Common Market Reports

EUROMARKET NEWS

Issue No. 401 *Report No. 301, September 22, 1976*

IN THIS ISSUE

Community: Roadblocks to VAT Harmonization

As the result of a Dutch initiative in the Council of Ministers, the finance ministers of the member states have decided to meet once a month in order to make headway in VAT harmonization. The Dutch government, which heads the Council for the rest of this year, hopes that the ministers will be able to find political solutions to legal issues that the Council's working party so far has failed to resolve at its weekly meetings. But Community officials are increasingly doubtful whether the problems can be solved by the end of 1976, the deadline for implementing the proposed system for the 1978 Community Budget.

In 1973 the European Commission had proposed harmonization of the VAT base in order to facilitate calculation of part of the Community Budget starting in '78 (*Common Market Reports, Par. 3165*). This proposal followed up on the Council's 1970 decision that the contributions to the Budget now derived from agricultural levies and customs duties should be augmented as of 1979 by national VAT revenue obtained by applying a rate not exceeding 1% on a uniform assessment base. Since the uniform assessment base is governed by various factors such as the taxable event and exemptions, the experts quickly ran into the zero-rating is-

This issue is in two parts, consisting of 104 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 401, September 22, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Harmonization *(contd.)*

sue, a political, rather than legal problem which only the Council itself could solve. This was done in a November 1975 compromise which allowed the member states to continue to exempt from VAT certain products, especially food and children's clothing (*Common Market Reports, Par. 9791*).

There are four other VAT problem areas - involving farmers, small businesses, transport, and property transactions - for which solutions must be found. Progress has been delayed by the indefinite postponement of the Council meeting, originally scheduled for last June, that was to give the experts political guidance.

The Commission's original proposal provided for a lump-sum (flat-rate) assessment on farmers. Member state laws at present provide for exemption of sales by farmers with low incomes and eased bookkeeping requirements (or none at all), and few governments are prepared to make major changes here because of the still-powerful farm vote. Small businesses pose similar problems: here, VAT exemptions range from 700 to 24,000 units of account annually, and although the Council's compromise last November called for exemption of annual sales not exceeding 4,000 UA and graduated rates for sales of up to 12,000 UA, with no differentiation between services and retail sales, several member states now want to exempt businesses catering to tourism. The problems of taxation on transport are considered so intricate that some experts have capitulated by suggesting total exemption. But transport is a major contributor to VAT revenue, and exempting it would drastically cut into the EC budget resources. The fourth problem concerns treatment of sale of new buildings and building lots.

Going After Farm Fund 'Cheaters'

The Commission has called on the Council to get the member states' commitment to audit at least every other year the books of businesses receiving from or owing to the Community agricultural fund at least 100,000 units of account annually (*Common Market Reports, Par. 9865*). As part of the Commission's general drive to tighten control over funds managed by the European Agricultural Guidance and Guarantee Fund (EAGGF) (*Common Market Reports, Par. 911*) and to combat fraud, the proposal would leave it to each state to determine the extent and frequency of company audits beyond the proposed minimum. In other words, a state could make audits more often than has been proposed. Commission attorneys estimate that approximately 4,200 companies (mostly importers and exporters) throughout the Common Market would face such audits. Since several member states lack the laws and the qualified personnel to comply with the proposed rules, the concept would allow an exceptionally long period of transition - three years.

Previous Community attempts to track down "cheaters" did not bring the hoped-for results, largely because either

'Cheaters' *(contd.)*

a 1972 Council regulation was not far-reaching enough or the Commission did not get the expected cooperation from some member states. Commission officials say that 176 cases of improper or unjustified EAGGF payments involving 15 million UA between 1971 and 1974 have been discovered so far. Considering the EAGGF's total annual transactions of nearly 6 billion UA, the number of confirmed cases of fraud could increase substantially, since Commission officials believe that only the tip of the iceberg has been touched.

It has been pointed out that the German authorities have been more successful in uncovering and prosecuting cases of EAGGF fraud, because company audits for tax purposes are carried out more frequently in that country than in other states. The Commission believes that the fight against fraud could be more successful if the other states would follow the German example.

In Brief...

Commission officials and government representatives from Belgium, Germany, France, Luxembourg, the Netherlands, the U.K. and Switzerland have initialed the Agreement Establishing a Laying-Up Fund for Inland Waterway Vessels. The aim of the fund is to reduce imbalances between supply and demand in cargo-carrying capacity on the Rhine, Moselle and Main rivers and most of the Dutch canals by making shippers using the waterways contribute to the fund. The revenue would be used to compensate shippers who are forced to lay up their vessels because of reduced cargo volume + + + The absence of a "formal" agreement will be used by Germany as a defense against the Commission action against Bonn, London, Paris and Rome for alleged violation of the EEC Treaty involving the four states' agreement on coordinated conditions for granting export credits. This is a rather weak defense, Commission attorneys say, because the form does not really matter - the informal accord still violates the Community's commercial policy prerogative which was reinforced by the Court of Justice opinion (No. 1/75) given last November *(Common Market Reports, Par. 5292.32)*.

Germany: Uniform Plant Licensing; Nuclear Risks

The German government has proposed federal rules that would ensure uniform processing by state authorities of license applications for building new factories or expanding existing facilities. At the same time the new rules would speed up licensing procedures and give citizens more opportunities to express their views on companies' building plans.

Although the 1974 Federal Clean Air and Noise Abatement Act replaced various state statutes and expanded licensing requirements, it nevertheless left the states some leeway in establishing administrative details of licensing procedures (*Doing Business in Europe, Par. 30,708*). As a result, there are substantial differences among the states

Licensing
(contd.)

on the time lag between the filing of an application and the issuance of a license, which has prompted complaints from the business community.

The proposed regulations would also speed up the licensing procedure in that all parties involved - state agencies, businesses and citizens - would have to make use of their rights and fulfill their obligations without undue delay. Although business leaders have expressed their frustration over long delays (sometimes as much as two years), they doubt whether the approach outlined in the proposal would really change the situation substantially.

In related matters, the government has proposed a considerable increase in liability insurance coverage of nuclear power plants or firms producing, using, processing or transporting fissionable material. Power plants and firms would not have to take out insurance if a third party (for example, the state government) assumes the obligation to pay compensation in the event of damage. The government's plans call for coverage of up to DM 5 million for power plants with one-megawatt capacity to DM 50 million for those with a 40-megawatt capacity. A company using one kilogram of fissionable material annually could be obligated to take out insurance of at least DM 3 million. Firms transporting nuclear elements would be required to obtain coverage of between DM 3 million and DM 50 million, depending on the risk involved.

Italy: Conversion of Debts to Bank Holdings?

The new president of Italy's Confindustria industrial federation, Guido Carli, formerly the governor of the Bank of Italy, has made a much publicized proposal on how to restore the financial health of the country's ailing stock corporations within the framework of the government's industrial reorganization program. Carli recommended that the commercial banks acquire shares of debt-burdened companies for their own portfolios and through these direct holdings provide a breathing spell for these enterprises. He said that this could be a major step in aiding the recovery of Italy's major stock corporations, which have been hurt by chronically tight liquidity, the overwhelming competition of public-sector capital demand, and the effects of inflation.

Carli apparently timed his proposal to influence the drafting of legislation on the restructuring and revitalization of Italian industry. This bill, to be presented shortly, goes back to the government initiative in the fall of 1975 concerning a medium-term industrial development plan (*piano a medio termine*). Carli's proposal is intended to augment such a plan rather than replace it. According to the Confindustria president, the indebtedness of some industrial export groups has reached 12-15% of turnover and

Conversion *(contd.)*

35-40% of labor costs - a situation Carli described as intolerable. The conversion of accumulated debts to share capital should be put into the hands of bank consortia, which would oversee the reorganization plans of the individual companies, make sure that the bank laws are being observed, administrate the individual portfolios and, eventually, place the shares with the public.

In other developments, Italy has urged the International Monetary Fund to decelerate the frequency of its gold sales in order to prevent a further deterioration of the gold price. The request, which was supported by France, was made a week before the IMF's third gold auction on Sept. 15 during which 780,000 ounces were to be sold. The issue also was brought up before the EEC's Monetary Committee, which gave qualified support to the Italian request by recommending that the IMF be more "flexible" with its future gold sales. Both Italy and France maintain a considerable share of their foreign exchange reserves in the form of gold, and Italy has pledged a portion of its gold holdings as collateral for a $2-billion loan from the German Bundesbank.

Britain: ...nd Support ...hdrawn after Strike Threat

The national strike scheduled for Sept. 25 by the U.K.'s National Union of Seamen has resulted in a frantic search for some means of providing more cash for the 40,000 members without causing a flagrant breach of the government's pay policy. The threat posed to the national economy as a whole is such that some accommodation must be found, presumably along the lines of increased "top-up pay" presently given to seamen in addition to standard unemployment benefits during the first 15 weeks of "captive time," i.e., when seamen are without ship.

The strike warning was thought to be behind the Bank of England's decision to withdraw support for sterling on world markets in an effort to demonstrate to the merchant seamen the drastic repercussions of their impending action. If so, then the demonstration was convincing: following the BoE announcement, sterling plummeted no less than 3.5 cents against the U.S. dollar in the course of 30 minutes and, despite a partial recovery to a 2.5-cent fall, the rate remained near the low of early June when the government was obliged to call for aid from the central banks of the leading industrialized nations, to the tune of $5.3 billion. Other specialists, however, took the view that the BoE had been forced to give up its fight to hold sterling at around $1.77 simply because speculative pressure had become so great that the entire support operation was proving excessively costly in terms of the nation's dwindling gold and currency reserves.

Strike Threat *(contd.)*

Whatever the Bank's reason or motivation, the fact that the exchange rate has fallen again has dealt a bitter blow to government strategies for economic recovery. The sharp decline in the external value of sterling can only lead to increased import costs, inflationary pressure and a further drop in the nation's standard of living. Another immediate consequence could be more militant demands for wage increases. The government's bankers recognize an alternative: to set interest rates at unprecedented levels in an effort to make sterling a more attractive investment for foreign bankers. This would, of course, have its decided drawbacks on the domestic front inasmuch as British firms - which are consistently being called on to boost their investment programs - would also be hit by the higher rates.

Luxembourg: Restrained Expansion of 1977 Budget

In order to stimulate economic activity next year, Luxembourg's 1977 Draft Budget provides for new export aids, temporary tax incentives to promote investments, and new initiatives for the diversification of the country's industrial structure. Also planned are minor improvements in the social welfare sectors such as a raise in family allowances, old-age pensions (inflation adjustments) and farm pensions. The expansion of administrative government expenditure is to be kept in check: the number of new hirings already has been restricted considerably.

The 1977 Draft Budget has been presented to Parliament by Finance Minister Jacques Poos, the successor of Raymond Vouel who recently joined the European Commission in Brussels. The draft foresees total revenues of LF 35.43 billion, which is LF 4.77 billion or 15.5% more than in the current Budget. Total expenditure is projected at LF 35.6 billion - LF 4.4 billion or 14.2% more than in 1976. Thus, the overall budgetary deficit has been placed at LF 169.3 million (1976 = LF 521.3 million).

The proposed Regular Budget sets expenditure at LF 31 billion, an increase of nearly LF 4 billion or 14.7%, which is required because of adjustments to the price index, the higher share of the municipalities in government revenue, and higher subsidies to the state railway system. Improved fiscal revenues - particularly from the income tax, the corporate tax and the value-added tax - will, on the other hand, keep expansion of spending below that of revenue. These additional revenue funds have been estimated at LF 3.4 billion, not counting the revenue loss of more than LF 1 billion to be incurred because of price index-based adjustments and the raising of tax-exempt allowances.

The supplemental Investment Budget will be increased by LF 435.6 million or 10.4% to LF 4.6 billion and will be financed through an LF 1-billion bond issue and the revenue surplus of LF 3.4 billion in the Regular Budget.

Switzerland: Extended Price Surveillance; Bank Reserves

The Swiss government has decided to propose an extension of the existing price surveillance system (*Preisüberwachung*) by another two years, until the end of 1978. The proposal will be submitted to a national referendum scheduled for Dec. 5. Following its meeting on Sept. 8, the cabinet justified the need for an extension with the continuing economic uncertainties and inflationary pressures abroad. Switzerland itself continues to enjoy the lowest inflation rate in the western world: as of August, the annual rate stood at 1.5%.

The Swiss price surveillance system was introduced at the 1972-73 turn of the year as part of a broader government package to contain the expansion of prices, profits and incomes (*Doing Business in Europe, Par. 30,629*). At that time, the Swiss inflation rate was 8%. In comparison with other countries in western Europe, Switzerland's price control procedures are far less stringent, are aimed merely at preventing "exaggerations," and do not cover all goods and services.

In other news earlier this month, the Swiss National Bank lowered from 37.5 to 10% the reserve requirements on the foreign liabilities of the country's commercial banks, with effect from Sept. 15. The action took account of tighter liquidity resulting partially from the government's SF 500-million borrowing and involves the return of some SF 400 million that had been called in for mandatory deposit since July.

Norway: Selective Freeze on Prices, Profits

With effect on Sept. 13, the Norwegian government has decreed a price freeze on a few farm products and controls on the prices and profit margins of businesses with an annual turnover of more than 20 million kroner. Also frozen were the retail profit margins for textiles, wearing apparel and footwear. Oslo's action relates to a government pledge to industry and the unions last April not to let the inflation rate rise above 9.2%. In the fall of 1975 the administration already had imposed a temporary price stop (until the end of that year) in order to win the unions' consent to reduced pay increases. As of July 1, 1976, the government concluded a two-year agreement with the agricultural sector under which Norway's farmers are assured of income improvements averaging 28.8%.

The price controls had been anticipated after the consumer price index rose by 5.6% in the first half of 1976 and the farm price index went up by 11.3%. In order to aid certain farm producers, Oslo will now have to step up its food price subsidy program: as of Sept. 13, subsidies were extended to support the price of milk and, as of Sept. 29, the same will be done for pork.

EURO COMPANY SCENE

Ford in Greece

According to Athens reports, the United States' Ford Motor Co. is investigating the possibility of becoming engaged in the region of Thrace, northern Greece, an area where industrial investors may benefit from newly granted, additional government incentives. The company reportedly is considering setting up a plant for production of automobile components and spare parts for export to Europe and the Middle East. Also said to be under consideration is a plant for assembly of the Ford "Cortina" and "Escort" models for domestic sale, with a predicted annual capacity of 20,000 units. A team of Ford representatives which has met with officials of the Ministry of Coordination and Planning was also reported to be investigating possible plant sites for other, unnamed U.S. companies.

GM Overseas/ Bulcanar

General Motors Overseas and Bulgaria's state-owned Bulcanar have signed a cooperation agreement according to which GM's Bedford Trucks subsidiary in the U.K. is to supply heavy-duty trucks to Bulgaria in exchange for forklifts produced by Bulcanar. The deal - no financial details were disclosed - is expected to significantly benefit both companies by providing Bedford with access to one of Europe's major trucking fleets (Bulgarian Transportation Co.) and by assuring Bulcanar of a western market for its forklifts (initially, GM's own plants worldwide) which so far have been marketed primarily in the Comecon countries.

GEC/ White Motor/ White Industrial

The U.K.'s General Electric Co., Ltd. and White Motor Corp. of Cleveland, Ohio, have reached agreement in principle on the purchase (for an undisclosed sum) by GEC of White Motor's diesel engine subsidiary White Industrial Power, Auburn, N.Y. GEC, a producer of diesel engines for all types of applications, expects the acquisition to provide a firm base for further expansion on the American market, where its sales rose last year from £44 to £72 million and where the demand for diesel engines has markedly increased since the 1973 oil crisis. The British company had a 1975 turnover of £242 million in its industrial group. Financially troubled White Motor Corp. last year had sold another of its plants to a U.K.-based firm, Perkins Engines, primarily a manufacturer of automotive diesels.

Common Market Reports

EUROMARKET NEWS

Issue No. 402 September 28, 1976

IN THIS ISSUE

Community: Draft Directive on Products Liability

The European Commission has sent the long-awaited draft directive on products liability to the Council of Ministers. According to the proposal, the manufacturer of a defective product that causes injury to the user's health or damage to his property would be liable to pay compensation regardless of fault. This strict liability would be counterbalanced by limitations both as to time and the extent of the manufacturer's overall financial responsibility. There would be a 10-year statute of limitations starting with the year the product was put on the market. The maximum compensation for personal injuries caused by identical products having the same defect would be 25 million European units of account (EUA) regardless of the number of individuals involved. The upper ceilings in individual cases involving damage to movable property and real estate would be 15,000 EUA and 50,000 EUA, respectively.

Normally only the producer would be liable, and the term "producer" also includes farmers who market their produce and could thereby cause injury or damage to the consumer. However, a retailer could be liable when he represents himself to be the producer by putting his name or an-

COMMON MARKET REPORTS, Issue No. 402, September 28, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Liability *(contd.)*

other distinguishing mark on the product, a frequent practice of mail-order houses and department store chains. An importer who brings products into the Common Market would also be subject to strict liability.

The Commission proposal aims to eliminate major differences in the national legal systems governing products liability. Commission attorneys point out that the consumer is most handicapped in this respect in Denmark, Italy and the Netherlands, where he must prove fault on the part of the manufacturer - an extremely difficult, if not impossible task. In Belgium, Germany, Ireland and the U.K., the manufacturer's negligence is assumed when damage occurs, but the manufacturer may rebut this by showing that he took all possible steps to prevent defective products from reaching the market. In France and Luxembourg, the manufacturer is not allowed to adduce proof to refute a presumption of negligence on his part.

It is conceivable that a manufacturer's decision to sell his product in another member state may be influenced, among other things, by the extent of liability he could face. Differing national rules governing the manufacturer's liability for defective products also mean different operating costs for competitors, thus giving rise to distortion of competition. If all manufacturers were subject to strict liability in all member states, the insurance premiums on the compensation paid to victims would be considered as part of general production costs and would thus be reflected in the price of the product.

Commission attorneys are confident that the Council will act positively on the proposal by late 1978 or early '79 because of a commitment it made in this respect last year.

Road Cleared for Direct EP Elections

The foreign ministers of the nine EC member states have signed the documents calling for direct election of the European Parliament (EP), to be held in May-June 1978. While the present EP has 198 members, the future parliament will have a total of 410 - the large member states France, Germany, Italy and the U.K. electing 81 members each (at present 36), followed by the Netherlands with 25 (14), Belgium 24 (14), Denmark 16 (10), Ireland 15 (10) and Luxembourg 6 (6). The representatives will be elected for five-year terms. Elections will be held within a five-day period, on a date fixed by each member state. Stretching the balloting over five days was necessary to comply with voting traditions in several states, especially the U.K. and Italy.

Although the first elections are to take place according to the electoral system of each member state, Article 7 of the implementing act commits the new EP to draw up a proposal for a uniform system by 1980 at the latest. Ex-

Elections *(contd.)*

perts foresee some difficulties on this because of the differing electoral systems applied in the nine states: proportional representation in Belgium, Denmark, Italy, Luxembourg and the Netherlands; election by simple majority in the U.K.; a combination of proportional representation and the simple majority in Germany; and France's modified simple-majority system involving two successive voting rounds. Each member state may decide on its own whether a representative to the EP may also hold a seat in the national legislature. No change is expected here because dual mandates are expressly permitted.

For political reasons, Denmark extracted from the Council several concessions that, among other things, will give Copenhagen a five-year reprieve. Until Denmark holds its first EP elections, the Folketing will appoint representatives to the EP from among its members. Community officials are certain, however, that Denmark will withdraw its reservation in the coming months.

The nine foreign ministers actually signed two documents: the Council decision and the "Act Concerning the Election of the Representatives of the Assembly by Direct Universal Suffrage." Since the Act is neither a convention nor a treaty, its legal form gives the member state governments some latitude in the extent to which the national legislatures are involved in the ratification process. France and the U.K. had insisted on this latitude. The new EP will have the same powers - primarily applied to budget matters - as the present parliament *(Common Market Reports, Pars. 4301-02)*, and observers see little prospect at this point for additional powers. Any change in this area would require a new accord among the member states as well as ratification by the national legislatures.

Netherlands: Draft Law on Profit Sharing to Be Pushed

In the face of stiffening opposition to the government's plan for an obligatory employee profit-sharing system, Prime Minister Joop den Uyl has reaffirmed the determination of his administration to push the law through Parliament, in spite of a lack of experience with this type of legislation and even if the law should contain partial weaknesses stemming from its complicated nature. Social Affairs Minister Jaap Boersma, however, qualified this position in a newspaper interview by saying that he would not hesitate to persuade the cabinet to rescind the draft law for a complete overhaul or "even put it on ice" if the concept in its present form should turn out to be "a bad thing for our country."

The law, as now proposed, would require businesses to initially pay 10% of their earnings - after taxes and minus a "normal" return on invested capital - into a central, union-administered fund. Not affected would be profits of

Profit Sharing *(contd.)*

up to 250,000 guilders - a ceiling subsequently to be index-adjusted. The law would take retroactive effect on Jan. 1, 1975. The 10% "skim-off" would result in an estimated 500 million guilders annually for the VAD *(vermogensaanwasdeling)* fund. A contribution rate of 12% is foreseen for the second year (1976), and flexible rates up to a 20% maximum within a five-year period are planned should labor productivity rise faster than real wages (the rates would be revised downward should wages outstrip productivity).

Stock corporations would make their contributions to the fund in the form of shares, while other businesses would contribute by way of "VAD certificates" which would be redeemable only in the event of bankruptcy. So long as a business makes a profit, its VAD certificates would bear interest at a rate determined by the effective rate of certain state bonds. Not yet clear is the status of companies for which no reporting requirements exist. Here, special reporting rules would have to be created in order to obtain the necessary data on profits and contribution rates.

The individual employees would be credited with only a limited portion of the skimmed-off profits. Should a company's VAD contribution total less than 5% of its wage costs, then its employees would be individually credited with half of that contribution plus 20% of the remaining shares. The major part of VAD fund assets, however, would come under the collective ownership of all Dutch employees for the purpose of improving retirement benefits (on this point, the government has not been too specific).

Belgium: Compromise Seen on Price Index Controversy

A compromise appeared to be shaping up in mid-September in the dispute between Belgium's labor unions on the one hand and the government and industry on the other over the consumer price index "neutralization" of the prices of fruits and vegetables (and, specifically, potatoes) during the months of July, August and September. Following the end of the summer vacation period, the unions had threatened "major national (strike) action" unless the "indirect pay freeze" were rescinded and workers given retroactive compensation.

While neither party issued a public statement about the outcome of the most recent government-union round of talks, it was reported that the administration was ready to restore the index in its previous form (including fruit and vegetable prices) for the purpose of retroactively calculating social welfare benefits (unemployment compensation, family allowances and pensions) but not for the automatic adjustment of wages and salaries, except for the month of September. This latter concession would not weigh too heavily, it was pointed out by observers, since the September price index (without fruit and vegetable prices) had actually slightly declined.

Compromise *(contd.)*

Belgium's two major labor federations initially had demanded full compensation for the loss of purchasing power caused by the official "tampering" with the index, which forms the basis of Belgium's system of automatic pay adjustments. In the midst of this summer's drought period, the government last July had decided to remove the fruit and vegetable prices from the index calculation in order to contain wage cost expansion and renewed inflationary pressures - a strategy that seems to have paid off at least partially.

The government reportedly has promised not to make any further alterations in the pay indexation system "in the next few months" and not to introduce a new calculation method. The unions, on the other hand, have agreed to discuss "corporate profitability" within the framework of the continuing conference on the topic of employment, the report said. Both the government and industry would view this as a considerable success, since a tripartite discussion over wage cost/profitability ratios would be a first step toward a type of incomes policy that labor leaders so far have staunchly rejected.

Germany: Jurists Urge Changes in Bankruptcy Act

The annual German jurists' conventions in the past have often given impetus to new legislation, and this year's conference may have done the same in the area of bankruptcy law. In several resolutions, the 4,000 attending members of the legal profession recommended major Bankruptcy Act amendments that would be of interest to individuals and businesses alike. Bonn observers see a good chance for some of the recommendations to eventually become law. They believe that the government should not keep the favorable position it has in comparison to other creditors when it comes to distributing a bankrupt company's assets. Under current rules, the Treasury and the social security funds come first in collecting outstanding taxes and social security contributions, often to the disadvantage of ordinary creditors. Here, the business community has long been demanding a change.

Although the administration acknowledges the need for amendments to the 99-year-old Bankruptcy Act, it has been reluctant to propose them because it does not want to intervene in current efforts toward the approximation of national insolvency rules by means of an EEC convention. At this point, no one is predicting the success of the harmonization drive: the rules extending priority to payment of taxes and social security contributions have been one of the obstacles confronting the Commission's working group.

Last year more than 5,400 German businesses either went bankrupt or into receivership, causing an estimated DM 6-billion loss to creditors. Although the Bonn adminis-

Bankruptcy *(contd.)*

tration lately is more inclined to support an amendment, especially in light of the jurists' resolutions, it still wants to wait for the report now being prepared by government experts to determine the urgency of any legislation.

Italy: Vehicle Surtax to Raise Funds for Quake Area

The Italian government has been forced to rely on emergency decrees in order to ensure itself of the funds needed to give immediate disaster aid to the Friuli region which has been suffering from a series of major earthquakes. Rome intends to raise about 300 billion lire by requiring motorists to pay a one-time surtax by the end of October. Owners of automobiles and motorcycles have to pay a levy ranging from 15,000 to 200,000 lire. The surtax is even higher for high-priced luxury models, and motorboats and private aircraft also are affected. Only the owners of the smallest types of cars and motorcycles are being spared. Also subject to the levy are wagers on legal lotteries, soccer pools, etc. Exempted from the surtax are residents of the earthquake zone.

Britain: 200-Mile Fishing Limit; Japan Imports

Following a Community foreign ministers meeting in Brussels, U.K. Foreign Secretary Anthony Crosland on Sept. 20 stated categorically that Britain would extend its fishing limits to 200 miles as of Jan. 1, 1977, irrespective of whether the other Community members opted to extend their. Although saying that Britain would prefer to "act in concert" with its fellow EC member states, Crosland revealed that the required legislation had already been drafted and would be presented to Parliament "quite soon."

In Crosland's view, the problem needs to be tackled in three stages: 1) the adoption of the 200-mile limit, 2) negotiation with third countries (such as Iceland and Norway, the former having already issued a unilateral 200-mile limit declaration and the latter having signaled its intention to do so)., and 3) the revision of the Community's common fisheries policy to accommodate the 200-mile limit. By citing the priorities in this order, Crosland was seen to have taken issue with the Community's "procrastination": the EC has committed itself to a decision on joint action by Oct. 1 of this year, but there was an understandable reluctance to make any firm commitment before the outcome of the U.N. Law of the Sea conference. The unsatisfactory results of the recent meeting in New York have added a further complication. As things now stand under EC policy, Britain's waters are - except for certain, extremely limited zones - "Community waters" to which all member states' fishing fleets are accorded access.

In other developments, senior British ministers - in response to prolonged pressure from the country's labor

Fishing Limit *(contd.)*

unions - have now given formal assurances that the problem of "excessive import penetration" will be raised at the Community summit this December. The unions have complained of this penetration in such key sectors as automobile manufacture, textiles, footwear and electronics. The principal offender is Japan, the unions claim. On the basis of the information supplied by their Community counterparts, they allege that penetration is some 35% in the automobile sector, 60% in the television industry (black-and-white sets), over 30% in footwear, and around 20% in steel.

France: 'Toughest Austerity Plan in 15 Years'

In submitting what observers termed "the toughest austerity program in 15 years," the French cabinet on Sept. 22 proposed wide-ranging fiscal sacrifices and a temporary price stop as the main weapons in its stepped-up fight against domestic inflation. According to the plan worked out under the personal supervision of Prime Minister Raymond Barre, medium and high incomes would be subject to tax increases of 4-8% in the 1976 tax year. The corporate tax rate would be raised by 4%. However, taxpayers could escape the increases if they participate correspondingly in the purchase of an FF 3.5-billion state bond issue with a term of five years and a 6.5% coupon. Further sacrifices will be asked of automobile owners and motorists: the automobile tax would be raised by 48-127% (50% on the average) and gasoline prices by 15%. Heating fuel prices would go up by 6%, those of alcoholic beverages by 10%.

Prices are being frozen immediately at the level of Sept. 15, and this stop is to last until the end of the year generally and for six months in the public sector. Subsequently, public-sector rates and tariffs are not to rise beyond 6.5% annually. To set an example in the anti-inflation campaign, the government intends to lower the standard value-added tax rate from 20 to 17.6% for numerous daily-use items. Contributions to the state health and pension insurance system - shared by employers and employees - would be raised by 1% to cover existing deficits.

Sweden: Non-Socialist Opposition Wins Election

The Swedish business community has been cheered by the "historic" election victory on Sept. 19 of the country's non-socialist bloc which ended 44 years of uninterrupted Social Democrat rule. The news of the election outcome brought euphoric reactions from industry spokesmen and caused stock prices and volume to rise. The new administration will be formed by a three-party coalition composed of the Center, Conservative and Liberal parties and in all likelihood will be led by Center Party leader Thorbjörn Fälldin, a 50-year-old sheep farmer. The formal election of the new prime minister - to take over from Olof Palme -

Election
(contd.)

will have to take place within a four-day period after the Riksdag convenes on Oct. 4.

The new government will hold 180 of the 349 seats in Parliament, this 11-seat majority being far more solid than had been expected in the event of an Opposition victory. The coalition does not yet have a common platform, except for pre-election statements on such issues as tax relief for smaller companies and a joint stand against "collectivism." The most urgent attention will have to be given to such problems as the staffing of key administrative positions in government and the civil service, preparations for the 1977 collective bargaining rounds scheduled to start in November, and the drafting of the '77 Budget which must be submitted in early January. One of the touchiest items within the cabinet concerns nuclear energy policy: during the campaign, Fälldin had come out strongly against atomic power plants on Swedish soil, demanded a stop to the current construction of five A-plants, and favored the dismantling of five existing plants by 1985. This political commitment was seen as the most sensitive internal problem facing the administration partners.

Finland: Government Steps Down over Budget Dispute

Lengthy and bitter disputes among Finland's five government parties over the 1977 Draft Budget have finally resulted in the resignation of the Popular Front cabinet on Sept. 17. President Urho Kekkonen this time accepted the resignation of Prime Minister Martti Miettunen after having refused to do so during the previous government crisis last May. The latest crisis came after the Communists had persisted with their demand for additional spending to aid employment and housing construction, while the other four non-Communist parties insisted on the tightest possible budgetary policy in view of the country's high inflation rate and public debt. Also, the Social Democrats had demanded a reduction in government subsidies for Finnish agricultural exports, a proposal rejected by the Center Party on the grounds that this would force a cut in farm acreage.

The fall of the government came only four weeks before Finland's communal elections in October, and it was speculated that a caretaker administration of civil servants would fill in until then - a procedure that has been practiced before.

Common Market Reports
EUROMARKET NEWS

Issue No. 403 *Report No. 302, October 6, 1976*

IN THIS ISSUE

Community: Brussels Urges 200-Mile Fishing Zone

The European Commission has asked the Council of Ministers to establish a Community fishing zone of 200 miles and to adopt measures to conserve and control the common fishing resources. The 200-mile zone would extend only into the North Sea and the North Atlantic - the two areas where the interests of the member states and the Community would be prejudiced by recent developments.

In the Commission's view, it is urgent that the Council's decision on the fishing zone be made before the end of the year. Commissioner Christopher Soames has said that he would have preferred a worldwide consensus but that the failure of the U.N.-sponsored Conference on the Law of the Sea in New York to complete a draft should now persuade the EEC to make a decision on its own: some countries, such as Iceland, already have unilaterally extended their territorial waters to 200 miles; others will soon do so - Canada on Jan. 1, the United States on March 1, and Norway also early in '77.

Because the matter is so urgent, the Commission wants a mandate from the Council for negotiations with third countries, especially with the U.S. and Canada, the coastal

This issue is in two parts, consisting of 104 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 403, October 6, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Fishing Zone *(contd.)*

regions of which have been traditional fishing grounds for trawlers from the member states. The Commission is aware that an agreement with those two countries would not be reciprocal, since U.S. and Canadian trawlers normally do not enter the North Sea or the North Atlantic.

Commission officials refuse to speculate on any concessions the Community would be prepared to make in other fields. However, negotiations with Norway, Iceland and the Soviet Union would have to be settled on the basis of reciprocity. The EC executive would also negotiate with East Germany, Finland, Poland, Spain and Sweden, all of which have fishing interests in the North Sea and the North Atlantic.

Since scientists have predicted a depletion of fishing resources if the present volume of catches continues, the Commission also would like the Council to enact a number of conservation measures, among them a Community system of controls and quotas, especially for the coastal regions.

Reactions from the national capitals to these proposals have been mostly negative. Last July the Council had declined to support a Community concept of extending the territorial waters but agreed to a concerted approach among the member states.

Plan to Reduce Butter, Milk Overproduction

Butter and milk surpluses and the resulting financial burden and annoyances to taxpayers and trading partners could eventually become a thing of the past if the Council of Ministers adopts the Commission's five-year plan to bring some balance into the milk market. Among other things, the recommendation is for a three-year suspension of Community and national aid to the milk sector, a "co-responsibility levy" to be applied over a five-year period, and premiums for the conversion of dairy herds and the withholding of milk from the market.

At present the EEC milk market is burdened by the delivery of 10% more milk to dairies than is needed, requiring intervention agencies to buy large quantities of butter and skimmed milk. The cost of storing some 300,000 surplus tons of butter and 1.3 million tons of milk powder has been estimated at 1.9 billion units of account for 1976. In 1974, the Commission had sold butter to the Soviet Union at a discount price, which annoyed consumers and many national politicians in the Community. Further, the Council's decision to force producers of animal feed to add skimmed-milk powder to their products had a negative impact on already strained trade relations between the EEC and the United States due to the resulting decline in U.S. soybean exports.

The three-year suspension of aid to farmers hopefully would serve to reduce investments in the milk sector. The Commission believes that this alone would substantially

Overproduction *(contd.)*

curb milk output, but even more effective would be "penalizing" farmers for overproduction by way of the co-responsibility levy. This tax would be uniformly applied to all quantities of milk delivered to dairies and to dairy product sales to farms. The revenue from the levy would be used to finance intervention measures such as the payment of premiums to farmers who reduce the number of milk-producing cows.

Commission officials are optimistic about the chances for realization of the plan because last March the Council of Ministers agreed in principle to the EC executive's basic concept that farmers should share the responsibility for overproduction of milk.

In Brief...

The Council has agreed that there will be no Community relief program for drought-stricken farmers in the EEC. Most member state governments have granted or are planning to give aid in order to cushion the financial losses incurred as a result of Europe's longest dry spell in 100 years. However, the Commission will watch to see that none of the national measures would lead to a distortion of competition + + + The Council working group discussing the proposal concerning the retention of employee rights in cases of mergers, takeovers and other changes in ownership has made further substantial modifications in the Commission proposal in order to enable the Council to pass the measure. Adoption was expected before the end of the year.

France: Discount Rate; 1977 Budget; Investment Aids

As a supplemental measure to the "Barre Plan" for the recovery of the French economy, the National Credit Council on Sept. 23 raised the discount (bank) rate of the Bank of France from 9.5 to 10.5%, which subsequently caused commercial bank rates to rise by a similar margin. The last previous discount rate boost, from 8 to 9.5%, had come last June. The Bank of France also was expected to lower the ceiling for credit volume growth and lay down new minimum reserve requirements. With these curbs, the French authorities aim to control money volume expansion, which has been at a rate of 19% over the last 12 months and is seen as a prime cause of domestic inflation. Prime Minister Raymond Barre indicated that he wanted to restrict credit expansion to about 12.5% annually in the future.

As reported last week, Barre's anti-inflation plan is relying heavily on selective tax increases, higher social welfare contributions, a lower value-added tax rate, and a temporary price freeze. In order to support employment, Budget policy in '77 will continue to be expansive: expenditure is to rise by nearly 14% to FF 333.3 billion, but this is offset by FF 334.1 billion in revenue. Much of the additional spending will be eaten up by the interest

Discount Rate *(contd.)*

burden on the accumulated deficits, and the only sectors to benefit from higher allocations are defense (17.5% of the total Budget) and telecommunications, i.e., the expansion program for the country's telephone network. The Budget allocations are predicated on a real economic growth rate of 4.8% and an inflation rate of 6.5%.

As part of the entire package, FF 5 billion in direct subsidies will be made available to compensate farmers for drought damage; another FF 4 billion will be granted in the form of low-interest credits to encourage the purchase of new farm equipment. A special bond issue in the amount of FF 3.5 billion will be floated to provide long-term financing for small businesses, and exporters also will be given financial assistance in Paris' efforts to cut the large foreign trade deficits. Businesses ordering and purchasing capital equipment as of '77 will benefit from higher depreciation allowances totaling FF 2.2 billion. With these and other aids, the government hopes that corporate investment will rise by 3.1% next year.

Finally, the program includes certain measures to enhance the attractiveness of the stock market: investors are to benefit from a higher tax allowance on dividend income, while businesses may set off against taxable incom over a five-year period, dividend distributions from rig issues made between 1977 and '80. Also, companies may improve their balance sheets by listing at their actual market value certain assets not subject to depreciation.

Netherlands: Heavy Attacks on Government VAD Bill

The public discussions in Holland over the government's draft legislation on an obligatory profits distribution system have reached such a pitch that some political observers see the bill as a possible threat to the present administration's survival in the May 1977 elections. Some factions in the coalition administration - for instance, Social Affairs Minister Jaap Boersma, whose ministry prepared the draft - apparently have been caught by surprise by the vehemence of industry's opposition to the VAD *(vermogensaanwasdeling)* proposal and would just as soon shelve the project until after the elections. However, Prime Minister Joop den Uyl remains fully committed to it and cannot hope to be given any leeway by the labor unions: the decision to limit this year's pay improvements to a 9% ceiling had been possible only because of the government's promise to push through the laws on VAD and the reform of the Works Council Act.

The Dutch business community - headed in this drive by the VNO and NCW industrial federations - takes issue with numerous details of the VAD bill which is being described as "carelessly prepared and not thought out." The VNO warns that the introduction of the law would undermine th

VAD Bill
(contd.)

position of Holland's export industries on the world markets. The NCW said that although the VAD system supposedly aims to benefit the Dutch workers, the latter actually stand to suffer because industry would be even less inclined to make much needed investments. It has been pointed out that many larger enterprises already are operating a kind of voluntary profit-sharing plan in the form of a "13th-month" salary, but that they would discontinue this plan once the VAD scheme is introduced. Also, public sector employees and those in smaller enterprises would not benefit from VAD (profits below 250,000 guilders would not be subject to the VAD contribution). According to independent studies, individual employees at most could be credited with 600 guilders annually under the plan, a benefit out of proportion to the huge administrative costs required to run the central VAD fund.

In a memorandum to Parliament, the industrial federations furthermore expressed the opinion that the VAD law, as now proposed, would violate the constitutional provisions guaranteeing the protection of private property, since it would force businesses to distribute part of their assets without gaining anything in return. (The law would require enterprises to pay some of their net earnings into a central, union-administered fund. Part of the fund's assets would accrue to the company's employees, but the major portion would come under "collective ownership" for the purpose of improving pension benefits generally - *Doing Business in Europe, Par. 30,818.)* The employers insist that they are not in principle opposed to an obligatory profit-sharing plan, and they have proposed the creation of a commission - in which the government, industry, labor and independent experts would be represented - to work out an acceptable solution.

Meanwhile, a poll by the foreign chambers of commerce in Holland has resulted in estimates whereby the introduction of VAD would lead to the loss of at least 40,000 jobs: some 560 member companies questioned indicated that they would suspend further investment plans. These companies reportedly employ a total of 156,000 people and contribute 16.7 billion guilders to Dutch exports, about 20% of the total.

More Deficit Spending in Draft Budget

As part of the formal opening of the new parliamentary session in Holland, Finance Minister Willem Duisenberg on Sept. 21 presented the government's 1977 Draft Budget which again calls for a very high deficit - 14.6 billion guilders as compared to an estimated 15.1 billion guilders this year. The public debt thus will amount to 6.5% of the national income (1976 = 7.25%) and is to shrink only gradually to 5% by 1980. The government defends the continuation of its deficit spending policy with the need to combat high structural unemployment: without massive work promotion

Spending *(contd.)*

programs, it is argued, the number of jobless would rise to 300,000 by 1980. With investment incentives and wage cost subsidies of 4-5 billion guilders annually, The Hague hopes to reduce unemployment from currently 230,000 to 215,000 by early '77 and to 150,000 eventually.

Britain: Support Plea, Another Loan to Fight Crisis

U.K. Prime Minister James Callaghan, addressing the Labour Party national conference for the first time as the head of government, has made an effort to swing the party entirely behind his administration's anti-inflation policies, stressing throughout that there were "no soft options left." He did, however, bluntly defend "profits" (an issue normally taboo at party conferences) and maintained that if industry did not generate sufficient funds for new investments, "Britain would continue to go downhill." Immediately prior to the conference, Callaghan had been equally forthright in his rejection of Labour Party left-wing proposals to nationalize Britain's major banks and insurance companies. To most observers, it seemed clear that the Prime Minister's stance was designed to reassure "outsiders" that Britain was still worth backing.

While Callaghan was addressing the conference on Sept. 28, the pound suffered its worst day ever (short of formal devaluation), slipping 4.325 cents to a record low of $1.63775. Chancellor of the Exchequer Denis Healey had to approach the International Monetary Fund for a £2.3-billion loan in an effort to dispel misgivings on foreign exchange markets as to how the U.K. would repay its estimated $1-billion borrowing from the $5.3-billion standby credit put at Britain's disposal by other central banks to avert the sterling crisis in June. Healey's request, the IMF's expected approval, and some modest intervention by the Bank of England in the foreign markets helped to rally the pound to around $1.665. This notwithstanding, the atmosphere in the City was pessimistic: the feeling was that it was not sound to back a bad debtor and that "those who had sterling didn't want it, whereas those who didn't have it didn't need it."

Italy: Import Deposit Again Extended; Reserve Move

The European Commission has authorized Italy to extend the cash deposit on imports once more on the condition that it be reduced in steps by April 15, 1977. The 50% deposit requirement initially was introduced on May 5 for a three-month period and subsequently extended to Nov. 5. According to the Brussels-Rome agreement, which affects both intra-EEC and third-country trade, the deposit is to be reduced to 45% on Oct. 15, 40% on Nov. 30, 25% on Jan. 15, 10% on Feb. 28, and zero on April 15.

In another measure aimed at relieving the renewed pressures on the lira, Rome has raised the minimum reser

Deposit *(contd.)*

requirements: by Oct. 15, the Italian commercial banks have to freeze with the central bank 0.5% of the 106,000 billion lire on deposit. This will take 530 billion lire out of circulation and trigger yet another increase in credit costs, which already are the highest in Europe.

Germany: Errors in Computerized Tax Notices

Individual and corporate taxpayers in Germany have accepted with mixed feelings the officially confirmed news that three out of five tax assessment notices prepared by computers and sent out by tax offices in the state of North Rhine-Westphalia were incorrect. Tax experts believe that the situation is not much different in the 400-odd tax offices located in the other 10 states. Government officials are confident, though, that taxpayers eventually can expect better and faster service once the initial flaws have been eliminated. At present, slightly less than half of the country's 532 tax offices have been computerized. It now takes sometimes two to three years for taxpayers to find out exactly how much they owe or might have coming to them. The government hopes that once all the tax offices are using computers, processing of tax returns will be cut down to 15 months or even less.

Some of the difficulties experienced so far were explained with the application of new rules contained in tax reform legislation. So far, however, the tax offices have merely applied the new rules governing taxation of individuals *(Doing Business in Europe, Par. 23,311)*. Next year, major new pieces of reform legislation will have to be applied - the corporate tax reform and the new Fiscal Code *(Doing Business in Europe, Pars. 30,882 and 30,862,* respectively*)*. The new corporate tax law alone means that an additional one million returns will have to be processed. Additional work is expected from the application of the loss carry-back because each return must be reviewed in order to determine whether the taxpayer is entitled to carry back to 1974 a loss sustained in 1975 *(Doing Business in Europe, Par. 30,870)*.

Switzerland: Voters Reject Auto Insurance Nationalization

An initiative for the nationalization of motor vehicle liability insurance has been resoundingly defeated by the voters in all Swiss cantons in a referendum on Sept. 26. The proposal had been made by the Association of Public Services Personnel (VPOD) but was opposed by all political parties, except the Socialists, the Communists and the Swiss Labor Federation. The proposal of the public services union for a constitutional amendment establishing a federal motor vehicle insurance system was initiated in 1971-72 after the private insurers had announced considerable premium increases. Since then, however, premium calculations have been subject to stricter supervision, and the federal government generally has strengthened its controls on private insurers.

EURO COMPANY SCENE

Ford — The Ford Motor Co. has officially inaugurated its second plant in Bordeaux, France, for the production of transmissions for its "Fiesta" model. The new "Bordeaux II" facility will turn out standard transmissions (the other plant produces automatic transmissions) initially at the rate of 1,200 units per day and is expected to reach its full capacity of 2,000 units by 1977. The transmissions are scheduled for export to Ford's main European "Fiesta" plants in Germany, England and Spain. Ford's investment in the two Bordeaux plants totals some FF 850 million.

Van Gelder/ McKinsey — After reporting a loss of 25.2 million guilders for 1975 and of 18.2 million guilders for the first half of this year, leading Dutch paper manufacturer Van Gelder has called in U.S. management consultants McKinsey & Co. Van Gelder, 50% owned by the U.S.' Crown Zellerbach, has been hit hard by the economic recession and again anticipates "major losses" in '76 despite an upturn in the second half of this year. The McKinsey report was expected to be completed by the end of the year.

Northrup, King/ Sandoz — Northrup, King & Co., Minneapolis, Minn., has agreed in principle to a takeover bid of $19.40 a share by Swiss-based Sandoz AG. The transaction - which was expected to be finalized by the end of November - involves the 10 million outstanding common shares of Northrup and is valued at $196 million. One of the leading U.S. seed producers, Northrup had 1975 sales of $168 million. Sandoz, Switzerland's third-largest pharmaceutical and chemical concern with a 1975 turnover of $1.5 billion, last year had acquired the seed business of another U.S. company, Rogers Brothers, of Idaho.

AEI Scientific/ Kratos — After weeks of negotiations, the U.K.'s AEI Scientific Apparatus has now been sold, for an undisclosed sum, by its parent General Electric Co., Ltd., to the U.S.-based electronics firm Kratos. GEC had been searching for some time for a buyer for its financially troubled subsidiary where production cutbacks and operating losses have forced layoffs. The purchase by the American firm follows the collapse of a planned takeover by state-backed Cambridge Instruments.

Schering/ Nepera — Germany's Schering AG has announced its takeover for an undisclosed price of Nepera Chemical Co., Harriman, N.Y., a subsidiary of the Warner-Lambert Co. The German company, active for many years in the United States, had a 1975 turnover on that market of about DM 90 million. Nepera, a producer and processor of chemicals, especially of pyridine and pyridine derivatives, had 1975 sales of $20 million.

Common Market Reports
EUROMARKET NEWS

Issue No. 404 *October 13, 1976*

IN THIS ISSUE

Community: European Court Holds Italy in Default

In its first judgment rendered in the fall session, the European Court of Justice has held Italy in default for not enacting legislation required to conform to Community rules. A 1971 Council directive concerning the coordination procedure for the award of public works contracts obligated the member states to adopt the necessary measures by mid-1972 *(Common Market Reports, Par. 1349.71)*. The Italian parliament passed a government bill on the matter in February 1973, but the Commission considered Rome's action not only as coming too late but also as inadequate. The Court's ruling confirms the Commission's argument that Italy failed to live up to the obligations it assumed under the Treaty of Rome (*Commission v. Italian Republic*, Case No. 10/76).

The basic aim of the 1971 Council directive is the creation of a uniform market in the field of public works contracts so that out-of-state contractors can compete with domestic firms for the award of contracts involving the construction of roads, public buildings, and other facilities. To this end, Article 5 of the directive applies to "open procedures," whereby any contractor may submit a bid, as well as to "restricted procedures," whereby bids may be

COMMON MARKET REPORTS, Issue No. 404, October 13, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Default *(contd.)*

submitted only by those whom the public authorities have approached. There are a number of clear-cut obligations for the member states, such as the publication of invitations for bids in the Official Journal and the 21-day period within which contractors must submit their tenders. Further, Article 15 of the directive allows that tenders also may be made by telegram, telex, hand-carried message, or telephone.

The 1973 Italian law falls short of all of these obligations in that it applies only to restricted tendering procedures. It ignores open procedures completely and limits announcements of invitations for bids to publication in the state gazette. Further, it does not provide for the various alternatives of communicating bid invitations and tenders; it fact, it fails to invalidate a ban on the submission of tenders by telegram, which was established in a 1924 decree.

The Commission believed that there was no need for the Court to examine the Italian government's defense to the effect that in mid-1974 it had submitted to Parliament another bill which allegedly came close to complying with the Council directive but passage of which was delayed because of the political situation. In previous case law the Court had said that a member state remains responsible, no matter which branch of government is to blame for the failure to comply with Community obligations (cf. *Commission v. Belgium,* Case No. 77/69, and *Commission v. Italy,* Case No. 8/70, *Common Market Reports, Pars. 4616.67-.68,* respectively).

Testing Effects of Lead on Human Health

The Council of Ministers will soon follow up on part of its 1973 environmental commitment and adopt rules that will require member states to monitor, according to Community standards, the effects on human health from lead in the environment. Should the test results prove that exposure to lead and lead compounds anywhere in the Community threatens to affect, or has actually affected, human health, legislation would be enacted to minimize these effects.

Critics say they are disappointed that this involves only one of two environmental measures sent to the Council by the Commission in mid-'75 *(Common Market Reports, Par. 9744).* The other proposal provides for air quality standards for lead, and the Council reportedly has delayed action on it not only because final research results are not available but also because of the impact that Community standards would have on industry in the states that are considered lagging in this area. The Economic and Social Committee, which supports the Commission's proposal on testing, also favors continued and coordinated research by the member states on the effects of lead pollution on employees and on the public at large. Several research pro-

Lead Effects *(contd.)*

grams initiated and financed by the Community are under way. One of them seeks to establish the extent to which lead and its compounds contribute to overall contamination of the environment.

Commission attorneys have not given up hope that the Council will eventually agree on air quality standards with respect to lead and sulfur dioxide *(Common Market Reports, Par. 9820)*, but these standards might not be as strict as environmentalists would like. Still, factories and other stationary emission sources are only partly to blame for air pollution: automotive exhaust contributes far more to it. Here, the Community has made some progress by establishing harmonized standards aimed at reducing air pollution caused by auto exhaust *(Common Market Reports, Pars. 3371.06 and 9328)*. The Council has yet to reconcile its differences over the Commission's 1973 proposal to reduce the lead content in gasoline in two stages *(Common Market Reports, Par. 9619)*. Finding a compromise has been difficult, not only because Germany has enacted stricter legislation but also because of the effects that the reduced lead content has on engine performance and increased emission of other pollutants. German officials point out that refineries had no trouble in adapting to the rules at minor costs.

Brief...

Nine proposals pertaining to veterinary standards - among them the permissible water content in frozen chickens - are being discussed either in a working group or among the Permanent Representatives, and Council attorneys anticipate adoption of several of the proposals this month or next. Among other things, these measures deal with sanitary controls in interstate trade of live animals and frozen meat and the list of third countries from which the member states could import animals and meat + + + Commission and Court of Justice officials are making progress on a draft statute establishing a court of first instance at the European Court of Justice. The lower court would be entrusted with handling disputes brought by employees of the various Community institutions and would thus greatly relieve the full Court, which has been handling these labor disputes so far (31 of the 114 judgments in 1975). Appeals to the full Court could be based only on matters of law, not issues of fact.

Germany: Bonn Coalition Reelected by Narrow Margin

The German two-party coalition government under Chancellor Helmut Schmidt and Foreign Minister Hans-Dietrich Genscher has been returned to power with a majority of only eight seats. In the Oct. 3 national elections, the Social Democrats won 213 seats and their coalition partners, the Free Democrats, 39. The Christian Democrats along with the

Coalition (contd.)

Christian Social Union gained 244 mandates, making the Opposition the strongest party in Parliament.

Under normal circumstances, the eight-seat margin should suffice for the government to remain in control. However, there is always the possibility that a few "turncoats" defecting to the Opposition could shrink this margin still further or even erase it. (In 1972, the government of Willy Brandt, Schmidt's predecessor, was almost toppled by an unprecedented no-confidence motion after some members of Parliament had crossed party lines. The vote then resulted in a majority of two for Brandt, and the ensuing parliamentary impasse on other issues eventually forced a call for new elections in November.) This time, the leadership of the two parties is said to have been very careful in selecting the candidates for office, so that even with the slim margin the new Schmidt administration should be able to tackle the urgent problems that are besetting the country despite its relatively good economic standing in the international community. Still, governing against the country's strongest political force will now become even more difficult in light of the Opposition-controlled Bundesrat - Schmidt's suggestion on bypassing the upper house may not work for constitutional reasons. This is certainly true for any major piece of tax legislation like the turnover tax amendment bill *(Doing Business in Europe, Par. 30,825)*.

Whatever the legislative priorities for the next four years may be (Schmidt is expected to reveal them in his inaugural message in December), the new administration must concentrate on three major problems: unemployment, especially among school leavers; the Budget deficit; and the precarious situation of the social security system. The apprentice hiring law *(Doing Business in Europe, Par. 30,885)* may help to reduce unemployment among the young, but even government economists admit that only substantial additional investments by private industry can bring genuine and lasting relief and at the same time yield the additional tax revenue needed to help balance the Budget. Many economists maintain that if Chancellor Schmidt is as successful in the future as he has been in the past in convincing union leaders to hold down wage demands, a major condition for more investments and thus new jobs will be fulfilled.

Britain: Government Rejects Rumors on Election

The annual congress of the U.K.'s Conservative opposition party convened last week amid widespread speculation that a general election was imminent. Although this suggestion was immediately rejected by Prime Minister James Callaghan and senior Labour government ministers, both major parties were known to be making contingency plans for that eventu-

Rumors *(contd.)*

ality. The Conservative congress opened on a high note as a result of the deep divisions in Labour's ranks exposed at its annual conference held the previous week. It was during that conference that the latest sterling crisis reached a peak and Chancellor of the Exchequer Denis Healey found himself obliged to approach the International Monetary Fund for a further massive loan to prop up Britain's economy. It was hardly surprising, therefore, that the Conservatives' "blueprint for survival" focused largely on the apparent deterioration of relations between the government and the labor unions and on the "indiscriminate" and "profligate" attitude of the government on public expenditure. This, claims the Opposition, is at the root of Britain's inflation and unemployment problems.

Regardless of the "electioneering" tone of Opposition pronouncements, even the most loyal government supporters have been forced to admit that the timing of the IMF loan request, coupled with the official failure to make good on inflation rate prognoses and the general disenchantment over fast-rising prices, have severely damaged the government's image. In addition, there is a growing awareness that the labor unions - unlike most of their Continental counterparts - continue to focus their attention on income rather than wealth or capital, i.e., on "paper wages."

Another irritant is the rising cost of food - always a major political and election issue. The Opposition knows only too well that failure by Agriculture Minister John Silkin to persuade his EEC counterparts to maintain present subsidies despite sterling's most recent slide could turn out to be the Conservatives' most powerful weapon. As the conference opened, Silkin was attempting to stave off Community plans to cut Britain's present food subsidies (estimated at around £1 million daily) on the grounds that the U.K. "was determined" to overcome inflation. The European Commission did not appear to be particularly impressed with the British efforts to date and was calling for a 4.5% devaluation of the green pound.

Italy: Doubts over Major Parts of Austerity Plan

Although Prime Minister Giulio Andreotti on Oct. 1 revealed his government's new economic austerity program to the Italian public, the fate of certain key measures remained in doubt because of "intervention" by the Communist party (KPI). The KPI demanded that the proposals for price and rate increases first be discussed in Parliament - a strategy that effectively blocks this part of the *austerità* plan. To many observers, this development was seen as foreshadowing Communist intentions in dealing with any significant legislation to be submitted by the Andreotti government in the future.

Austerity *(contd.)*

Under the impact of a rapid deterioration of the lira, the cabinet decided on three emergency measures to combat speculation and support the national currency: 1) the raising of the discount (bank) rate from 12 to 15%, 2) a provisional levy amounting to 10% of all foreign exchange purchased, and 3) an increase from 30 to 50% of the margin of foreign exchange required to pay for Italian exports invoiced on the basis of foreign exchange.

The raising of the discount rate to an unprecedented 15% came half a year after a 3% boost in March. Andreotti appealed to the commercial banks to be reasonable in their interest-rate adjustments; nevertheless, it was expected that Italian businesses will soon have to put up with money costs of 25%. The special 10% levy on foreign exchange purchases is to be imposed for only 14 days and practically amounts to an import tax. In fact, it will come on top of the cash deposit on imports and thus will hamper both import trade and foreign travel. The levy - which political observers judged to be in violation of the Rome Treaty - apparently was designed to discourage speculation that the D-mark would be revalued following the Oct. 3 German elections. The third measure, finally, was aimed against the frequent practice of some exporters of delaying the collection of invoices denominated in foreign exchange in hopes of profiting from a further lira decline. The grace period here has been set at 120 days.

These three measures were meant to be augmented by a series of public service rate increases affecting all utilities, telephone, television, postal services, urban transport, freeway tolls, etc. However, in anticipation of a Communist veto, the cabinet did not make a formal decision and instead remanded these proposals to parliamentary committees. The same was done with proposals concerning higher prices for certain "controlled" products such as fertilizers, drugs, pasta, and newspapers. Actually raised were only the prices of some oil products. Should it still be possible to push through all proposed price and rate increases, this would have the effect of sifting off about 2.5% of the gross domestic product, or 4,200 billion lire.

In his Oct. 1 address, Andreotti also declared that the government would try to seek a modification of the system of automatic, index-based pay adjustments. Thus, a "braking effect" would start with annual net incomes of 6 million lire, and no automatic adjustments would be allowed for incomes in excess of 10 million lire.

<u>Denmark: Industry Hits Proposal on Energy Tax</u>

The Danish industrial federation has protested the government's plans for the introduction of an energy tax, which would raise an estimated 1.2 billion kroner in revenue but would be mainly seen as an incentive to save energy. The

Energy Tax *(contd.)*

federation argues that such a tax would lead to cost increases and lower productivity and thus would run counter to agreed policy. With businesses and industry accounting for half of the country's energy consumption, the federation said, the additional cost would come to around 600 million kroner. The government earlier had calculated the extra costs as being equal to only 0.3% of annual business turnover, a figure that the federation did not agree with.

Austria: Net Worth Tax Boost Planned for 1977

The Austrian Finance Ministry has completed the draft of new legislation amending the net worth tax law *(Vermögenssteuergesetz)* and raising the tax rate from 0.75% to 1% as of Jan. 1, 1977. In submitting the proposal, the government said that the law, which dates from 1954, requires a "thorough rejuvenation" in view of the fact that net worth tax assessments no longer reflect actual economic conditions. The tax increase would be expected to result in 800 million to 1 billion schillings in additional revenue, and these funds would be used in the government's "fight against poverty" - specifically, to help those retired people who must subsist on minimum pensions.

To prevent hardships for individuals with relatively small assets, the Finance Ministry draft provides for the tax-free allowances granted to natural persons to be raised from 100,000 schillings to 150,000 schillings. For those individuals who maintain taxable assets in several countries, the amendment would be more restrictive, however: they would be entitled to the tax-free allowances only in the country where their "life interests" are centered.

For corporate taxpayers, the minimum assets subject to the net worth tax would be raised from 1 million to 10 million schillings for stock corporations and from 100,000 to 1 million schillings for limited liability companies.

The proposed increase of the net worth tax rate has been interpreted by political observers as a demonstration by the Socialist government that "the rich have to pay more," too, and has led to charges of "political image building." With a probable Budget deficit in 1976 of more than 40 billion schillings, the government cannot afford to lower personal income taxes, even though inflation has caused more and more employees to be exposed to higher tax progressions.

No Road Tax Next Year, Vienna Says

Following a series of massive protests by domestic and foreign transporters, Finance Minister Hannes Androsch has announced that the proposed introduction of a transit tax on trucks and trailers *(Lastwagensteuer)* is not foreseen until after 1977. Originally, the Transport Ministry had mentioned Jan. 1, 1977, as the probable effective date. The Ministry's proposal provides for a tax of 0.25 schillings

Road Tax *(contd.)*

per kilometer/ton on trucks and trailers using Austrian roads in transit to other countries. Only vehicles with a total weight of 7.5 (metric) tons or more would be subject to the tax.

The Austrian chamber of commerce has estimated that the tax would raise the cost of domestic road transport by 40%, a figure that the Transport Ministry terms "far too high." But the government probably has been more impressed with the threats of retaliation issued by several neighboring countries. The question now is whether Vienna wants to risk the lucrative long-distance business Austrian transporters are doing in hauling goods from central Europe to southeastern Europe and the Near East, especially Iran.

Portugal: Labor Rules; Seized Farms; Europe Links

The Portuguese socialist minority government headed by Prime Minister Mario Soares on Oct. 1 announced the revocation of the law that had established a single national labor federation, Intersindical. Lisbon explained the action with the need to establish freedom of union organization (the Intersindical had been dominated by the Communists from the start). At the same time, the government issued a series of new labor law rules concerning control over sick leave, causes for dismissal, curbs on overtime and fringe benefits, a workweek of 40-45 hours, and separate collective bargaining for the public and private sectors. The most controversial changes concerned the reintroduction of powers of dismissal, which previously had been virtually suspended. Under the new rules, the refusal to obey orders, violent acts, or undue absenteeism are sufficient cause for dismissal. The measures were sure to be welcomed by the country's business community and also were seen as creating a more receptive climate for foreign investments.

A few days earlier, the government said that it would return within this month 101 illegally seized farms to their rightful owners and would be prepared to use force to overcome any resistance by farm workers.

Last month, in what government officials termed "a historic act" for the country, Portugal became the 19th member of the Council of Europe. At the same time, on the occasion of the signing of two protocols to the 1972 free-trade agreement between the EEC and Lisbon, Portugal's foreign minister again expressed his government's desire to move rapidly toward Community membership.

Common Market Reports
EUROMARKET NEWS
Issue No. 405 *Report No. 303, October 20, 1976*

IN THIS ISSUE

Community: Proposal for Margarine Tax, Milk Levy

The European Commission has filled in some of the details lacking in its proposal - discussed at the Council meeting on Oct. 3-4 - to cut milk production in the Common Market: suggested are a 2.5% "margarine tax" payable on EEC-produced and imported vegetable fats and a 2.5% levy that milk producers would have to pay as of April 1, 1977. Both would be designed to boost consumption of animal fats and to reduce production of milk powder and butter.

While the proposal for the milk levy was given a good chance for Council adoption, that for the margarine tax met with opposition from national consumer organizations and independent economists, with the latter once again deploring the lack of logic in the common agricultural policy. It was argued that butter and milk production has been at a high level only because of artificial support of milk production and milk prices and that this situation is bound to continue if animal fats are now made more competitive by taxing vegetable fats.

Brussels observers recall that this is the second time the Commission has advanced the idea of a margarine tax. In the '60s it submitted a similar proposal, Council adop-

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

COMMON MARKET REPORTS, Issue No. 405, October 20, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Levies *(contd.)*

tion of which was blocked by Germany and the lobbying efforts of U.S. soybean exporters, who feared a decline in sales to the EEC.

Meanwhile, the CAP has run into additional difficulties caused by the declining value of the pound sterling. Britain's refusal to devalue the "green pound," which is used to compute compensation payable or granted in trade of agricultural commodities and now deemed "unrealistically high," means an additional burden of 300-400 million units of account annually for the Community Budget. Several major contributors to the Budget such as Germany and the Netherlands have indicated that they are not willing to continue making additional contributions just to keep U.K. consumer prices artificially low.

In Brief...

The Commission has proposed uniform work rules for truck drivers in order to improve road safety: a driver could not be at the wheel longer than eight hours and could drive no more than 450 kilometers per day. All trucks would have to be equipped with recording devices to monitor driving and rest periods + + + The European Court of Justice is approaching its goal of having its case law computerized. A building which will contain the data-processing facilities is now being erected next to the courthouse on Luxembourg's Kirchberg, and completion is scheduled for the end of next year. Computerized information should be available then to interested parties, especially national courts and practicing attorneys; experts are now working out the necessary technical details.

Italy: Resistance to Austerity Measures

One week after outlining its new austerity program, the Italian government has passed several measures involving price and rate increases, suspended pay indexation for higher income brackets, and reductions in the number of legal holidays. In the face of protests and strike actions, particularly over steep gasoline price increases, Prime Minister Giulio Andreotti issued a clear warning that he would resign rather than allow Parliament to dilute the program: "I certainly don't hold this position...to act as gravedigger of the Italian economy." The proposed austerity package has come under attack especially by the Communists, the Socialists and the Social Democrats, who claim that it puts too much of a burden on the low-income groups.

The most controversial decision was to raise the price of premium gasoline by 25%, from 400 to 500 lire per liter. Also selectively raised were automobile taxes and insurance premiums, while owners of diesel-powered vehicles will have to pay a special levy of 360,000-560,000 lire per annum. Fertilizer prices went up by 15.2%. All passenger and freight rates of the state railways will be increased by

Resistance *(contd.)*

10%, to take effect by Dec. 1 at the latest. An increase in telephone, postal and utility rates as well as urban transport rates was decided on in principle, though details were to be announced later on.

Incomes policy measures involved the suspension of automatic pay adjustments for those with annual incomes in excess of 8 million lire. Only 50% of pay adjustments will be suspended for incomes ranging from 6 to 8 million lire. (It was estimated that about half a million Italian employees earn more than 8 million lire per year, while about two million are earning from 6 to 8 million lire.) The funds thus freed are to be converted to state obligations for a period of two years. The business community was surprised by the increase, from 30 to 50%, of the coupon tax on dividends. Shareholders no longer will have to declare dividend income in their tax returns; just the same, it was expected that the stock market would continue to deteriorate.

The measure with the greatest impact on all Italian employees was the decision to remove five religious holidays as legal holidays and to move two civil holidays to Sundays. These holidays often cause wholesale absenteeism, especially when they fall near the weekends. With the agreement of the Vatican, the lost holidays will be added to the Christmas holiday period.

ital Export Law Approved by Parliament

Both the Italian Senate and the Chamber of Deputies have approved the conversion to statutory law of a previous government decree on the illegal export of capital and the repatriation of capital from abroad. The law essentially provides that resident owners of foreign exchange and individuals holding securities, real property and other assets abroad are given until Nov. 19 to file a voluntary statement with the Italian authorities. In its final version, however, the law is not as restrictive as an earlier draft: for instance, residents who own real property abroad are no longer required to sell this property but merely to repatriate any income from such property and to pay taxes on the income. Those who maintain bank deposits, securities and other assets abroad must file a declaration to this effect with the Foreign Exchange Board. Depending on the nature of the assets, actual repatriation (via the Bank of Italy or other authorized banks) must then be effected by Nov. 19, 1977, at the latest. The repatriated assets are subject to a one-time 15% tax, and payment of this levy prior to Feb. 19, 1977, will automatically clear individuals concerned of any wrongdoing in connection with the foreign exchange regulations.

Beyond these exceptions, violations of the law on illegal capital export and capital repatriation are punishable by imprisonment of one to six years and by fines of four times the amount of the illegally exported capital

Capital Exports *(contd.)*

(beginning with amounts in excess of 15 million lire). Those who use foreign businesses as "fronts" for illegally exported capital face imprisonment of up to three years and fines of up to 5 million lire.

Britain: Tory Conditions for Support in Crisis

As the U.K. parliament reconvened after the summer recess, it was only to be expected that the Labour government would be subjected to bitter Opposition criticism in regard to its handling of the economy. Events of recent weeks, culminating in Britain's approach to the International Monetary Fund for a massive loan to prop the ailing pound, tended to confirm the suspicions of many factions that successive counter-inflation policies have been far less effective than the government has claimed. While IMF spokesmen at the Manila meeting welcomed the decision taken during the week of Oct. 4 to raise the minimum lending rate (the former bank rate) to an unprecedented 15%, there was considerable pessimism in Britain itself as tq whether this "short-term action" would persuade other countries that the U.K. was "a good bet."

In what was acclaimed as her most impressive Commons speech to date, Conservative opposition leader Margaret Thatcher stressed that overseas confidence in the pound and in Britain generally had been seriously undermined not only by the measures taken by the Labour government but also by the measures proposed. The price for Conservative support in overcoming the present crisis, Mrs. Thatcher indicated, would have to be a marked retreat on the government's part in regard to pending legislative measures for increased state control. The allusion here was to the Community Land Act, calling for public ownership of undeveloped land, and the Aircraft and Shipbuilding Nationalization Bill, which was being debated in the House of Lords. A further contentious issue was North Sea oil: there is little point, the Opposition argued, in the government's earmarking of colossal sums for state participation when the revenue from the oil fields can be controlled through the tax system.

Clearing Banks Paying Higher Euro Rates

The downturn in Britain's economy has created an unprecedented situation in the London Eurodollar interbank market: British clearing banks, which have traditionally enjoyed prime deposit rates, at present find themselves obliged to pay fractionally more than their American counterparts in order to raise deposits. The difference is small but by no means negligible in a sector where minute fractions of a point have implications in terms of both prestige and profitability. On the average, it appears that British clearers are paying approximately 1/16th of one percent more than the U.S. banks which are active in the market.

Leading bankers have stressed that the margin does not reflect on the banks themselves but on the economic state

Euro Rates *(contd.)*

of the country: there are certain fears that "emergency measures" in, say, the field of exchange controls could jeopardize the operational viability of British banks. A further inhibiting factor is the pronounced falloff in OPEC surplus funds placed in the London Eurodollar market. The premium that the British clearers are now being forced to pay can be expected to inhibit their participation in fine rate loans.

Sweden: Fälldin States Policy Goals, Eases A-Stand

In his inaugural speech to Parliament, Sweden's new prime minister, Thorbjörn Fälldin, has declared that his government will promote the free-enterprise concept in the domestic economy, work against bureaucracy and undue centralization, and strengthen controls on monopolies and cartels. He said more attention would be given to the needs of small and medium-sized businesses and that public expenditure would come under closer scrutiny. It was noted that Fälldin retreated somewhat from his campaign position of opposing any further spread of nuclear power facilities: he indicated that the start-up of the new Barsebäck-2 reactor plant in southern Sweden next year would be made dependent on provisions for the safe disposal of nuclear waste.

Fälldin presented his 20-member cabinet to the Riksdag on Oct. 8 after having been confirmed, by a vote of 174-160, as Sweden's first non-socialist prime minister in 44 years. The cabinet is composed of eight members of Fälldin's own Center Pary, six Conservatives and five Liberals (one minister is nonpartisan). Liberal Party leader Per Ahlmark was named deputy premier and labor minister; Gösta Bohman, the Conservative leader, took over as economics minister. The new coalition administration holds an absolute majority of 180 mandates in the 349-seat Parliament.

Earlier, on Oct. 4, the Swedish central bank had raised the discount rate from 6 to 8% to stop the drain on foreign exchange reserves, which had amounted to 1.3 billion kronor in August, 1.4 billion kronor in September, and about 1 billion kronor in the first four days of October. A central bank spokesman denied, however, any intention to devalue.

Portugal: Import Levies, Cash Deposit; Strike Law

Faced with an estimated balance of payments deficit of 35 billion escudos this year, the Portuguese government has imposed "temporary and extraordinary" austerity measures aimed at curbing imports, boosting exports, and stimulating domestic production. The decrees reportedly were to take effect on Oct. 14.

Decrees
(contd.)

The Minister for Planning and Economic Coordination Sousa Gomes announced that the special levy on imports, which was first introduced on May 31, 1975, will be raised from 20 to 30%. This increase affects finished and semi-finished products and raw materials which either are already produced domestically or which could be produced in Portugal on the basis of existing technology (various foodstuffs, textiles, paper and board, glass and ceramics, machinery, etc.). A new import levy of 60% will be imposed on numerous products deemed "nonessential" such as, for instance, seafood and fish, wines, tobacco products, perfumes, furs and luxury-type apparel, jewelry, and products that either are being domestically manufactured or for which "acceptable substitutes" exist. In addition, Lisbon is introducing a 50% cash deposit requirement on imports that are subject to the special import levies. Deposits do not draw interest and must be held by the Bank of Portugal for a minimum of 180 days. Finally, the government reserves the right to establish import quotas for products considered nonessential; however, such a step would be taken only to deal with gross imbalances in foreign trade.

Earlier, on Oct. 5, the government passed a new draft strike law according to which only labor organizations would be authorized to organize and schedule strike actions. An exception would be made for those enterprises in which the unions are not, or only inadequately, represented. In these enterprises, the general meeting of employees could organize "democratic" strike initiatives. The draft law, which prohibits lockouts by employers, has been sent to the National Assembly for passage.

Spain:
Parties, Labor Groups Oppose Economic Plan

Following lengthy internal deliberations, the Spanish government has presented the broad outlines of a plan to deal with what was officially termed the "most serious economic crisis within the last 15 years." The program contains numerous austerity measures, a two-month price freeze, and the suspension of previously guaranteed job security provisions. Foreseen are energy-saving measures in the form of an automotive speed limit (100 kilometers per hour), special levies on heating fuel, and higher electric power rates. Pay increases are to be granted only in line with general price expansion; dividends would remain frozen at present levels. The two-month price freeze is to be followed by selective price controls. Levies on imports will be raised by up to 20% in order to aid the foreign trade balance.

Most political parties as well as labor representatives severely criticized the package as constituting "a challenge to the workers," even though the full details of the program were still to be published. A very controversial

Economic Plan *(contd.)*

step was the suspension of Article 35 of the Labor Law which, for the first time since the law's enactment under Franco, enables businesses to dismiss workers without the approval of the authorities or the labor courts. For the time being, this freedom applies for a one-year period. The government believes that while companies may now want to lay off "unproductive" employees, they also will hire new employees: in the past, businesses had been extremely cautious in their hiring policies for fear that it would be impossible to dismiss newly hired employees. The government's move has been criticized as being ill-timed on the grounds that the absence of adequate unemployment benefits and of free, legal labor unions leaves dismissed workers without protection. (The government plans to submit to the Cortes a draft law legalizing labor organizations on the conditions that these remain independent of political parties and seek official recognition.)

EURO COMPANY SCENE

IBM/ ICL

International Business Machines Corp. (IBM) appears to have been bypassed in favor of Britain's International Computers Limited for the $5-million European Community contract for new computer equipment to process the European Commission's work load in the areas of statistics, personnel and internal management, and information retrieval. Also in the running for the contract is the Franco-American group CII-Honeywell Bull, but ICL reportedly remains the firm favorite inasmuch as the Commission is apparently determined to stimulate a "European" computer industry and will pursue a "buy European" policy. For this reason, the elimination of IBM (regardless of the considerable support voiced by Community computer experts) and, probably, of CII-Honeywell, is considered likely.

Matra/ TRW

According to Paris reports, the French government has approved the establishment of a joint subsidiary by France's Matra SA and the United States' conglomerate TRW, Inc. (TRW Datacom). The new company, Matra Informatique, is to develop and distribute computer systems and will have a share capital of FF 20 million, with Matra holding a 55% interest and TRW 45%.

Geze

Although the U.S. International Trade Commission has dismissed dumping charges brought in June 1975 by Safety Systems, Inc., against a group of German, Austrian and Swiss manufacturers of ski bindings, one of the German companies named in the action, Vereinigte Baubeschlagfabriken Gretsch & Co. GmbH ("Geze"), has now announced that it is considering bringing a damage suit against the U.S. government. Geze charges that the U.S. authorities were negli-

Geze
(contd.)

gent in the preliminary investigation of the case and that the anti-dumping proceedings should have never been opened in the first place. As a result of the action, Geze says, its U.S. sales have plunged from DM 2.5-3 million in normal years to DM 600,000 in 1975. In addition, the company had to bear more than DM 360,000 in legal costs. Geze, by its own statement, held a share of 2.5-3% of the U.S. market for ski bindings during the investigation.

Exxon

The Exxon Nuclear Co., Inc., Bellevue, Wash., has announced it will begin construction next month of a DM 35-million nuclear fuel plant in Lingen, Germany. The project, part of Exxon's planned $2-billion investment in the nuclear energy field over the next decade, marks the company's first investment in the European nuclear industry. The new facility, to employ some 200 by the 1980s, is expected to provide fuel for light-water reactors primarily in Germany and Sweden by late next year or early '78.

Morgan
Guaranty

Morgan Guaranty Trust Co. of New York has announced that it is to open branch offices in Milan and Rome early next year. Morgan Guaranty, which had earlier announced it would shed its 51% stake in Milan-based Banca Morgan Vonwiller if it received authorization to set up direct branch operations in Italy, has now confirmed that it expects to complete the sale of its Morgan Vonwiller interest by early November. The prospective buyer, Credito Romagnolo, already holds a significant stake in Morgan Vonwiller.

Bank of
America/
Rabomerica/
Rabobank

The Bank of America is set to reduce its stake in Amsterdam-based Rabomerica International Bank from 50 to 5%, according to Brussels reports. The shares will be taken over - for an undisclosed price - by Centrale Rabobank, the other partner in the two-year old venture. Rabobank, with a balance sheet total of 46 billion guilders, ranks as Holland's second-largest bank.

BAT/
Juvena

British-American Tobacco (BAT) has announced that it is to buy control of the Swiss-based cosmetics firm Juvena at a price of some $16 million. The remaining interest in Juvena will be "priced and purchased" in five years' time by BAT's subsidiary British-American Cosmetics "once the value of the outstanding interest can be more accurately assessed." The acquisition, which gives BAC a foothold in Continental markets (predominantly in Switzerland and West Germany), will then be completed at a further cost of "at least SF 15 million."

Common Market Reports

EUROMARKET NEWS

Issue No. 406 *October 27, 1976*

IN THIS ISSUE

Community: Clash Averted by Postponing EC-Turkey Meet

Postponement of a meeting scheduled for Oct. 16 to discuss closer EC-Turkish relations has possibly averted an open clash amid growing tensions between the Common Market and Turkey. The reason given for cancelling the talks was the sudden illness of European Commission vice-president Sir Christopher Soames; now both sides have gained time to reconsider their positions.

The 1964 association agreement between the Community and Turkey provides for the gradual dismantling of barriers to trade, free movement of Turks within the EEC, and Community aid, but the details for the final 1977-86 period were still left to be negotiated *(Common Market Reports, Par. 5346)*. Early this year the Community offered Turkey substantial tariff concessions for industrial products, 310 million units of account in financial aid over the next five years, and very minor concessions on the issue of free movement. However, none of these proposals was satisfactory to the Turkish government.

Ankara has argued that the tariff concessions for industrial products would not amount to much because Turkey cannot yet compete with EEC industry, and the concessions for farm products would not be significant either because

COMMON MARKET REPORTS, Issue No. 406, October 27, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Clash
(contd.)

these preferences are granted to all Mediterranean countries. Also, it was pointed out, the financial offer is even less than the 240 million UA granted by the original six-nation Community in times of lower inflation. The biggest disappointment to the Turks, though, was the matter of free movement.

Last July, then, the Community made an additional offer in the trade sector: aware that Turkish industry still requires development, the EEC was prepared to accept temporary barriers on exports to Turkey - an offer the Turks did not even acknowledge. At this point, Commission officials made it equally clear that Ankara could not count on a concession on free movement. Germany wanted to stop the entry of Turks into the Community and favored restricted movement of Turks already located there. It won its point on the argument that it still has considerable unemployment (970,000, including nearly 50,000 Turks) as well as the highest percentage of employed Turks in the EC (600,000, compared to 66,000 in all other member states combined).

Community restrictions on free movement weigh heavily for Ankara because money sent home by Turkish workers represents a major source of foreign exchange. Turkey's increased concern over the Common Market is in part also motivated by Greece's application for full EC membership. The Cyprus problem and NATO membership have broad implications, too. On top of these international problems, the situation in Turkey is aggravated by the fact that the coalition partner in Prime Minister Demirel's government has been urging that the nation break away from its pro-Western orientations and join the Arab world.

In Brief...

The final editorial content of the Commission's draft directive on harmonizing national rules on unfair competition is expected to be shaped by the outcome of a Brussels meeting of government experts late this month. Although the Commission made some changes in its first draft, the revised draft has not silenced all critics in several national governments. It largely follows German rules and legal thinking on fair trade, especially on truth in advertising + + + The Commission wants the Council of Ministers to establish a new agency in charge of trade cooperation with the developing countries in order to intensify its trade relations with the African, Caribbean, and Pacific (ACP) nations that are signatories to the Lomé Convention. The agency would not only undertake trade promotion campaigns on behalf of the developing countries but also offer assistance to businesses in the Community.

Germany:
Joint Float
Revaluation
of D-Mark

The revaluation of the D-mark by an average of about 3% vis-à-vis the other currencies in the European joint currency snake has been described by Germany's monetary authorities as an important contribution to international

Revaluation *(contd.)*

monetary stability. They pointed out, however, that the action did not represent a "general" revaluation, since the D-mark as well as the other snake currencies continue to float jointly against all other currencies. The decision for partial revaluation was not entirely unexpected. It was taken on Oct. 17 in Frankfurt at a secret conference attended by government and central bank officials of the "snake countries." In a communiqué published the following morning, the officials affirmed their countries' determination to maintain the joint float on the basis of the new parities and to pursue the necessary stability policies toward this end.

According to the Frankfurt decision, the D-mark was revalued by 2% against the Dutch guilder and the Belgian-Luxembourg franc, by 3% against the Norwegian and Swedish krone, and by 6% against the Danish krone. The D-mark's exchange value thus was moved upward for the sixth time since 1948: "general" revaluations had occurred in March 1961, October 1969, December 1971, and in March and June 1973. Since 1972, the German currency has gained 25% against the French franc, 30% against the U.S. dollar, 80% against the British pound, and 90% against the Italian lira.

On the whole, the latest measure was accepted at home and abroad as being necessary and timely. The European Commission stated that great significance should be attached to any actions that serve to maintain the joint float, though it did complain of not having been consulted beforehand. Other factions also recognized the snake partners' efforts to preserve the joint float as an "integrating element" for the Community. Spokesmen for the German export industries reacted to the revaluation with a mixture of approval and skepticism. Most of them conceded that the partial revaluation was not severe enough to seriously impede the country's export performance (only one-fourth of German exports will be affected).

Broad Program to Reduce Unemployment

The German government is preparing a broad program that, it is hoped, will reduce unemployment from currently 970,000 to approximately 600,000 in the next two years. Bonn will concentrate on offering retraining courses, giving grants to those willing to relocate and accept a job elsewhere and encouraging employers and works councils to reduce overtime work and hire additional help.

At the moment, no tax incentives are planned to persuade employers to create new jobs. Free Democratic leaders in the coalition government have advocated generous depreciation rates to offset the cost of new investments, but the Social Democrats have remained cool to the idea, primarily for budgetary reasons. However, measures to benefit businesses were not entirely ruled out in the event that the planned program fails to produce the hoped-for results.

Unemployment *(contd.)*

The government is well aware that new investments do not necessarily create new jobs, since such investment often leads to production automation, thus eliminating jobs (about 250,000 in the 1972-75 period). For this reason, economists have considerable doubts whether Bonn's plan will work. They point to the great variety of retraining courses already offered and to the large number of unemployed who fail to take advantage of them, even though the state pays such individuals for attending. Over one-third of the 970,000 unemployed have no vocational training whatsoever, and without some training and willingness to move, there is little hope that they will find jobs. Another third of the jobless are over 45, and here the government counts on employers to hire older employees.

The government may have a better chance of tackling unemployment among school leavers, who generally are more mobile. Their number at present is still small (30,000), and an additional 40,000 will be seeking jobs in 1977. Also, the apprentice hiring law and the DM 900 million in revenue that it is expected to raise may help solve the problem in spite of heavy criticism of the measure from the business community (*Doing Business in Europe, Par. 30,885*).

Italy: Rome Imposes More Controls to Shield Lira

On the eve of the lifting of the 10% special tax on foreign exchange purchases, which had been imposed for 14 days until Oct. 18, the Italian government decided on a further tightening of exchange controls in an effort to protect the lira:

- Italian citizens were given until Oct. 22 to reduce by 50% any foreign exchange deposits maintained at home or abroad as well as any forward transactions.
- Italian banks in the future may discount lira-denominated bills of exchange within the credit lines granted to foreign banks and clients. The prohibition on domestic banks against granting lira credits to foreign banks remains in force. Limits were imposed on the extent of foreign exchange forward dealings by banks.
- Credit volume expansion by domestic banks will be restricted to 20% above 1975 levels in annual terms. To achieve this, obligatory ceilings have been established for various time periods. Affected are all credit positions above 100 million lire as well as individual credits by finance companies in excess of 30 million lire. (Earlier, Rome had given assurances to the EEC that it would limit domestic credit expansion to 18%; since then, however, this expansion has approached a rate of 25%.)

In addition, the cabinet issued a decree providing for stiff penalties for those who engage in price speculation by hoarding foodstuffs and other essential products. The decree reportedly was directed primarily against certain

Controls
(contd.)

wholesalers and also was intended to calm public discontent over a series of official price increases and restrictions. Among other measures reportedly under consideration by the Andreotti administration was the suspension for six months of inflation adjustments for annual net incomes of more than 3 million lire (a 50-100% stop already is in effect for incomes of 6-8 million lire and more). To save foreign exchange reserves spent on expensive meat imports, it was considering reducing consumption of fresh beef by closing down butcher shops in the first week of each month and by imposing beef rationing on restaurants (requiring these, for instance, to turn more to frozen meats). Such a step would be certain to incur the displeasure of Italy's trading partners, especially France, Germany and Ireland.

France:
Assembly Kills Proposals for Wealth Tax

The French government, in steering its 1976 supplemental Budget and the attached anti-inflation package through a first reading in Parliament, has been successful in turning back Opposition-sponsored proposals for the introduction of a wealth tax. By a vote of 271-181, the National Assembly on Oct. 15 defeated motions by the Socialists and Communists to put a tax of 0.5% on assets valued in excess of FF 2 million. The Assembly rejection of the Opposition bid was, to a considerable extent, due to the uncompromising stand taken by Prime Minister Raymond Barre, who accused the sponsors of the motions of "irresponsibility" in creating an "unfavorable psychological climate which has nothing to do with fighting inflation." Barre's personal intervention came after some spokesmen for the Gaullists - who support the government majority in Parliament - had taken up the left-wing calls for inclusion of the wealth tax in the austerity package and after Barre himself initially had appeared to waver on this issue. In the deciding vote on the proposal, most Gaullists either abstained or were not present.

The government's triumph on this point preceded a similarly comfortable margin of victory in an Oct. 19 vote on a censure motion by the Opposition over the administration's general economic policies and, specifically, on the proposal to pay for the drought compensation to farmers by raising income taxes this year.

Barre thus easily cleared his first parliamentary hurdles after it had seemed at first that the *Plan Barre* would be in for heavy dismantling. In fact, the entire package passed virtually unscathed: the special levy on income taxes combined with the taxpayers' option to meet this obligation by subscribing to a 6.5% state bond issue, the temporary freeze on rents and higher incomes, the automobile tax, and higher gasoline prices. By contrast, none of the numerous Opposition-proposed amendments received a majority.

Wealth Tax *(contd.)*

Political observers felt that President Giscard d'Estaing badly needed this show of strength in order to boost his sagging popularity: a poll published on Oct. 15 showed that 47% of those questioned were dissatisfied with Giscard's performance, while only 42% were satisfied. It marked the first time since 1958 that a majority had come out against a Fifth Republic president. However, it was pointed out that the poll was taken during a particularly hectic week on the domestic economic front: stock market prices and the franc had taken a plunge after the Socialists had vowed extensive nationalization in the event of an election victory next year and after the wealth tax proposal was made public. Also, the Bank of France had raised the discount rate by two points to 12%, the highest level since 1974. Furthermore, the public was still mindful of the 24-hour general strike staged by the leftist-dominated labor unions on Oct. 7 in protest against the Barre Plan.

Britain: Lords Vote to Postpone Nationalization

One of the U.K. government's most controversial legislative proposals, the nationalization of the aircraft and shipbuilding industries, suffered a severe setback during an all-night session of the House of Lords on Oct. 18-19. An Opposition amendment to the bill calling for postponement of nationalization until after the next general election was carried by a majority of 28 (60-32). Speaking for the government, Lord Melchett complained of a "wrecking amendment" and left no doubt that the "government will not acquiesce" on the amendment when the bill is returned to the lower house.

The setback was severe not only because of its impact on the aircraft sector (in that it prolonged the uncertainty as to that industry's future planning), but also because it was yet another of such defeats in the upper house. Others included amendments to the Dock Work Regulation Bill which would, if implemented, reduce the powers of the proposed National Dock Labour Board, require the inclusion of the National Freight Corp. within the compass of the bill, and alter the bill's definition of "cargo." The fact that the House of Lords lately has repeatedly opposed or diluted proposed government legislation prompted demands in the Commons that the Prime Minister "deal with the situation where non-elected people are doing their best to smash legislation which has been passed by this Chamber." It was also argued, and hotly denied by the Opposition, that such action flaunts the Lords convention not to challenge measures for which the government has secured an electoral mandate.

In the longer view, the clash between the two chambers can be taken as a reflection of increasing polarization over what are deemed "fundamental issues," i.e., nationali-

Lords *(contd.)*

zation and state participation, unemployment and the effects thereon of deflation, and the levels of public expenditure. In the lower house, the Conservative opposition - which could hope for victory if a general election were called soon - reiterated daily that the government's strategies cannot be effective if they have resulted in unemployment rising from 2.7 to 6.1% and the value of sterling dropping from $2.40 to $1.65 since Labour assumed power.

Companies Bill Amendments on Auditors

New amendments to the U.K. Companies (No. 2) Bill include proposals for auditors to be reappointed by shareholders on an annual basis as opposed to their remaining in office on a continuous basis until they choose to resign or the company's board calls for their replacement. The amendments also include a proposal that it should become a criminal offense for directors to withhold relevant information from auditors.

The Companies (No. 2) Bill, curiously enough, has been drafted and debated prior to the drafting of proposals for a sweeping revision of U.K. company law: thus, the Companies Bill proper (No. 1) is not expected until early next year, the delay being due in part to the fact that a government report on industrial democracy (the Bullock Commission report) has yet to be submitted. It is already clear, however, that the bill will provide for increased responsibility and accountability of directors and that much stiffer penalties than exist at present will apply to company law violations *(Doing Business in Europe, Par. 30,692).*

Norway: Deficit Policy Followed in Budget

"It would be foolish to let thousands of Norwegians queue up at the labor offices when foreign banks are queuing up to give credits to Norway." With these words, the Norwegian finance minister - in presenting the 1977 Draft Budget - has rejected Opposition criticism of the government's continuing deficit spending policies. The new Budget plan projects a financing requirement of 16.5 billion kroner, which is 80% higher than that of the original 1976 Budget. The Opposition claims that the Labor administration's "living on credit" policy is entirely based on anticipations of high North Sea oil revenues in future years, and that domestic price problems are being largely ignored.

The 1977 Budget draft provides for revenues of 46.3 billion kroner (plus 12%) and record expenditures of 62.8 billion kroner (plus 19.7%). Higher indirect taxes will affect gasoline, alcoholic and other beverages, and rates also will go up in the postal and telephone sectors. On the other hand, taxpayers will be granted slightly higher personal and family allowances. Tax rates will be adjusted slightly to benefit taxpayers in the lowest brackets, and old-age pensions also will be increased.

Deficit Policy *(contd.)*

The rate of economic growth for the Norwegian economy is projected at 8% in 1977 - which would put Norway near or at the top among all industrialized countries. "Traditional" exports are expected to expand by as much as 12%, and total production - excluding oil and shipping - should grow by 4.5%, according to official estimates. Consequently, unemployment, now at 1.2%, should be brought down further. Still, the inflation rate is likely to remain at 8.5%, and wages will rise by 9% nominally on the basis of the "combined incomes settlement" with the unions. With the income tax adjustments, the average employee thus would have a net wage gain of 2.5%.

Finland: Draft Budget Submitted by New Government

The new Finnish minority government - which replaced the previous five-party coalition late last month - has submitted a 1976 Draft Budget providing for expenditures to rise by 12% to 32.7 billion finnmarks. The new administration, again headed by Prime Minister Martti Miettunen, will attempt to reduce the current 14% rate of inflation by cutting defense spending and boosting gasoline prices and postal charges.

Miettunen's previous government had collapsed in September after less than 10 months over disagreements on Budget policy: the Communists had insisted on additional spending to aid employment and housing, while the Social Democrats ran into Center Party opposition with their demands for lower farm subsidies. The new administration, which took office on Sept. 29, includes the Center Party, the Swedish People's Party and the Liberals and holds only 58 of the 200 seats in Parliament. It was speculated that the government coalition would be broadened following the Oct. 17-18 communal elections in which the Conservatives scored major gains.

Common Market Reports

EUROMARKET NEWS

Issue No. 407 *Report No. 304, November 3, 1976*

IN THIS ISSUE

Community: Working Group Ends Talks on Company Draft

The Council of Minister's working group has wound up its discussions on the second draft directive on company law coordination *(Common Market Reports, Par. 1371)* and has asked the Permanent Representatives to find solutions to four problems that the experts were not able to solve. These concern minimum capital of stock corporations, payment of interim dividends, issuance of shares to employees, and treasury shares.

While the experts from eight member states approved the Commission's original text fixing a company's stated minimum capital at 25,000 European units of account (EUA), Italy insists on 50,000 EUA. Rome would go along with a grandfather clause, allowing existing corporations with a minimum stated capital of 25,000 EUA to continue to operate with this capital base over an interim period, but eventually these corporations would have to raise their capital. The Italian government also objects to the principle of interim dividend payments, although it has indicated that it might be willing to compromise. Further, Italy favors deletion of Article 20 of the draft directive, which would authorize the member states to retain or enact legislation allowing companies to issue shares to their employees. Rome's opposition on this point lately has become even more pronounced, since the Italian Communists - who are indi-

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

COMMON MARKET REPORTS, Issue No. 407, November 3, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Company Draft *(contd.)*

rectly keeping the Christian Democrat minority government in power - are opposing any measure that would weaken labor's animosity toward management.

Belgium has reservations about the draft provision concerning the acquisition of treasury stock. It argues that the draft still does not provide sufficient guarantees to shareholders and investors.

Council attorneys do not think that the four issues present insurmountable problems. In fact, they count on the Representatives to resolve these differences by the end of the year, especially since Italy and Belgium are up against the majority of the other states and compromises have been found for far more difficult problems such as the paying up of issued capital and shareholders' preference for additional shares in case of capital increases.

More Controls on Dangerous Substances

The Commission has proposed tighter controls for the marketing of dangerous substances. The proposal, set forth in amendments to a 1967 Council directive concerning the classification, packaging and labeling of such substances *(Common Market Reports, Par. 3451)*, would require manufacturers to study the possible effects of their products on humans and on the environment. Manufacturers also would be required to notify the national authorities when introducing a product on the market of a particular member state. The notification would have to include detailed technical data about the product itself in order to enable the authorities to evaluate foreseeable direct and indirect risks. Notification would have to be accompanied by a statement on unfavorable effects as well as suggestions on how to reduce these by giving instructions for use. But the manufacturer would also have to keep the national authorities posted on any new developments such as new uses, annual increases in production, and new toxic or ecotoxic properties.

A manufacturer would be free to provide the Commission with a copy of the documents filed with national authorities, even though the Commission receives this information from the particular state anyway. Commission attorneys say it would be helpful to inform the EC executive at the same time because of its general role as protector of free intra-EEC trade and because of the specific task assigned to it under the 1967 directive: if and when a member state has reason to believe that a substance, though it may meet the statutory requirements, constitutes a hazard to health or safety, the state may temporarily prohibit the sale of the substance on its territory. Here, the Commission has the task of achieving a consensus among all states in order to prevent unilateral national import curbs for longer terms.

Commission attorneys emphasize that the amendments reflect the increased concern in most member states over the

Controls *(contd.)*

growing number of substances being put on the market that later turn out to be hazardous. They maintain that although the Community has made some progress by limiting the sale of especially toxic, harmful or polluting substances *(Common Market Reports, Pars. 3450 and 9681)*, the proposed amendments fall considerably short of the provisions in the U.S. Toxic Substances Control Act, which requires any manufacturer to inform the Environmental Protection Agency six months prior to the manufacture and marketing of a product containing a dangerous substance.

In Brief...

Brussels observers believe that the Commission's proposal to change the present monetary compensatory amounts system applied in trade of agricultural commodities will put the common agricultural policy to yet another crucial test. The proposal calls for a gradual but automatic adjustment of the current fixed exchange rates to actual exchange rates. The U.K. pound's declining value has led to a gap of 37% between the "green" pound and the pound quoted on international money exchanges. The adjustment would relieve the EEC budget by approximately $1 billion annually but would push up British food prices + + + Dr. Patrick Hillery, Commission vice-president in charge of social policy, has announced that he will be leaving Brussels at the end of this year to return to Ireland. In a brief statement, Hillery said that he had been informed by his government that he was not being considered for reappointment. However, it was no secret in Brussels that Hillery himself wanted to quit his Commission membership.

Italy: Another Levy on Foreign Exchange Deals

In another emergency action to relieve the pressures on the lira, the Italian cabinet on Oct. 22 surprisingly voted to reimpose a special levy on foreign exchange transactions, this time for a period of four months. The decree provides for a 7% rate as compared with the previous 10% levy (which expired on schedule on Oct. 15 after remaining in force for only 14 days). Rome took the latest action despite the fact that the European Commission had explicitly disapproved of such a surcharge. In fact, it was reported that Italy was seeking Brussels' retroactive consent on the basis of the "safeguard" Article 109 of the Treaty of Rome *(Common Market Reports, Par. 3771)*.

The renewed imposition of a surcharge, effective on Oct. 25, took account of the central bank's growing difficulties in preventing an excessive drain of its exchange reserves because of massive intervention on behalf of the lira. According to unofficial reports, the Bank of Italy had been forced to commit an estimated $600-700 million in the week ending on Oct. 22; nevertheless, the lira declined by 3% during that period. The levy effectively blocks much of the import trade: Italy's importers, many of whom had

Levy *(contd.)*

been able to "sit out" the 10% levy, will hardly be able to do this over a four-month term. The surcharge comes on top of the current 45% cash deposit - a cost factor that cannot be readily passed on to consumers.

The latest measure was severely criticized as an "external sign of an extreme crisis" (former Treasury Minister Ugo La Malfa) and as encouraging Italy's isolation in the international markets (Confindustria president Guido Carli). The European Commission "regretted" the action and immediately scheduled a meeting of the joint monetary committee. The morning of Oct. 22 brought a run on banks in Rome after rumors had been circulated that the government was considering blocking bank deposits and that the central bank president had offered his resignation.

In the same session in which it had imposed the surcharge, the cabinet also made good on its previous proposal to reduce public subsidies of the utilities by raising electric power rates by 15% and telephone charges by 25%. The increases, which had been fought by the Communists and the unions, will provide relief to the treasury in the amount of some 1,000 billion lire annually. (The electric power rates are to be moved up by another 25% in 1977.) The government insisted that these tariff adjustments are absolutely necessary if Italy is not to endanger its position in the upcoming negotiations with the International Monetary Fund and also in view of the U.K.'s demand for immediate repayment of a $486-million loan, part of the credit granted to Rome by the EEC partners in March 1974.

Britain: Higher Indirect Taxes to Stem Pound Crisis?

Dwindling confidence in the U.K. government's ability to master the country's economic problems was, to many observers, unequivocally demonstrated by the fact that, despite a spate of subsequent disclaimers and reassurances, the plunge of sterling to an all-time low of around $1.59 was officially attributed to an article published in the Oct. 24 edition of the Sunday Times which postulated certain actions and conditions that the International Monetary Fund would make applicable to Britain's receipt of a $3.9-billion loan. The government angrily denounced the report which said that an agreement had been discussed to devalue sterling to "about $1.50," and denials also were issued by the IMF and the U.S. Treasury that any "package of conditions" had been arranged between them.

What was not denied was that the IMF, prior to finalizing the loan application, was almost certain to require a number of "broad policy pledges" from Britain rather than specific pledges on the growth of money supply or a cutback in public-sector borrowing. The general uncertainty was clearly reflected on foreign exchanges, and fluctuations were considerable. A further setback was registered on

Crisis *(contd.)*

Oct. 26 when yet another newspaper report, this time by the Washington Post, alleged that the United States "had made a mistake" in contributing to Britain's $5.3-billion standby credit earlier this year without attaching specific conditions. Specifically, the Post article predicted a further increase in Britain's minimum lending rate (the bank rate) to 18% and noted that, "even with the advantage theoretically provided by a depreciating currency, British exports have not picked up as might have been expected because the quality of British manufactured goods has become suspect."

As the pound slipped further, there was speculation as to what steps the government would take. In view of Prime Minister James Callaghan's repeated insistence that tax levels in Britain "are not out of line" with those of other countries, it was believed that a boost in indirect taxation was imminent - an increase in direct taxation being virtually impossible in view of the prevailing high top rate (83% plus a possible 15% investment income surcharge).

Ireland: New Elections Possible as President Quits

The Oct. 22 resignation of the president of the Republic of Ireland, Cearbhall O'Dalaigh, has prompted speculation that a general election would have to be called within 60 days should the government fail to reach agreement with the opposition Fianna Fail party on a candidate for the presidency. First fears that the president's resignation would trigger a political and constitutional crisis proved to be exaggerated, although O'Dalaigh's move was considered to represent a severe embarrassment to the Liam Cosgrave administration.

The presidential election was scheduled for Nov. 24, but it subsequently appeared that the government would not name a candidate and that the front-runners would be Fianna Fail's Vivion de Valera (son of the late president Eamonn de Valera), outgoing European Commissioner Patrick Hillery or, a remote possibility, a "redrafted" O'Dalaigh.

The president's resignation was triggered by remarks made by Irish Defense Minister Patrick Donegan who, on Oct. 19, described the president as a "thundering disgrace." The reference was to O'Dalaigh's actions in referring both the Criminal Law Jurisdiction Bill and the Emergency Powers Bill to the Irish supreme court for a constitutional ruling.

France: 'Barre Plan Failure Would Aid Leftists'

A failure of Prime Minister Raymond Barre's austerity program would not only hurt the French economy but also "call into question the structure of our society and thus pave the way for collectivism." This warning was issued by François Ceyrac, president of the Patronat Français employ-

Barre Plan *(contd.)*

ers' federation, in a speech before small-business representatives in Versailles. The Patronat chief declared that the joint programs of the French leftists - if the latter were to assume power - would threaten to "strangle" the country's small businesses in the same way as medium-sized and large enterprises. The means of achieving this would be through financing restrictions on businesses as well as the establishment of cooperatives, among other things, Ceyrac said.

Meanwhile, the leadership of the left-wing CGT and CFDT trade unions and the teachers' union on Oct. 23 organized demonstrations and marches in Paris and elsewhere in protest of the Barre program and unemployment among young people (the unions claim that most of the jobless are below the age of 25). The CGT headquarters once again charged that official employment statistics are less than accurate: if the standards of the International Labor Office were applied, it was claimed, the actual number of unemployed in France at the end of September should have been 1.319 million instead of 955,400 as reported by the Statistical Office. (Even this latter figure topped last year's seasonal peak, the reason being that many French enterprises have decided not to rebuild their work forces after the summer vacation period. In fact, in many companies the workweek is being shortened and work force reductions are effected by way of normal attrition.)

In its latest economic report, the Statistical Office also has confirmed that French industrial orders have been shrinking since July and that a falloff in production has been recorded since May. "In October, the climate has definitely worsened," the survey said. Whereas the slump earlier tended to affect mainly the manufacturers of capital goods, it now also extends to the consumer goods industry which is being hurt by a reduced growth in domestic demand. This factor, in combination with the price curbs and credit restrictions, has caused industry to hold off on any major investment commitments. Another reason for the low level of new investments and for higher capital exports, in the opinion of many observers, is the uncertain political situation: according to a recent poll, 73% of businessmen questioned were of the opinion that the Socialists and Communists will win the next parliamentary elections.

<u>Austria: Draft Budget Projects 12% Spending Rise</u>

"Growth through stability and full employment through growth" is the general tenor of Austrian budget policy as outlined by Finance Minister Hannes Androsch upon presentation of the 1977 Draft Budget. The draft provides for a number of expenditure cuts as well as for new tax and rate increases. Planned are a reduction by 1% of federal government personnel, lower milk subsidies, and a reduced

Budget *(contd.)*

growth rate for investment subsidies. Also affected will be premiums now granted on savings: the tax rebate on state bonds is to be reduced from 15 to 10% and that on building society deposits (subsidized housing) from 25 to 17%. On the revenue side, Vienna plans to raise the net worth tax rate from 0.75 to 1% (as of Jan. 1, 1977) and also to lift stamp duties and railway and postal (telephone) rates. The total of these measures would improve revenues by about 13 billion schillings annually. (Still foreseen, as of 1978, is the introduction of a transit tax on trucks and trailers. Earlier this year, the government already had boosted the federal oil tax and, on Oct. 1, the automobile tax.)

The total (general and supplemental) Budget would provide for expenditures to rise by 12% to 240.8 billion schillings and for revenues to go up by 10% to 197.2 billion schillings as compared with the original Budget for '76. In those terms, the federal deficit would climb by 21% to 43.6 billion schillings. However, actual Budget expansion should be somewhat lower, since expenditures this year exceeded the originally projected targets by 10 billion schillings.

EURO COMPANY SCENE

BASF

BASF AG, the German chemicals giant, has appealed to the European Court of Justice to set aside a Commission decision that prohibits the company from enforcing an agreement containing a noncompetition clause. Last July the Commission found that a clause obligating a German businessman, Gottfried Reuter, who had sold all the stock of his Swiss plastics firm to BASF, not to compete with the latter over an eight-year period was in violation of Treaty Article 85 *(Common Market Reports, Par. 9862)*.

Fisons/ Syntex

British agro-chemical group Fisons is currently claiming "appropriate damages" (no figures were given) from the United States' Syntex Corp. of America following allegations by the former that the U.S. group has taken inadequate steps to market Fisons' anti-asthma drug, Intal. Fisons contends that Syntex has defaulted on certain provisions in the five-year distribution contract between the two companies and that sales to doctors in general practice (hospital sales are the province of Fisons' U.S. subsidiary Fisons, Inc.) have now leveled off. Intal is one of Fisons' major profit sources in Britain and the rest of Europe, with sales of £50 million predicted for 1980.

B.F. Goodrich/ Vredestein

Contracts have now been signed in The Hague regarding the future operation of B.F. Goodrich's financially troubled Dutch tire and rubber subsidiary. As agreed upon earlier,

B.F. Goodrich/ Vredestein *(contd.)*

the Dutch government and Goodrich will each hold a 49% stake in the enterprise, and an independent foundation will have the remaining 2%. According to Dutch reports, the contracts provide for the transfer of Goodrich's European sales offices and of technical know-how to Vredestein, the company's new name. The current management and supervisory board are to resign, and it is expected that the trade unions will soon start negotiations with Vredestein's new management on the restructuring of the organization, which could result in layoffs of up to 20% of the total work force.

Tealtronic Nederland

The Dutch government has increased from 40 to 70% its stake in Tealtronic Nederland, the office equipment manufacturer formerly belonging to the U.S.' Singer Co. The reasons given for the raised state participation were that "a link would shortly be sought with a similarly oriented company" and that "this is regarded as a condition for the further existence of Tealtronic Nederland." The government reportedly is already negotiating with an unnamed company, presumably with a view to selling off part of its increased stake in Tealtronic Nederland. The Hague had stepped in early last year to prevent the shutdown of the Singer plant.

Daimler-Benz/ White Motor/ Euclid

Germany's Daimler-Benz AG has signed a letter of intent with the U.S.' White Motor Corp. for the takeover by Daimler of White Motor's truck manufacturing subsidiary Euclid, Inc., Euclid, Ohio. With the acquisition, at a reported cost of some $60 million, Daimler for the first time will become engaged in production operations in the U.S. Euclid is a small producer of heavy-duty trucks for the construction and mining industries. White Motor, which suffered losses in 1975 of nearly $70 million, has been shedding several of its subsidiaries as part of a restructuring program.

Lucas

Britain's Lucas Group, major European manufacturer of automotive and aircraft electrical equipment, has announced plans for a concerted sales drive in the United States. A new headquarters for Lucas Industries North America is under construction at Troy, Mich. Lucas' low profile to date on the American market has been explained by the company with the desirability of "avoiding confrontation price wars." Even now, said LINA president B.E. Wootten, there would be no attempt to "take on the Americans in their own backyard with high-volume original electrical equipment for cars." He did observe, however, that Lucas' present U.S. turnover of $40 million annually could be boosted "in other areas," presumably the growing diesel automobile sector.

Common Market Reports

EUROMARKET NEWS

Issue No. 408 November 9, 1976

IN THIS ISSUE

Community: Interpretations of Judgments Convention

The European Court of Justice has handed down judgments in three out of seven cases on its docket that involve the 1968 Convention on the Jurisdiction of Courts and Enforcement of Judgments *(Common Market Reports, Pars. 6001-03)*.

The Court gave a clear-cut answer to a Belgian tribunal's question involving the interpretation of Article 5(5) of the Convention: in disputes between an agency or branch (in this case, a Belgian sole agent) and the parent company (a French supplier), may action be brought in the local court having jurisdiction over the branch? The Court said that Article 5(5) applies only to wholly-owned or controlled agencies, branches and establishments and not to those that are merely economically dependent on the parent organization. Therefore, the Convention may not be invoked in disputes between a supplier and his sole agent (*De Bloos v. Bouyer*, Case No. 14/76).

In another judgment, the Court provided some guidelines on what kind of disputes can be settled under the Convention. The Convention expressly applies only to "civil and commercial" matters, and national legal doctrines may hold different views about what still might be consid-

COMMON MARKET REPORTS, Issue No. 408, November 9, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Judgments *(contd.)*

ered a civil-law issue and what might be a public-law issue. A Duesseldorf court of appeals had some doubts as to whether a public authority based in Luxembourg but maintaining an office in Brussels could, under the Convention, seek enforcement of a Belgian court decision against a German company for services rendered. The Court of Justice held that the terms "civil and commercial matters" referred to in Convention Article 1(1) have an autonomous meaning derived from the Convention and the general principles of law recognized by the member states. Its interpretation should be governed by national law. Hence, it was the Court's conclusion that litigation between individuals (or businesses) and national or international public authorities involving payment for services rendered is outside the scope of the Convention, especially when the individuals or businesses have no choice but to accept the services (*LTU Lufttransport-Unternehmen GmbH & Co. KG v. Eurocontrol*, Case No. 29/76). This means that the Duesseldorf appellate court would have to reject enforcement and that Eurocontrol would have to resort either to special proceedings or sue LTU once more before a German court.

In the third case, finally, the Court was asked to interpret the phrase "the place where the contract was or is to be fulfilled" (Article 5(1)), and it answered that this should be determined by the national court before which the matter was brought (*Industria Tessili Italiana v. Dunlop AG*, Case No. 12/76). (A more detailed report on this judgment will follow next week.)

200-Mile Pact Could Lead to Fishing Policy

The agreement reached by the nine foreign ministers at their informal Oct. 30 meeting in The Hague on extension of Community territorial waters to 200 miles is only the beginning of what may be a long road toward establishing a common EEC fishing policy. The accord means that the Council can take formal action to the effect that the EEC would be putting national waters under Community jurisdiction and that the Commission rather than the national governments would be negotiating with Iceland, Norway, the United States and Canada as well as other countries over fishing rights in their 200-mile zones.

Council officials stress that the accord leaves unsettled the width of the zone that the member states would retain for exclusive exploitation. The Commission had recommended a 12-mile limit on national waters, but Ireland and the U.K. insist on a 50-mile zone, primarily in order to protect the fishing grounds for their small trawlers. Financial compensation to Irish and British fishermen might be a solution.

In Brief...

Council attorneys sitting in on the meetings of the working group deliberating the proposals on the recognition of

In Brief
(contd.)

midwives' certificates and the freedom of midwives to provide services have advised against amending the measure by adding "and midmen." They believe there is no need to carry the principle of equal treatment to that linguistic extreme. However, they did recommend an inclusion in the preamble to the effect that there should be no sex discrimination in the exercise of this profession + + + A consensus is shaping up among the nine Permanent Representatives on how to solve the few remaining issues that have prevented the Council of Ministers from adopting the two proposals on the recognition of nurses' diplomas and nurses' freedom to provide services. A major issue is the language problem, and Council attorneys anticipate a solution similar to that reached in the doctors' directives: out-of-state nurses would not be required to prove a sufficient command of the language, but any member state would be free to offer language courses and encourage attendance.

France:
Steps to Boost Competition, Efficiency

Upon presentation of his anti-inflation program in September, French premier Raymond Barre had announced that these measures would be supplemented by a number of "structural reforms" in such areas as competition, industrial efficiency and employment. At a meeting of the government's Central Planning Council in late October, which was attended by both Barre and President Giscard d'Estaing, it was decided to settle on the reform details by the end of March 1977 for subsequent implementation.

The government generally does not envision a far-reaching reform effort but practical steps to eliminate some of the inherent weaknesses and inequities of the French economic system:

Competition. - The need for more intense competition is being recognized, and emphasis will be on combating illegal cartels and other anti-competitive agreements. Since draft legislation to this effect already is pending in Parliament, the government intends to attach a supplemental draft to this bill. Among other things, it will provide for broader powers for the cartel authorities, similar to those now exercised by the Bourse Commission in supervising the capital markets. A special investigation is to be made of certain distribution patterns and systems in the wholesale and retail sectors, and consumer protection is to be improved.

Industrial efficiency. - The main issues here concern a more rational use of joint means of production, improved regional planning in deploying manpower resources and industrial capacities, and a more effective scheduling of work time and vacations.

Employment. - In this category, emphasis will be on revamping and simplifying the rules governing vocational

Competition
(contd.)

training and on a reassessment of aids now given to promote worker mobility.

In addition, the government has created a "council for the investigation of incomes and costs" which will work toward the "effective reduction of unacceptable inequities among Frenchmen." The council is to submit within one year a report on national incomes distribution, giving particular attention to the lowest and highest income groups. Finally, the administration has been preparing draft legislation that would require private enterprises with at least 300 employees and a works council as well as public enterprises to submit annually a "social balance sheet" containing information about employment, remuneration, work conditions and safety, vocational training, etc.

Belgium:
Employers Seek
8% Ceiling
on Pay Raises

The Belgian government is hopeful that the domestic inflation rate this year will remain under 10% (after 12.8% in 1975), since the retail price index for October was almost certain to rise only slightly above that of the previous month. This slowdown of price expansion has been credited by the Tindemans administration to its restrictive though unpopular policies, which include such measures as the exclusion of higher incomes from indexation, a freeze on self-employment incomes, suspension of indexation for rents, etc. However, these measures are merely of a temporary nature and are due to expire at the end of this year, and the government is now studying ways of preventing another cost and wage "explosion" in early 1977. Convinced that more is required than appeals for moderation, the administration was expected to present new proposals in its discussions with industry and labor representatives this month, within the framework of the ongoing tripartite conference.

It has been speculated in Brussels that the government's arguments will not be too far removed from those expressed by Raymond Pulinckx, chairman of the Belgian industrial federation. In the face of staunch union resistance, the federation apparently has quietly shelved its demands for the outright abolition of the wage indexation system and is now favoring a modification of this system: instead of pay adjustments coming immediately on the heels of index rises beyond certain levels, the recommendation is for only one or two adjustments a year. Index adjustments plus regular raises together should not exceed 8%, regardless of the actual rate of inflation. As a safety clause, the social partners could agree that a "balance sheet" be drawn up at the end of the year to compare Belgian pay increases to those of the neighboring industrial countries. The review procedure would include an employer guarantee that Belgian workers would suffer no loss of purchasing power during the entire yearly period.

Italy: Increase in Real Property Valuations

In taking account of the effects of inflation on real property values, the Italian Finance Ministry has raised by 60 to 120% the coefficients applying to the cadastral valuation of lots and buildings. Although the 1974 tax reform had provided for regular annual adjustments of the coefficients, administrative problems apparently have prevented implementation. The last previous general valuations under the cadastral system occurred 30 or more years ago, it was reported.

It has been estimated that only one-sixth of real property values in Italy is actually being taxed. Cadastral valuation, the reports said, is still lacking for about two million buildings, out of a total of 16 million. This includes hundreds of thousands of "second residences," usually built by city dwellers in the country without the necessary building permits. Among other things, this lack of cadastral assessments in effect has thwarted proposals for the imposition of a one-time special levy on real property. For this reason, there have been various, more or less realistic suggestions on how to overhaul the cadastral system as rapidly as possible - for instance, by temporarily employing qualified university graduates who are now without jobs.

tain: No Plans for 'Compulsory' Participation

Senior U.K. government ministers have sought to correct a possible "misinterpretation" of Prime Minister James Callaghan's remark to the House of Commons on Oct. 26 that a proposal for "a bill on industrial democracy modeled on West German lines" would be presented to Parliament at the start of the new session. The ministers' concern was ostensibly directed at Callaghan's "anticipation" of the Bullock Report on industrial democracy; this report is not expected to be released until next month and will then be debated with both the labor unions and industry before the Dept. of Trade drafts any legislation.

It was commonly agreed, however, that the principal reason for concern was political: senior ministers fear that a comprehensive bill providing for compulsory worker participation on company boards would lead to a further dislocation of the parliamentary timetable. Already congested, this timetable in the next session is to be devoted primarily to the debate on devolution for Scotland and Wales and concomitant direct elections to the European Parliament.

"Off the record," it was conceded that if industrial democracy legislation is actually proposed in the course of the next session, emphasis will be on "permissive" rather than compulsory legislation. Companies would be allowed to "experiment" with industrial democracy but would not be under any statutory obligation to implement it. Thus, to

Participation *(contd.)*

most observers, it was clear that any bill introduced would be merely a pilot measure which would permit the unions to press their claims further, yet be sufficiently uncontroversial at that stage so as not to exert undue pressure on parliamentary time.

Conservatives Trim Ship Bill; U.S. Subpoena

In yet another attack on the British government's legislative proposals, the Conservative Opposition on Nov. 1 won a vote in the House of Lords to remove ship-repairing companies from the proposed bill to nationalize the aircraft and shipbuilding industries. (The Conservatives hold a majority in the upper house.) During the same sitting, a Liberal Party motion to remove the aircraft industry from the bill was defeated by a government majority of three. However, this motion was defeated only because the Conservatives were advised to abstain: on Oct. 18, they had already carried an amendment to the effect that the vesting (effective) date for state takeover of the aircraft industry should be postponed until after the next general election.

The reason for abstention was that it had been found that an outgoing secretary of state for industry could, immediately prior to such an election, set the day after the election as the vesting day, thereby imposing on a new (possibly Conservative) government the obligation to implement provisions that it could not agree with. Instead, a further Conservative amendment is to be moved to the effe[ct] that the aircraft industry will not be taken over unless an express order requiring such a move is made by the next parliament.

In other developments, the U.K. Dept. of Trade has instructed British shipping companies to withhold certain documents subpoenaed by the U.S. Dept. of Justice in order to underscore the DoT's protest of current U.S. investigations of North Atlantic shipping trade. Britain last month joined forces with Belgium, France, Holland, Sweden and Germany in challenging the American investigation on the grounds that it involved infringement of national jurisdiction and commercial prejudice to the shipping companies involved. The DoT is empowered to block the documents under the Shipping Contracts and Documents Act 1964. The reason for the U.S. investigation was believed to be the alleged existence of several secret agreements on freight charge rates.

Germany: Partnership Proposal Fails in Upper House

Members of the German liberal professions will not be able to avail themselves of a legal form supposedly better tailored to their business needs, since the upper house of Parliament has rejected the Bundestag-approved bill that would have provided for a new type of partnership. Although the bill - which was sponsored by lawyers, doctors and account-

Partnerships *(contd.)*

ants from all three political parties represented in the lower house - received unanimous approval there, a nearly unanimous Bundesrat rejected the measure on grounds that there is no real need for a new legal form of doing business. Since chances for a compromise were considered nil, neither the Bundestag nor the government invoked the conference procedure.

The defeated proposal would have enabled attorneys, physicians, tax advisers, engineers, or architects to form a partnership and offer services under a joint name. A partnership would have enabled members of different professions to join in order to provide specialized services. The defeat of the measure means, for instance, that tax advisers will not be able to join a law firm or that a large medical office could not accept as a partner an engineer to operate and maintain sophisticated equipment. It also means that members of the liberal professions will have to continue to operate under the form of association provided by the Civil Code (by listing at least two members' names).

Major Comeback for Foreign Investments

Foreign investments in Germany during the first half of this year have doubled (to nearly DM 2 billion) in comparison with those of the same 1975 period, according to the latest statistics on direct investments issued by the Economics Ministry. The revival of investments was described as making up for much of the setback experienced last year. Apparently as a result of the worldwide recession, foreign investments in Germany during the January-June 1975 period had amounted to only DM 933 million, which was nearly DM 2 billion less than in the first half of 1974. However, despite the growing foreign engagement, the investment levels of 1974 have not yet been regained.

The list of major investors is headed by the Netherlands with an investment volume of DM 459 million during the first six-month period this year, followed by the United States with DM 426 million and Switzerland, Japan, Britain, France, Sweden and Belgium-Luxembourg. Since September 1961, foreign investments in Germany have totaled DM 44.3 billion, the Bonn report said.

EURO COMPANY SCENE

ICL

It has now been confirmed in Brussels that Britain's International Computers Ltd. (ICL) has been awarded the lion's share of a new contract to supply electronic data processing equipment to the European Commission. The Commission will lease an ICL 2980 system for its statistical operations in Luxembourg to replace existing IBM and CII equipment. ICL secured the contract, valued at about £6.5 million, against strong competition from other computer groups,

ICL
(contd.)

some of which reportedly were passed over because of their U.S. provenance or affiliation. At the same time, the Commission also plans to award a £1.8-million contract for tele-processing equipment to France Communication-MTI, Saget (Nixdorf of Germany) and Olivetti (Italy).

The Commission statement on the contract awards coincided with the announcement of a four-year EEC program to strengthen Europe's EDP industry and involving the expenditure of 103 million European units of account until 1980 (subject to member states' approval).

Mitsubishi/
Chrysler

Contrary to speculation, Japan's Mitsubishi Motors Corp. has denied that it intends to have its automobiles "assembled or built by other parties in the EEC or Scandinavian countries." This official statement squashed rumors that Mitsubishi automobiles were to be assembled in the Chrysler Corp.'s U.K. plants. However, the statement made no reference to the possible import of Mitsubishi components for use in a new Chrysler automobile. Chrysler U.K. refused to confirm or deny the existence of any components deal with its Japanese counterpart, in which the U.S. manufacturer holds a 15% stake.

Rolls-Royce/
MTU/
Fiat/
United
Technologies

Agreement reportedly is "imminent" between the U.K.'s Rolls-Royce, Germany's MTU, Fiat of Italy and United Technologies Corp. of the United States on a joint venture to develop a new JT10d generation of aircraft engines. The principal potential buyer of the JT10d range is expected to be the U.S.'s Boeing Co.

Bulova

The Biel, Switzerland, facilities of the United States' Bulova Watch Co. will switch production increasingly from mechanical to quartz watches, according to Swiss reports. For this purpose Bulova will integrate until March 1977 the Biel-based Recta company, which so far has been a Bulova supplier. Also, in completing a reorganization process for its Swiss operations, Bulova is closing down a small facility at Neuchâtel, with the workers being transferred to Biel. In late 1975 and early this year, Bulova had been hit by strikes and had encountered other problems with employees, the unions and local authorities over the extent of its reorganization plans.

Grace/
Borel

The U.S. conglomerate W.R. Grace & Co., New York, has increased from 8.5 to 15.2% its stake in French hotel and restaurant chain Jacques Borel International SA. The increased participation reportedly was effected through the purchase of some 95,000 Borel shares at a price of FF 300 each. Grace at one time owned nearly 65% of Borel but last year reduced its holding to around 8.5%. Borel has a capital worth of about FF 143 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 409 *Report No. 305, November 16, 1976*

IN THIS ISSUE

Community: More Protection Sought for Investors

The European Commission wants stock exchange control agencies or self-regulating bodies in the Community to voluntarily follow a set of EEC guidelines in supervising stock exchange transactions. The Community's company law coordination program - especially the fourth and sixth Council draft directives on the makeup of financial statements and annual reports and on the content, checking and distribution of prospectuses - has been launched with the aim of improving protection for investors, creditors and shareholders *(Common Market Reports, Pars. 1350-1407)*. However, this program has stopped short of seeking to establish rules that would offer investors safeguards against being cheated in transactions on national stock exchanges.

According to Brussels sources, the Commission in early 1977 will send to the nine governments a proposal that will contain six general principles and 22 specific rules that the national stock exchange control agencies or, in the absence of such agencies, the self-regulating bodies should follow in monitoring securities sales and in taking steps against violators even in the absence of national provisions.

One proposed procedure to help boost investor confidence in the effective functioning of the securities mar-

This issue is in two parts, consisting of 104 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 409, November 16, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Protection *(contd.)*

kets would be the issuance of complete and accurate information to the public. Another would be equal treatment of investors. Stock exchange employees and stockbrokers would be encouraged to put the public interest ahead of private gain. There would be specific rules of conduct for insiders, stockbrokers, or other professional financial agents.

A first draft of the proposal has been sent to the national associations of institutional investors for comment. Once these comments are received (probably in early 1977), the Commission will submit the proposal to the national governments.

Although the measure will be in the form of a nonbinding recommendation (Treaty Article 189(5), *Common Market Reports, Par. 4902.31*), the Commission nevertheless would expect a large degree of voluntary adherence to the code of conduct. A binding regulation or directive would have no chance of adoption by the Council.

Aspects of Jurisdiction in 'Tessili'

The European Court of Justice judgment last month in *Tessili/Dunlop* has broad implications in that the justices not only reflected on the aims of the 1968 Convention on Jurisdiction of Courts and Enforcement of Judgments but, more important, also developed their interpretation of the convention *(Common Market Reports, Pars. 6001-6003)*. This interpretation was then immediately applied in the De Bloos/Bouyer and LTU/Eurocontrol judgments, also issued last month.

Since the convention uses terms and legal concepts that may have a different meaning in each member state, the Court had to consider two possible interpretations: should the terms and concepts be regarded as independent, and thus be common to all member states, or should they be seen as a mere reference to substantive national law governing the conflict of laws that a national court must apply when a matter is brought before it?

The Court said that the terms can be interpreted as having their own meaning and being common to all member states and yet, at the same time, they can also have a meaning in national law to be applied by the national court that is called on to decide whether it has jurisdiction in a particular case brought before it. The Court concluded that neither of these two options precludes the other and that, in any event, the interpretation of the terms and concepts does not prejudice the question of substantive rules applicable to the particular case.

In the Tessili/Dunlop case, the Court was asked to interpret Article 5(1) of the convention, which provides that, in contractual matters, a person residing in state A may be sued in state B "at the place where the (contractual) obli-

'Tessili' *(contd.)*

gation has been or is to be fulfilled." The question was whether this then is the place where the goods are to be delivered and, further, which court should determine the place of delivery or place of fulfillment of an obligation by applying domestic law. The Court of Justice said that this should be determined, according to national law, by the court where the plaintiff has brought proceedings. Applied to the case at issue, with the principal question of which court (German or Italian) should have jurisdiction, this would mean that the German court could decide whether the place of fulfillment should be Hanau, Germany, or Como, Italy (*Industria Tessili Italiana v. Dunlop AG,* Case No. 12/76).

In Brief...

The Commission is preparing several measures to reduce the dangers emanating from polyvinyl chloride (PVC). One proposal would establish rules governing maximum PVC concentration levels in the air of production plants and the length of exposure for workers. Another would restrict the use of PVC in containers that come in contact with food. Experts had recommended legislation that would eliminate all possible contact of food with PVC + + + The Netherlands, at present in the presidency of the Council of Ministers and thus in charge of administrative matters, has appointed the Dutch author of the original European company draft statute, Prof. Pieter Sanders, as chairman of the Council working group that is discussing weekly the proposal for a *Societas Europaea*. The Dutch government hopes to make some headway with the proposal.

Italy: Assessment of Credit Status; Wage Cost Cut?

Central bank president Paolo Baffi, addressing himself to the government's economic committee, has calculated Italy's accumulated foreign debt at $14.4 billion at the end of September. This debt requires interest payments in the amount of $1.1 billion this year, although Rome has available only $548 million to meet its interest commitments on the Euromarket. "At present, all credit sources on the Euromarket appear to be depleted," Baffi told the committee. (However, on Nov. 9, the EEC finance ministers did agree in principle that the Community would come to Italy's aid in repaying a short-term $487-million loan to Britain. The funds probably would be made available in the form of a medium-term loan or a bond issue. The details would be fixed at the next meeting of the ministers when the latter also would spell out the conditions for another Community loan, probably of $700 million, to Rome.)

In addition to this new loan, the Italians are expecting a credit line of up to $750 million from the U.S. Federal Reserve Board and $500 million from the German Bundesbank (against gold-backed collateral). Also, Italy is negotiating in Washington with the International Monetary

Credit
(contd.)

Fund over a $530-million loan Rome has been seeking for some time, so far without being able to meet the IMF's conditions regarding Italy's economic and monetary policies. It is now hoped that these talks will be successfully concluded by the end of January 1977. Furthermore, it was reported that Rome will ask for the extension of a $862-million loan which will fall due in the second half of '77: under the existing terms, $287.5 million would have to be repaid in August and $575 million between September and December. Under the IMF statutes, such an extension is possible in the event of serious payments difficulties of a debtor country.

On the home front, a special ministerial meeting headed by Prime Minister Giulio Andreotti has looked into ways of reducing the wage cost burden on Italian industry. Industry Minister Carlo Donat-Cattin said that these costs should be lowered by at least 10% to permit Italian industry to regain its competitiveness vis-à-vis its EEC counterparts. To achieve such a reduction, equal to about 3,000 billion lire, the government was considering cutting employers' social welfare contributions, since direct wage subsidies were certain to be opposed by both the European Commission and the IMF. To make up the resultant treasury deficits, reports said, the Andreotti administration was considering an increase of value-added tax and a levy on real property. Also, the government was again preparing measures to crack down on tax evasion (especially at the industrial-commercial level and by the self-employed) which is estimated to cause a revenue loss of about $12 billion annually. VAT evasion alone has been calculated at $7 billion, it was reported.

Germany:
Proposal for
Statutory
Insider Rules

Although there have been numerous demands in the past to regulate insider dealings in Germany through legislation, such an initiative has never come from the government itself. The reason is that the existing self-regulatory system is generally considered to have worked well: it is essentially a code of ethics built on the recommendation to market insiders not to exploit confidential information. Thus, Bonn had no objections when the stock exchanges, the German industry association and market experts as of July 1 implemented further voluntary improvements in the system, basically clarifying and extending the definition of insiders.

Nevertheless, a group of seven law professors has now drafted a detailed recommendation for statutory rules, which the government may have to study carefully. The professors consider the self-regulatory system to be insufficient because it is not really known to what extent board directors, company officers, or shareholders take advan-

Insiders *(contd.)*

tage of confidential information in buying or selling listed securities.

Although there have been only two confirmed cases of unlawful insider dealings in Germany so far (11 other cases were investigated), the professors maintain that the actual volume of suspect dealings may be much higher. They criticize that the Insider Commission, a self-governing body with control functions, lacks the powers needed to cope effectively with confirmed or suspected insider dealings. They would like to see a government agency with the necessary powers to prosecute infractions of mandatory rules. The most important proposed innovation: all insiders (the concept would define the criteria and would include more individuals than the present rules) would be required to register their securities transactions made on any exchange. If there were reason to suspect a violation, the government agency would investigate and subpoena the needed information. Investors who suffered damage through illegal insider transactions would have a trustee to pursue their claims.

Government officials so far have not responded to the proposal, and most Bonn observers doubt whether there will be any positive action at this point.

...herlands: Extra Pay Raise to Make Up for Inflation Rise

Following the unexpectedly steep rise of the consumer price index in October, the Dutch government has decided to give a one-time "Christmas bonus" of 60 guilders to all employees. This will require a total of 150 million guilders and will be paid by the state rather than the employers. The latter will merely act as disbursers and will then be reimbursed, probably by way of lower invalidity insurance contributions.

The coalition government under Prime Minister Joop den Uyl earlier this year, in January and June, had already decreed across-the-board pay raises for all employees, amounting to a nominal 9% increase for all of 1976. The intention was to control inflation, while at the same time guaranteeing the purchasing power of the average employee with an annual income of 20,000 guilders. The 60-guilder bonus now agreed on is meant to offset the effects of the 1.4% rise in the consumer price index from September to October, which boosted the annual rate from 8.1 to 8.8%. (The jump in the value-added tax rate from 16 to 18% as of Oct. 1 was chiefly blamed for the increase.)

Union representatives have attacked both the amount of the pay raise and the method of having the taxpayers finance it. Earlier they had demanded a monthly raise of 40 guilders per employee as of Oct. 1. The government declared that this third, officially decreed pay increase would in no way prejudice the collective bargaining that is to be resumed next year.

Belgium: Spending Cuts, No Major Tax Changes

The Belgian government has been able to draw up an essentially balanced Regular Budget draft for 1977 by scheduling major cutbacks in such sectors as education, social welfare and public transport. The anticipated revenue of BF 836.7 billion would be expected to offset more or less the expenditure volume. Nevertheless, the deficit situation has not become any less critical than in previous years: the Investment Budget of BF 100 billion plus the financing costs on the outstanding public debt would leave a gross deficit of BF 150 billion. Still, the government is not planning any major tax increases (beyond a surcharge on cigarettes); in fact, some tax relief would be provided in the form of higher basic allowances for taxpayers in the lower and medium income categories. Also, the value-added tax on expansionary investments is to be suspended, provided such investments create additional employment.

It is by no means certain, however, that this budget plan will pass unaltered, since the government can expect heavy resistance from those factions that would be most affected by the spending cutbacks.

Luxembourg: Budget Draft in Balance; Trade Deficit

In his Budget address to Parliament, Luxembourg's Prime Minister Gaston Thorn has urged his countrymen to live within their means and thus help overcome the country's current economic difficulties. Higher imports this year (especially of farm products, in the wake of this summer's drought) have resulted in a foreign trade deficit of LF 5 billion, which was expected to climb to LF 7 billion by the end of 1976, according to Thorn. After having staged a modest rally earlier this year, exports are again stagnating. The major problem here is the poor outlook for steel, by far the most important domestic industry: Luxembourg's steel producers are now operating at 60% of capacity, and the largest of them, Arbed, has just announced further production cutbacks and applied for public works employment for some of its work force. Other sectors - for instance, the chemicals industry - are showing more positive results, and the treasury also is reporting higher revenues from the local and international banks which rank as the No. 2 "industry" in the Grand Duchy. As of the end of August, the balance sheet total of the 80 registered banks reached LF 1,620 billion - a 22% improvement within the last 12-month period.

Luxembourg's 1977 Draft Budget provides for a 15.5% increase in fiscal revenue, to LF 35.4 billion. With a planned expenditure rise of only 14.2%, the Budget deficit would come to LF 169 million, or 1.5% of the gross domestic product. To cover this relatively small shortfall and to service the outstanding public debt, the government intends to float a LF 1-billion state bond issue. The Budget plan is predicated on a 4% rise of GNP in '77 (after an estimat-

Budget *(contd.)*

ed 3% this year). It is hoped that the nearly balanced Budget will help cut inflation, which still continues at around 10% after a 10.7% average last year.

Sweden: New Government Plans Cuts in Income Taxes

About two-thirds of all Swedish employees next year probably will have to pay less income tax under a provisional tax reform now proposed by Budget Minister Ingemar Mundebo. The reform would benefit not only the lowest income groups but also those with annual earnings of between 40,000 and 70,000 kronor. The revenue losses are to be made up by a 1.5% boost in employer contributions (based on gross payroll), a higher energy tax as of late 1977, and higher taxes on tobacco and alcohol as of next spring. The income tax reductions would mean that an employee earning 50,000 kronor would have to pay 62% in taxes on any 100-kronor raise instead of 65%.

Mundebo said he would hope the lowering of direct taxes would have a positive influence on collective bargaining results in the form of more moderate wage terms. Such moderation also is seen as necessary by the employers who are worried about sustaining the gradual economic recovery and maintaining the international competitiveness of Swedish products. The Social Democrats, on the other hand, who had to join the Opposition after losing the elections in September, accused the new administration of endangering the "labor peace" by reducing income taxes further than had been agreed with the unions prior to the elections. Also, the Social Democrats had intended to raise employer contributions by 3%, whereas the new government proposes to cut this rate in half.

The unions have joined the Social Democrats in opposing tax relief for higher income groups and are now demanding "compensation" for the lower brackets, "in the interest of equity." It has been warned that this would definitely have a retarding effect on Sweden's economic growth rate which is only slowly inching up from 0.6% in 1975 and a probable 1% this year to a predicted 2.1% in 1977, according to industry estimates. For this reason, the SAF employers' association had taken a hard-line position prior to the start of the new collective bargaining rounds this month: pay increases should be granted only if accompanied by agreements on productivity increases and lower absenteeism. Prior to the elections, the LO trade union federation had proposed that an 8% pay boost be made a reasonable reference point for the initial wage talks.

Spain: Madrid Submits Labor Reform Legislation

The Spanish cabinet has now made the long-awaited decision to officially sanction the country's labor organizations and "worker commissions" *(comisiones obreras)* which until now have operated on an illegal basis despite their power-

Labor Reform
(contd.)

ful role in the national economy. According to Madrid reports, it was further decided to give civil service status to some 30,000 functionaries in the state-run labor syndicate system. The future tasks of these functionaries have yet to be defined, and it also was not immediately certain whether or not the Central National Syndicate would be wholly disbanded or permitted to continue in some form.

The government's draft legislation concerning a fundamental labor reform was published on Nov. 4 in the official bulletin of the Cortes. It will be formally presented to Parliament after a constitutional review. Article 1 of the bill provides that "employees and employers may, on a regional and national basis, form associations to represent their interests." The associations (i.e., labor and trade unions and industrial and professional associations) may be fully autonomous, may draw up their own statutes, and have a legal right to state protection so long as they are not subject to the "discipline of any political party."

The draft legislation also provides for the representation of employers and employees and their associations in the National Economic Council. In existence since 1940, this Council so far has been mainly an interministerial body of coordination, with its members working on the preparation of economic and fiscal legislation. Through the expanded Council, the industrial partners would be given the opportunity to influence the drafting of legislation affecting the national economy.

Common Market Reports

EUROMARKET NEWS

Issue No. 410 *November 23, 1976*

IN THIS ISSUE

Community: AG Conclusions in Rhine Pollution Case

In proceedings brought by a Dutch vegetable grower and an environmental foundation against France's state-owned potassium mines over damage allegedly caused by polluted Rhine water, Advocate General Francesco Capotorti has recommended to the European Court of Justice that it interpret Article 5(3) of the European Convention on Jurisdiction and Enforcement of Judgments so that plaintiffs could continue to press for compensation before Dutch courts rather than bring action before a French court (*Bier & Foundation v. French Potassium Mines,* Case No. 21/76). Article 5(3) provides that an injured party may sue the perpetrator of a civil tort in the jurisdiction where the wrongful act took place *(Common Market Reports, Par. 6009)*.

The Dutch lower court had declined jurisdiction when the plaintiffs sought to recover some $15 million from the French mines for reduced earnings from crops and for necessary investments in water purification equipment *(Common Market Reports, Par. 9730)*. Though the appellate court at The Hague agreed to hear the case, it had some doubts about the precise meaning of Article 5(3). Last March it asked the EC court for an interpretative ruling on whether "the place where the injury occurred" means the location where the damaging act was committed (in this case on the upper

COMMON MARKET REPORTS, Issue No. 410, November 23, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Pollution *(contd.)*

Rhine, near Mulhouse, France) or where damage was actually sustained (in Holland).

Advocate General Capotorti's conclusions have been welcomed by Commission lawyers in Brussels. They point out that it is one of the Convention's express objectives to facilitate jurisdiction, and although a defendant is normally sued in his home state, Article 5 permits a plaintiff to bring legal action in courts outside the defendant's domicile and home state. An interpretation other than that recommended by Capotorti would be contrary to the aims of the Convention, according to the attorneys. A judgment by the Court of Justice along the lines recommended by the Advocate General would mean, for example, that a Belgian consumer who was injured by a defective Italian product could sue the Italian manufacturer in a Belgian court.

Even if the European Court goes along with the recommendations in the case at issue, the plaintiffs may still face a long battle in the Dutch courts. Some experts say that a satisfactory solution can be worked out only by negotiation. A beginning has been made in that France, Germany, Luxembourg, the Netherlands and Switzerland have agreed in principle to a convention against chemical pollution of the Rhine. In another accord, the parties agreed in principle to share costs (with France and Germany carrying the lion's share) for reducing and eventually eliminating the discharge of potassium by the French mines. But implementation of the accord has been delayed because Paris reportedly wants Bonn to assume a higher share of the costs.

Talks over Joint Transport Policy Goals

The member states' transport ministers are scheduled to meet again on Dec. 16 to make headway in working out a common transport policy. If the Council stands by its commitment and adopts the proposal that would harmonize national rules on roadworthiness tests for motor vehicles and trailers, it would be a major step forward in the area of intra-Community transport.

Council officials are skeptical, however, about the prospect of any major progress in the EEC's transport policy toward third countries, although there have been some encouraging Council developments concerning international maritime shipping. So far the Council has not decided whether or not the EC should act with one voice and press for negotiations aimed at amending the U.N. Convention on a Code of Conduct for Liner Conferences. The Council recognizes the mounting problems caused by below-cost freight rates of the East Bloc, and it has agreed to establish an institutionalized consultation procedure in the maritime sector between the member states and third countries as well as international organizations. This consultation would go beyond what is required by Treaty Article 84, which confines common action to urgent harmonization of na-

Transport (contd.)

tional rules on transport of goods *(Common Market Reports, Par. 1945.01-05)*.

The Code of Conduct included in the U.N.-sponsored 1974 convention allows cargo sharing and rate fixing among ship owners registered in signatory countries as well as among those in non-signatory countries. Although Belgium, Germany and France (among a total of 19 nations) have signed the convention, they have not ratified it because of the Commission's threat to take them to the European Court of Justice. Cargo sharing and rate fixing between ship owners of different member states would violate Treaty Article 85. This has been a major reason that the Commission, backed by Great Britain and Denmark, has been pressing for new negotiations.

A common stand and innovative solutions are regarded as necessary to counter growing discrimination, dumping, and other market-disrupting practices, especially on the part of East Bloc countries. East Bloc shipping lines have increased their capacity by 400% over the past eight years (to 21 million tons in 1975) and account for a disproportionately high percentage of cargo transport in EC trade with third countries. In trade between the U.S. and West Germany, for instance, East European freighters are already carrying 13% of the total. These increases have been possible because the East Bloc shipping lines, all government-owned, are in a position to charge rates that are 30% below market level.

In Brief...

The Permanent Representatives have reached a compromise on the Council draft directive to coordinate national rules governing the award of public supply contracts, and they have recommended adoption by the Council. The compromise means that contracts valued up to 230,000 European units of account would be exempt from the scope of the directive. Thus, a national authority wanting to award a contract below that amount would not have to consider bids from out-of-state suppliers. Telecommunications equipment would also be excluded + + + The Council has adopted two directives aimed at removing obstacles to trade by approximating national rules. One measure sets forth Community standards for the suppression of radio interference caused by electrical household appliances, portable tools and such equipment as office machines, etc. Another will approximate national rules governing the construction and testing methods of electrical energy meters by introducing an EEC-type approval mark.

Germany: Parliament Passes Four Major Laws

Both houses of parliament in Germany have adopted four major pieces of legislation involving consumer protection, civil court proceedings, taxation, and protection of individual rights against the misuse of computerized data. The

Legislation *(contd.)*

final measures were worked out in conference committee because of earlier upper-house opposition.

Consumers will benefit from the Fine Print Law, which prohibits clauses in sales conditions and standardized contract forms that cannot be reconciled with the principle of equity or which lack a fair balance between the interests of both the seller and the buyer. In addition, the law enumerates, by way of example, clauses that are always deemed invalid, such as the preclusion of damages based on a warranty or a reduction in the statutory limitation periods for bringing claims under a warranty.

A major innovation is that not only the buyer but also consumer associations, the chambers of commerce, and industrial associations will have the right to bring action in a district court against individual manufacturers, dealers and all sellers generally. Once the court has established that the sales conditions or individual clauses contained therein are inequitable, it could invalidate them. Such a judgment will be considered in any future legal action by another party involving the same issue. The law takes effect on April 1, 1977. *(Doing Business in Europe, Par. 30,876)*.

Civil court proceedings will be simpler and faster under amendments to the 99-year-old Code of Civil Procedu[re]. Both plaintiff and defendant will be required to contribute to the concentration and expedition of judicial proceedings, with emphasis on one hearing. Both will be required to present to the court all relevant information whenever it becomes available. The amendments take effect on July 1, 1977. *(Doing Business in Europe, Pars. 30,752 and 30,881)*.

Passage of the Introductory Law to the Fiscal Code means not only that amendments to some 100 laws can take effect but also that the government has prevailed with its approach to the deduction of low-cost items (up to DM 800). Fearing that a high court ruling on the deductibility of such items might be abused by individual and corporate taxpayers, the administration proposed to and obtained from Parliament an editorial clarification on the issue. The law takes effect on Jan. 1, 1977. *(Doing Business in Europe, Pars. 30,862 and 30,893)*.

The Computerized Data Protection Law, taking effect on Jan. 1, 1978, contains some safeguards against unauthorized files on private individuals and use of personal data stored by businesses and government agencies.

Italy: Rome Seeking to Break Down Pay Indexation

Following the two-day parliamentary debate over Prime Minister Giulio Andreotti's anti-inflation program, the Italian government on Nov. 12 won a vote of confidence in the Chamber of Deputies. Thus, Rome was given the green light

Indexation *(contd.)*

to raise a number of taxes and public tariffs, which should sift off an estimated 5,000 billion lire. (Most of these funds are to be used to trim the projected 1977 Budget deficit, which has been projected at 13,600 billion lire, while some 1,000-1,200 billion lire is to be spent on public investments.) In the debate, the government plan was tolerated by nearly all parties, including the Communists, with most criticism focusing on details. Still, in the final balloting, abstentions outnumbered the "yes" votes by 267 to 249. There were only 37 "no" votes.

Winning this vote of confidence was seen by the Andreotti administration as only one step in the right direction. Next, Rome faces the task of gaining an accord on modifying the *scala mobile*, the automatic pay indexation system. Andreotti told Parliament that, in the future, these pay adjustments should be permitted only twice a year instead of every three months and that the existing exclusion of annual net incomes in excess of 8 million lire should be retained.

The impact of pay indexation on labor costs is illustrated by the fact that, for the current November-January period, the *scala mobile* has gone up another four points, reflecting the cost-of-living increase recorded from mid-July through mid-October 1976. Accordingly, employers have to bear additional costs of about 1,000 billion lire in annual terms to finance monthly raises of 8,272-9,556 lire for white-collar employees and of 8,104-8,404 lire for blue-collar employees.

To weaken the indexation system, the government requires the consent of both employers and unions, and Andreotti has given both factions 60 days within which to come to such an agreement. Depending on the type of consensus achieved, the Prime Minister told Parliament, the administration would see to what extent the social security contributions now paid by employers could be "fiscalized," i.e., financed out of the Budget.

The chances for an employer-labor accord on this issue were not considered totally hopeless, judging by the results of preliminary discussions. The main problem for the union leadership appears to be the resistance of the rank and file: the metalworkers in northern Italy, for instance, initially had taken a hard-line approach regarding their rights to plant-level pay raises negotiated in addition to the increments granted through collective bargaining. In the meantime, their representatives have been persuaded to adopt a more moderate position, and it was reported that this already has had an effect in some plants. At Alfa Romeo, for example, productivity is said to have noticeably increased and the rate of absenteeism dropped, according to reports.

France: Bracing for Public-Sector Pay Talks

Although collective bargaining for the employees of France's public-sector industries is not scheduled to begin until a few weeks from now, both sides already are gearing up for the encounter, the outcome of which is expected to influence the success or failure of the Barre Plan, the government's anti-inflation program. The key issue will involve the question of whether or not the public-sector workers, represented by the Force Ouvrière union, will continue to enjoy a certain minimum annual raise of real purchasing power, i.e., a guaranteed pay increase above the rate of inflation. This guarantee has been in force since 1969 and in the past years amounted to 1-2%.

As far as Prime Minister Raymond Barre is concerned, the situation is very clear: pay raises in both the public and private sectors in 1977 should correspond exactly to the rate of inflation, which has been officially projected at 6.5%. In the interest of regaining economic stability, Barre argues, public-sector employees are entitled to maintain their current level of purchasing power but to no more.

The Force Ouvrière, so far with a reputation of being one of the "moderate" labor unions, refuses to follow this reasoning and is again demanding a guarantee of 2%. This demand is based on the argument that French workers generally still have to catch up with the purchasing power of their counterparts in other EEC countries. FO secretary-general André Bergeron sees in the government's position an assault on the freedom of collective bargaining and has threatened not to sign an agreement on Barre's terms. This time Bergeron may even count on the backing of the CGT and the CFDT, the two left-wing unions, which normally are not backing the FO's "soft" policies.

Barre so far has been biding his time, refusing to stir up the issue until bargaining actually begins. But he knows, of course, that the results of the public-sector wage talks will have considerable influence on collective bargaining in the private sector. A strong reminder to this effect has come from the Patronat Français, the employers' association, which has exhorted Barre to be tough and stand firm. The Prime Minister has not made any promises beyond saying that the state intends to "set an example." However, Labor Minister Christian Beullac has made it clear that the administration is not going to buckle on this issue, not even to a "united labor front."

Denmark: Green Light for Additional Foreign Loans

The Danish Folketing has authorized the government to seek additional foreign loans of up to 3 billion kroner, a step that was seen as an "uncomfortable necessity," particularly since the last previous billion-kroner loan was taken out only three months ago. The loan authorization coincided with the news that Denmark's 1976 balance of payments defi-

Loans
(contd.)

cit probably will exceed 10 billion kroner. This would almost double the previous record deficit of 5.7 billion kroner recorded in 1974. So far this year, Denmark has used up 8 billion kroner in net foreign credits to cover its payments deficits, raising its international debt total to 35 billion kroner, or nearly 15% of GNP.

To improve its revenues by about 1 billion kroner, the Social Democrat minority administration is currently seeking a parliamentary majority for its proposal to impose an energy tax in the form of a surcharge on heating fuels. This proposal had been part of the economic program presented to Parliament last August but did not pass. Economics Minister Per Häkkerup again emphasized the need for stringent austerity policies, saying that if Denmark demonstrates that it will "adhere to the policy of the 'August compromise,' then it will be recognized abroad that we are contributing something ourselves to the solution of our difficulties." Otherwise, Häkkerup said, international confidence would dwindle and it would be tough to finance the country's deficits.

The Economics Minister predicted that Denmark cannot expect to achieve equilibrium in its payments balance until 1981 at the earliest, but he said that the deficits should decline over the next few years. Häkkerup forecast shortfalls of 7 billion kroner in 1977, 5 billion kroner in '78, and lower deficits in the two years thereafter.

The government would not mind shifting again a good deal of this credit burden to private industry. Normally, this could be done through high domestic interest-rate levels and stiff credit restrictions which would make it more attractive for Danish businesses to seek foreign financing of their investments and foreign trade. This year, however, the private sector has refused "to play the game" despite record interest rates at home (the discount rate stands at 11%). In fact, because of the monetary instabilities and the poor economic situation, businesses not only have declined to raise their foreign indebtedness but have also sought to pay off parts of existing loans. This is why the Danish state has been forced to float international issues on such a large scale.

Portugal: Mandatory Savings for Higher Incomes

The socialist minority government in Lisbon on Nov. 12 announced a mandatory savings program as yet another measure to rebuild the ailing economy. It provides for 1/14th of all annual incomes above 120,000 escudos to be converted into long-term state bonds, which would begin to earn interest as of 1978. Of the "13th-month salaries" traditionally paid at Christmas time, only 7,000 escudos may be paid out on a cash basis. (Portugal's legal minimum wage currently stands at 4,500 escudos per month.) The restric-

Savings *(contd.)*

tions are less harsh than originally expected, and political observers have pointed to next month's communal elections as the likely reason for this "leniency."

EURO COMPANY SCENE

Polaroid/ Kodak

The U.K. Appeal Court on Nov. 10 reversed a High Court ban imposed last August which blocked the introduction on the U.K. market of Kodak's new "instant picture" camera. The ban was imposed pending the outcome of a patent action brought by Polaroid Corp., International Polaroid Corp. of America and Polaroid U.K. against Eastman Kodak and its British subsidiary Kodak Ltd., alleging infringement of 10 patents for Polaroid's SX70 camera and film. Kodak contends that certain of the patents are invalid and that others are not actually being infringed. The Appeal Court held that there was "no serious risk" that Kodak would drive Polaroid out of the U.K. market. It was also held that the ban, if enforced, might result in Kodak's suffering damages which would be extremely difficult to assess. (Kodak has not as yet commenced production in Britain, but it has made "a substantial investment.") Polaroid was refused leave to appeal to the House of Lords.

Galeries Anspach/ Sears

A European buyer is reportedly being sought for Belgium's department store group Galeries Anspach, which the United States' Sears & Roebuck had taken over (97%) in 1971, presumably as a first base for a European network. At the time of Sears' first engagement, the group's losses had totaled BF 161 million but since then are said to exceed BF 1 billion. The reason for the difficulties are partially attributed to the strong influence of the U.S. parent company on management and procurement policies and Sears' alleged failure to take account of local Belgian conditions. According to Brussels reports, Sears has been in contact with the Economic Affairs Ministry and the National Investment Corp. as well as with an unnamed European group - talks that eventually might result in Anspach's sale.

Göbel/ Inspanky

Germany's W. Göbel, manufacturer of the popular "Hummel" figurines, has acquired the Inspanky Porcelain company of Pennington, N.J., in what was described as a diversification move on the U.S. market. The N.J. operation has been renamed Göbel Crafts of North America. The German family enterprise, which includes 11 other companies and employs about 2,000, had 1974 sales of slightly above DM 100 million and reported "good increases" for 1975 and '76.

Common Market Reports

EUROMARKET NEWS

Issue No. 411 *Report No. 306, December 1, 1976*

IN THIS ISSUE

Community: New Low in Trade Relations with Japan

While the European Community's trade relations with Japan have never been considered cordial because of Tokyo's protectionist policies at home and aggressive marketing practices abroad, it is now conceded in Brussels that these relations have reached a new low. The EEC has repeatedly experienced trade deficits with Japan during the past two decades, but the $4.2-billion deficit expected for 1976 has prompted the European Commission to adopt a more energetic attitude toward the matter since a serious trade conflict could have repercussions in areas beyond bilateral EEC-Japanese trade. If no satisfactory solution can be found in the coming months, Commission officials fear that the EC executive might yield to pressures from several member states and agree to unilateral import restrictions for certain Japanese products. A thorough discussion of this topic had been scheduled for the Nov. 29-30 meeting of the nine heads of government at The Hague.

There are basically five sectors in which Japanese exports have had an unusually detrimental impact: ball bearings, steel, shipbuilding, textiles, and automobiles. In 1974-75, Japanese exports of ball bearings to the EEC rose by 40% and those of tapered roller bearings by 100%. In the belief that there is sufficient evidence to substan-

This issue is in two parts, consisting of 56 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 411, December 1, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Relations *(contd.)*

tiate Japanese dumping practices, the Commission has initiated proceedings under Article VI of the General Agreement on Tariffs and Trade. Brussels is charging that some types of ball bearings are sold in the EEC at prices that are 26 to 52% below those charged in Japan. As a result, some 5,000 workers in the ball-bearing industry in Germany, France and Britain have lost their jobs and many others were forced to accept short-time work.

Steel has been another major area of concern. Although six major Japanese steelmakers have voluntarily agreed to curb their exports to the EEC, steel exports by smaller Japanese companies nearly doubled in the first nine months of '76 when compared to exports of the previous year (1976: 1.9 million tons; 1975: 1.1 million). In addition, the Japanese have been successful in penetrating non-EEC markets in Europe, such as Spain, Sweden and Switzerland.

The Japanese government has offered to persuade the smaller steel producers also to abide by the gentlemen's agreement and to extend the agreement to include non-Community markets in Europe. While this offer has been welcomed in Brussels, it is still considered inadequate to reduce the EEC's trade deficit with Japan. Tokyo has been urged to increase imports from the EEC, particularly of food. Meanwhile, Commission and Japanese officials are seeking solutions in formal negotiations and informal contacts.

EC Legislation to Curb VCM, PVC Dangers

The Commission has proposed legislation to the Council of Ministers that would seek to further minimize the dangers inherent in vinyl chloride monomer (VCM) and its derivative polyvinyl chloride (PVC) used in making plastics. VCM is a toxic gas that may cause diseases of the liver and bone tissue, and plastics industries in all member states have taken precautionary steps to reduce the dangers, either on their own or in accordance with national legislation.

By means of its proposal, the Commission not only seeks to approximate national practices and standards but also wants the Council to upgrade the latter by laying down rules governing maximum VCM concentration levels in the air of production plants. It also proposes uniform rules for the monitoring of permissible VCM levels and recommends guidelines for regular medical checkups for employees. A committee made up of national Commission experts would periodically review the rules in light of new technological and medical developments.

In Brief...

The Council working group has adjourned, for lack of agreement, discussions on the proposal to extend lawyers' freedom to provide services throughout the Community. Now the Permanent Representatives will have to seek answers to two questions: 1) which should be recognized, the attorney's title or his activity and 2) in rendering services abroad, In Brief, *(contd.)*

should the out-of-state lawyer always be required to work together with a domestic lawyer? + + + The Council is not enthusiastic about a Soviet-sponsored initiative for broad economic and trade relations between the EEC and Comecon. Instead of meeting Comecon's original demands for major economic concessions, including the most-favored-nation status for East Bloc nations, the Community is willing to negotiate a cooperation agreement limited to transport, pollution control, and exchange of statistical and technical information.

Italy: New Deadline on Foreign Assets Declarations

In response to urgent requests, the Italian Council of Ministers this month voted to grant a two-week extension of the Nov. 19 deadline by which residents have to file declarations on their foreign assets that resulted from illegal capital transfers abroad. This "technical prolongation" until Dec. 3 was recommended by Foreign Trade Minister Rinaldo Ossola and was in consideration of the time problems encountered by banks, lawyers and tax advisers in processing the paper work for their clients in order to meet the original deadline set by Law No. 159. Also, it was pointed out that certain legal aspects of the capital repatriation procedure still remain to be clarified.

It was reported that the flow of repatriated capital had increased considerably in the days preceding the original Nov. 19 deadline. By far the largest percentage of declarations was submitted by small investors who evidently reasoned that the benefits from any illegal capital holdings abroad would not outweigh the punishment faced (up to six years' imprisonment). Also, a substantial portion of foreign deposits reportedly was being clandestinely returned, i.e., without being officially declared. (Repatriated and properly declared assets are subject to a one-time 15% tax, and payment of this levy prior to Feb. 19, 1977, will automatically clear those concerned of any wrongdoing in connection with the foreign exchange regulations.)

Milan reports estimated the volume of officially repatriated capital by Nov. 19 at anywhere from 500 to 1,000 billion lire, and it was hoped in Rome that the extension of the deadline would raise the eventual total by another 15-20%. However, the probable results of the amnesty drive must be viewed against the volume of "escape capital" actually held abroad. The Bank of Italy has conservatively estimated this total at 30,000 billion lire, but other reports put it at twice that amount and more.

France: Gloomy News on Employment, Wages, Trade

At a time when the French government would prefer to concentrate on preparing the groundwork for a lasting recovery of the domestic economy, it must again devote considerable attention to acute problems in the areas of employment, Economic Scene *(contd.)*

wage costs, and foreign trade. The most sensitive issue politically is the unabating rise in unemployment: at the end of October, the jobless count once again topped the 1-million mark to reach 1,025,000, eclipsing the previous record of 1,020,000 established in November 1975. Though it was pointed out that, on a seasonally adjusted basis, unemployment actually had somewhat declined, the authorities still were worried by the absolute drop in job openings by more than 20,000 (to 121,000).

On the price front, no encouragement was provided by the provisional statistics on hourly wages, which showed a 3.5-4% increase in the third quarter as compared with 2.8% in the same 1975 period. This corresponded to an annual rate of 15% and thus lent weight to the government's announced intention of having future pay raises correspond exactly to the rate of price inflation, thereby stabilizing employment incomes in real terms. As previously reported, this proposed policy will be put to a test at the upcoming wage talks for the public sector, where the administration's plans are encountering determined opposition even before the actual start of collective bargaining.

To add to the discouraging news on the economic scene this month, the Trade Ministry released figures showing an enormous FF 4.7-billion foreign trade deficit for the month of October alone, which brought the overall shortfall to FF 15 billion for the first 10 months of the year. This compared to a FF 6.9-billion surplus for the same 1975 period and was blamed on the high volume of oil imports and the lingering aftereffects of this summer's drought. Trade Minister André Rossi revealed that France's oil imports bill for January-October '76 had come to FF 50 billion.

Against this background, special attention was given to the conclusions of a long-term forecast issued by Chase Econometrics, a subsidiary of the Chase Manhattan Bank, which reportedly dismissed as totally unrealistic the goals set by France's seventh economic (four-year) plan passed last July. The Chase study, reports said, stated that the present situation and outlook for the French economy is such that it will be virtually impossible for Paris to achieve full employment, a payments equilibrium, and a 4.5% inflation rate by 1980.

Belgium: Civil Service Work for Jobless Youths?

The large increase in youth unemployment in Belgium has led to government plans to include small companies in the compulsory training programs already offered by large enterprises to young people drawing unemployment benefits. It was also announced that a study group has been set up to examine the possibility of introducing compulsory civil service work for such individuals. Under consideration is a plan whereby the young people would be working two or

Civil Service *(contd.)*

three days a week for the local and provincial governments, hospital services, etc. The number of unemployed students in Belgium has never been higher: 32% of those out of work are under the age of 25, according to figures released by the European Commission.

Overall unemployment in Belgium again rose steeply until mid-November, bringing the total up to a record 244,300, or 9.2% of the active population. (The previous highest figure was 239,200 in January of this year.) The National Employment Office attributed this to seasonal factors - the approach of winter and a large number of school graduates eligible for unemployment benefits. The increase is considerably higher than last year at this time, reflecting among other things the slump in the construction industry and the service sector.

Netherlands: Industry Study on Existing Profit-Sharing

Nearly 62% of Dutch enterprises questioned are already operating voluntary employee profit-sharing plans of some kind, according to the VNO and NCW employers' associations. This figure is based on a survey held in September and involving the mailing of questionnaires to 9,000 companies affiliated with the VNO or NCW. Answers were received from 4,504 firms, or about half of the total. The purpose of the survey was to get an overview on existing forms of profit-sharing plans in Holland, since the government has submitted draft legislation seeking to introduce a mandatory system.

According to the VNO-NCW report, some 500,000 workers are covered by the profit-sharing plans described in the companies' replies. In about 52% of the companies, distributions to employees are linked to corporate earnings - either by being directly determined by the size of profits (34%) or on the basis of *any* profitable results (17%). The average annual profit-sharing distribution by all of these enterprises amounts to 3.3 weeks of pay or nearly 6% of annual pay. The remaining 1,340 firms made their distributions independent of their earnings situation. Of the profit-linked plans, 6% had been negotiated through collective bargaining, 21% were based on internal agreements, and 10% involved some other procedure. The majority of the plans did not involve any formal agreements, however.

Based on this survey, the VNO and NCW estimate that their member companies operate about 3,000 voluntary profit-sharing plans for a total of 750,000 employees, or about 25% of the 3 million workers in Holland.

In September, both the VNO and NCW had mounted a vehement attack on the government-sponsored bill concerning an obligatory *vermogensaanwasdeling* (VAD) system. They described it as "carelessly prepared and not thought out" and also challenged its constitutionality.

Germany: Nuclear Issue Casts Doubts on Energy Program

The organized and often violent demonstrations by citizens' groups and left-wing individuals against the construction of a nuclear power plant 30 miles northwest of Hamburg have raised questions in Bonn as to the wisdom of and approach to the government's energy program for the 1980s and '90s. Previously, the official attitude was that public protest and even violence would not be a deterrent to the implementation of the program, which calls for 36 nuclear power plants by 1990 in addition to the 12 now in operation. The government also believed that energy policy should not be determined by public referenda.

Bonn officials are now saying that the biggest problem seems to be that the opposition to the construction of the plants is based on emotions rather than on realistic arguments. They believe that the solution is to educate the public on the necessity of expanding nuclear energy's share to 15% of total German energy production (currently 2%), and to concede openly that there exists no 100% guarantee against nuclear accidents in the A-plants. Furthermore, the federal and the state governments, as the issuers of licenses for new plants, will soon have to come up with a solution for the safe deposit and processing of expended fissionable materials.

Bonn observers do not rule out amendments to present legislation controlling the construction of any new facilities, including nuclear power plants. Current law does not give citizens' groups an opportunity to be heard during the planning stage; only individuals living in the immediate neighborhood have a right to be heard by the licensing authorities. Actions brought by several individuals in an administrative court with the objective of compelling the authorities to revoke the license or hold up construction of the plant near Hamburg are pending and therefore have not stopped the builder, a public utility company, from starting construction.

Further doubts on Bonn's energy program were raised at the recent national convention of the Free Democrats, the minority partners in the government, when a majority of delegates ignored the pleas of one of their top men in the Schmidt administration, Economics Minister Hans Friderichs, and voted for a delay in the construction of nuclear power stations until all problems involving the deposit and processing of atomic waste have been solved and all precautions against nuclear catastrophies have been taken.

Britain: Legislative Program Avoids Controversies

The U.K. government's legislative program for the next parliamentary session was announced in traditional fashion in the Queen's Speech of Nov. 24. In view of the fact that the country is still in the process of weathering several crises - in regard to balance of payments, inflation and

Program *(contd.)*

unemployment - and is also attempting to convince the International Monetary Fund of its "entitlement" to a massive loan, it could not be expected that the proposed legislation would be in any sense controversial. (No mention was made, for instance, of a "wealth tax," although this was a cornerstone of the Labour Party's election platform.)

The legislative program is dominated by the devolution debate (i.e., on "autonomy" for Scotland and Wales), direct elections to the European Parliament, and the resubmission of the aircraft and shipbuilding nationalization bill (see below). In addition, a bill will be introduced to restrict payment of unemployment benefits to certain occupational pensioners and students, the administration of criminal law will be "improved" (especially in relation to conspiracy), U.K. fishing limits will be extended to 200 miles, and provision will be made for "the extension of industrial democracy in the private and public sectors."

Other items concern the introduction of "greater equality in charges for water supply by local authorities," the removal of "unnecessary restrictions" on powers of local authorities to undertake construction work by direct labor, and special attention to housing and the "needs of inner-city areas," among other things.

The legislative package per se was immediately attacked as "insular" and "sterile" by the Conservative Opposition and by most commentators. The main criticism was directed at the government's apparent unwillingness to take direct action to improve real incomes, give a pledge on price increases, or institute any cogent program for employment. Above all, it was seen as something of a paradox that the theme of the forthcoming session is to be devolution of power from central government whereas the government itself has continually maintained that the country's future "lies in larger units of governmental power."

U.K. Government Persisting on Nationalization

The Labour government's bill to nationalize Britain's aircraft, shipbuilding and ship-repairing industries - by far the most contentious measure introduced by the administration since it took office - was effectively killed as a result of determined opposition in the House of Lords. Nevertheless, the government has pledged itself to reintroduce the measure in the current session and, if necessary, to avail itself of the Parliament Act procedure whereby the proposed legislation can be forced through without regard to Upper House opposition.

The bill expired following a series of defeats in the Upper House in regard to provisions to include 12 ship-repairing companies in the nationalization arrangements. The clash was so bitter that senior government ministers threatened the abolishment of the House of Lords, as a non-elected assembly, should it persist in its "arrogance and

Persistence *(contd.)*

effrontery" in presuming to tell the elected House of Commons which policies it "would permit them to implement."

Although it is now assumed that the Upper House will offer little more than token resistance to the bill when it is reintroduced, the determined opposition has had the effect of seriously curtailing the government's legislative ambitions. Among the other pieces of legislation that the Lords have truncated is the Dock Work Regulation Act: the original proposal called for a five-mile "corridor" on waterfronts which would have been the exclusive province of docker (longshoremen) members of the powerful Transport and General Workers Union. This section was deleted following a series of votes against the measure in the House of Lords.

COMMERCE, CLEARING, HOUSE, INC.

Common Market Reports
EUROMARKET NEWS

Issue No. 412 *December 7, 1976*

IN THIS ISSUE

Community: Busy Year-End Schedule for Council

With the Council of Ministers meeting nine times this month, it was hoped in Brussels that about 10 legislative measures will pass and that headway can be made with proposals on which the Permanent Representatives had become stalled.

The Council is expected to adopt the second draft directive on coordination of national company law. This proposal and subsequent conforming national legislation will improve the position of shareholders and creditors of stock corporations established in each of the nine member states *(Common Market Reports, Par. 1371)*.

There are four environmental measures scheduled for adoption at the Dec. 16 meeting. One is the draft directive on the quality of water for human consumption; here the Council will have to decide whether the standards would be established by a management committee or the Council itself *(Common Market Reports, Par. 9766)*. Another measure is aimed at reducing and eventually eliminating the discharge of red sludge waste by industries using titanium dioxide in the production of paint, varnish, and ink; here, too, the Council will have to opt for one of two control methods proposed by the Permanent Representatives - norms for quality in the water or at the source of discharge.

COMMON MARKET REPORTS, Issue No. 412, December 7, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Schedule *(contd.)*

Council attorneys anticipate a compromise setting Community-wide emission standards but permitting lower standards where the pollution impact would be less detrimental (in the North Sea, for example). The third proposal would set minimum limits for effluents discharged by paper mills. Enactment would contribute to the clean-up of rivers and lakes and would also eliminate competitive distortion among paper mills established in different states. Only France and Belgium have legislation to control water pollution by the paper industry. The Council is also scheduled to adopt the draft convention against chemical pollution of the Rhine.

Equally important to both management and labor is the draft directive on the retention of employee rights and benefits whenever a company changes hands through merger or takeover. Adoption would be certain if the Council can find solutions to two major problems: 1) when should management inform the employees' representatives - before or after the conclusion of the merger agreement or only if there would be negative effects on employees, and 2) should management be required to inform the employees' representatives if an EEC-based company sells a subsidiary established in a third country? The Permanent Representatives could not agree on these questions *(Common Market Reports, Par. 9775)*.

In Brief...

The threat of an intra-Community chicken trade war between Germany and the other eight member states over differing poultry standards has been averted. The Council of Ministers adopted a directly binding regulation on common standards regulating the water content in frozen chickens. The German government won its point to the extent that the water absorbed during preparation must not exceed the technically unavoidable minimum; however, Bonn did relent on the issue of testing methods, among other things + + + The Council has adopted two important directives that will harmonize national agricultural and food legislation. One sets forth rules on composition, packaging and labeling that will have to be followed in Community trade of straight feedstuffs. The other establishes maximum safety levels of pesticide residues for fruits and vegetables.

Britain: Budget Plans for Higher Indirect Taxes

In the course of the European Community summit conference in The Hague on Nov. 29-30, U.K. Prime Minister James Callaghan responded to member countries' insistence that the "green" pound be devalued by serving yet another reminder that such a devaluation (which would cause sharp increases in British food prices) would seriously jeopardize his government's good relations with the labor unions and might, by extension, complicate Britain's negotiations for the pending $3.9-billion loan from the International Monetary Fund.

Budget Plans *(contd.)*

Even as Callaghan spoke in The Hague, there were ominous signs in Britain that the "good relations" had already been severely compromised. Senior trade unionists issued unequivocal warnings that the government's agreement with the unions, the "social contract," would be the subject of "reappraisal" if the IMF elected to attach to the loan such conditions as extensive deflation or major cuts in public spending. The union fears were based not on any statement by the IMF but on various pronouncements of Chancellor of the Exchequer Denis Healey, who had repeatedly referred to public expenditure cuts of £2 billion as being a "probable" IMF condition. The Prime Minister was thus forced to align himself against his own Chancellor when he warned that such a figure would spell collapse for the government in the form of eight immediate ministerial (cabinet) resignations and a "total withdrawal of left-wing support."

To the bewilderment of most commentators, Healey then opened the last day's debate on the government's legislative program by announcing that "there was no question of the IMF seeking to impose massive deflation nor was the Fund seeking any fundamental change in the government's economic policies." The "basic thrust" of the government's policy was right, he insisted, in that the recovery should be based on exports and investment rather than on an artificial stimulation of domestic consumption. When pressed by the Opposition to give assurances that there would in fact be no further public spending cuts, Healey declined to do so.

What the Chancellor did say, on the other hand, was that any reduction in the public-sector borrowing requirement would not be brought about by an increase in direct taxation: "The level of income tax is already dangerously high." The "mini-Budget," which is believed to be imminent, will thus feature increases in indirect taxation and, particularly, sweeping changes in value-added tax. Furthermore, direct taxation will be reduced, but only after agreement has been reached on wage levels for the third round of the present pay policy. In other words, no decisions would be taken until the April 1977 Budget.

Denmark: Strike Threats to Incomes Policy Plans

The government's refusal to call for new elections has only temporarily calmed Denmark's latest political crisis which was triggered by a week-long wildcat strike of the nation's tank-truck drivers. The walkout by the drivers, who were demonstrating for pay raises of 30%, caused serious disruptions of gasoline and oil deliveries and nearly led to the fall of the Social Democrat minority government. However, Prime Minister Anker Jörgensen insisted on continuing his talks with the non-socialist parties in Parliament to find ways of preventing such illegal strikes and of safeguarding the current economic program.

Strikes *(contd.)*

Jörgensen found himself accused of lacking leadership qualities after union pressures had caused him to retreat from an agreement on a temporary wage and price freeze for which he had already been given approval in principle by the non-socialist parties in the Folketing. The talks broke down after the government appeared to have given in to too many union demands for exemptions from the freeze. Labor resistance also killed off a possible agreement on legislation that would have authorized the labor courts to impose stiff fines on illegal strikers. The legislation also would have provided for sanctions against employers granting pay raises above authorized levels and, further, for tighter price surveillance. Reports said that the government's wavering stand has undermined Jörgensen's authority, and there were charges that Denmark had two prime ministers - Jörgensen and labor federation boss Thomas Nielsen.

The current problems for the government are still tied to the incomes policy portion of the so-called "August compromise." The main feature of this economic anti-crisis program passed last summer was the agreement to limit pay raises to 6% within each of the next two years beginning next March. Since the plan failed to make provisions for the interim period until collective bargaining begins in March, employees in several sectors have been seeking substantial pay improvements in anticipation of the future ceilings. The tank-truck drivers' demand for a 30% increase was based on arguments that drivers employed by the municipalities were receiving 20% more than those working for private operators.

Italy: Rome Shelves Proposal on Wage Freeze

A proposed modification of the decree on the reform of the wage indexation mechanism has been withdrawn by the Italian cabinet following opposition to this move by the unions as well as the left wing of the governing Christian Democrats, the Communists, and the Socialists. As originally submitted to the Senate, the proposal in effect would have amounted to a freeze on higher incomes. It foresaw a 50% freeze on pay increments for annual net incomes above 6 million lire and a total freeze on increases for incomes above 8 million lire.

Some Rome reports said that the government from the start had not entertained serious hopes for the proposal to pass but wanted an opportunity to point up once more the devastating impact of the *scala mobile* on domestic inflation and industrial competitiveness. The Andreotti administration has asked the unions and employers to make this a key topic in their current discussions about productivity and wage and unit costs.

Remaining in force will be that part of the decree which suspends 50% of the automatic, index-based pay ad-

Wage Freeze *(contd.)*

justments in the 6-8-million-lire income brackets and suspends entirely such adjustments for incomes above 8 million lire. Fifty percent of the cost-of-living increases in the lower bracket and the full equivalent of suspended increases on wages in excess of 8 million lire are being tied up in treasury bills and frozen for a five-year period.

France: 'Explanations' on Tax Status of Americans

An "explanatory note" was issued in Paris on Nov. 29 following official U.S.-French discussions on the status of Americans residing in France, in conjunction with the repeal of legislation exempting foreign-source income from French taxes. The repeal of this legislation would leave certain gaps in the application of the 1967 U.S.-French tax treaty, a situation that has now been reviewed by experts from both governments. According to U.S. embassy sources in Paris, a "complete accord" was achieved on the desirability of avoiding double taxation for American residents in France. In the explanatory note, the French government gave assurances that credit also would be allowed for U.S. taxes paid on unearned income and also for U.S. state and local taxes. In the event of the repeal, this interim arrangement would apply until both sides have negotiated a protocol on the interpretation of the 1967 treaty; these talks are scheduled to begin early next year.

The U.S. business and private communities in France are still concerned, however, about the proposed effective date of the repeal - Jan. 1, 1977 - which would not leave enough time to make necessary financial arrangements. Consequently, there have been pressures to postpone this date. The proposed repeal involves Article 164 of the French tax codes, and an affirmative vote is expected in the National Assembly, even though the Senate defeated the proposal last month.

Belgium: Labor Court Makes Award in Equal-Pay Case

A decision handed down on Nov. 24 by the Brussels Labor Court was considered to represent a major step forward in the campaign by the Belgian unions to gain equal pay for women employees of the state-owned airline Sabena. The decision culminates a six-year effort to end discrimination between male and female members of Sabena cabin crews and was preceded by a European Court of Justice ruling last April to the effect that Article 119 of the Rome Treaty gives women an enforceable right to equal pay (*Defrenne v. Sabena,* Case No. 43/75, *Common Market Reports, Par. 8346*).

Under an agreement drawn up in 1954, Sabena stewardesses were obliged to retire upon marriage. That clause was dropped in 1963, but in the meantime the airline had introduced, with the unions' consent, an age limit of 40 (45 in special cases) for stewardesses, while stewards were allowed to continue working until age 65. Stewardesses

Equal Pay *(contd.)*

protested that this forced them to work elsewhere for at least another 15 years until they were entitled to a full pension and that jobs on the ground were often not nearly as well paid.

In the case at issue, Gabrielle Defrenne, a former stewardess who had been forced to retire at age 40, claimed compensation from Sabena on three counts: 1) BF 12,715 as the difference between her salary and that of a steward between 1963 and '66, 2) BF 166,000 as compensation for having her career cut short, and 3) an indemnity of BF 344,000 for loss of her right to a full pension. The Brussels *Tribunal du Travail* had rejected all three claims in 1970, but the stewardess lodged an appeal on the first count. Following the ruling of the European Court, the case was remanded to the Labor Court, which now has awarded Miss Defrenne her BF 12,715.

The Belgian Corporation of Flying Hostesses, the stewardesses' association which had backed Miss Defrenne, has announced that claims from other stewardesses forced to quit their jobs at age 40 will follow. There are questions on whether such claims would be successful in the light of the European Court's ruling that no back-pay claims would be allowed for periods prior to April 8, 1976, the date of the judgment.

Germany: Chances for New Antitrust Legislation

Many German antitrust lawyers were taken by surprise when the Federal Cartel Office gave its blessing to the planned rescue of Neckermann, Europe's No. 4 mail-order house, by Karstadt AG, Europe's largest department store chain. The surprise vanished, however, after the extent of Neckermann's financial troubles became known. What really has livened up the German antitrust scene, however, are recent comments made in this connection by Dr. Wolfgang Kartte, the new president of the Cartel Office, on merger controls in general and the support he has on the subject from his superior, Economics Minister Hans Friderichs.

Kartte has called for a change in merger control policy to take account of the fact that when a business is on the verge of going bankrupt, the only rescuer on the scene too often is a big company that can make the best offer to management and shareholders. Small and medium-sized companies have virtually no chance at all, according to Kartte, who fears the rise of a "rescue mentality" that would cause managements not to try hard enough to avoid the collapse of financially ailing businesses.

The Cartel Office president sees here a danger for the freedom of competition, and he has demanded legislation. Kartte did not indicate how this freedom could be preserved in terms of amendments to the Law against Restraints on

Legislation *(contd.)*

Competition (GWB), but it is clear that he has wide support in Bonn. Some indications about possible legislation in this direction may be forthcoming in Chancellor Schmidt's address inaugurating the new parliamentary session on Dec. 16. Schmidt also might touch on the subject of merger control policy: administration leaders have been joining Kartte in his concern over the growing practice of merging companies to escape merger controls. According to Section 23 GWB, if an enterprise acquires 25% or more of the stock of another firm, both are required to notify the Cartel Office *(Doing Business in Europe, Par. 23,510A)*. However, the notification rule can be evaded when an enterprise acquires only 24.9%, for instance, and subsequently gains 25% control through contract with one or more shareholders. This is a gap in the law that government officials believe should be closed.

Austria: Insurance to Protect Back Pay

Austrian Social Affairs Minister Gerhard Weissenberg has announced the government's intention to submit in the near future draft legislation introducing obligatory insurance to guarantee full and speedy payment of back wages and other earned benefits to employees in case of employer bankruptcy or insolvency. The premiums for this insurance *(Konkursversicherung)* would amount to 0.1% of the company's payroll and would have to be paid solely by the employer in conjunction with the unemployment insurance contributions. The premiums would be collected by the national labor administration which would establish and operate a special insurance fund for this purpose.

If adopted, the legislation would not involve a change in the existing Austrian bankruptcy code and in the ranking of creditors. In the event of the bankruptcy of an employer, the employees would simply transfer their claims to the national labor administration, which in turn would present these claims in the bankruptcy proceedings.

EURO COMPANY SCENE

Fichtel & Sachs/ GKN

In its very first ruling on merger control regulations, the German Court of Appeals in Berlin has overturned the decision last May of the Federal Cartel Office prohibiting the sale of 74.9% of the stock of Germany's Fichtel & Sachs AG to Britain's Guest, Keen & Nettlefolds Ltd. *(Doing Business in Europe, Par. 30,875)*. (Last summer, the European Commission had approved the transaction, although it was then pointed out that Brussels' criteria were different from those applied by the German cartel authorities.) According to an abbreviated text of its ruling issued on Dec. 1, the Berlin court held that it could not be established that the deal would further strengthen F&S's acknowledged market-

Fichtel & Sachs/ GKN *(contd.)*

dominating position nor that it would serve to discourage potential competitors. (F&S is a leading producer of automotive clutches.) Legal observers noted with some surprise that the Cartel Office also was ordered to bear the out-of-court legal costs of the proceedings, which some experts have estimated at close to DM 1 million.

The appellate court ruling is not yet binding, pending the decision of the Cartel Office on whether or not it will take the case to the German supreme court. This appeal would have to be filed within four weeks after the full text of the ruling has been received. Thus, it will depend on the Cartel Office's decision as to when GKN will in fact be able to acquire the majority in Sachs. The British engineering group so far holds 24.9% of F&S's share capital, the maximum permitted without prior official approval.

Esso Italiana

Esso Italiana SpA (Exxon) has formally threatened to shut down operations in Italy early next year if future increases in crude oil prices cannot be reflected immediately in corresponding consumer price rises. Esso Italiana reported losses last year of $91 million and of $70 million for the first half of this year, with total losses for this year possibly reaching $120 million. Esso, the second-largest oil company in Italy after the state holding ENI, would be the third international oil company to pull out of that country (Shell and British Petroleum having already sold out to AGIP and the Monti group, respectively). There is at present no potential buyer for Esso Italiana.

Consolidated Foods/ Douwe Egberts

Negotiations over a cooperation agreement between Consolidated Foods Corp., Chicago, and Holland's Douwe Egberts may possibly lead to a minority participation of the U.S. group in the Dutch firm. If so, the partners would agree to maintain the "Dutch character" of Douwe Egberts, which had a 1975 turnover of 1.2 billion guilders (about two-thirds from coffee sales) and employs 5,000. Consolidated Foods reportedly has annual sales of around $2.75 billion. The cooperative venture would be expected to strengthen Consolidated's European position which is still considered relatively weak, whereas Douwe is looking to improve its markets outside of Europe. The ongoing talks follow the earlier collapse of discussions between Douwe Egberts and leading German coffee processor Jacobs & Co.

Common Market Reports

EUROMARKET NEWS

Issue No. 413 *Report No. 307, December 14, 1976*

IN THIS ISSUE

Community: Court Rules in Rhine Pollution Case

The European Court of Justice has ruled that under the European Convention on Jurisdiction and Enforcement of Civil and Commercial Judgments, a plaintiff has a choice of suing the defendant in a court located either where the damage manifested itself or where the causal event took place, that is, the origin of the damaging act *(Common Market Reports, Pars. 6003-09)*. Thus, the Court largely followed the Advocate General's recommendations and the European Commission's line of thinking in the case involving a Dutch vegetable grower and an environmental foundation against the French state-owned potassium mines over damage allegedly sustained through polluted Rhine water *(Bier & Foundation v. French Potassium Mines,* Case No. 21/76, *Common Market Reports, Par. 9730)*.

More important, however, is that the Court has removed doubts surrounding the meaning of Article 5(3) of the convention. Clarification was needed because plaintiffs' damage suit had been rejected by a Dutch district court, which said that it did not have jurisdiction and that a suit against the French mines could only be brought before a French court. Though the appellate court at The Hague took on the case, it nevertheless wanted clarification on whether "the place where the damage or injury occurred" referred

This issue is in two parts, consisting of 200 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 413, December 14, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Pollution *(contd.)*

to in Article 5(3) should be interpreted as being the place where the damage occurred (in this case, Holland) or the place where the act occurred which gave rise to the damage (on the upper Rhine, near Mulhouse, France).

The Court of Justice has now ruled that the phrase "the place where the damage or injury occurred" must be given a broader meaning so as to include the place where the damage was actually sustained and the place where the tortious act was committed. The Court's preliminary ruling means that plaintiffs may continue before Dutch courts to pursue their claims to recover losses sustained because of reduced earnings and investments in water purification facilities. Some Dutch environmentalists believe that the international Rhine River clean-up effort, begun with the signing of the Chloride Convention (see below), will be more effective in the long term than judicial actions.

Conventions Signed for Rhine Clean-up

There is still hope that the Rhine River, Europe's busiest commercial waterway, can continue to function as the source of drinking water for some 20 million people now that France, Germany, Holland, Luxembourg, and Switzerland have signed two conventions that eventually will lead to a gradual reduction of chemical pollution of the Rhine. Both conventions must be ratified by the national legislatures. The Council of Ministers is scheduled to vote on the Community's accession to the chemicals conventions and the Berne Convention providing for EC participation in the work of the International Commission for the Protection of the Rhine.

In the Convention on Chloride Pollution, France is committed to reducing the discharge of chlorides from the government-owned Alsatian potassium mines into the upper Rhine, near Mulhouse. These effluents are estimated at 11,000 tons daily. During the next 10 years the mines will lower the daily discharge, beginning with a reduction of 1,730 tons as of 1977. The chlorides will be deposited in empty underground mines at an annual cost of FF 132 million: France and Germany each will pay 30% of this cost, the Netherlands 34%, and Switzerland 6%.

The Convention for the Protection of the Rhine against Chemical Pollution largely incorporates Community rules adopted by the Council last May, and it does not place additional burdens on Rhine polluters beyond those provided for in that directive. A convention was nevertheless necessary to enable non-EC countries like Switzerland to join the clean-up effort. Like the directive, the convention makes the discharge of a number of dangerous substances dependent on prior authorization and subject to limitations. The convention also contains two lists - List I names the substances and compounds that are highly detrimental to the

Clean-up *(contd.)*

aquatic environment because of their toxicity, persistence, and bioaccumulation, and List II describes the substances with lesser pollution potential.

Just as the EC member states do by means of the directive, the signatory countries obligate themselves to eventually stop the discharge of highly toxic substances such as mercury, cadmium, and organohalogen compounds (I) and to reduce the discharge of less toxic substances such as zinc, copper, inorganic phosphor compounds, cyanides, and nitrites (II). The schedule for the gradual elimination of pollution by highly toxic substances and the maximum levels permissible for less toxic substances is being discussed by Commission and member state officials, and both the schedule and permissible limits will become part of the convention.

Germany: Appeal Seen Possible after GKN Ruling

German Cartel Office lawyers are considering an appeal against the Berlin Appellate Court's judgment invalidating the Office's ban on the Guest, Keen & Nettlefolds' planned acquisition of 74.9% of Fichtel & Sachs *(Doing Business in Europe, Par. 30,875)*. A decision is expected to be made in the second half of January, after the Cartel Office has received the full text of the judgment. Only a judicial interpretation by the country's highest civil court on the preventive merger control concept could establish definite guidelines in merger control practice.

The 1973 amendments to the Law against Restraints on Competition were largely designed to make it easier for the Cartel Office to use its merger control powers *(Doing Business in Europe, Pars. 23,501 and 23,510)*. The appellate court decision now brings additional arguments to the current discussion on German antitrust policy and, more important, seems to confirm a trend in that the court is increasingly considering the economic aspects of a case, in addition to the legal ones.

In banning the GKN acquisition last May, the Cartel Office reasoned that the takeover would substantially boost Fichtel & Sachs' market-dominating position in the manufacture of automobile clutches because of additional financial resources available through GKN and that the acquisition would act as a deterrent for potential competitors in that market.

The appellate court agreed with the Cartel Office that F&S had a market-dominating position and that the takeover by GKN could strengthen F&S's position because of access to GKN's financial resources. The court also agreed that in applying the merger control criteria, it is necessary to establish that it is dangerous for a dominating enterprise to be in a position to deploy all of its resources, GKN Ruling *(contd.)*

including access to added financial means, at any time in order to keep any newcomer out of the market. However, the court did not accept the argument that such a danger was imminent in this case. Since the present market and demand for clutches is largely accounted for by only five automobile and three truck manufacturers, the court said, any newcomer would have to invest around DM 70 million (a figure not disputed by the Cartel Office) and would do so only if the manufacturers gave firm commitments. In the court's view, there is no likelihood that this might happen.

Denmark: Stop on Prices, Rents for Three Months

Legislation imposing a general freeze on prices and rents until the end of February 1977 was given narrow parliamentary approval on Dec. 4 following an agreement to this effect between Denmark's Social Democrat minority government and the four non-socialist parties in the Folketing. The vote was 89 to 85. The only exception to the freeze will be permitted for price adjustments reflecting the higher cost of raw material imports. With the price stop, administration officials believe, the employers will be in a better position to reject union pressures for pay improvements beyond the officially sanctioned ceilings, since the law prohibits them from passing on higher wage costs in their prices.

Another element of the new legislation is a provisi[illegible] authorizing the labor courts to invalidate pay agreements forced through with the help of wildcat strikes. Such illegal walkouts have become commonplace: last month, for instance, authorities registered some 200 separate unauthorized strike actions.

Both within the government and outside, the new legislation is regarded as merely a stopgap measure, however, substituting for the original proposal for a temporary wage freeze which was successfully blocked by the labor unions. Still, it is hoped in Copenhagen that it will keep things somewhat under control, at least until March. At that time, the next rounds of collective bargaining talks are scheduled to begin, under the statutory limitation of 6% pay rise ceilings for each of the following two years.

In other news, the Danish central bank on Dec. 7 dropped its discount rate from 11 to 10%, taking account of calmer monetary conditions following the European "snake" adjustments in October.

Netherlands: Breakdown of Wage Talks; Discount Rate

Failure to come to an agreement on inflation indexation has once again led to a breakdown of discussions over a new central wage accord between Holland's employers and the labor unions. Neither side accepted compromise proposals offered by Social Affairs Minister Jaap Boersma, so that col-

Wage Talks
(contd.)

lective bargaining will now have to commence for each industrial sector.

Prior to the collapse of the talks, Boersma had indicated that the government for the time being does not plan any incomes policy decrees along the lines of those in effect this year after industry and the unions had also failed to reach a consensus for 1976. One apparent reason for this hands-off attitude, reports said, was the willingness of the unions to hold their demands within the limits set by The Hague's anti-inflation program. The general demands have been for pay improvements of 8.5% next year, inclusive of inflation adjustments. Also, it was felt that the government can ill afford to alienate the unions at a time when general elections are only a few months away.

In other developments, the Dutch central bank has lowered the discount (bank) rate by one point to 6%, effective Nov. 29. Last August, the rate had been moved up in three successive steps from 5 to 7%.

Britain: Proposal for Current Cost Accounting

The U.K. accountancy profession has proposed a radical revision of the present accounting system to make provision for rapidly fluctuating price levels. The recommendations, which closely follow proposals made in 1975 by the Sandilands Committee *(Doing Business in Europe, Par. 30,847)*, are set out in an "exposure draft" on current cost accounting (CCA) prepared by the steering group of the Accounting Standards Committee. The introduction of the system will, it is hoped, be complete by the end of 1981, by which time all companies with assets or turnover in excess of £100,000 should be producing current cost accounts. The first phase, to be applicable as of July 1, 1978, would relate to listed companies and to those with more than £10 million of assets or turnover.

The draft (ED 18) recommends that companies in the future should arrive at a profit by charging against income the current replacement cost of assets consumed rather than the "outdated" and "irrelevant" historical cost. The need for a change in the system has arisen because the high rate of inflation in Britain has rendered accounts prepared increasingly less capable of conveying a "true and fair view" of a company's current financial position. Also, it is felt that the use of historical cost accounting may result in unintentional "undercosting," to the detriment of the business involved.

The twin CCA conventions to be used "at the earliest possible date" in compiling all management control figures are given as a) depreciation calculated on the value to the business of plant and machinery (in most cases this will be the replacement cost), and b) the estimated cost at the

Accounting *(contd.)*

date of sale of materials consumed. It is claimed that, as a result, no less than five major improvements will be achieved by comparison with the present system:

1. Depreciation will be calculated on the value to the business of the assets concerned and thus will give a more realistic measure of the cost of resources used.

2. Cost of sales will be calculated in most cases on that of replacing the goods sold and not on the latter's original cost.

3. There will be a new statement in the annual accounts, the appropriation account, showing current-cost profits, revaluation surpluses, the amount that management feels should be retained within the business according to its needs, and dividends.

4. The balance sheet will show current values for most assets.

5. Finally, the statement on the change in amount attributable to ordinary shareholders (the equity interest), after allowing for the change in the value of the money, will clearly show how the company has performed in relation to the inflation rate and will also show its losses or gains from the holding of monetary items.

ED 18 goes on to discuss interim procedures and the phased introduction of the new system. It offers details on the content of accounts and treatment of profit and loss, appropriation, land and buildings, plant and machinery, work in progress, monetary items, change in the value of money, provisions for deferred taxation, investments, subsidiaries, goodwill, and overseas assets.

Draft Law on Devolution of Scotland, Wales

The U.K. government bill on devolution (The Scotland and Wales Bill, HMSO London) was introduced in the House of Commons on Nov. 30. The proposed legislation, which has been described as among the most contentious in British parliamentary history, is lengthy and complex but offers no innovations against the earlier consultative White Paper *(Doing Business in Europe, Par. 30,738)*.

The Bill proposes the establishment of elected assemblies for Scotland (in Edinburgh) and Wales (in Cardiff) to deal with "domestic" matters such as health, housing, transport and, to a certain degree, industrial investment. The assemblies would be voted a block annual grant from Westminster and could allocate these funds at their discretion. The parliament at Westminster would, however, remain constitutionally empowered to legislate for any matter, this hierarchy constituting in the government's view "the essence of devolution as opposed to federalism." The government argues that no satisfactory method has yet been devised of empowering the assemblies to pass legislation on

Devolution *(contd.)*

tax matters: as a result, the assemblies could not raise taxation, but their "priorities" would be respected. Otherwise, both assemblies would have powers of subordinate legislation and executive powers, though the Scottish Assembly also would have powers of primary legislation (due to Scotland's distinctive legal system).

Switzerland: Vote Results on Workweek, Authorizations

In a Dec. 4-5 referendum, the Swiss electorate followed the recommendations of the government, major political parties, and the industrial associations by rejecting with a 78% majority a leftist-sponsored proposal to reduce the legal workweek to 40 hours *(Doing Business in Europe, Par. 30,852)*. With some exceptions, the labor unions, too, had opposed the initiative on the grounds that the different conditions in the individual industrial sectors would make it difficult to introduce a shorter workweek and that job security is a far more important issue at this time.

In the same referendum, the voters also approved with solid majorities the retention of the price monitoring system *(Doing Business in Europe, Par. 30,834)* as well as the extension of the so-called credit authorization *(Kreditbeschluss)* which permits the federal government and the central bank to impose curbs on the domestic credit and capital markets if required by economic conditions. Both the price monitoring system and the credit authorization had been introduced during the peak of the 1972 economic boom *(Doing Business in Europe, Par. 30,629)*. A three-year extension was approved by Parliament in 1975 but required also the voters' consent, which has now been given.

Considering Switzerland's current inflation rate of less than 1%, the need for continued price surveillance would seem to appear appreciably diminished. Similarly, Bern at present is not making use of the credit authorization, on the basis of which it can call for minimum reserves, credit volume ceilings, and controls on security emissions. However, the government wanted to retain these policy instruments until the existing emergency procedures are replaced by permanent authorizations, for which draft legislation is pending.

Norway: Study Proposes Public Control of Banks

Probably next spring the Norwegian Labor government will submit draft legislation calling for public appointment of the majority of members of the commercial banks' administrative boards. A recommendation to this effect is contained in a report now submitted by a committee which had been set up in early 1975 to study the question of how to "democratize" the country's private banking sector. The majority of the Cappelen Committee - so named after its chairman, former finance minister Andreas Cappelen - has

Control
(contd.)

proposed that of a bank's nine-member administrative (not management) board, five members should be chosen by public bodies, three by the shareholders, and one by the bank employees. The committee further recommended that the banks continue operating as stock corporations, whereas the government had recommended their conversion to "foundations" authorized to issue shares similar to shares of stock but without the same ownership rights. However, the report did propose that shareholders should be free to sell their stock to the state for a reasonable return on their investment.

As was anticipated, the Cappelen study has provoked heated debates, and some Opposition members let it be known that if the proposals are enacted, they would be repealed in the event of the Labor government's defeat in the parliamentary elections next fall.

Common Market Reports

EUROMARKET NEWS

Issue No. 414 *December 21, 1976*

IN THIS ISSUE

Community: Worker Rights to Be Retained in Mergers

The Council of Ministers has agreed on a heavily amended Commission proposal for the retention of employee rights when businesses or parts of businesses change ownership; formal adoption will be forthcoming in a few weeks. Disagreement among the member state governments over the scope and substance of the measure resulted in what Council attorneys describe as a much shorter Community "legal blanket" than the Commission had originally devised in order to cover and harmonize different national systems. Still, the proposal brings a substantial alignment of national rules *(Common Market Reports, Par. 9775).*

Employee rights will be preserved whenever a business or part of a business established in the EEC is transferred to, or merged with, another business. These rights will be protected essentially in three ways: a) the rights and obligations of the former employer with respect to his employees will be transferred to the new employer as a matter of law; b) there will be a ban on dismissals in connection with a transfer, although dismissals would be allowed for economic, technical, or organizational reasons; and c) employee representatives must be informed of and consulted about the transfer.

COMMON MARKET REPORTS, Issue No. 414, December 21, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Rights
(contd.)

The scope of the Commission's amended draft directive was reduced in three significant aspects. First, it does not apply to amalgamations effected through the sale of shares, since the directive was to incorporate the definition thereof contained in the Commission's 1973 merger control proposal, on which the Council of Ministers has not acted *(Common Market Reports, Pars. 9586, 9845)*. Second, the Commission originally wanted the managements of EEC-based enterprises selling establishments outside the EEC to consult employee representatives beforehand, since the sale could affect employment inside the Community. But several member state governments objected, and the basically approved version makes it clear that, for example, a German company planning to sell its Mexican subsidiary to an Italian company would not have to inform or consult the German works council. The third major change concerns the information and consultation procedure. Although both the transferor and transferee will be required to inform the representatives of their employees about the legal, economic, and social implications of the change of ownership and the planned relief measures, the member states would nevertheless be authorized to limit this obligation, provided that employee representatives are given recourse to arbitration in order to alleviate negative consequences that could result from the transfer.

<u>Council Delays Environmental Decisions</u>

Much to the disappointment of environmentalists and the European Commission, the Council is not adhering to its time schedule for environmental legislation. Although it consented on Dec. 9 to the Community's accession to the Convention on the Protection of the Rhine against Chemical Pollution and adopted a directive on monitoring the effect of lead on humans, it failed to make headway on the proposal to set quality standards for water intended for human consumption. However, the Council did stress its intention to adopt two important measures at its next meeting on environmental topics: the draft directive aimed at reducing water pollution by paper mills and the proposal to reduce and eventually eliminate the discharge of red sludge waste by industries using titanium dioxide in the production of paint, varnish, and ink.

Most of the opposition to the second proposal came from the U.K., which opposes the introduction of uniform limits on the discharge of waste from plants using titanium dioxide. It was argued that Britain's present method of disposing of waste into the North Sea, where it rapidly disperses, is quite adequate and that there is no scientific evidence to show that this poses a pollution hazard. There was agreement among the national government experts that the U.K. is geographically in a favorable position in that its rivers are quite short and its polluted water is dispersed into the large North Sea. Representatives from the

Environment *(contd.)*

other eight member states, supported by the Commission, maintained that, for ecological reasons, discharge of waste into the North Sea cannot continue and that subjecting only the Continental industries to the proposed standards would distort competition.

Belgium: Some Loosening of Incomes Policy Curbs

Increases of up to 8.5% on wages and salaries, professional fees, rents, dividends and directors' fees as well as a return to free collective bargaining form the essence of the Belgian government's proposals for a new economic recovery law to take effect after the current price and pay curbs end on Dec. 31 *(Doing Business in Europe, Par. 30,872).* The proposed legislation on "the maintenance of employment, purchasing power, and competitiveness of the economy" is viewed as a compromise dictated by the need to control inflation and the limits of what the labor unions will accept.

First union reactions have been favorable, with the Socialist General Federation of Belgian Labor (FGTB) welcoming the fact that full indexation of wages is to be restored. (At present, employment incomes above BF 42,500 a month are excluded from the automatic inflation adjustments determined by the rise of the consumer price index.) However, the new law would permit the government to roll back any pay raises that appear to outstrip productivity gains, and it would prohibit employers from passing on such increases in their prices. Accordingly, all pay agreements would have to be reported to the government before taking effect. On the other hand, the new law would do away with the current requirement that a portion of all pay increases negotiated on top of collective bargaining agreements be paid into a so-called "solidarity fund" (from which the early-retirement program is financed).

Under the proposed legislation, rents would be allowed to rise up to 8.5% immediately, but would then be frozen at their new levels for another year. Dividends, currently frozen at their average distribution of the past three years, also would be allowed to rise by up to 8.5% over this year's distribution. Not affected by this restriction would be businesses that raise their capital by more than 15%, provided that this increase is not financed out of the company's existing assets.

With unemployment having risen to more than 251,000 or 9.4% during November, specific legislation to boost unemployment and investment was promised for the new year.

France: Lower VAT; Price Controls; Business Tax

The French cabinet on Dec. 8 formally approved the implementing regulations lowering the standard value-added tax rate on most industrial products and some services from 20 to 17.6% as of Jan. 1 *(Doing Business in Europe, Par. 22,883).*

VAT *(contd.)*

Deputy Finance Minister Michel Durafour explained that the government views the resultant revenue loss of FF 8 billion as its contribution to the fight against inflation. He expressed the hope that the VAT cut would be fully passed on in the retail prices which should then decline by 2% on the average and cause the consumer price index to go down by 0.7% in January. However, many economic observers do not share this optimism: they believe that only about half of the VAT cut will be passed on, since many businesses will have no choice but to raise their prices after having gone through a price freeze of several months. Also, it was pointed out that wages have risen by an average 16% this year and that import bills have gone up as well.

The price freeze imposed as part of the Barre Plan will formally expire on Dec. 31. However, the government does not intend to completely liberalize prices at that time; instead, it is planning for a "controlled price freedom with far-reaching stability commitments" by both private and public enterprises. As before, those who fail to adhere to the new guidelines would have to face sanctions and accept officially decreed prices.

At the same time, the Barre administration has announced that businesses subject to the local business tax *(taxe professionnelle)* will have to pay no more than 170% for 1976 over 1975. This decision represents a definite retreat: in line with the 1976 reform that replaced the antiquated *patente* with the taxe professionnelle *(Doing Business in Europe, Par. 30,840)*, many businesses would have had to pay between 400 and 900% more than before - a measure that remains controversial.

Finally, it was announced that the government in the future will publish monthly a list of employment offers on the basis of regions and occupations. Also, it is planned to improve assistance to employers who create new jobs and to extend benefits granted under apprentice contracts. These measures reflect official attempts to seek a reduction in unemployment, currently at above one million.

Assembly Vote on Repeal of Tax Exemption

The French National Assembly on Dec. 8 passed a bill providing tax relief for French citizens residing abroad and, at the same time, repealing Article 164 of the tax code which in the past has protected American residents in France from double taxation. However, the repeal is not yet final, since the French Senate earlier had voted to keep the Article in the tax code. The two versions of the bill will now be taken up by a joint committee for a compromise, although the Assembly is expected to prevail.

The repeal would become effective on Jan. 1, 1978, rather than in January 1977 as was originally planned. Thus, Americans in France will have another year within

Exemption *(contd.)*

which to prepare for the tax changes. However, both French and U.S. government officials had earlier asserted that a repeal of Article 164 would not alter the basic agreement to avoid double taxation for Americans in France. To this end, U.S. Treasury and French Finance Ministry experts are scheduled to meet early next year to negotiate a protocol on the interpretation of the 1967 U.S.-French double taxation treaty. The negotiators are also expected to take up complaints by Americans that some types of income would still be taxed twice if the French were to have their way.

In one press report, a French Finance Ministry official was quoted as saying that, in any case, a repeal would have no direct effect on U.S. residents in France until September 1979, at which time the taxes for the year 1978 fall due. Also, France would not be opposed to a revision of the existing treaty in order to rule out double taxation.

Germany: Bonn to Keep Its Promises on Pensions

Widespread public protest as well as opposition from within their own ranks has forced the German government coalition parties to withdraw part of their pension financing package and to keep their pre-election promise to raise by 9.9% the old-age pensions of some 6.5 million persons as of July 1, 1977. Still, in its efforts to refinance the deficit-ridden social security system, the administration - notwithstanding its pre-election pronouncements - apparently wants to gradually place some of the financing burden on the shoulders of the retired. Gearing increases in social security benefits to net income rises of the working population rather than to gross incomes will slow increases in old-age pensions in the coming years.

Another problem area involves the health insurance funds. So far they have been receiving around DM 10 billion each year from the pension funds in payment for the medical treatment of pensioners. With the pension funds unable to continue these payments on the same scale, the health insurance funds in turn are now forced to find new sources of revenue. As a result, employees and employers will face additional burdens next year when the pay ceilings applied in the computation of health insurance contribution rates will be raised. (Nevertheless, this move as well as other revenue-improving measures may not prevent future deficits, meaning that the actual contribution rates will then have to be increased.)

The financial impact of raising the assessment ceiling for health insurance contributions will be significant. Since contributions are shared by the employee and the employer, a company with a disproportionately high percentage of employees in or above the income brackets affected will feel the financial pinch more than firms that employ the average mix of employees in low, medium and high pay brackets.

Pensions (contd.)

The employers' association, though basically favorable toward the government's concept, criticized the planned increase of the assessment ceiling, which will yield about an additional DM 2.8 billion yearly, of which employers will pay half.

Schmidt Lists Priorities for Coming Session

The reelected German administration has placed full employment at the top of its agenda for the coming legislative session. Delivering his inaugural address to the new Bundestag on Dec. 16, Chancellor Helmut Schmidt emphasized that putting the unemployed (nearly one million) back to work not only was an economic necessity but also was needed for social and humanitarian reasons. He conceded, though, that full employment could be attained only by way of sufficient economic growth and new investments.

To the probable disappointment of the business community, Schmidt destroyed any hopes for increased depreciation rates to write off costs incurred with new investments. (This had been demanded by some members of the Free Democrats, the minority partners in the government coalition.) Schmidt made the granting of tax benefits for the employed (for instance, increased exemption for special expenditure) and a reduction of the net worth tax payable by companies and individuals dependent on enactment of the value-added tax bill. Passage of the measure, which provides for an increase in the turnover tax rates from 11 to 13% and is expected to yield DM 11 billion in revenue annually, had been blocked by the Opposition-controlled Bundesrat this year. The Chancellor is now counting on enactment by Jan. 1, 1978.

Preserving freedom of competition will also have priority in the administration's new legislative plans. Schmidt said that his government will shortly propose amendments to the Law on Restraints of Competition which would put additional curbs on plant mergers as well as on abuses by companies having a market-dominating position. There would also be plans to contain restrictive practices by large department stores.

Schmidt further announced new initiatives on consumer protection; however, except for products liability, he did not specify what kind of legislation he had in mind. (It may be noted here that rules on products liability and unfair trade practices are planned by the EEC.) Still, the Chancellor emphasized that the new legislation would not inflict unreasonable burdens on businesses.

Bonn does not intend to propose a higher ceiling on employee savings, employer contributions, and government premiums until the unions and management have made full use of the existing statutory limit under the DM 624 Law.

Britain: Major Spending Cuts in Next Two Years

Public spending reductions of £2.529 billion over the next two years form the basis of a "medium-term program for national recovery" outlined by U.K. Chancellor of the Exchequer Denis Healey on Dec. 15. The measures are to ensure "that the 1980s offer Britain the prospect of an economy fully restored to balance," i.e., with high employment, "real" wages, high output levels, and an industry that will be "vigorous, expanding, and profitable."

Judging by the lukewarm reception of the announcement by Healey's middle-of-the-road Labour colleagues and the openly hostile attitude of Labour's left wing and the Opposition parties, there were grave doubts on how this optimistic view of Britain in the '80s could be reconciled with the country's economic plight in 1976. Healey said that the spending cuts have been welcomed by Johannes Witteveen, managing director of the International Monetary Fund, who had consented to recommend acceptance of the U.K. request for a $3.9-billion loan. This loan will be paid out in installments over a two-year period rather than over the standard standby term of 12 months, with the first tranche of $1.15 billion becoming available in early January. At the same time, Healey announced that Britain was to be accorded credits of $500 million and $350 million, respectively, from the United States and Germany in order to protect the pound against the effect of another crisis.

Closing the wide gap between public revenue and public expenditure was one of the principal conditions attached by the IMF to the grant of the loan. The immediate effect of the "IMF Budget," as Opposition spokesmen termed it, will be to reduce the budgeted deficit from an anticipated £11 billion in 1976 to £8.7 and £8.6 billion in 1977-78 and 78-79. Expressed in different terms, the measures will trim public-sector borrowing by some £4.1 billion over the next two fiscal years: defense, overseas aid programs, road construction, education, and housing will all be allocated less, and the civil service and the nationalized industries will be instructed to curb expenditure. Furthermore, food subsidies will be reduced or withdrawn faster than originally anticipated.

On the tax front, the Chancellor looked forward to "planned adjustments" in the spring 1977 Budget, but left no doubt that any tax reliefs would be contingent on a further extension of the present incomes policy, i.e., on the concurrence of U.K. labor unions in a third round of wage restraint. Surprisingly, no change was announced for value-added tax rates, but revenue will be boosted by increased levies on alcohol and tobacco.

Finally, the Chancellor announced that, "before long," he expected to enter an international agreement to "stabilize" sterling balances estimated at £6 billion held by foreigners in London.

Greece: Athens Plans VAT for 1978; Draft Budget

The Greek government has announced its intention to introduce with effect from Jan. 1, 1978, the value-added tax in Greece, which would replace the existing turnover tax and related levies. A bill to this effect is to be submitted to Parliament by the end of February 1977 and will be drafted along the lines of legislation applied in most member states of the European Community.

In related news, the government has now presented the final draft of the 1977 Budget. The Regular Budget is to have a volume of 200 billion drachmas, of which more than one-fourth will be allocated to defense. The Investment Budget provides for expenditures of 45 billion drachmas, of which 12 billion drachmas is to be financed through international bond issues and 31.7 billion drachmas through domestic issues.

The Budget plan contains no provision for new taxes. However, the withholding tax on dividends distributed for shares listed on the stock exchange will be increased to 38-41% and for unlisted shares to 43-47% *(Doing Business in Europe, Par. 24,337)*. Also, businesses will be required to revalue their real property so as to reflect its market value. The value increase will then be taxed at 10% for land and at 20% for buildings. Other fiscal technicalities concern the net worth tax and stamp duties. (Independent experts estimated that these tax modifications would result in added revenues of 10 billion drachmas for the government.) Some 1.6 billion drachmas also are expected from measures to prevent tax evasion and avoidance. Finally, the government is planning to improve tax incentives for new industry establishments in the provinces (Zone C) and tax relief for businesses doing contract processing for foreign companies.

In submitting the Draft Budget to Parliament, Finance Minister Evangelou Devletoglou gave the following data, among others, on the performance of the Greek economy this year: GNP growth, +5%; consumer prices through October, +8.3%; hourly wages in real terms, +15.3%; salaries in real terms through June, +10.3%; farm incomes, +15.8%, and industrial employment, +5.6%.

Common Market Reports

EUROMARKET NEWS

Issue No. 415 *Report No. 308, December 30, 1976*

IN THIS ISSUE

Community: Council Reaches VAT Compromise

The Council of Ministers on Dec. 17 agreed to a compromise version of the sixth draft directive on value-added turnover tax harmonization. Thus, if the member state governments in the coming weeks withdraw their remaining reservations on a few specific issues, the Community will have succeeded in building the walls for a uniform VAT structure eliminating distortions. The foundation of this structure was laid with the adoption of the first two directives *(Common Market Reports, Pars. 3111 and 3135).*

When the Council takes formal action on the measure on Jan. 15, the EC also will have come closer to attaining its objective of standing on its own feet financially. Beginning in 1978, 1% of the member states' VAT revenue would flow directly into the Community budget, whereas at present this budget revenue is derived from assessment of customs duties and agricultural levies plus member state contributions. The VAT revenue would relieve the national governments from having to make contributions based on their countries' GNP.

The proposal's objective is to align national rules so that VAT will be uniformly applied throughout the Common Market. To this end it contains detailed rules on taxable persons and transactions, assessment base, exemptions, and

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

COMMON MARKET REPORTS, Issue No. 415, December 30, 1976. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

VAT Compromise *(contd.)*

deductions *(Common Market Reports, Par. 3165)*. This alignment is needed because national rules differ substantially on what is taxable and what is exempt. The compromise calls for taxation of all aspects of economic activity, including farming. Small businesses with an annual turnover of up to 6,825 units of account would uniformly be exempt from VAT throughout the EEC. Several member states would be allowed to retain certain exemptions over a five-year period, but they would have to compensate the Community for lost revenue. After the end of that period, the Council is to decide whether the exemptions are to be abolished or retained. Alignment of differing tax rates, which are the greatest cause of competitive distortions, is not being sought at this time and is not expected within the foreseeable future.

No other piece of EC legislation has required so much "give and take" as this VAT proposal. After the Council reached a compromise on zero rates in late 1975 *(Common Market Reports, Par. 9791)*, there were still differing opinions on some 30 issues. In this last compromise, Germany, Luxembourg, and Denmark have agreed to amend national rules so as to make taxable the management and deposit of securities as well as the management of credit and credit collateral. France agreed to subject sales of gold to VAT, and Belgium will abolish taxation of telephone calls. After a transitional period, all states will be required to assess services rendered by public transport businesses, including airlines, railroads, and ships. This, too, will mean a considerable adjustment for several states, among them Germany, which favors mass transportation featuring tax exemptions or reduced rates.

Adoption of Second Company Draft Directive

The Council's adoption this month of the second draft directive on national company law coordination takes the Community one step further in fulfilling the tasks assigned to it by Treaty Article 54(3)(g). The directive will provide the shareholders and creditors with a minimum and common degree of protection. The initial step was taken in 1968 with the enactment of the first directive, which coordinated national rules on publicity, validity of obligations, and grounds for voiding stock corporations, limited liability companies, and partnerships limited by shares *(Common Market Reports, Pars. 1350.01 and 1355)*. The second directive contains additional minimum guarantees for shareholders and creditors of stock corporations by laying down Community rules designed to maintain corporate capital.

Specifically, creditors, no matter what their member state nationality or residence, in the future can be sure of the soundness of a stock corporation's capitalization, no matter in which state the corporation is established. In those member states where national company law does not yet meet the standards of Community rules, it will have to

Adoption *(contd.)*

be amended so as to compel newly formed corporations to provide additional information about their capital. Creditors also stand to benefit from the coordination of rules designed to safeguard the capital of existing corporations. There will be curbs on improper distributions to the shareholders and fewer opportunities for management to buy treasury shares.

Shareholders will be better protected throughout the Common Market, again by coordination of rules in connection with planned capital increases. Safeguards will not only assure new shareholders that the company's capitalization prior to the capital increase was genuine but will also protect the original shareholders. The Community rules and subsequent national legislation, where necessary, will guarantee the equality of shareholders in case of a capital reduction and will protect creditors with claims that precede the capital reduction *(Common Market Reports, Pars. 1350.11 and 1371)*.

In Brief...

Not only opposition from food processors and most national governments but also a change of mind in Brussels has led to the Commission's withdrawal of five draft directives setting forth uniform standards for processed foods, including beer, bread, ice cream, mayonnaise, and quality candy. Two of the proposals had been submitted as early as 1970. Meanwhile, however, no real need is seen for harmonizing standards for foods that play only a minor role in interstate trade and generally are of a national, and even regional, character. The proposals' withdrawal does not mean, though, that the Commission will relax its drive for harmonization of national foodstuff rules: Commissioner Finn Gundelach has announced new efforts in the areas of labeling, contents, colorants, and additives + + + The Council has agreed on, but not formally adopted, the directive that will require the member states to extend to nonnationals the right to establish themselves as insurance agents and brokers and to provide services as such.

France: Tighter Rules for Foreign Accountants

The long-standing campaign by the French authorities and the domestic accounting profession to put more controls on the big international accounting and auditing firms in France will shortly result in regulations tightening official surveillance of these foreign firms, most of them American or British. The regulations were to be issued either this month or next via publication in the official bulletin of the Commissions des Operations en Bourse (COB), the French equivalent of the United States' SEC. In essence, the rules will extend to the international firms the same COB rules that have applied to the French auditors since 1969.

Accountants *(contd.)*

The forthcoming regulations will concern all firms or individuals serving as reporting accountants and auditors for any new stock exchange issue. They provide that the COB must be furnished a detailed procedural plan before an audit is carried out, must give its approval of this plan, and may impose modifications. After completion of an audit, the COB must be informed about the procedures actually used and the conclusions reached. Also, the Commission may review all working papers if it so desires.

The new rules have been worked out as part of an agreement with Price Waterhouse & Co., the international accounting firm, which since May had been effectively suspended from auditing any company seeking a listing on the French Bourse. In a letter dated Nov. 30, the COB informed Price Waterhouse, Paris, that it had been reinstated following a review of its procedures and that the forthcoming regulations would be "in no measure discriminatory" to the firm but would apply to all foreign accountants in France. Price Waterhouse had run into problems with the COB following its 1973 audit report on a French construction company, Voyer, which allegedly showed that this company's financial health was such as to allow it to go public. Two years later, Voyer filed for bankruptcy, and the combined pressures of angered shareholders and the domestic accounting profession compelled the COB to take action against PW.

There have been efforts in France for years to control the proliferation of foreign accounting firms in that country. These firms, with their international reputations and highly developed techniques, have been very successful in winning major French stock corporations as their clients. It has been charged by French professionals that some international firms have been combining their auditing work with consultancy business - a practice that conflicts with French law.

Belgium: New Accounting, Bookkeeping Legislation

Implementing decrees to the Law of July 17, 1975 - the first of which was issued on Oct. 8, 1976 - have supplemented new bookkeeping and accounting legislation in Belgium, enabling investors, lenders, creditors, and employees to obtain more extensive information on companies. The new legislation also meets companies' needs for reliable insights into their own operations, thus facilitating decision-making and providing data for long-term planning.

The law has been in force since Jan. 1, 1976, for Belgian companies and for Belgian branches and subsidiaries of foreign enterprises *(Doing Business in Europe, Par. 30,843)*. Firms whose annual turnover exceeds BF 10 million are required to record operations in one or more journals, with at least quarterly "centralization" of these records. Separate sets of accounts must be kept for each economic ac-

Legislation *(contd.)*

tivity of the company. Smaller firms may limit bookkeeping to three special journals - the "cash book," the "purchase book," and the "sales book" - and the inventory book. The cash book records daily transactions, balances of available resources, and the drawing of cash for purposes other than business. The purchase book covers purchase and import operations and services received, and the sales book records sales and export operations and services supplied.

The journals and centralization books of firms with a turnover of BF 10 million or more as well as the three journals of smaller firms must be kept in book form in the same way as the inventory book. Each sheet must be numbered, initialed, and certified by the registry of the commercial court or municipal authority. The statutory period of custody for the books is 10 years, and they must remain within Belgium.

Under the new law, annual accounts are defined as the balance sheet, profit and loss account, and commentary. The provisions of the Oct. 8 decree apply to large companies and to annual accounts prepared at the end of the financial year beginning after Dec. 31, 1976. Companies will no longer have to publish annual accounts in the appendices to the Official Gazette but will have to announce in the Gazette that the accounts have been deposited with the registry of the commercial court. An explanatory memorandum points out that both the law and decrees should be fiscally neutral, i.e., they should not give rise to changes in taxation.

Germany: Talks Fail on Extras for Shop Stewards

The German business community has been spared, at least for the time being, the legal and financial consequences of special treatment for shop stewards *(gewerkschaftliche Vertrauensleute)* in factories. Legal reasons have caused the failure of negotiations between the association of steel and metalworking industries and the metalworkers union (IG Metall). These negotiations had been scheduled prior to the upcoming wage talks and marked the first time in Germany that an employers association and union leaders had met to discuss benefits for shop stewards.

The union has cancelled a 1969 agreement that allowed employees to elect shop stewards who would help works council members in their tasks and prohibited management from discriminating against the stewards. IG Metall, with 1.5 million members the country's largest union, wants a new agreement and demands that its 120,000 stewards receive 10 days off with pay in addition to their vacation to attend union-sponsored courses, be freed from work 12 hours per month, and be given increased protection against dismissal.

Counsel for the employers association argued that meeting these demands would violate the principle of equal

Stewards *(contd.)*

treatment embedded in the Constitution and the 1972 Works Council Act because the shop stewards would fare better than the other employees *(Doing Business in Europe, Pars. 23,435-6)*. Another argument advanced was that a collective bargaining contract may be concluded only to improve pay and working conditions and to further employers' economic interests but not to strengthen essentially the position of one party to the exclusion of most of its membership.

In staving off the union drive, the employers have received strong support from labor law experts. There is agreement that special treatment of shop stewards would indeed violate constitutional and labor law and that it could lead to the establishment of a second employee body in addition to the works council. Since works council members are required by law to cooperate with management *(Doing Business in Europe, Par. 23,442)* and the shop stewards are not, there would be an even greater potential for conflict than at present.

There has been no official word on the matter yet from the federal government: except on rare occasions involving excessive wage demands, all German postwar governments so far have refrained from intervening in collective bargaining. Nevertheless, there are government lawyers who do agree that special treatment for shop stewards would be unconstitutional and contrary to statutory labor law.

Britain: No Upturn Seen Despite Budget Cuts, Loan Deal

In the days following the U.K. "mini-Budget" and the announcement that the International Monetary Fund was set to approve (partly on the strength of the Chancellor of the Exchequer's moves to cut public sector borrowing) the grant of a $3.9-billion loan, there was inevitable speculation as to whether Britain could look forward to some sign of economic upturn. Such hopes were actually dampened by the Chancellor himself who admitted that no such improvement could be expected in the next two years. Further, a major study by Chase Manhattan Bank subsidiary Chase Econometrics Associates dispelled any notions that the medium-term to long-term future was in any way more encouraging.

The CEA report, which the government clearly found untimely and unwelcome, predicted an annual average inflation rate of 13% over the next 10 years, which compares with an average of some 7% for the last decade. It further predicts that the U.K. inflation rate will lie between 4 and 6% above the prevailing U.S. rate for the next 10-year period. As to sterling's performance, CEA concedes that the pound will hold its present (about 1.66 to the dollar) level for "the next few months" due to the IMF intervention and predicated on some kind of international agreement to fund sterling balances. However, "thereafter, it is likely to slide substantially," possibly to 1.55 by the end of 1977 and subse-

Economy *(contd.)*

quently at an annual depreciation rate against the dollar of between 3 and 4%. It is agreed that such massive and continuing devaluation would boost inflation and, if the CEA figures are taken as a guide, every 1% fall in sterling would push up retail prices by 0.2%.

CEA cites a familiar list of reasons for Britain's troubles: a dwindling currency, low productivity, inadequate management, and the absence of investment stimulants. The only glimmer of hope continues to be linked to North Sea oil production. CEA estimates that Britain will, in fact, be a net exporter of oil and oil products by 1980-81, at which point a balance of trade equilibrium would be possible.

Austria: Series of Tax, Rate Increases for New Year

During the Budget debate earlier this month, the Austrian parliament has approved an additional series of tax, rate and duty increases, which the political Opposition termed an "avalanche of burdens" for consumers and taxpayers. The government rejected charges of conducting a "misguided Budget policy" with the argument that the increases are the price that must be paid for the maintenance of full employment. Opposition spokesmen have estimated the total of the additional burden at 10 billion schillings - a figure that was not disclaimed by Finance Minister Hannes Androsch.

With effect on Jan. 1, bank credits will be subject to a surcharge ranging from 0.8% for loans maturing within five years to 1.5% for those with longer terms. Exempted will be interbank and Lombard credits, loans to foreigners residing abroad, and export financing. This surcharge is expected to raise 1 billion schillings in revenue next year. Another major change has been approved for stamp duties and administrative fees, which have remained the same for 12 years but will now rise substantially. The charge on the issuance of a passport, for instance, will climb from 15 to 70 schillings, an increase of 466%. Finally, the government is sharply reducing subsidies going into various savings promotion programs: the interest subsidies for "bonus savings" *(Prämiensparen)* is cut by 1.5% to 2%, while maturity terms are extended from four to five years. For securities savings plans *(Wertpapiersparen)*, bonuses are lowered from 15 to 10%, and for home financing plans *(Bausparen)* they have been cut from 25 to 17%.

Earlier, Parliament already had passed legislation raising the net worth tax rate from 0.75 to 1% as of Jan. 1, 1977, which is expected to boost revenue by 800 million schillings annually.

All these increases come on top of those affecting virtually all consumers. As of Dec. 1, prices for cigarettes and other tobacco products (for which the state holds a monopoly) went up by an average 10.7%. Higher prices also

Taxes *(contd.)*

will apply to another state monopoly commodity, salt. Passenger rail fares will rise by around 15% this coming spring, by the same percentage in 1978, and by about 8% in '79. Freight tariffs will be increased accordingly. Finally, the postal service will not stand aside, either: telephone rates will go up by 12.5 to 31%, depending on calling distances, and the basic monthly charge, by 25%.

EURO COMPANY SCENE

Hoffmann-La Roche

Germany's Supreme Civil Court has stayed a decision handed down last January by the Berlin Court of Appeals ordering drug producer Hoffmann-La Roche to lower by 28% the German prices for its Valium and Librium sedatives *(Doing Business in Europe, Par. 30,855)*. The case was returned to the appellate court on the argument that the latter's probing of drug price and cost structures was inadequate for a final ruling. Thus, the Kammergericht in Berlin is called upon to come up with a new decision.

In October 1974, the Federal Cartel Office had ordered La Roche to reduce its Valium and Librium prices by 40 and 35%, respectively. The Kammergericht, in an interlocutory decree issued in November '74, suspended enforcement of this order until it had a chance to make a ruling. In January 1976, then, the appellate court basically upheld the Cartel Office's reasoning but lowered the extent of the price cut to 28% for both drugs. It did deny immediate enforcement, however, pending a ruling by the Supreme Civil Court.

Varian/ Krantz

Varian Data Machines (VDM) of Irvine, Calif., a subsidiary of Varian Associates, Inc., has taken over a small German EDP manufacturer, Krantz Computer GmbH and Co. KG of Aachen. The newly acquired company, which so far has installed some 330 mini-computers valued at DM 40 million, will be merged with VDM's existing German subsidiary and will then have an estimated 3% share of the German market. It was reported that VDM Europe's order volume this year went up by 56% and that the company has 230 computer installations in Germany.

Common Market Reports

EUROMARKET NEWS

Issue No. 416 *January 4, 1977*

IN THIS ISSUE: Europe at the Turn of the Year

Community: External Progress, Internal Stagnation

Throughout 1976 the Community made considerable progress in external political relations: eight out of 10 times the member states voted as a bloc in the United Nations, and the EC signed a cooperation agreement with Canada that goes beyond the traditional pattern of mere trade pacts. Three accords with Portugal herald new developments in relations with that country to aid the economy and support the young democracy. Negotiations over Greece's entry into the EC are under way. The Community is embarking on a new course in relations with Yugoslavia. The EC followed up on its commitments assumed under the Lomé Convention with some 46 African, Caribbean and Pacific countries by implementing Stabex, a fund to stabilize export earnings of the ACP nations.

Internally, the Community has been stagnating. Though the Council of Ministers agreed to hold direct elections of the European Parliament, there is still considerable opposition to giving the EP any real power. Two debits on the balance sheet are the failure to adequately reform the common agricultural policy and only limited progress on an energy policy. A more fundamental problem is the lack of convergence within the Community. Inflation and recession spurred by the quadrupling of oil prices turned national

COMMON MARKET REPORTS, Issue No. 416, January 4, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Progress (contd.)

economies onto diverse courses, and little was achieved in '76 to narrow this gap. Government, industry and union leaders who met at the tripartite conference in Luxembourg in June agreed generally on what had to be done to cut unemployment in the Community (totaling 5 million) and to restore economic equilibrium: balancing growth while maintaining stability, reducing inflation (to 5% by 1980), and trimming government deficits. But the main questions concerning this formula and the Council's economic program adopted in November are whether the labor unions (especially in Italy and the U.K.) can be convinced to hold down their wage demands and whether all member state governments will pursue policies to create the investment climate necessary to cut unemployment to 2.5 million by 1980. The new OPEC oil price increases are another unfavorable factor here.

On the legislative side, the Council of Ministers, after nearly six months without major action, adopted 18 directives on June 30 to remove technical barriers to trade by harmonizing national rules covering a broad range of products, including measuring instruments, automotive equipment, and cosmetics. At year-end, the Council adopted several environmental measures and passed a directive extending to non-national insurance agents and brokers the right of establishment and freedom to provide services. It agr[eed] to open national frontiers by compelling government agencies to consider out-of-state bids in awarding public supply contracts. It also agreed on a heavily amended proposal to ensure that employees retain their rights in case of mergers.

Adoption of the second draft company law directive brings the Community further along in its program to coordinate national company statutes with common, minimum guarantees for shareholders and creditors. The compromise on the sixth draft directive on harmonizing the national value-added turnover tax systems clears the road to further integration by compelling the member states to apply their VAT systems as uniformly as possible. This also will enable the EC to rely on its own resources to finance its budget.

The European Court of Justice continued to quietly fulfill its role of integration. Although it did not render any landmark decisions, it did remove existing doubts about the continued existence of national trademarks in its *EMI* decisions (Case Nos. 51, 86 and 96/76) and *Terrapin* ruling (Case No. 115/75) that had arisen after *Hag*. In late 1976 the Court handed down a number of preliminary rulings involving the interpretation of the Convention on Jurisdiction of Courts and Enforcement of Judgments. The number of rulings so far is an indication of the growing significance that this Convention is going to have, especially for businesses.

Belgium: An 8.5% Limit - the Formula for Success?

Gross national product is up and inflation is down, but the Belgian government still enters 1977 with an unemployment rate that continues to climb despite all efforts to contain it. The last year began with a jobless rate of about 8.2%, which declined briefly during the spring but surged again in the fall as thousands of young people left schools and universities and were unable to find work. By mid-November, unemployment had reached an all-time high of 9.4%, or over 250,000.

There were, however, some encouraging signs. Prime Minister Leo Tindemans announced last month that GNP, which actually dropped by 1.4% in 1975, was expected to rise by about 3.5%, while inflation had slowed to approximately 7.5% at the end of 1976 from an annual rate of 12.8% the year before. The government further reported that the Belgo-Luxembourg Economic Union was showing a foreign trade surplus as the year closed. The Belgian franc also had apparently weathered the storm, after having come under considerable speculative pressure prior to the adjustments made within the European currency float in October. Finance Minister Willy de Clercq insisted that the stability of the franc was vital in the fight against inflation, and the franc did in fact strengthen after the German mark was revalued. By steadily buying up marks and dollars, the National Bank by November was able to repay the BF 25 million it had borrowed from the European Monetary Cooperation Fund (FECOM) to defend the Belgian currency.

Belgium's prospects for 1977 seem to depend on the government's recently submitted proposals for a new law to return the economy to firmer ground. The essence of the proposals is an 8.5% limit on increases in rents, wages, dividends and directors' fees, and it was felt that this legislation could help solve many of Belgium's economic problems if it were to meet its stated aims. First reactions from the labor unions have been favorable.

Britain: Finally, Recognition of the Crisis

In the United Kingdom, 1976 will go down as the year in which there was official acknowledgment of the "crisis" of which so many had so often and so insistently warned. Britain's economic decline was so pronounced that the Labour government was forced into a progressively invidious position: its political survival depended on maintaining formal, if somewhat strained, relations with the labor unions and on devising, at the same time, some form of incentive program to boost industrial investment, promote employer confidence, rally the pound sterling, and rectify the adverse payments situation, without recourse to economic stimulation of the kind that would unleash further inflation and provoke prohibitive price increases.

By year-end, it was evident that none of these problems had been solved successfully. Although the unions

Crisis *(contd.)*

generally had adhered to their part of the "social contract" by staying within the guidelines set out in the incomes policy, there were clear indications that the U.K.'s failure to cope with the other major problem areas was putting considerable strain on government-labor relations. The unions had been "placated" by certain tax concessions offered to the lower-paid in the spring 1976 Budget, but the rapid deterioration of the economy as a whole is now beginning to be felt at grass-roots level, and there is no guarantee of a further round of wage restraint, whatever tax concessions are offered in this year's Budget.

The fall of sterling to unprecedented low levels has served to underline the inadequate effect of the various government actions concerning tax changes (notably in regard to indirect taxation), employment and food subsidies, and Budget cutbacks. The proof came when Britain was forced to borrow massively under a standby credit facility offered by the leading industrial nations and, subsequently, to take out a $3.9-billion IMF loan in exchange for an undertaking to curb public sector borrowing.

On the domestic political front, the government's dwindling majority in the elected House of Commons has resulted in a defeat for much of the legislative program. The upper house, dominated by the Conservative Opposition also was successful in killing off the aircraft and shipbuilding nationalization bill, at least for the time being. Another setback involved the dropping of a proposal for a wealth tax, which had been part of Labour's "soak-the-rich" electoral platform.

Denmark: Managing with Foreign Money, Crisis Plans

Berlingske Tidende, the leading national daily, recently likened Denmark to a house smothered by mortgages up to its chimney - a reference to the enormous foreign debt which has accumulated to the equivalent of one year's Budget. On this basis, the paper commented, each Danish family owes more than the value of a compact car to foreign creditors, since the country's international indebtedness probably reached 36-37 billion kroner in 1976.

For the remaining part of this decade at least, there will be no change in this borrowing policy: Denmark needs foreign help to continue the conversion process from an agricultural to an industrial society, and record payments deficits and soaring unemployment have not detracted from its status as one of the world's richest countries on a per-capita basis and as a safe credit risk. This is one reason why Copenhagen so far has managed to keep its problems from becoming overpowering, despite occasional political instability and a string of economic ailments. Also, when things get tight, the government usually can muster sufficient support to push anti-crisis legislation through Parliament.

Debt *(contd.)*

This happened in last year's "August compromise" on 6% pay raise limits in 1977 and '78 and again last month when approval was given for a price and rent freeze until the end of February.

France: Demands for Dismantling of Austerity Plan

The inauguration of the new year this time may have seen fewer champagne-doused celebrations in France than in the past, not only because these would seem out of place with the officially decreed austerity regimen. For the government, there was certainly little to celebrate, considering the profusion of problems that remain unsolved: unemployment at a historic high of 1.025 million, an inflation rate of 10% despite the price freeze, an enormous foreign trade deficit, and stagnant investments.

Some areas of the economy are marked by peculiar contrasts. For instance, while industrial output has recovered from the recession and has reattained the levels of 1974, the industrialists themselves have seldom been as pessimistic about the future as they are now. This "psychological depression" is being blamed to a large degree on the government's stability policies (price stop), the fearsome competition French exporters are encountering on the world markets, and sluggish domestic demand. But political motivations also rank high in industry's refusal to commit itself on new investments: more and more Frenchmen are convinced that the next general elections will be won by the Socialists and Communists, one reason why there is still a substantial, though clandestine outflow of capital to secret havens abroad.

Prime Minister Raymond Barre, the economics professor who took over from Jacques Chirac last August, so far has stood his ground in defending the unpopular austerity measures, and he has had the full backing of President Giscard d'Estaing. But the pressures are mounting. While the Patronat Français, the employers' federation, applauds Barre's tough stand on pay rise limits, it nonetheless has been calling for stimulative measures for the economy. The trade unions, in turn, are girding up for the upcoming collective bargaining sessions, demanding pay improvements beyond the price index rises that the government would like to make the upper limit. The initial negotiations have begun for the public-sector employees, and the outcome is certain to set a pattern for private industry in 1977.

Germany: Still Enjoying an Enviable Position

If there had been any need to underscore West Germany's enviable economic position, there were several events in 1976 that did just that. Inflation dropped below the 4% mark, with the result that Germany is currently experiencing the lowest rise in consumer prices among all industrialized western nations except Switzerland. In October the Schmidt

Position (contd.)

administration once again revalued the D-mark against the currencies of the five other members of the European Community's embryonic monetary union, the European "snake." The impact of the measure was minimal because the mark had been floating for some time against major currencies such as the U.S. dollar and the French franc. Still, the revaluation also had to be seen against a remarkable performance of domestic industry: five revaluations in the past six years have not put the often-sought, or even feared, damper on German exports. When the final figures are in, the 1976 trade balance is expected to show a huge surplus of DM 34 billion, the largest since the record DM 50 billion in 1974.

A positive balance of payments on top of the Bundesbank's holding of some DM 20 billion in foreign exchange may provide a comfortable pillow, although the government does not quite see it that way. On the contrary, Bonn is increasingly being viewed as an economic powerhouse to which ailing nations believe they can appeal for help. The $2-billion credit to Italy will remain a one-time affair since Chancellor Schmidt has ruled out similar support for the hard-pressed U.K. Instead, the administration favors a multinational effort through the EC and the International Monetary Fund. For fear of refueling inflation, Bonn has remained cool to demands made by the OECD, the IMF, and i EC partners to do more for economic stimulation and thus help overcome recession.

Bonn's main future tasks are to solve the problem of unemployment (still around one million) and put the deficit-ridden health and pension insurance system back on solid ground. Since it is essentially a structural problem, relatively high unemployment should persist for many years. As for financing the deficit in the public health sector, the Chancellor's admission that his administration erred about the extent of the financial plight of the health and pension insurance funds has cleared up some of the confusion in late '76.

Ireland: Dependence on U.K. Remains a Problem

The prospects for Ireland's economy, both for the medium and long term, remain decidedly bleak. Part of the country's problem continues to be the fixed exchange rate with the U.K., while the latter's dismal performance in regard to curbing inflation, maintaining the value of its currency, and expanding its investment activity is also mirrored in Ireland, since Britain is the Republic's most important trading partner. The most besetting ailment, however, is the alarming rate of inflation, although the predicted 18% for 1976 as a whole would represent a slight improvement over the 21% of '75. This high rate has had a direct and disruptive effect on the "traditional" problem, unemploy-

Dependence *(contd.)*

ment, which has reached a peak of 12% - the highest since World War II.

Inflation has also caused stagnant domestic demand, inadequate industrial investment, a higher imports bill, and a public-sector borrowing requirement (16% of GNP) that is rapidly becoming unmanageable. At the same time, price expansion has dulled the former competitive edge of Irish goods and has seriously affected export revenue.

Italy: A Remarkable Facility for Survival

The "sick man of Europe" remained bedridden in 1976, and there was no real hope for a vigorous recovery this year, either. Nevertheless, Italy demonstrated once again a remarkable facility for survival under the most trying circumstances. The past year again brought a change of governments, with the Christian Democrats barely able to cling to office and becoming virtually dependent on the Communists in Parliament. The twin problems of a faltering lira and a deteriorating payments balance loomed as large as ever. To provide some relief, the international financial community - headed by the IMF, the United States, and the EC partners - again stepped in with loans and standby facilities going into the billions of dollars.

On the economic and monetary front at home, Rome came up with a series of emergency measures such as the raising of the discount rate to an unprecedented 15%, the most stringent foreign trade curbs since World War II in the form of a 50% cash deposit on imports, a temporary 10% levy on foreign exchange purchases, and legislation to contain illegal capital exports and to induce the repatriation of such capital. This was augmented by raising value-added tax on selected items and by increases on such goods and services as gasoline, automobiles (taxes), insurance, and public utilities and transport. The withholding tax rate on dividends was raised from 30 to 50%. Other incomes policy actions involved the suspension of index-linked pay adjustments for those with annual incomes above 8 million lire and partial suspension for incomes ranging from 6 to 8 million lire.

For 1977, the government has flatly predicted a "zero" growth rate for the economy. Thus, an extended recession should be inevitable, considering the continuation of tight credit curbs and estimates of a 10% decline in investments (in real terms). A main item on Rome's agenda will be a reduction of wage costs in industry: the government warned that it will seek legislation to provide relief here, unless the employers and unions come up with an accord. Last month, the Senate had approved a bill providing some 8,000 billion lire in low-interest credits and subsidies to Italian industry until 1980, but Assembly approval is still required.

Luxembourg: Looking for an Upturn in Steel

The Grand Duchy has always had a reputation for handling its affairs in a quietly competent manner and for overcoming problems with its own resourcefulness. The year 1976 again tested these national traits, even though it did not duplicate the difficulties experienced during the '75 recession. Going into the new year, the local economy was suffering from a serious foreign trade gap, which was expected to total LF 7 billion at the end of '76. This situation is bound to continue until there is an improvement in world market demand for steel, Luxembourg's No. 1 export commodity. Inflation, which had approached 11% in '75, was down to 8.5% by the end of October. Unemployment was being kept under control with the aid of massive public subsidies.

Netherlands: A Feeling That the Worst Is Over

The Dutch government believes that the country's economy reached a low point at the end of 1976 and says it has evidence of "certain upward tendencies" in the areas of employment and investments. The Central Bureau for Statistics reported that industrial investment rose by 5% to 5.9 billion guilders in '76 and probably will increase by another 13% this year. According to statistics released in November, unemployment had shown a slight decline over the previous two months and was hovering at around 5%. The Dutch business community nevertheless tended to be wary of too much optimism, especially concerning earnings expectations for 1977. Its representatives did, however, acknowledge that the government apparently was beginning to recognize "the seriousness of the economic situation" and that the labor unions seemed ready to adopt a more "constructive" attitude.

Differences did remain within the coalition government on what was required to return the economy to firmer ground, these disagreements being largely attributable to the forthcoming general elections in May. Prime Minister Joop den Uyl wants to put emphasis on creating additional employment, while Economic Affairs Minister Ruud Lubbers favors a strengthening of corporate profitability in order to facilitate the restructuring process of Dutch industry and thus improve its international competitiveness. The only way to brighten the earnings picture, Lubbers claims, is by containing wage cost expansion - a position unlikely to be appreciated by the labor unions. In 1976, The Hague set limits on permissible pay increases, and at the end of the year it authorized a one-time, 60-guilder bonus out of state funds for each employee. For this year, no government intervention is foreseen as collective bargaining is scheduled to resume, though on the hope that wage cost increases will not exceed 8 to 8.5%.

Common Market Reports

EUROMARKET NEWS

Issue No. 417 *Report No. 309, January 13, 1977*

IN THIS ISSUE

Community: Adoption of Public Supply Directive

In one of its last actions in the old year, the Council of Ministers adopted a directive that will require national public authorities to follow common, nondiscriminatory rules in awarding contracts for the supply of certain goods. If an out-of-state supplier meets the technical and financial conditions and his bid is the best in terms of price, delivery date, quality, and after-sales service, he will have to be given the contract over a domestic firm that may be technically and financially on par with the foreign competitor but submitted a higher bid.

The measure does not cover defense materials, transport, utilities, and telecommunications equipment and thus comprises only part of the annual volume of $20 billion in public supply contracts in the EEC. Also not covered are products originating from third countries. A Council resolution attached to the directive allows the member states for the time being to continue national practices in including or excluding third-country products from the award of public supply contracts. A solution can be found only in international bodies such as GATT or the OECD and would probably be based on the principle of reciprocity. Meanwhile, under Treaty Article 115, the Commission could allow a member state to bar massive third-country imports aimed at undermining that state's current practice.

This issue is in two parts, consisting of 264 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 417, January 13, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Adoption *(contd.)*

In spite of the directive's limited scope, application of the Community rules will have a significant economic impact: after mid-1978 (the deadline for amending national rules), any national public authority - whether government agency, local school board, hospital administration, university, or research institute - planning to purchase supplies worth more than 200,000 units of account will have to make an announcement in the Community's Official Journal and will have to consider tenders from any manufacturer in the EEC on a purely economic, technical and nondiscriminatory basis. Other motives such as balance of payments considerations or the desire to support or build up a particular domestic industry may not influence the decision-making process.

Commission attorneys point out that the success of the measure will depend a great deal on how closely the national administrations will watch over domestic award practices. Compliance with a related measure, the 1971 directive requiring national authorities to consider on a purely economic basis out-of-state bids made by contractors of buildings and roads, is still unsatisfactory *(Common Market Reports, Par. 1349.71)*. In fact, the European Commission recently won its case against Italy before the European Court of Justice on grounds that Rome had failed to repeal legislation discriminatory to non-national contractors (Case No. 10/76). But Commission attorneys say that Italy's violation of Community rules was only the most flagrant one and that some discrimination is still being practiced in several other states as well.

Uniform Standards for Meat Imports

In other actions last month, the Council adopted five proposals involving standards for imported fresh meat and health requirements for live cattle and hogs. All five measures (including an emergency fund to combat the remaining occurrences of animal diseases such as leucosis, tuberculosis, and hoof-and-mouth disease) will help improve veterinary standards in the trade of fresh meat and livestock. However, the biggest impact on Community trade with meat-exporting nations will come from the Council's decision to establish a list of those countries that will be allowed to export meat to the Common Market.

Naming some 40 countries, including the United States and Canada, the list is being kept secret for political reasons and will not be made public until the end of this year. At that time the Commission plans to publish its own list, the makeup of which will largely depend on the findings to be reported on by Commission and member state veterinarians. These experts have made trips to Latin America and Asia as well as Australia and New Zealand to determine whether veterinary health standards there are high enough to permit EEC recognition of health certificates issued in those areas and countries.

Meat Imports *(contd.)*

Recognition of such certificates by the Community rather than the individual member states (the current practice) would substantially ease trade in fresh meat and livestock. Just to cite one example: a Latin American meat exporter may have no trouble landing his shipment at an Italian port but may be denied discharge at a French or German port. At present, each member state publishes its own list of countries and sometimes even individual slaughterhouses and other meat exporters authorized to export to that state, and there are differences in veterinary health standards. Some member states still have economic ties to former colonies and thus treat the latter's meat exports differently than shipments from other countries.

Slaughterhouses, meat-cutting plants, and refrigerated warehouses established in third countries also stand to gain from the new common approach. At present, health officials from all member states make separate random checks in order to verify whether these facilities are still qualified to export. In the future, spot checks will be made by groups of Commission and member state veterinarians and other officials.

Despite this progress, some obstacles in intra-Community as well as third-country trade will remain until the end of 1982 because of special treatment extended to the three newcomers in the EC treaties of accession. Consequently, Denmark and the U.K. need not apply until Jan. 1, 1978, the health standards controlling Community trade in live animals *(Common Market Reports, Par. 958)*. Because of their geographic situation, Ireland and the U.K. may continue to enforce their national laws against swine fever and hoof-and-mouth disease until the end of 1982. These special arrangements in intra-Community trade apply also with respect to imports from third countries.

Italy: Currency Surtax to End in February

Acting on the recommendation of Treasury Minister Gaetano Stammati, the Italian government has reduced from 7 to 3.5% the rate of the special levy on foreign currency purchases, effective Dec. 27. The rate was further reduced to 3% on Jan. 3 and thereafter was to be cut by 0.5% each week until Feb. 13, at which time the levy would cease to exist. The surtax *(sovrattassa)* originally had been imposed in early October at a 10% rate as yet another device to relieve the speculative pressures on the lira; on Oct. 23, it had been fixed at 7% and was to apply for a four-month period.

The cabinet action during the Christmas holidays came as a complete surprise to most observers, since Industry Minister Carlo Donat-Cattin as late as Dec. 21 had publicly argued that the levy be retained beyond the four-month period in view of Italy's continuing economic and financial difficulties. The fact that the cabinet chose to override

Surtax *(contd.)*

this argument was attributed to pressures exerted by the European Community and was seen as a precondition to another $500-million EC loan which Italy needs to fill the financial gap caused by its repayment of an outstanding debt to the U.K.

The imposition of the surtax in combination with other monetary measures unquestionably has contributed considerably to the recent stabilization of the Italian currency. The return of "escape capital" from abroad as well as the credit restrictions have led to a recovery of both the country's payments balance and its foreign exchange reserves. Despite credit repayments and interest payments totaling $900 million in early December, the reserves have been replenished to more than $3 billion, which is about six times as much as was held during the apex of the monetary crisis. The improvement of the payments situation in the last two months of '76 raised hopes that the deficit for the whole year would be closer to 2,000 billion lire than to the 3,000 billion lire that previously had been the official estimate. Observers have found it remarkable that this recovery came about despite a foreign trade deficit of 4,142 billion lire in the first 10 months of '76, compared with 1,572 billion lire for the same period in 1975. As before, this deficit was entirely due to oil imports.

France: Energy Savings Plan to Combat Oil Price Rise

In anticipation of higher OPEC oil prices, the French government has announced a program reinforcing existing energy savings measures and implementing new ones. The significance attached to this plan was underscored by Prime Minister Raymond Barre, who made the announcement himself. Barre said that the energy savings effected during 1976 had enabled the country to hold down oil import value to FF 51 billion. Without additional conservation, however, oil imports would reach an estimated FF 58-59 billion in 1977, which would threaten the government's efforts to return France's foreign trade balance to an equilibrium. For this reason, it was decided to adhere definitely to a previously agreed-upon ceiling of FF 55 billion in oil imports this year, a savings of about 8 million tons.

A main feature of the new program is the official monitoring of energy consumption by industrial and other major users. This surveillance - already practiced during the world oil crisis - will now also be extended to gas and electric power. The existing limits placed on the consumption of heavy fuels will be tightened. Energy savings percentages are to be fixed for individual enterprises and users on a case-by-case basis. The state utility Electricité de France, for instance, has been instructed to reduce its oil purchases from 13.8 million tons (in '76) to 11 million tons this year and to rely more on domestic coal if necessary. Generally, industry is being urged to make the necessary energy conservation investments, with higher pub-

Energy *(contd.)*

lic incentives being offered for that purpose. The government will make available an extra FF 1 billion to finance low-interest credits in this area.

Though the program stops short of actual rationing, it does affect private consumers to some extent. The volume of heating fuel for private residences allocated for the 12-month period ending on June 30, 1977, has been reduced from 31.8 to 30 million tons. Room temperatures may not exceed 20 degrees centigrade, and automotive speed limits will be strictly enforced.

Compromise Sets 1979 Change for Tax Status of Americans

Paris press reports have quoted the French Finance Ministry as saying that a Senate-National Assembly compromise has postponed for two years tax code modifications affecting U.S. citizens in France *(Doing Business in Europe, Par. 30,909)*. Thus, the repeal of Code Article 164, which exempts Americans from paying French taxes on income already taxed in the United States, will be deferred until Jan. 1, 1979. (The appropriate committee in the Senate had opted for Jan. 1, 1980, as the effective date, while the Assembly had favored Jan. 1, 1978.)

As reported last month, U.S. Treasury and French Finance Ministry officials are to meet in the near future to negotiate a protocol concerning the interpretation of the 1967 U.S.-French double taxation treaty. It is possible that both sides eventually may even agree on a revision of the treaty in order to exempt any type of double taxation. The parliamentary compromise will now allow ample time for these negotiations and should also enable U.S. residents in France to make personal financial arrangements in anticipation of the repeal.

Belgium: Proposal for 'Solidarity Tax' on Pay

The Belgium government has proposed to introduce a "solidarity tax" of 0.5% on all wages and salaries. The expected revenue, estimated at BF 5 billion, would flow into the unemployment insurance fund, which is under severe financial strain because of persisting high unemployment. The tax would remain in effect so long as there are more than 200,000 jobless in Belgium. According to the most recent statistics, unemployment in mid-December passed 256,000 and climbed to 9.6%, setting another postwar record.

Germany: Rules Due on Board Elections of Labor Reps

The German government is expected to issue early this year the long-awaited regulations containing procedural details for the election of employee representatives to supervisory boards under the 1976 Co-determination Law *(Doing Business in Europe, Par. 30,863)*. Disagreement between the coalition parties over an important detail caused the delay, and the formula finally agreed on was one of the reasons that Walter Arendt declined the offer to continue as labor minister in the new cabinet.

Rules *(contd.)*

The compromise formula has met with heavy opposition from union leaders who maintain that Section 39 of the Co-determination Law does not authorize the federal government to issue regulations with such far-reaching legislative implications. They contend that only Parliament could do that and imply that the regulations at this point might be unconstitutional on grounds that they would go beyond the scope of Section 39. Most legal observers do not share this view and believe that the union leaders are using this legal argument to cover up their opposition to the compromise.

The compromise provides that an arbitration board made up of a works council member and a representative of lower and middle management *(leitender Angestellter)* plus a neutral chairman would have the final say on whether an employee's name is entered on the voting list for salaried employees or that for executives.

Originally, Arendt wanted to leave resolution of differences to management and the works council, an approach vehemently opposed by the Free Democrats, the minority partners in the government coalition. They argued that management might be pressured to give in to the union-dominated works councils, with the possibility that prejudiced executives might bring suit to have their names entered on their own list. Government lawyers then prepared extensive regulations that would have given the election boards (made up of wage earners, salaried employees, and executives) the power to decide by majority vote on who would be placed on either list. The Free Democrats did not like this approach either because a majority of an election board could easily overrule the executives, whose selection for the executives' list would be transferred to the list of salaried employees. The Free Democrats thought that this too would distort the lawmakers' intention to give executives an independent role of their own and that it would also not be favorably received by Free Democratic voters, many of whom are in middle and higher management.

Britain: IMF Loan OK'd; New Year's 'Resolutions'

The U.K.'s application to the International Monetary Fund for a loan of 3.36 million in special drawing rights (i.e., approximately $3.9 billion) was formally approved on Jan. 3. The accompanying IMF statement stressed that the loan arrangement, over an unprecedented 24-month period, was designed to reinforce Britain's payments position and aid in the reduction of unemployment and inflation. It also pointed out that the U.K.'s economic performance over the next 12 months will be subject to IMF "review" in January 1978.

Observers therefore found it appropriate to compare and contrast the respective New Year's "resolutions" offered by the government, the labor unions, and industrial leaders. The official government line - as expressed by the Prime Minister and the Chancellor of the Exchequer - is that there

IMF Loan *(contd.)*

will be "no relaxation": unemployment will continue to be "intolerably high," but the competitiveness of sterling will result in a marked payments improvement and a falling rate of inflation. This will be contingent, however, on "improved management," a more positive attitude to industrial investment and, not least, the cooperation of the unions in the next round of pay talks.

It is as yet uncertain if such cooperation will be forthcoming. Nevertheless, leading trade unionists - notably Jack Jones, general secretary of the Transport and General Workers' Union (who is felt to be "more powerful" than the Prime Minister, according to a recent Gallup poll) - believe that the government "has done more than enough" to warrant the support of all. At the same time, however, Jones has acknowledged that the U.K. has not been producing either the quantity or quality of goods necessary for economic upturn.

It has been left to the industrial and business community, however, to strike a more practical note. Ian Hildreth, director-general of the Institute of Directors, forecast that unemployment might rise to two million this year as a result of industrial stagnation following government "complacency." The real stimulus to industrial output, contended Hildreth, must come from increased fiscal incentives and a redeployment of "unproductive" workers from the public sector. In a similar vein, Ashely Whitall, president of the Engineering Employers' Federation, promised that the federation would mount a five-point campaign in 1977: it will urge curbs on "extravagant" public spending, demonstrate how wealth continues to be eroded through bureaucracy, fight against wage policies that create discord in the employment market, stress the necessity of employer participation in the education system and, finally, oppose the "imposition of worker directors," while at the same time supporting "greater involvement" for employees.

EURO COMPANY SCENE

Bosch/ Borg-Warner

Germany's Robert Bosch GmbH, the country's No. 1 manufacturer of automotive electrical equipment, has agreed to purchase 9.3% of the share capital of Borg-Warner Corp. of Chicago. The deal involves the acquisition of 2 million newly issued shares for $62.9 million. Bosch has been a supplier of batteries in the U.S. for a number of years and has been seeking more business in Detroit with its electronic fuel injection pumps and other products. The participation in Borg-Warner reportedly is directly linked to Volkswagen's decision to assemble cars in the U.S. Bosch's U.S. sales ($120 million annually) have been directed from Chicago; in addition, the company manufactures fuel injection units for diesels in Charleston, N.C.

Galeries Anspach/ Sears/ De Bodt

The ailing Belgian department store chain Galeries Anspach, a subsidiary of Sears, Roebuck & Co. of Chicago, will be taken over by the Belgian company Groupe de Bodt, headed by one of the former owners of Anspach. De Bodt will bring between BF 600 and 800 million into the chain, while the state's Société Nationale d'Investissement (SNI) will acquire about 12% of the capital. An estimated 90% of the 2,500 jobs involved are to be saved.

Brussels reports said that Sears was "willing to pay off the accumulated losses," which are said to have grown from BF 161 million in 1971 (when Anspach was taken over by Sears) to BF 1.6 billion at the close of the last business year. Sears' retreat from Belgium was preceded by that in 1973 of Chicago's Jewel Companies from its engagement in Belgium's largest department store and supermarket chain, GB-Inno-BM. The country's No. 2 chain, Sarma, remains in the hands of J.C. Penney Co. of New York.

Chicago Dietetic/ Sandoz

On the basis of an agreement signed early last month, the shares of the Chicago Dietetic Supply, Inc., will be purchased soon by Delmark Company, Inc., of Minneapolis, a subsidiary of Switzerland's Sandoz AG. Chicago Dietetic, of La Grange, Ill., is active in the development, production, and marketing of dietetic specialties. The acquisition is seen by the Basel-based Sandoz AG as a way of supplementing its food business handled through Wander AG ("Ovaltine"), a Bern subsidiary. Last year, Sandoz also was in the news when it took over two U.S. seed companies, Rogers Brothers and, most recently, Northrup, King & Co.

Dynamit Nobel/ Kay-Fries/ Tennants

Dynamit Nobel AG of Germany has agreed to acquire a 75% participation in Kay-Fries Chemicals, Inc., of Stony Point, N.Y., which at present is 100% owned by the U.K.'s Tennants Consolidated Ltd. Kay-Fries, which manufactures organic chemical products for industry, reportedly had a 1976 turnover of about $15 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 418 *January 18, 1977*

IN THIS ISSUE

Community: Equal Treatment in Social Security

The European Commission has proposed legislation that would commit the member states to apply gradually the principle of equal treatment of men and women in matters of social security. The draft directive, sent to the Council of Ministers last month, would complement the directive calling for equal treatment of men and women in terms of employment, vocational training, and working conditions *(Common Market Reports, Par. 3910.123)*. It was adopted by the Council in February 1976.

The social security systems of most states still contain provisions discriminating against women. Some forms of discrimination are simply an outgrowth of the pay differentials between men and women, although continued application of the equal-pay principle will eventually eliminate this problem. In most member states the old-age pension is based on the years of coverage and the income received in the years preceding retirement. Many women are therefore at a disadvantage, since they often have to interrupt their employment to raise a family, and their pensions are accordingly lower. Also, the mandatory retirement age for women is usually lower than that for men, and this too contributes to lower pensions.

There are other instances of discrimination which may be traced back to the concept of the "head of the family."

COMMON MARKET REPORTS, Issue No. 418, January 18, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Treatment
(contd.)

Since the husband is usually considered the head, the benefits payable to a man in case of illness or disability may increase in proportion to the number of dependents. Another source of discrimination is linked to unemployment benefits, the amount and duration of which are also geared to the head-of-the-family concept. As a result, the mother's benefits may be lower than those of the father because the latter receives additional allowances for his dependents. Further, in some states a married woman who has been laid off may not qualify for unemployment benefits at all if her husband is working.

The Commission is not proposing to eliminate all differences in treatment of men and women but merely to initiate a first phase in implementation of the principle. For example, during the first two years following publication of the directive in the Official Journal, the states would be allowed to retain provisions that may even favor women. This will be true for determining retirement age and old-age pension, crediting to coverage the periods a woman may have spent outside employment to raise a family, and the vesting of rights for a wife by virtue of her husband's social security coverage.

Since the adjustment of the "breadwinner" concept and thus payment of additional pension and unemployment benefits for dependents will substantially burden the national treasuries, the states would be given a three-year grace period within which to comply with the system.

<u>Further Curbs on Automotive Exhaust</u>

Using its powers granted under a 1970 Council directive on automotive exhaust control, the Commission has decreed limits on nitrogen oxide emissions in motor vehicle exhaust, applicable as of Oct. 1, 1977. After that date, the national authorities will be barred from giving EEC-type approval to new motor vehicles not meeting the new emission standards.

Although nine months is not much time to modify assembly lines, the move does not come as a surprise to Europe's automobile industry or car makers outside the Common Market. The Commission's action followed extensive discussions with industry executives and member state officials, and it merely reflects technical progress. There has been a general consensus that progress in the exhaust control sector is possible, since a 1974 study covering all European car manufacturers revealed that technology has advanced to a point that permits mandatory limits on nitrogen oxide emissions. The motor vehicle symposium sponsored by the Commission in December 1975 also recommended such emission controls in order to contain automotive pollution at current levels.

The Commission's move represents its first regulatory action in automotive exhaust controls, and adaption to technical progress here, just as in any other field of harmonization, is provided for under Council Directive No. 70/156

Exhaust
(contd.)

(Common Market Reports, Pars. 3371.03 and 3371.06). But the Commission was also motivated by another, unexpected development: application of the 1970 directive has shown that the reduction of carbon monoxide exhaust from internal combustion engines and hydrocarbon crankshaft emissions (the main objective of the directive) has led to an increase in nitrogen oxide emissions.

Commission attorneys believe that the new measure will have an appreciable effect on air pollution control. (Several other measures are pending before the Council, including one that would control emission of pollutants from diesel engines used in farm and forestry tractors.) They do not hide their disappointment about the Council's failure to act on a far broader 1973 proposal aimed at reducing the lead content in gasoline *(Common Market Reports, Par. 9619)*. Germany, which has the strictest auto pollution control standards in the Community *(Doing Business in Europe, Par. 23,544B)*, has been reluctant to give in to the proposed lower Community standards backed by most of the other member states.

Britain:
New Financing
Deal to Mark
Turning Point?

Both Prime Minister James Callaghan and Chancellor of the Exchequer Denis Healey have asserted that the financing facility announced on Jan. 10 by the Bank for International Settlements marks "the turning point" for the British economy. Even the Opposition parties conceded, grudgingly, that the BIS arrangement could hardly fail to have positive effects. The most obvious of these was the "resurgence" of sterling, which rose 3 cents following the news.

The BIS facility comprises a special standby reserve of $3 billion which will be available to the Bank of England in the event of foreign withdrawals causing Britain's sterling balances to fall below certain levels. The facility is designed to counteract any repeat of sterling parity collapse such as occurred last year when the oil-producing countries made massive withdrawals from London.

Although the BIS facility was set up following discussions between Britain and the "Group of 10" plus Switzerland, neither France nor Italy will actually participate on the ground that both those countries are suffering from reduced international liquidity.

As noted, the facility is intended to preclude undue fluctuations in sterling balances, thereby restoring a measure of confidence in the pound and stability in the economy. At the same time, however, it will permit a graduated and orderly rundown in sterling holdings primarily through the absence of guarantees to foreign holders on sterling's parity: it was precisely such a BIS guarantee in a 1968 support operation that is now viewed as a contributing fac-

Turning Point *(contd.)*

tor to Britain's problems. Following the 1968 operation, sterling holdings had been allowed to build up to unprecedented levels as foreign holders availed themselves of the guarantee privilege, and the massive withdrawals prompted by doubts about Britain's economic performance proved to be extremely disruptive. In the government's view, as expressed by Chancellor Healey, the new facility "will reduce the British economy's vulnerability to external factors beyond its control."

The mechanics of the facility are simple: the BIS will provide the funds through its normal Euromarket operations and will presumably call on the participating countries to honor their proportionate standby commitments only if the burden on the BIS proves to be too great. Meanwhile, Britain will give official (i.e., not private) holders of sterling the option of converting the whole or part of their holdings into negotiable medium-term foreign currency bonds carrying interest at approximately half of that on existing sterling deposits, i.e., approximately 5%. Repayment of eventual drawings would be over four years from the end of the two-year "draw-down period." Accordingly, the total life of the loan (and, by implication, of the foreign currency bonds) will be some six years.

Italy: Unions Reject Plans to Alter Pay Indexation

An Italian labor confederation meeting attended by more than 2,000 delegates has rejected with an overwhelming majority the government's proposals for a "defusing" of the pay indexation system *(scala mobile)* and other means of containing spiraling wage costs. (On the basis of production units, these wage costs are now nearly 20% higher than in the other western industry nations and increasingly threaten the international competitiveness of Italy's exporters.) The unions did indicate willingness to make certain concessions on some aspects of applying pay indexation, but this did not affect their refusal to allow any basic changes in the indexation mechanism.

The clear "no" of the labor syndicates leaves the administration in an extremely sensitive position, even though negotiations seeking a compromise have not been broken off. Prime Minister Giulio Andreotti has stated that the matter probably will have to be turned over to Parliament, even if this could mean a confidence vote. It would then be up to the Communists to decide whether they want to provoke another political crisis by withdrawing their tacit support from the Christian Democrat minority government. Two major reasons may require Andreotti to force a decision soon: 1) the need to offer the International Monetary Fund the promised economic guarantees in return for another $530-million loan and 2) the fact that the scala mobile is due to go up by another 10 points in February, causing automatic pay increases of 25,000 lire.

The government had proposed that pay adjustments based on the cost-of-living index in the future be effected on a six-month basis rather than quarterly and that the index "basket"

Pay Indexation *(contd.)*

itself be modified. Other measures contemplated include fuel rationing, alternate driving bans for motorists, and meat rationing. The unions have maintained that their own proposals would suffice to overcome production bottlenecks and lower wage costs by about 15%: working on seven holidays not falling on weekends, combating absenteeism, and permitting overtime.

France: Barre Remains Uncompromising on Austerity

A first modest success apparent in the battle against inflation will under no circumstances persuade the French government to modify its present austerity policies, Premier and Economics Minister Raymond Barre has told some 400 businessmen and industrialists in Paris on Jan. 6. Barre questioned the "rocking chair policies" of previous years which had exposed the domestic economy to alternate hot and cold spells and told the industry representatives that it was up to them to breathe new life into the economy: "It is not the task of the government to play the part of the entrepreneurs." Barre ruled out blanket business stimulants in the form of tax relief and direct investment aids which are being demanded by many of the *patrons*, although he did not rule out pinpoint assistance to selected industry sectors. (Among the beneficiaries of such assistance could be the ailing steel and textile industries, it was reported.)

Barre's uncompromising stand generally earned the respect of those in attendance and of most commentators, despite the prevailing glum mood in the business community. On the day of Barre's statements, the SOFRES institute had published the results of a poll according to which 86% of the industrialists questioned were pessimistic in their outlook for 1977: 83% believed that the Barre Plan left no room for further economic growth, while 49% and 65%, respectively, thought that unemployment and inflation would continue to rise.

Three days earlier, Barre had commented on national television on the transition from the first to the second phase of his austerity plan, which was inaugurated last Sept. 22. With the beginning of this year, the three-month price stop was followed by a reduction from 20 to 17.6% of value-added tax on about one-third of industrial products, which will permit a 2% price cut for these items, at least in theory. This reduction, Barre pointed out again, will cost the government some FF 8.5 billion in lost revenue. Public tariffs will be frozen until April 1 and thereafter may rise only up to 6.5% at most. The number of VAT rates will be reduced from four to three in adjustment to the systems prevailing in the other EEC countries: a reduced rate of 7%, an intermediate rate of 17.6%, and a top rate of 33.3% on automobiles and luxury items *(Doing Business in Europe, Par. 22,883)*.

Barre reminded French industry of its commitment to "moderation" upon regaining its price autonomy: "Whoever opposes this or does not meet his obligations will be subjected to strict price controls."

Netherlands: Further Curbs on Price Rises This Year

A "new" system of price controls for 1977 was announced by the Dutch Economic Affairs Ministry at the end of last month. Actually, it is essentially an extension of the price policy practiced during the greater part of 1976, which, however, took account of the receding rate of inflation. Generally, price rises may not exceed 5.3% - a goal The Hague hopes to achieve by preventing businesses from fully passing on these increases in their prices.

For the time being, industrial enterprises may, in fact, not pass on higher wage costs at all. Service businesses, which usually are more labor-intensive, may pass on up to 3.5% and businesses operating with hourly pay scales up to 4.5% of higher wage costs. The retail trade must limit its margins to increases of up to 3.5%. As before, businesses may continue to pass on fully the higher cost of raw materials and, as of Jan. 1, also that of higher freight rates. Other "external costs" may be reflected up to 0.3%. All these percentages apply to the current year and are based on prices in effect on Dec. 2, 1976.

Economic Affairs Minister Ruud Lubbers has agreed, however, to have the government review these price controls prior to April 1 after studying wage developments during the first months of the year. Concerning manufacturing industry, Lubbers explained the administration's tough stand with anticipated productivity improvements in that sector. Industry representatives, on the other hand, see a need for passing on higher pay costs up to at least 1.5%. The employers also are complaining about the tight curbs applying to the service and trade sectors. The labor unions consider the controls fair since they believe that productivity this year actually will exceed 7%, which would modestly improve employee purchasing power.

In other developments, the Dutch central bank lowered its discount (bank) rate from 6 to 5% as of Jan. 7, while the Lombard rate was also cut by one point, to 6%. The last previous change came last Nov. 29, when the discount rate went down from 7 to 6%.

Belgium: National Bank Drops Discount Rate to 8%

In view of the steadied position of the Belgian franc and in order to provide more stimulation for the domestic economy, the Belgian National Bank has reduced its discount rate from 9 to 8% and the Lombard rate by two points, to 8%, effective Jan. 5. At the same time, the rediscount quotas were raised by nearly BF 5.5 billion, or 10%. The Belgian commercial banks reacted immediately by lowering their own interest rates.

Germany: More Protection for Clients of State Companies

German government officials are preparing regulations that will accord customers more protection in contractual relationships with state-owned utilities and the federal post office and railways. The objective is to force these state enterprises to amend their sales conditions in line with the re-

Protection *(contd.)*

cently passed Sales Conditions Law, which will govern contracts between buyers and businesses after April 1 *(Doing Business in Europe, Pars. 30,876 and 30,908)*.

Justice ministry officials say that the state would lack credibility if it did not remove inequitable clauses in sales conditions imposed by the state enterprises. They maintain that it would be incompatible with the new law if a state-owned utility supplying millions with electricity and gas were able to preclude liability for damage claims in its sales conditions. At present, a German company that incurs a loss of millions of D-marks because of the error or negligence of a postal clerk (involving, for instance, failure to deliver an important telegram) has no chance of recovering that loss because regulations preclude such claims even if postal employees are at fault. The German railways also restrict compensation for damage due to negligent acts of their employees.

The situation is not much different with utilities, hospitals, and other local government facilities. Communities are, for instance, not liable for damage caused by sewer backups. On the other hand, a customer of a city-owned utility is exposed to substantial damage claims if he negligently causes damage, such as through a short circuit. However, here the federal government does not have the power to make local governments amend the sales conditions of their public facilities (only the state legislatures can). Still, it is hoped in Bonn that the federal government's example will persuade the state and local governments to follow suit.

Austria: Four Weeks' Annual Leave; Real Property

As of Jan. 1, all employees in Austria are entitled to annual leave of at least four weeks. Approved by Parliament last summer, the new legislation also eliminates the previous differentiation between blue-collar and white-collar workers in this area. The four-week minimum leave (24 workdays) must be granted to all individuals with less than 20 years' employment. Those with more than 20 working years are entitled to a fifth week of vacation, for a total of 30 workdays. Earned leave may be accumulated within a three-year period; it is forfeited only after the end of that period. The law further entitles employees to paid leave of absence of up to one week per year if their presence at home is needed for the care of a sick member of the immediate family.

In other developments, the National Bank announced last month that as of Jan. 1 foreigners may again purchase real property in Austria, provided that such property is personally utilized by the purchaser within a 12-month period. At the end of 1972, in the face of monetary pressures on the schilling, the Bank had made capital imports - including those relating to real estate purchases - subject to individual approval. These restrictions were successively relaxed in mid-1975 and in early '76. Capital imports continue to be formally subject to official permission, but the central bank has

Real Property *(contd.)*

now stated that it considers real property purchases by foreigners as "generally approved," evidently on account of Austria's steadily weakening payments situation.

EURO COMPANY SCENE

Dassault

French government officials and domestic industry have noted with satisfaction Washington's $205-million order for 41 Falcon-20G aircraft produced by Dassault-Breguet. The planes are to be used by the U.S. Coast Guard. Dassault won the contract over one German and six American competitors, evidently on the basis of price. The aircraft, to be fitted with two U.S.-made Garrett engines, is basically a modification of Dassault's Mystère-20 business jet, of which 224 units have been sold in the United States so far. U.S. assembly and sales of the Mystère are being handled by the Falcon Jet Corp. in Arkansas, a 50:50 joint subsidiary of Dassault and Panam American Corp.

Campbell/ Gringoire/ Pillsbury

According to Paris reports, the French government has authorized the United States' Campbell Soup to acquire a French subsidiary of Pillsbury Mills, the biscuit manufacturer Gringoire-Brossard. The transaction between the two U.S. companies was finally authorized by the French Finance Ministry, the reports said, after efforts to find a French buyer were unsuccessful. The deal reportedly is valued at about $7 million. Campbell already is engaged in the European biscuit market through its Biscuits Delacre offshoot in France and Belgium, with annual sales of about FF 300 million.

Red Wing/ Ranks Hovis

Red Wing, Inc., a Fredonia, N.Y., food producer and supermarket chain, is the target of an agreed takeover bid by Ranks Hovis McDougall, described as one of Britain's top bakery companies. The $23.1-million offer is still subject to government approval. Red Wing reportedly had 1976 sales of $5.1 million and has listed the net book value of its assets at $8.9 million. RHM's annual report issued this month showed a total annual turnover (U.K. and abroad) of £921 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 419 *Report No. 310, January 28, 1977*

IN THIS ISSUE

Community: Environment, Consumers Take Priority

Commission President Roy Jenkins has told the European Parliament (EP) that consumer protection and environmental legislation would take priority in the new Commission's legislative plans. He promised to give details when he announces the EC executive's program to the EP in mid-February. It is no coincidence that Jenkins selected these two areas because the Council of Ministers has long-standing commitments in both fields (environment in 1973, *Common Market Reports, Par. 9590*; consumer protection in 1975, *Common Market Reports, Par. 9743*).

Most of the 1973 Environmental Action Program has been carried out in the meantime, which prompted the Commission last year to submit to the Council a second program covering the next five years and concentrating on the disposal of various types of waste. It is still under discussion, without any formal action having been taken. In the consumer protection area, the Commission has just submitted a proposal concerning door-to-door sales, and work is continuing on a draft directive that would harmonize national consumer credit conditions and installment contract sales. Also, a first draft directive against misleading advertising is being discussed by Commission and national officials.

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

COMMON MARKET REPORTS, Issue No. 419, January 28, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Environment
(cont'd)

While Jenkins's address at least revealed the general legislative course the Commission plans to take, Britain's Foreign Minister Anthony Crosland has said nothing about what the U.K., holding the Council presidency during the first half of the year, might push for in terms of legislation. The presidency offers the opportunity to pull stalled proposals from Council files and assign working parties to discuss them or have the Permanent Representatives test the chances for compromises on shelved proposals. A determined Council president can sometimes produce unexpected results. For instance, the Netherlands, Britain's predecessor in the presidency, can take a large part of the credit for the fact that, shortly before Christmas, the Council adopted or at least agreed in principle on some 20 measures, among them the second company law coordination directive, the proposal for retaining employees' rights in case of mergers, and the public supply directive. Council attorneys point out, though, that the smaller member states often accomplish more in the presidency than the larger states because they are not up against powerful domestic lobbies which often oppose a particular measure.

France Balks at Common A-Controls

France has now definitely rejected a draft Council regulation that would have allowed the Vienna-based International Atomic Energy Agency (IAEA) to verify compliance with international safeguard and security rules by Common Market-based installations and businesses using fissionable materials. This refusal means that the member states concerned will have to take individual legislative action in order to live up to their commitments assumed in a 1973 agreement between seven member states, EURATOM, and the IAEA. In order to avoid the consequences of differing national implementing legislation - a situation that would not have arisen with a (directly applicable) Council regulation - Council attorneys have prepared a model draft law that the national governments could use in drawing up their proposals.

Community officials are said to be disappointed about the French government's attitude. A positive and common action would have been a gesture of goodwill and might have satisfied U.S. critics who have been asking for double controls on installations and businesses - IAEA as well as EURATOM controls. The absence of Community action reportedly was a topic of discussion at this month's EEC-Canadian negotiations over uranium supplies, and the matter is also expected to come up during the talks with U.S. officials which were scheduled for the end of this month. The U.S. and Canada are the Community's main suppliers of uranium.

In the 1973 agreement, the EC and the seven member states (all except France and the U.K., which signed a special agreement in September 1976) committed themselves to incorporate the controls and safeguard provisions of the

A-Controls *(cont'd)*

Nonproliferation Treaty on Nuclear Weapons. Part of the commitment was fulfilled last November when the Council adopted a broad Commission regulation on controls over installations and businesses using, producing, storing, transporting, or processing fissionable matters. The rules set forth the details for applying these safeguards and also tighten EURATOM's existing controls and the already detailed reporting requirements on production and the use of uranium and other fissionable matters by businesses and other facilities.

The second commitment, proposed under the just-defeated draft Council regulation, was to allow the IAEA to verify compliance with safeguard and security rules by installations and businesses. But, more important, the IAEA would have recognized the EURATOM controls carried out by the Community, thus avoiding duplication in checks and controls, with less cost and inconvenience for national nuclear industries. These double controls will also be avoided under the national legislative approach, but there will be a considerable delay because passage could take up to six months.

Paris's refusal is considered all the more regrettable since the other member states would have agreed to exempt from IAEA inspection a great number of nonmilitary installations (military and semi-military installations are not covered anyway). However, France reportedly remained wary about the prospect that IAEA agents, including nationals from East Bloc countries, would want to check on installations it considers sensitive.

In Brief...

The Commission has submitted a draft directive to the Council that would coordinate national rules governing the relationship between commercial agents and their principals. The measure would supplement a 1964 directive granting national agents the right to establish themselves and to provide services throughout the Community + + + The Community is facing a legal test of its power to determine economic policies. Two German animal feed producers have sued both the Council and the Commission before the European Court of Justice for damages in order to recover losses incurred through the EC requirement of mixing surplus milk powder with other animal feedstuffs. The system, which was in effect from March until October 1976 and which brought protests from U.S. soybean exporters, is also being challenged before 11 national courts, mostly in Germany. Three courts have requested preliminary rulings.

France: More Curbs in Merger Control Legislation

The French cabinet on Jan. 12 approved a slightly more restrictive version of a draft merger control law already pending before Parliament to reflect the government's latest efforts toward structural reforms in the areas of in-

Mergers *(cont'd)*

dustrial competition and efficiency. Essentially, the new version would further broaden the powers of the Competition Commission, which would be the successor to the existing Technical Commission *(Commission technique des ententes)*. The nine-member Commission would gain certain legal powers in addition to the administrative functions it already has, so that its decisions would be of a binding nature.

As already provided for in the initial draft, official approval would be required for any horizontal merger resulting in the merged companies' controlling 40% or more of a specific domestic market; this limit would be 25% in the case of vertical mergers *(Doing Business in Europe, Par. 30,879)*. Enterprises planning a merger would be free to take the initiative by seeking the Commission's prior approval, but the latter could also launch an investigation of its own. In the event of a Commission veto of a merger, the partners involved could be ordered to restore the previously existing conditions of competition within a certain period of time or risk fines of up to FF 5 million or 10% of turnover.

Germany: Move against Farmers' Tax Privileges

Bonn's government coalition parties have decided to go after what has been considered a sacred cow by all postwar Germ governments - the favorable tax treatment of farmers' in and net worth. A group of government experts is to make suggestions on how the current system should be changed. One major reason for the existing tax privileges has been to prevent or slow the exodus of farmers to the cities. The German farmers produce two-thirds of the nation's food.

To date the drive to bring more equity to the taxation of farmers represents a first attempt to cut through the thicket of direct and indirect state subsidies for many groups and many purposes that amounted to DM 35 billion last year. The government is now faced with the need for reform and for additional revenue. Still, Bonn observers maintain that the additional revenue that could be expected from a reform measure, perhaps DM 200-300 million, would not bring any substantial relief for the financially hard-pressed government (the '77 Budget deficit is expected to be around DM 45 billion).

Farmers benefit in several ways from the present system. Those with annual incomes not exceeding DM 15,000 do not have to keep books and are taxed under a simplified method (lump-sum assessment). Roughly 800,000 of Germany's 900,000 farmers avail themselves of the simplified system, with the result that, since the officially estimated incomes are rather low, some 600,000 farmers do not pay any income tax at all. In 1974, total revenue from farmers' income tax amounted to DM 277 million, which roughly equals what 100,000 employees paid in taxes that year.

Privileges *(cont'd)*

Also, farmland is still rather undervalued, so that a farmer's net worth is kept artificially low, with the result that net worth tax revenue derived from this source has remained below DM 100 million. Furthermore, farmers are entitled to higher exemptions in computing income and trade taxes, and they pay less for license plates on tractors and other farm vehicles. Still, these tax advantages, amounting to about DM 2.5 billion in lost revenue, represent only part of the farmers' favorable treatment. Last year the government paid out DM 3.1 billion to farmers in support of various programs, among them diesel fuel subsidies.

Italy: Cash Deposit, Exchange Levy Cut Further

As of Jan. 17, the Italian government has lowered the cash deposit requirement on imports from 40 to 25%, and it was announced that the deposit will be abolished entirely on April 15. Also with effect on Jan. 17, the special levy on foreign exchange purchases was lowered once more, from 2.5 to 2%. It, too, is to be rescinded, in mid-February.

The cash deposit rule had been introduced in May 1975 and initially required importers to deposit - for a three-month period and free of interest - 50% of the import value with the National Bank.

Belgium: Solidarity Contribution; Working Women

The Belgian cabinet has finalized its proposals for a "solidarity" contribution in support of the unemployed: it would amount to 0.4% (rather than 0.5%, as previously reported) of employment incomes as of April 1 but would be discontinued at the end of the year. It would be phased out prior to that date should unemployment drop below 200,000. The government plans no limit for this "tax" as regards higher incomes but would agree to an exemption for low-income employees. The proposed contribution, which is being strenuously opposed by the labor unions, would be specifically part of a program to aid the financially ailing health insurance fund of the unemployed.

Meanwhile, a government commission has published a report - ordered by Employment Minister Alfred Califice - showing that there continues to be considerable discrimination against women in employment. The number of unemployed in Belgium has passed the 260,000 mark, which is more than 9.5% of the active population, but for women this percentage is almost twice as high.

The report said that there is no foundation to theories suggesting that women are more choosy about the jobs they are offered or are less well educated than men. It said that while the percentage of women within the working population has been on the rise over the past years, most employers still treat the male and female labor markets as two separate units, with the types of employment offered to

Solidarity *(cont'd)*

women being far less diversified than those offered to men. The service industries, for example, employ 64.5% of the total female work force compared with 43% of men. In the manufacturing industry, women workers are concentrated in a few specialized sectors (notably footwear, clothing, food, textiles, and electrical products), and here the female unemployment rate is far above the national industry. Unemployment among women in the electrical industry, for example, stood at 20%, while it was 3.6% for men. Also, women are generally employed in more menial and lower-paid jobs.

The Employment Minister also has commissioned a special report on unemployment among foreigners in Belgium which also is running noticeably higher than the national average. In addition, the government is stepping up its efforts to ensure that those drawing unemployment benefits do not earn income from undeclared work. The number of inspectors has been doubled, and last year some 28,000 individuals were struck off the "dole."

Luxembourg: State, Banks Offer 'Indexed' Savings Plans

Following the lead of the state savings association, Luxembourg's private banks are now also offering six-year programs designed to shield the deposits of small savers against the effects of inflation. The interest rate of between 7 and 9% will correspond to the inflation rate as officially determined at the end of the year, plus a 1% "bonus" given by the private banks and 0.5% by the state savings agency. Monthly deposits may range from LF 1,000 to 6,000.

Savings are blocked until the end of the sixth year. Premature withdrawal or the payment of fewer than 10 deposit installments annually will lead to the invalidation of the program, except in hardship cases. However, the banks also offer savers the right to a special loan covering 150% of the total deposit, including interest accruals, providing the required collateral can be furnished.

Britain: Bullock Report Expected to Be Controversial

The now overdue report on industrial democracy in Britain, the "Bullock Report," is expected to be highly controversial. Public speculation as to its contents has prompted both sides of industry to draw up "battle positions," with the director-general of the Confederation of British Industry commenting that the reported proposals "would unite British business in mass opposition and precipitate industrial trench warfare."

It was assumed that press speculation on the actual contents of the report was based on a considerable degree of information made available (whether or not officially) to the parties concerned. It was generally accepted that the report will recommend the imposition by law of labor union directors on the boards of major companies.

Bullock
(cont'd)

According to CBI director-general John Methven, this will have two principal effects, which he indicated at the annual dinner of the commerce and industry group of the U.K. Law Society. "It will stop dead in its tracks the very considerable advance being made towards greater real employee involvement," Methven said, "and it will unite...the mass opposition of British business." In other words, industrialists will not "stand idly by and let a piece of transparent power politics ruin British industry."

Arguing that the issue was not whether increased employee participation was a good thing or not but rather how best to achieve it, Methven asserted that the report had only one aim: "to change the political face of Britain and to change it for the worse."

Other criticisms included allegations that granting unions the power to appoint or elect representatives to boards would effectively "disenfranchise" non-union members and that granting seats on boards to individuals on the basis of the union support they command and irrespective of their skills and experience would be tantamount to a "new form of patronage."

Not surprisingly, the official labor union attitude to the unpublished report is that it will pave the way for a "radically new approach" to U.K. industrial policy, whereby workers will be made "equal partners" of their bosses. In the view of Len Murray, general secretary of the Trades Union Congress, "the CBI seems to think that, because of the country's economic troubles, it is more imperative than ever to safeguard such managerial prerogatives as decision-making on investment, manpower, and product development." Murray therefore called for a reformulation of industrial policy and for a challenge to such "long outdated concepts" as the legal identification of company interests exclusively with shareholder interests. While unions are "understandably loath" to accept responsibility for other people's decisions, he said, they are "fully prepared" to shoulder responsibility for genuine joint decisions. *(Doing Business in Europe, Par. 30,663.)*

Denmark: Glum Outlook for Payments, Employment

At least until 1980 Denmark will have to put up with high unemployment and a negative payments balance, according to the latest report of the country's Council of Economic Advisers. Even an improvement thereafter can be achieved only on the basis of an international economic growth rate of at least 4% annually and domestic wage increases of no more than 6% in the next few years. The three-man Council forecast an unemployment rate this year of 6.4% as compared with 5.7% in '76. This probable increase is linked to the boost in indirect taxes approved by Parliament last August

Outlook *(cont'd)*

which is expected to keep the rise in private consumption to a mere 1% this year (after 6% in real terms last year).

The "three wise men" do agree, though, that these tax increases will help reduce the balance of payments deficits as was intended. Without the increases, this deficit would amount to 8 billion kroner instead of the projected 6 billion. By 1980, it should have shrunk to 2 billion kroner, the Council said. On the other hand, Denmark's net foreign debt should expand from 37 billion kroner or 14% of GNP at present to 53 billion or 16% of probable GNP at the end of 1980. By that time, unemployment should also have declined to about 3.8%.

On the whole, the Council report offers no easy way out of the dilemma in which Denmark has found itself since 1974: now as then, the government basically has the choice between economic stimulation measures to improve employment (at the expense of the payments balance) or restrictive measures which have the opposite effect. While Copenhagen has been pursuing a zigzag course so far, it has now initiated a two-year restrictive phase during which pay rises are to be limited to 6% annually.

Common Market Reports

EUROMARKET NEWS

Issue No. 420 February 1, 1977

IN THIS ISSUE

Community: Problems in Meeting VAT Deadline

The Community's goal of standing on its own feet financially by the beginning of 1978 is becoming increasingly uncertain because the Council of Ministers is taking its time in putting last December's VAT proposal compromise into final editorial and legal form. Although Jan. 15 was the original deadline for the member states to withdraw their remaining reservations, several member states have not yet done so. The Council meanwhile extended the deadline to Jan. 31, but Council attorneys are concerned about getting the text ready for adoption by March 1, the date that the Permanent Representatives had selected on the basis of both the complexity of the measure and the time available for implementation by the member state legislatures. The discussions in the working group are progressing rather slowly, and this too leads many Brussels observers to believe that the Jan. 1, 1978, target perhaps cannot be met after all.

The sixth draft VAT directive is designed to harmonize national rules aimed at eliminating distortions of competition arising from the widely differing national systems, particularly in terms of what is taxable and what is exempt *(Common Market Reports, Pars. 3165 and 9791)*. An alignment of the taxable event and the rules governing the tax base is essential for the Community's future budget because 1%

COMMON MARKET REPORTS, Issue No. 420, February 1, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

VAT Deadline *(cont'd)*

of a member state's VAT revenue derived from the application of a largely uniform system is supposed to go to this budget. Since adoption of the proposal also requires substantial amendments in all national VAT laws, many Brussels observers believe that there will not be enough time for all of the national parliaments to meet the deadline.

EC, East Bloc Square Off over Fishing Limits

The Council will soon decide what action to take if East Bloc vessels continue to fish within the Community's 200-mile zone without an accord having been reached on reciprocal fishing rights. The Soviet Union, East Germany, and Poland were given until Feb. 1 to reduce the number of trawlers fishing in Community waters, and the Council was to discuss the matter further at its Feb. 8 meeting. Should these three countries refuse to negotiate by March 31, the last deadline given by the Council, the Community is reportedly prepared to impose unilateral fishing quotas on them.

The Commission's call for an immediate reduction of East Bloc vessels is conceived to be a temporary measure (until March 31) and is especially directed at the Soviet Union, whose trawler fleet during the first three weeks of 1977 reportedly landed more fish than allowable under the Council's provisional quota system. Last December the Council thought that Soviet trawlers should be allowed an annual total catch of 220,000 tons. The '76 catch was estimated to be nearly 600,000 tons.

Commission and Council attorneys agree that enforcement of the Community's unilaterally decreed quotas (or even those set forth in an EEC-Soviet agreement) could amount to political dynamite. It is expected that the British navy would carry the main, if not the sole, burden because smaller member states such as Ireland, Holland, and Belgium either do not have enough patrol boats or, like Denmark, shy away from the prospect of perhaps having to confront Soviet patrol boats protecting the trawlers. Germany is not happy about the situation, either, and also may not take part in the enforcement efforts.

Community observers still hope that confrontation with Moscow can be avoided. The Russians so far have refused to enter into any negotiations with the Commission because they have never even recognized the European Communities as entities, not to mention the Commission's supranational authority and negotiating powers. The question in Brussels now is whether the Kremlin will be prepared to recognize the EC and be disciplined by a sharply reduced quota, since only 5% of its worldwide catch comes from European waters.

Reciprocal rights will mean little for U.S. and Canadian trawlers, but the outcome of the current bilateral negotiations with the EC will be important for the British, Dutch, and German fishing fleets.

Court to Settle Currency Issue Involving Fines

The European Court of Justice will now have the final say on whether antitrust fines imposed by the European Commission must be paid in the national currency of the violator or may be paid also in a "cheaper" currency. In the sugar cases (Nos. 40-48, 50, 54-56, 111, 113, and 114/73) in December 1975, the Court of Justice reduced, and in some cases cancelled, the Commission's fines against 16 European sugar producers and distributors. The fines were fixed in units of account, followed in brackets by the amount in the national currency of the enterprise concerned *(Common Market Reports, Par. 8334)*. Several French and German companies believed that the UA figure was binding and the national currency merely a guideline; they decided to pay in lire, taking advantage of the Italian currency's decline on monetary exchanges. The Commission considered the lira remittance to be just a partial payment, whereupon two companies asked the Court to interpret its December 1975 judgment.

Denmark: Jörgensen Sets Early Elections for This Month

Prime Minister Anker Jörgensen has availed himself of a right accorded him under the Danish constitution by calling for early elections without submitting his resignation or dissolving Parliament. As the head of a Social Democrat minority government, Jörgensen set Feb. 15 as the election date following two years of wearying domestic squabbling over economic policy and constant bartering with the parliamentary Opposition. The decision was announced on Jan. 22 and marked the breakdown of negotiations over a bundle of government proposals concerning housing and rent, an energy tax, and defense spending. The new elections could be highly unpopular with the voters, coming as the third in as many years.

Jörgensen's Social Democrats are hoping for a broadened base in the Folketing where they are the largest party but hold only 54 of 179 seats. While this may well happen according to the latest polls, political observers nevertheless do not expect a major shift in the existing parliamentary constellation, with no less than 11 parties and splinter groups competing for mandates.

Although insoluble disagreements over other topics purportedly triggered the need for early elections, incomes policy will remain the crucial issue no matter what the makeup of the government taking over after Feb. 15. The country's labor unions are furiously fighting the pay rise curbs imposed by Copenhagen as a way of easing the cost burden on industry, though they are likely to deemphasize this dispute during the campaign in order not to damage the chances of the Social Democrats, their traditional allies. The real test of their willingness to make at least some sacrifices is bound to come immediately after the elections, by which time a new round of collective bargaining will have commenced.

Elections *(cont'd)*

Jörgensen, meanwhile, has firmly declined an offer by former prime minister Poul Hartling, leader of the liberal Venstre party, for a majority coalition after the elections. Jörgensen insists that Hartling forfeited this opportunity when his party refused to partake in last year's "August compromise" on an economic anti-crisis program. Whereas Jörgensen is being pushed by leftist factions to concentrate on short-term means of lowering high unemployment, Hartling's concept for solving Denmark's severe financial problems would be built on long-term measures involving the slowdown of wage cost increases, lower income taxes, and reduced public services.

Netherlands: Passage of Works Council Law Changes?

There are indications, according to reports from The Hague, that the Dutch parliament will approve the controversial draft law on the conversion of corporate works councils into so-called personnel councils prior to the May 25 general elections. Prime Minister Joop den Uyl's five-party coalition government can probably count on a parliamentary majority for the bill since the Christian Democrat Appeal, which was recently formed by three confessional parties, has dropped its reservations about the measure.

As the result of the planned amendment of the 1971 Works Councils Law *(Doing Business in Europe, Par. 30,854)* the personnel council normally would consist of employee representatives only, unless the employees were to vote a company director into the council. The council would gain additional rights in the corporate decision-making process and would meet with management in a consultative (or deliberative) assembly prior to major decisions. It would exercise its right of consultation in conjunction with the enterprise's sale, merger, closure, and transfer as well as a significant reduction or expansion of activities. Its consultation would be required on matters related to hiring and firing policies, remuneration, pensions and other social aspects, promotions, training, performance reviews, and investment plans. (The co-determination rights of the works councils so far have extended only to some of these matters.) In cases where no consensus can be reached in the consultative assembly, the personnel council could appeal management's decisions to a special court.

The government does not believe that this broader form of employee participation would lead to confrontations in enterprises, since the reform plan essentially reflects procedures already being practiced. However, it rejects as "too far-reaching for the time being" a proposal by the Labor Party that would require the personnel council's actual approval of investment decisions. In any case, the consultations between company management and the personnel council will continue to remain subject to secrecy.

Belgium: Sharp Rise in Bankruptcies; Steel Crisis

Statistics released last month have revealed a sharp rise in the number of bankruptcies in Belgium in 1976, and the government has been warned by many companies that they too will shortly go bankrupt unless aid is forthcoming soon. Last year, according to these figures, 2,459 Belgian companies went under, an increase of 9.5% over 1975 and of 30% over '74. In Wallonia, the French-speaking region of the country, bankruptcies have risen by 47.5% over the last two years. Brussels alone recorded 777 company failures last year, leaving debts estimated at a total of BF 9 billion. Among the most notable bankruptcies in '76 were those of the printing group De Standaard, publishers of the country's top-circulation newspaper, and the Banque Belge pour l'Amerique du Sud.

The bankruptcy statistics are particularly relevant for the Belgian steel industry, a sector currently experiencing the same crisis as its counterparts elsewhere in Europe. The leaders of the iron and steel industry in the south of the country have appealed to the government for a massive injection of capital, and some companies have let it be known that thousands of jobs will be lost unless they receive billions of francs in aid. The steel industry in Wallonia, which is the principal employer in that area, has eliminated 4,000 jobs in the past few months. One plant at Charleroi, which previously employed 4,500 people, is now at a complete standstill, with only 200 men being retained for maintenance work. The same company also has warned that it may have to lay off 500-600 office workers at its Hainaut-Sambre plant.

Meanwhile, the unions have come up with a plan that hopefully would save jobs in the steel sector, which suffered a disastrous year in '76. Among their proposals are a shorter workweek and early retirement (60 years for men, 55 for women). They are also suggesting that workers be given 18 months' notice in the event of planned dismissals.

Luxembourg: Curbs Proposed in Holding Companies Law

Within the next few weeks the Luxembourg parliament will be called upon to pass a government-sponsored proposal for certain restrictions to be applied in the Grand Duchy's holding companies legislation *(Doing Business in Europe, Par. 26,161)*. The proposal reportedly is more or less identical to a bill originally presented by the previous Pierre Werner administration in April 1974.

According to Finance Minister Jacques Poos, the basic capital of a holding is to be raised from the present LF 100,000 to an amount varying from LF 500,000 to LF 10 million, a figure to be determined by the authorities depending on the type of holding involved and other factors. Existing holdings in Luxembourg - some 4,000 at latest report - would have to conform to these new requirements

Holdings *(cont'd)*

within a certain period of time. Also, fiscal sanctions are planned against those companies that fail to pay their taxes and levies on time and which fail to publish their annual balance sheets in the legally prescribed form.

Although the reports from Luxembourg did not specifically say so, it can be assumed that the proposed restrictions are at least partly attributable to pressures on the government by some of its EEC partners. In 1973, for instance, the privileged tax status of the international holding companies registered in the Grand Duchy became a contested issue, especially for France and Germany, in conjunction with the decision on the permanent location in Luxembourg of the administrative seat of the European Community's Monetary Cooperation Fund.

Germany: Trainee Levy System Faced by Employers

Although German employers last year provided 32,000 more new openings for apprentices than in '75 (511,000 in all), Bonn nevertheless wants them to do more. Government officials expect enactment of the apprentice levy system by fall at the latest: a 1976 statute empowers Bonn to impose a levy of 0.25% based on payroll whenever the number of openings for apprentices fails to exceed the number of applicants by 12.5% and if there is no significant improvement in the employment situation generally *(Doing Business in Europe, Pars. 30,796, 30,885, and 30,895)*. There would be an exemption on the first DM 400,000 of payroll. A recently established federal agency administers the program and would use the levy revenue to make grants available to employers who train apprentices.

Despite last year's improvement and some encouraging signs for the months ahead, the German employment situation is far from satisfactory. Because of the 1963-65 baby boom, the number of this year's school leavers is expected to increase to 545,000, and the government estimates that industry and trade will offer about the same number of openings - a long way from the 12.5% surplus (65,000 jobs) that would have been needed to spare employers the imposition of the levy.

Government plans call for annual premiums ranging from DM 500 to DM 7,500 for each new apprentice job. Under proposed legislation these grants would not constitute income on the employer's part. The amounts would vary according to the investments that are needed to create new jobs and also according to whether a company offers slots to more apprentices than it usually trains or whether it creates jobs just to obtain the grant.

Although the government is authorized to impose the levy, it still has to seek approval from Parliament for the power to designate agencies to collect it. Last year a bill

Apprentices
(cont'd)

which was to put the workmen's compensation funds in charge of collection foundered in the Bundesrat. The Opposition had an entirely different concept - tax-free annual reserves of DM 2,000 for each apprentice already employed and DM 6,000 for each one newly hired. The government's new proposal will also require approval by the Bundesrat, but with the Free Democrat government coalition partners having joined the opposition Christian Democrats in two state governments, it may have a better chance than the earlier measure.

Britain:
Unions Demand
Action after
Bullock Report

With the formal publication of the Bullock Committee report on industrial democracy on Jan. 26, the U.K. government immediately faced strong labor union pressure to bring in legislation at an early date to implement the report's recommendations concerning the appointment of worker directors in the boardrooms of Britain's 738 private-sector companies employing 2,000 or more workers.

The impact of the report was somewhat cushioned by the fact that details had previously been leaked to the press. Nevertheless, the clash between the government, the unions, and leading industrialists materialized as predicted. Still, despite the demands for swift implementation, the most realistic unionists do not expect a bill to be introduced until late 1977 at the earliest. The content of such a bill is extremely difficult to predict, particularly as the cabinet itself is divided on the issue.

The main points of the report must be summarized under two headings, the "majority report" and the "minority report," the latter, significantly, being signed by the representatives of industry.

The majority report calls for a single-tier board structure, with board members elected on a "2x plus y" formula: shareholders and union members would be equally represented (2x), and a third, smaller group (y) would be jointly chosen by shareholders and union members. Only employees would be entitled to be worker directors (i.e., there would be no outside union officials unless they were chosen for the "y" group). The procedure for "introduction" (implementation) would entail the unions' lodging a "claim," with all employees voting. A joint representation committee of all unions would be established. Worker directors would, however, be elected by union members only (i.e., non-union employees would be disenfranchised after the initial ballot on whether the program should go ahead). Companies affected, says the majority report, would be all parent holding companies and operating subsidiaries with over 2,000 employees.

By contrast, the minority report calls for a two-tier board with employee representatives on the supervisory

Unions *(cont'd)*

board. There would be three equal-sized groups on the supervisory board with the employee third including shop floor, salaried staff, and managerial representatives. Shareholder and employee directors would jointly choose the third group. Worker directors would have to be employees of 10 years' standing. There would be no change in regard to the management board. So far as introduction is concerned, the company would have an "employee participation council" for three years; all employees would vote on whether the program should be introduced. Companies affected would be parents with over 2,000 employees but excluding banks, most financial institutions and subsidiaries.

EURO COMPANY SCENE

Poclain/ Tenneco-Case

After having vainly searched for a "French solution" to the financial problems of the construction equipment producer Poclain, the Paris government is expected to sanction a tentative agreement whereby the United States' Tenneco-Case group would acquire a 40% share of Poclain for about FF 195 million. In addition, Case would pay FF 130 million to take over Poclain facilities abroad, it was reported. The deal is also encouraged by the French banks which are fearing for unsecured credits that they had provided at the urging of the government.

The "Americanization" of Europe's leading producer of hydraulic excavators is seen as unavoidable: Poclain is said to have alone lost between FF 20 and FF 30 million annually in efforts to break into the U.S. market, where Case holds a strong position. Poclain ranks No. 3 among France's machinery manufacturers with a turnover of more than FF 2.2 billion. After having maintained growth rates of 25-35% annually in the past, the company sees no chance for a capital increase via the Paris Bourse.

Racal/ Milgo

The U.K.'s Racal Electronics has made a takeover bid valued at some $46 million for the United States' (Miami-based) data communications group Milgo Electronic Corp. Racal's interest in Milgo was increased to some 15.5% of the latter's equity in December 1976 - largely to block a possible takeover by Applied Digital Data Systems, Inc. ADDS is currently attempting to prevent Racal from acquiring Milgo, and the three-way bid is understood to be the subject of extensive litigation. Should Racal prove successful, the acquisition cost will be raised via foreign currency borrowing and a rights issue designed to reinforce the equity base.