between purchase price and sales price, taking into account inflation as reflected in the official cost-of-living index. However, certain graduations would apply. No indexation is foreseen when the sale of the object involved takes place within two years of purchase. Profits (specifically on real property transactions) made within two to

Capital Gains *(contd.)*

10 years would benefit from an inflation allowance of 3% annually on developed properties and also of 3% for the first five years on buildings (5% within five to 10 years). Gains realized on other objects would benefit from full inflation indexation. Taxable proceeds from sales effected after 10 years would benefit from full indexation plus an additional 3.33% for each year after 10 years.

Not subject to capital gains taxation would be principal residences, certain bonds, and securities acquired through long-term investment plans. Losses in value could be offset against gains. The noncommercial sale of gold and precious metals exceeding a value of FF 5,000 would be taxable at a 4% rate. The same rate would apply to art objects and jewelry, although these would benefit from a tax-free allowance of FF 10,000.

The draft proposal was immediately criticized as being far too moderate to make an appreciable impact on the French tax system. It was estimated that the slightly widened capital gains tax net would bring in an additional FF 1 billion (now 800 million) annually by 1979, or about 0.3% of current fiscal revenue.

Italy: Capital Export Rules Termed Unenforceable

Parliamentary passage this month of the Italian government decree to combat illegal capital exports has rekindled severe criticism of the measure from both the business and banking community and legal experts. As reported earlier, stiff penalties (including imprisonment of up to 12 years) are provided for violations of the new regulations which prohibit residents from illegally exporting Italian currency, foreign exchange, and securities and require special approval for, among other things, the opening of bank accounts and real estate transactions abroad.

Many financial observers agree that the new rules are virtually unenforceable and will only add to the climate of confusion that has resulted from the country's economic and monetary crisis. It has been charged that the decree as well as certain amendments attached to it by Parliament contain too many improvisations and legal inconsistencies. In reference to the "anachronistic" penal sanctions, one well-known law professor was quoted as saying that a person robbing a foreign tourist of his money would face lighter punishment than another buying foreign exchange from a tourist. Other experts dismissed as "absurd" the requirement that forces bank officials to assume responsibility for the accuracy of prices given in bank documents relating to import and export transactions. They point out that the sheer volume of foreign trade operations, requiring an

Capital Export *(contd.)*

estimated 5 million certificates annually, rules out the kind of verification now demanded by the law.

Germany: VAT on Private Use of Company Car?

The use of a company car for private purposes - a privilege enjoyed by a great number of German top executives - in the future may be subject to value-added turnover tax. The same would apply to most other tangible benefits granted by employers to any employees. This is the essence of regulations drafted by officials in Bonn's finance ministry after one year's discussions with state revenue officials. The business community will have a chance to comment on the proposed rules in the coming weeks.

The administration did not seek these rules (the first of their kind in Germany) but was forced to act in order to comply with a judgment of the Supreme Tax Court, which held in February 1975 that gratuities granted to employees are subject to VAT. In the case at issue it was a free lunch offered by a company to its employees, but the high court believed that the granting of any gratuitous benefits *(Sachaufwendungen)* should be considered a taxable event subject to VAT. Minor items *(Aufmerksamkeiten)* such as the cigarettes, cigars, or refreshments offered to employees free or at reduced prices would be tax-exempt, as would be small Christmas presents. Here, the new rules would follow the line drawn by the Supreme Tax Court.

Federal and state tax experts have agreed that gifts or other benefits should be subject to VAT whenever the "consideration" is also subject to income (wage) tax. This applies, for example, when the employer allows employees to use a company car for private purposes. Concerning the daily lunch sold at a reduced price in the company cafeteria, the future rules would provide that only the actual amount paid by the employee - with DM 0.80 considered the minimum - would be subject to VAT. The VAT base of assessment for products made by the employer and sold to employees at a discount would be either the amount the employee paid or the value attributed to the item for purposes of computing the wage tax payable on the difference. When products are given away, the usual price would be used as the basis of VAT assessment.

EURO COMPANY SCENE

U.S. Companies in Europe

On the basis of recent surveys, two of Britain's most influential business publications, the Economist and the Financial Times, have reported that U.S. corporations in Europe currently are cutting back operations as a result of rising costs. The Economist cautioned against assuming that there was a mass exodus: "American corporations are

U.S. Companies *(contd.)*

not disenchanted with Europe, just less enchanted than they were in the 1950s and 1960s." Equally, the Financial Times predicted "not a wholesale withdrawal but a changing relationship between American and European business," which was seen as "probably healthy." Both publications identified the problems involved in similar fashion: "creeping socialism," spiraling labor costs (which between 1970 and '74 have risen, on a unit basis, by 58.9% in France, by 90.4% in Germany, and by 71.6% in Britain, compared to a 10.2% increase for the same period in the United States), rising social welfare costs due to union pressures and socialistic governments, an "inexorable trend" toward worker participation, and the "irritant" of price controls.

The waning U.S. enthusiasm also was documented by recent U.S. Dept. of Commerce forecasts which suggest that, although U.S. foreign investment will increase by around 2% in 1976, investment in Europe is expected to drop from $11.1 to 10.8 billion, the first such decline in decades. Among the companies that are reported to have sold off investments in Europe or are cutting down on new investments are American Motors, Eaton, General Foods, Goodyear, W.R. Grace, Litton, Singer, Union Carbide, and Westinghouse.

Monsanto

Monsanto, one of three major European manufacturers of polychlorinated biphenyl (PCB) dielectric insulating fluids, has decided to phase out production and sales of the product "as soon as...the electrical industry's needs for a usable, acceptable alternative product have been met." The company could not predict when this would happen. PCBs have been manufactured by Monsanto at its Newport, U.K., plant since 1951. In 1971, the company voluntarily began introducing restrictions on the sale and disposal of PCB-containing products when research indicated that the chemical was finding its way into the environment.

Keiper

A leading European supplier of General Motors Corp. and Ford Motor Co., Keiper KG of Germany, will shortly make a final decision on the location of a branch plant in the United States. The company, with 2,300 employees in three plants in Germany and one in Italy, produces automobile seat and window equipment as well as electronic exercise and training equipment and other mechanical products. The U.S. plant probably will be located in Battle Creek, Mich., and the company reportedly was negotiating with Kysor Industrial Corp. to lease an existing building in an industrial park. For its American activities, Keiper initially plans to employ 150.