Common Market Reports

EUROMARKET NEWS

Issue No. 461 *Report No. 331, November 16, 1977*

IN THIS ISSUE

Community: Amendment of Tax Arbitration Proposal?

Now that both the European Parliament (EP) and the Economic and Social Committee (ESC) have submitted their comments on the European Commission's proposal for an arbitration procedure to eliminate double taxation, Commission tax experts are studying the reports with a view toward perhaps amending the measure. The objective of the draft directive is to offer a way of avoiding the double taxation of profits transferred "artificially" between associated enterprises established in different member states. It is believed that multinational companies in particular have been using this device of disguised and artificial profit transfers in numerous ways (for example, by demanding excessive patent fees).

Under present circumstances, a member state's tax authorities may slap a higher tax on a parent company that has in effect reduced its tax liability by transferring profits to a subsidiary in another state. Yet, tax authorities in the latter state may not necessarily lower their assessment accordingly. The draft proposes that in such a case a special arbitration commission, composed of national tax officials and independent persons, would work out a solution in order to eliminate double taxation *(Common Market Reports, Par. 9897)*. The measure ties in with another on

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

COMMON MARKET REPORTS, Issue No. 461, November 16, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Arbitration *(contd.)*

mutual assistance of national tax authorities *(Common Market Reports, Par. 9832)*.

Both the EP and the ESC welcome the proposal, but they nevertheless believe that it does not really approach the problem of artificial profit transfers. The ESC thinks the measure should offer some guidance on intragroup transfer pricing, and the EP regrets that the proposal does not set out to prevent artificial transfers of profits effected through manipulation of intercompany pricing.

The European Parliament fears that the proposal would not guarantee elimination of double taxation in every case and thus might be a source of new competition distortion among enterprises, particularly if the national law of one or both states prevents the tax authorities from deviating from tax court judgments. In this case, the two companies concerned would have to choose between approaching the arbitration commission or appealing to the court.

The EP also expresses misgivings about the means of calculating tax adjustments. Article 1(2) of the draft directive stipulates that tax adjustments to end double taxation may be made either by reducing the profits of the enterprise concerned or by adjusting the amount of tax payable (the method deployed in the U.K. and Ireland). The EP points out that adjusting the amount of tax payable does not always produce the same results, especially when the tax rate of the member state doing the adjusting is lower than that of the other state. It therefore recommends that the option of adjusting the tax payable should be eliminated after an adequate period of transition.

Brussels Hails EC Court's Metro Decision

The Commission has welcomed the European Court of Justice's decision giving the Community's antitrust agency the power to exempt from the Treaty ban on cartels the selective distribution systems of Common Market-based manufacturers of branded goods.

In March 1976 Metro SB-Grossmärkte of Düsseldorf, Germany, had brought action against the Commission's decision approving a system of selective distribution introduced by SABA GmbH, a German manufacturer of TV sets, radios, and tape recorders and a subsidiary of General Telephone & Electronics, Inc., Stamford, Conn. *(Common Market Reports, Par. 9802)*. The system included a series of agreements between SABA and wholesalers and specialty stores in West Germany and between SABA and sole distributors in other member states whereby SABA undertook to sell its products only to dealers of its choice. In turn, the dealers committed themselves to certain minimum sales and to provide the services that are typical of selective distribution systems.

The first basic issue was procedural: was Metro's ac-

Metro
(contd.)

tion admissible? SABA attorneys had argued that the self-service enterprise, catering to the internal supply needs of businesses and institutional buyers, was not concerned individually but as only one of many supermarkets and retailers. Advocate-General Gerhard Reischl said that the Treaty rules giving the right to appeal Commission decisions only to those who are directly and individually concerned should not be interpreted restrictively, so any person excluded from an approved distribution system is entitled to bring suit. The Court accepted this and added that, for the sake of comprehensive legal protection, individuals and entities that under Article 3(2)(b) of Regulation 17 are entitled to complain to the Commission to ascertain whether an enterprise is violating Treaty Articles 85 and 86 should have a right to sue the Commission if it rejects the complaint. (The Commission conceded the admissibility of the action against its December 1975 decision but not against its January 1976 letter in which Brussels had rejected Metro's earlier complaint.)

Turning to the substantive issues, the Court stated that a selective distribution system establishing certain qualitative criteria on the dealer's part (for example, after-sale service and carrying the manufacturer's complete range of products) does not violate the competition rules of the EEC Treaty so long as competition is not restrained in a substantial part of the Common Market. The Court also confirmed that a manufacturer that does not have a market-dominating position (SABA's market share is around 7%) may impose certain minimum requirements on wholesalers and retailers who want to sell its products. The Court also stressed, however, that whenever consumer durables are involved, the manufacturer may enjoin his wholesalers from supplying large institutional buyers such as the armed forces, hospitals, schools, and public agencies. A manufacturer may even insist on a special agreement with those wholesalers, subject to the Commission's approval, the Court said.

France:
Paris Moves to Stall High Food Prices

The news late last month that the French consumer price index had risen by 0.9% in September for a 12-month average of 9.7% came as a severe disappointment to the government and triggered speculation on the action the Barre administration planned to take. The official statistics showed that industrial prices had climbed by 0.8% for the month and by 7.6% for the year and those of services by 0.7% and 8.7%, respectively. The highest jump, however, was registered for food prices - a full 1% in September and 14.1% over a 12-month period.

Anxious to placate the consumer and to avoid further damage to his government's stability efforts, Prime Minis-

Food Prices *(contd.)*

ter Raymond Barre went on television on Nov. 3 to plead for a "collective" war on inflation and to announce specific measures designed to bring down food prices. Barre said that France will open its borders to apple and citrus fruit imports from other EEC countries, permit the sale of cheaper surplus butter next month, reduce profit margins on the sale of veal and fish (similar to existing curbs on beef), lower the price of chicken by 5%, and impose price stops and ceilings on pastries such as the traditional breakfast *croissants*. Restaurant sales of beverages such as wine, beer, and mineral water also will be subject to these controls. In addition, the government plans the reorganization of the Rungis wholesale market, which serves Greater Paris (4,000 wholesalers), and the easing of licensing procedures, which would permit the construction of more supermarkets, particularly in the French capital.

Observers were quick to point out that the pressure had been on the government to do something tangible for the consumers who are still waiting for Barre's previous austerity measures to take hold. On the other hand, five months before the next national elections, the measures are certain to alienate three powerful groups of voters - the farmers, the retailers and, to a lesser extent, the wholesalers. In any case, the government apparently no longer entertains any illusions of holding the inflation rate this year to 9%, which in itself was a revised target after it became obvious that the original goal of 6.5% was out of reach.

Italy: Employers Push for 'Corporate Statute'

The leadership of Italy's Confindustria industrial federation believes that the time has come for the country's private enterprise system to fight for its inherent rights after years of yielding on numerous issues to both the government and the labor unions. The federation has now presented the draft of a "corporate statute" on the basis of which Italian businesses would again be enabled to operate "creatively and efficiently." The corporate bill of rights would be conceived as a counterpart to the "labor statute" of 1960 which had promulgated certain basic rights and safeguards for employees. In effect, the business statute would be designed to protect private enterprises against discrimination and unfair competition by both government and labor.

A major point in the Confindustria document is the demand for "equality" in the financial and tax treatment of private and public enterprises. Italy's state holdings and other nationalized industries enjoy considerable fiscal privileges in regard to bond issues, credit facilities, and capital formation. They are practically insured against major business risks and bankruptcy because of the "safety net" provided by the state. Further, they are advantaged

Statute *(contd.)*

as public contractors and suppliers and as parties to cartel agreements that would be considered illegal if entered into by private enterprises. For these reasons, the Confindustria is demanding legislation in protection of competition and a reorganization of the public subsidy system in favor of private enterprise, with emphasis on purpose-related (exports, research, etc.) rather than sector-related aids. In addition, the federation is urging the abolishment of price controls in the form of "administrated" prices which, it charges, are distorting competition.

In the interest of greater production efficiency and labor mobility, Confindustria further calls for the return to more independence and flexibility in personnel policies. The employers again want the freedom to decide on individual remuneration, on overtime arrangements, and on hiring and firing generally. In this realm, the employers are urging another reassessment of the pay indexation system with its automatic adjustments.

It was understood that the document listed "maximal" demands, with no expectations being attached to the fulfillment of all of them. The business community nevertheless was encouraged by the fact that the Confindustria is now making an effort to demonstrate to the public the true situation in regard to the private enterprises' "power" in the Italian economy.

Switzerland: Bern Agrees on Another VAT Attempt

The Swiss government has agreed to make a second attempt to replace the existing cumulative turnover tax with a value-added tax: following the scheduled Dec. 4 referendum on a wealth tax proposal and a budget savings package, it plans to present Parliament with draft legislation calling for the introduction of a standard VAT rate of 8%. In a national referendum last June 12, the voters had rejected a finance and tax reform package that had made provision for a standard rate of a maximum 10% and reduced rates of 6% and 3%. The latest proposal would be put to a parliamentary vote at the end of next year or in early '79.

In opting for this approach, the government has scrapped its earlier plans for a transitional solution in the form of yet another increase in turnover taxes. The change of mind evidently was caused by strong public opinion against still higher turnover taxes and in favor of a more moderate VAT rate.

'Chiasso' Bank Faces High Tax, Interest Claims by Bern

In the aftermath of the so-called Chiasso affair, the Swiss government reportedly intends to file claims of up to SF 510 million against Crédit Suisse bank. They would be for negative interest of at least SF 70 million (National Bank) or possibly up to SF 290 million (finance ministry) and for another SF 220 million in back taxes. National

Chiasso
(contd.)

Bank and finance ministry representatives said they would hold a meeting to determine the exact amount of negative interest due.

The management of Crédit Suisse meanwhile has indicated that it would seek to recover these sums from the investors of the Liechtenstein-based Texon holding. Following the discovery of irregularities at Crédit Suisse's Chiasso branch last April, the bank had frozen 25% of all investors' funds involved in the affair as security against subsequent fiscal claims. The amount thus "put on ice" was not disclosed.

The Chiasso branch office had made unauthorized transfers of some SF 2.2 billion, mostly in Italian "escape money," to Texon Finanzanstalt over a period of about 10 years. These funds were then invested in a group of some 50 Italian firms joined in three holding companies - Winefood, Ampaglass, and Albarella. According to recent Swiss press reports, the unauthorized transactions may have cost Crédit Suisse up to SF 1.5 billion. However, the bank has refused to confirm this or other figures, saying that it must first await the final outcome of the investigations.

Germany:
More Recycling Averts Curbs on Packaging

The efforts by the German packaging industry to slow the ever-growing volume of waste through increased recycling and a commitment to do even more in the future have succeeded in averting government action. Bonn had been pondering moves to stem the environmental hazards created by continuously growing production and use of one-way bottles. Although a 1972 law authorizes the federal government to restrict or even forbid the production of packaging materials and containers that are expensive to dispose of *(Doing Business in Europe, Par. 23,546C)*, such a harsh measure was not considered at this point. However, a mandatory deposit plan was under discussion. Sweden has been successfully applying such a system since 1973, requiring a small deposit on each bottle and can.

Bonn's decision to refrain from taking any action for the time being followed last month's hearing before interior ministry officials. Representatives of the bottle manufacturers association not only pledged to slow production of one-way bottles but also volunteered to increase the production of returnable bottles by 20% each year. In 1976 the bottle manufacturers and beverage industries had recovered more than half of the glass containers produced (260,000 tons out of 400,000 tons), either through deposits or by placing large metal containers at schools, shopping centers, and other locations. This year's estimates place the figure of recovered glass containers near 300,000 tons.

Representatives of the can manufacturers association also agreed to intensify their recycling efforts. Govern-

Recycling *(contd.)*

ment officials are concerned over the rapid production and use of cans because production has doubled in the last five years - from 800 million cans in 1971 to 1.6 billion in 1976. The situation is worse with respect to plastic containers: 1976 production figures reached a record level of 35 million containers (1975: 7.3 million). Plastic containers are neither returned nor recoverable.

Portugal: Draft Budget Contains Steep Tax Increases

The Portuguese government has worked out drastic tax increases for the 1978 budget year in order to reduce the country's crushing payments deficit and to meet the conditions of its international creditors. Nevertheless, with proposed expenditures of 217 billion escudos and revenues of only 164 billion escudos, the budget still would be left with a high deficit which again would have to be covered by bond issues and loans.

Finance Minister H. Medina Carreira plans to raise direct tax revenue by 38.4% and that of indirect taxes by 45.4%. Income taxes are to be boosted by 10%; corporation, capital gains and property taxes by 15%; VAT from 20% to 30%; and the motor vehicle tax by 35%. The tax measures will have the dual purpose of inhibiting spending and of raising revenue. With a probable payments deficit of $1.2 billion this year (the target was less than $800 million), Lisbon also has decreed a 20% cut in current expenditure and a 10% reduction in capital expenditure, with the latter sparing major investments only. Finance Ministry approval is required for all official travel abroad and for spending items in excess of 5 million escudos. Public outlays of more than 50,000 escudos require the okay of the individual ministries concerned.

A government spokesman said the budget draft, which has yet to be sanctioned by Parliament, has been tailored to the specifications of the International Monetary Fund with which Lisbon is negotiating over a $50-million currency stabilization loan. The IMF reportedly has made the granting of the loan dependent on the fulfillment of a series of conditions, among them severe cuts in public spending, bringing down the inflation rate from 35% to 25%, reducing nominal economic growth to 4%, and keeping pay rise increases to 20%. Only if Portugal meets these terms will it have a chance to obtain, in addition, a $750-million, medium-term loan from a 14-nation consortium headed by the United States and Germany.

Political observers are in agreement that the government is facing a stiff battle in Parliament and that the budget will have to be modified in some respects. In the end, however, the political Opposition would have no choice but to accept most of the austerity measures unless it wants to risk the country's financial doom.

EURO COMPANY SCENE

Union Carbide

The United States' Union Carbide Corp. has announced plans to build air separation plants at yet unspecified "strategic" locations in Germany and France. Each of the two plants will have a daily capacity of 250 tons of liquid oxygen, nitrogen, and argon, and the total investment will come to $30 million. Production is to start by the end of 1979.

Ever Ready/ Mallory

Britain's Ever Ready Co. (Holdings) Ltd. has sold its 25% interest in Mallory Europe to the latter's U.S. parent company, P.R. Mallory & Co., Inc., Indianapolis, for a reported $19.5 million. Ever Ready's stake in Mallory Europe dates back to World War II when both companies cooperated in securing the supply of batteries for the war effort. With a complete product line of its own, Ever Ready wanted to disengage itself from Mallory and plans to use the proceeds from the sale for its research and development program.

Dow Chemical

Poor market conditions reportedly are to blame for the decision by Dow Chemical U.K. to withhold its planning application for a £10-million plastics manufacturing investment at East Halton, South Humberside. The company earlier had announced plans to build a polystyrene plant with a capacity of 70,000 tons a year on the 500-acre site. The facility was to be "associated" with plants to produce foamed insulation and packaging materials. However, Dow's two existing plastics plants in the U.K. already are operating far below capacity, prompting a postponement of the East Halton project.

Iveco

Iveco Trucks of North America, Inc., is the name of the U.S. distribution company recently established in Philadelphia by the joint industrial vehicles holding of Italy's Fiat (80% of the equity) and Germany's Klöckner-Humboldt-Deutz (20%). The new company will concentrate on the sale of medium-duty diesel trucks for which both partners see a good potential on the American market. The trucks will be built by Magirus-Deutz in Germany and will be sold under the "Magirus" name through an independent U.S. dealer network. As Europe's second-largest truck producer, the Iveco group (Iveco Industrial Vehicles Corp. BV, Amsterdam) employs some 50,000 in 13 manufacturing plants.

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Issue No. 462 November 22, 1977

IN THIS ISSUE

Community: AG Mayras Backs Commission in United Brands

In delivering his opinion before the European Court of Justice in the important competition case *United Brands v. Commission* on Nov. 8, Advocate General Henri Mayras not only supported the Commission on all of its arguments (in effect saying that United Brands Co. had abused its market-dominating position) but also recommended that the Commission be given price rollback powers against companies abusing their position in the EEC. This is the first time that the Commission has been seeking such powers from the Court. Although the Court is not bound in any way by the conclusions of an advocate general, it has rarely rejected such conclusions in the past.

The United Brands case (No. 27/76) involves an appeal against the Commission's December 1975 decision imposing a fine of over $1 million on the food company for abusing its dominant position on the banana market in West Germany, the Benelux countries, and Denmark *(Common Market Reports, Par. 9800)*. The Commission based its decision on the fact that United Brands prohibited its customers from reselling green bananas (thus leading to a partitioning of the market), that it refused to sell bananas to a Danish customer over a two-year period, and that it charged discriminatory

COMMON MARKET REPORTS, Issue No. 462, November 22, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

United Brands *(contd.)*

prices to Belgian, Dutch and German customers and also excessive prices when compared to those paid by Irish buyers.

Mayras believes there is no doubt that UBC held a dominant position, a claim consistently denied by the company's counsel. The AG conceded that a 45% market share alone does not warrant the assumption of a dominant position, although it may be one of the principal elements of UBC's economic power. Mayras alleged that UBC's heavy advertising spending had two objectives. First, in the long run, UBC wanted to reduce production costs to the point where the cost advantages enjoyed by its competitors were eliminated. Secondly, as a short-term measure, the advertising campaigns were to increase consumer preference for UBC bananas, although there was no difference between UBC's bananas and others. As a result, Mayras added, increased consumer preference reached the point where distributors would no longer do without UBC's "Chiquita" bananas.

Although UBC has complied with several of the Commission's demands specified in its decision (by relaxing the resale prohibition of green bananas, stopping the boycott of its Danish customer, and cutting prices by 15%), the Court still must decide on the fine and the company's claim of moral damages of one unit of account.

Deadline for Textile Pacts May Be Missed

With Nov. 30 fast approaching, it looks as though the Commission will be unable to meet its deadline for the conclusion of the talks with 33 countries over curbing textile imports into the Community. So far the Commission has wound up negotiations only with the Philippines, Singapore, Colombia, Uruguay, and Macao, all minor exporters. Talks with Hong Kong failed after trade officials of the Chinese enclave refused to accept the Commission's proposal calling for an import ceiling of 138,000 tons next year - 13,000 tons less than the 1977 volume. Discussions with 27 Asian, South American, and East European nations are continuing, while those with Brazil, the fourth-largest textile exporting nation after Hong Kong, India, and South Korea, have yet to get off the ground.

Commission officials are confident that the bilateral talks can be wound up successfully with many more nations. However, should the EEC fail to receive satisfactory commitments from the other major textile-exporting countries, the Commission will resort to autonomous import restrictions, which have been authorized by the Council of Ministers in such a case. Apparently, many negotiators from the exporting nations have not yet realized that the Commission has no leeway in the discussions because it must abide by the negotiating mandate that it received from the Council.

The objective of the negotiations is to limit to 6% the annual rise of textile imports into the Community over the next four years. Without any future import curbs, Textiles *(contd.)*

there is the danger that many thousands of textile workers in the Community could lose their jobs. In the last 20 years some 400,000 jobs have been lost in the European textile industry, largely as a result of ever-increasing, low-priced textile imports.

In Brief...

The European Court of Justice has ruled that the existence of a previous criminal conviction may be taken into account insofar as the circumstances that gave rise to that conviction are evidence of personal conduct constituting a present threat to the requirements of public policy. A French national married to a British subject and working in the U.K. since 1975 has been fighting an expulsion order as being contrary to the freedom of movement guaranteed to Community citizens by the Treaty of Rome. The reason for the Home Office's order was that the Frenchman had been convicted twice in 1976 for the unlawful possession of drugs. The significance of the Court's ruling (Case No. 30/77) is that possession of drugs falls under the concept of public policy, security, and health, justifying restrictions on the freedom of movement in individual cases. The Court did point out, however, that this concept must be interpreted strictly + + + The Council has adopted the directive calling for the approximation of member state rules governing the classification, packaging, and labeling of paints, varnishes, glues, and related products. The purpose of the measure is to ensure free movement as well as increase product safety.

Germany: Further Details on Cartel Law Amendments

The German government has announced additional details to go into the planned amendments to the Law Against Restraints on Competition (GWB). Contrary to earlier announcements, however, the proposal will be submitted to Parliament in the spring rather than late this year.

Most of the new details concern stiffer controls on mergers and market-dominating enterprises. The government wants to change Section 23 GWB, which requires enterprises to notify the Federal Cartel Office whenever one of the parties acquires 25% or more of the stock of another *(Doing Business in Europe, Par. 23,510A)*. With this move, Bonn wants to put an end to what the government believes to be the "reproachable" practice of enterprises' escaping the notification requirement by acquiring merely 24.9% of the stock of another entity and yet gaining effective control of 25% or more by coming to an agreement with one or more stockholders willing to sign over voting rights. The planned amendment would treat the acquisition of stock and the transfer of voting rights alike.

In addition to the already codified presumptions of an enterprise's market-dominating position based on its resources (financial potential, access to supplies and resale

Cartel Law *(contd.)*

markets, and affiliation with other enterprises), a new Section 23a would give the Cartel Office additional guidelines to exercise its merger control powers against oligopolist suppliers or buyers on a particular market.

In order to stem the tide of increased concentration of economic power *(Doing Business in Europe, Par. 30,890)*, the government will propose lowering the notification requirements for planned fusions. Parties to a merger would have to notify the Cartel Office if one of them had DM 2 billion or more in sales in the previous business year or if both had sales of DM 1 billion or more during that year.

An important innovation would concern remedies against abusive practices of dominating enterprises. Present law allows the Cartel Office actually to stop such practices only after its order has become final; thus, parties that have suffered damage have no redress during that period. The planned amendments would entitle prejudiced parties to claim damages against the enterprise from the day the Cartel Office makes a formal move by addressing an order to that enterprise. There would be one significant exception: no action could be brought against an enterprise whose abusive practices manifest themselves in mass sales. For example, motorists who feel cheated by an abusively high gasoline price increase by an oil company would have no recourse to damages.

France: Legislation Seeks to Stall Bankruptcies

Partially in reaction to proposals contained in the so-called Sudreau Report on a company law reform, which was published in early 1975, the French cabinet has now approved draft legislation that would in effect create an "early-warning system" in regard to financially ailing businesses and would offer better protection of employee rights during an extended recovery period.

The law would obligate any enterprise with more than 750 employees to file with the Bank of France a tentative balance sheet at six-month intervals and a finance and liquidity report once a year. It would strengthen the role of the company auditors, who would be required to notify management of any findings that could signal a serious reversal in corporate performance. Shareholders and employee representatives also could make use of this early-warning system.

Should a company find itself in difficulties despite these precautions, the law would encourage the deployment of a recovery program to forestall bankruptcy and dissolution. The period of time allotted for such efforts would be extended from the present three years to five. However, the individuals deemed responsible for the company's difficulties would be encouraged to resign.

Belgium: Government Rules Out Pay Freeze

In a sharp attack on his predecessor's prices and incomes policy, Belgian Employment Minister Guy Spitaels has ruled out the possibility of a new pay freeze to reduce inflation and promote employment. Pointing to statistics showing that wages and salaries in Belgium have risen less this year than during the 1976 freeze, Spitaels said in a statement: "It seems that pay restrictions have only a negative effect on the purchasing power of workers and, consequently, on internal demand." Nevertheless, the Minister urged employers and labor unions to agree on pay increases only within the limits set by the growth of the social product. For public service employees, the government's 1978 budget draft foresees an increase of 3%.

Figures produced by the Ministry show that in the first nine months of this year, the salaries of white-collar workers rose by 6% as compared with 6.7% during the same period last year. For blue-collar workers, the increase was 7.1% as against 7.9%. (Pay increases had been restricted to a maximum 8% last year.)

The Spitaels statement was criticized by Raymond Pulinckx, director of the Belgian Employers' Federation (FEB), which is pressing the government for further wage restraint. Pulinckx said that purchasing power of blue-collar workers has risen by about 2% this year as compared with 1.3% in 1976, while that of white-collar workers has gone up by 1.4% as compared with only 0.4% in '76.

Meanwhile, Spitaels and Interior Minister Henry Boël have urged all public authorities to recruit work forces from among the unemployed as quickly as possible. As first outlined in the so-called Spitaels Plan announced in September, these work forces are to be employed in such projects as park maintenance, the construction of sports facilities, etc., and will be paid directly by the National Employment Office. Figures released by that office early this month showed that unemployment in Belgium rose by another 12,000 in October to reach a record 272,600. This represented 6.8% of the active population and 10.1% of the insured labor force. The latest rise in the jobless count has been attributed mainly to layoffs in the construction, metal-working and hotel industries, and Employment Office experts expect the number of unemployed to reach 300,000 before the end of the year.

Netherlands: Discount Rate Boost; Options Mart to Open

In apparent reaction to the sudden and steep increases in money market rates earlier that week, the Dutch central bank on Nov. 10 moved up its discount rate from 3.5% to 4.5% and the Lombard rate from 4% to 5%. The banking community blamed the worsening situation of Holland's foreign trade balance for the upward pressures on interest rates and for the weaker position of the guilder on the exchange

Discount Rate *(contd.)*

markets. Euroguilder quotations had jumped appreciably on Nov. 8 and 9, leading immediately to domestic money market reactions. On the capital market, too, the trend of falling interest rates came to a standstill, with bond prices dropping up to one point. (Beginning in August 1976, the central bank had lowered the discount rate in successive steps, the last time by one percentage point on May 5.)

In other news, the government reportedly was ready to give the green light for the opening in April 1978 of the European Options Exchange in Amsterdam. Initially, the EOE would handle a list of shares of 20 major international companies, which would later be expanded to up to 60. The inaugural list is to include the shares of about five U.S., five British, and five Dutch companies, plus some others, but names were not revealed.

According to Ernst Lemberger, EOE president, 310 preliminary applications for seats on the exchange have been received so far, including those of most of the leading U.S. brokers. The EOE planners calculate that exchange operations will be viable on the basis of at least 6,000 to 7,000 option contracts a day. They estimate that there is a potential in Europe of up to 60,000 such contracts daily. Organization and trading procedures of the EOE are to be closely patterned on those of the Chicago Board Options Exchange, which has operated successfully since 1973. At one time there had been plans in London and Amsterdam for a joint options exchange, with trading floors in both cities. Partially for reasons of cost, however, the British withdrew from the project.

The EOE is still negotiating with the U.S. Securities and Exchange Commission over the EOE's admission as an associated member of the SEC. The SEC is insisting on acting as the clearing agency for share options of U.S. companies traded in Amsterdam. Should the membership of the EOE be denied, the EOE would reportedly trade the U.S. options on a "parallel market."

Denmark: Study Ordered on Worker Participation

The Danish government has appointed a commission to study the possibility of an obligatory system of worker participation in companies. A proposal to this effect was first advanced six years ago by the country's labor federation as part of an "industrial democracy" concept. It provided that the employers pay a part of total payroll, rising from 0.5% initially to 5% eventually, into a central fund. In stock corporations with more than 50 employees, two-thirds of the contributions would remain in the company in the form of shares, while the remainder would flow into the central fund. After at least seven years, each employee would have the option of withdrawing his "share."

The Conservative parties in Denmark are strictly op-

Participation *(contd.)*

posed to a mandatory profit-sharing system, but they do favor voluntary systems. The labor federation, on the other hand, has frequently attempted to make the introduction of an obligatory participation system a bargaining point in collective wage talks.

Switzerland: National Bank Sets 'Chiasso' Amount

The directorate of the Swiss National Bank has decided on an amount of SF 62.2 million in negative-interest commissions to be collected from Crédit Suisse bank as a result of the latter's commitments arising from the so-called Chiasso affair. The Bank's calculation is based on the imposition of a single quarterly levy of 10% on all foreign funds paid into franc-denominated accounts of the Liechtenstein holding to which fiduciary funds had been transferred after Oct. 31, 1974. (As of that date, Swiss banks were required to charge negative interest of 40% annually on foreign-held bank accounts in Switzerland - *Doing Business in Europe, Par. 30,765.*) The National Bank said that charging commission for more than one quarter would exceed the purpose of the measure (to keep foreign funds out) and would be incompatible with the legal nature of negative interest as a means of "administrative constraint." In fact, a repeated imposition of the punitive levy would have an unintended "confiscatory" effect, the Bank noted in its communiqué.

The Bank's decision was seen as being in conflict with the position taken by the Finance Ministry's legal department, which had used a different, cumulative formula for the computation of commissions owed, putting the latter at SF 290 million. This would be in addition to the SF 200 million in taxes to be paid by Crédit Suisse in connection with Chiasso.

Swiss observers noted the precedent-setting significance of the National Bank decision in view of other pending cases. The decision may be appealed to the Federal Administrative Court, although such a step on the part of Crédit Suisse bank was seen as highly unlikely. Since the negative-interest regulation went into effect in November 1974, some SF 37 million in such commissions reportedly have been paid to the National Bank.

The Chiasso branch of Crédit Suisse, one of Switzerland's Big Three banks, had made unauthorized transfers of some SF 2.2 billion, mostly in Italian "escape money," to Texon-Finanzanstalt, a Liechtenstein holding.

EURO COMPANY SCENE

Bell Telephone

Bell Telephone of Belgium, at Antwerp, a subsidiary of ITT, is to trim its work force by a further 1,100 next year be-

Bell Telephone *(contd.)*

cause of a decline in orders from the Belgian telephone and telegraph authority. Bell said that the order volume in the 1977-80 period would be 25% lower than in the three previous years. Next year, the company said, it expects to lose 400 employees by natural attrition and plans to dismiss another 700.

Digital Equipment

Digital Equipment Corp., headquartered in Maynard, Mass., has concluded negotiations with the Irish Development Authority over a second production facility in the Republic of Ireland. The plant will be located at Clonmel, Tipperary County, where Digital will produce mainframe and peripheral computer systems, initially with about 100 employees. Operations are to begin next year. Digital's other Irish plant, at Galway, was launched in 1971 and employs over 1,000 today.

Hanson/ Interstate

Hanson Industries, Inc., U.S. subsidiary of Britain's Hanson Trust, has made a $29-million takeover offer to the United States' Interstate United Corp., a publicly-quoted foods group. The bid corresponds to $10 for each Interstate share, currently priced at $7.25. As a caterer serving schools, hospitals, and businesses, Interstate reported after-tax profits of $2.8 million for the last fiscal year (June '77), on a group turnover of $287 million. With the takeover of Interstate, reportedly agreed to by the latter's board, the British company would continue its U.S. acquisition spree which began in 1973 and which has concentrated on the foods sector.

VDO Schindling/ SSSI

VDO Adolf Schindling AG of Frankfurt, Germany, has purchased 25% of the equity of Solid State Scientific, Inc. (SSSI), Montgomeryville, Pa., an electronics company, with which it has cooperated since the late '60s. The price of the transaction was not disclosed. Schindling is a leading German manufacturer of automotive instruments and controls, including quartz clocks, and has recently started up its own U.S. production.

Linde/ Selas

Germany's Linde AG, the Wiesbaden-based engineering group, acting through its subsidiary Lotrepo Corp., New York, intends to purchase 100,000 shares of Selas Corp. of America, Dresher, Pa. After the deal is completed, Selas's outstanding shares will number 1.213 million, of which Linde will hold slightly more than 8%. Selas is a heat processing specialist and serves primarily the petrochemical, steel and glass industries. Last year it reported a turnover of $60 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 463 *November 29, 1977*

IN THIS ISSUE

Community: Basic OK for Tax Avoidance Directive

Despite Luxembourg's last-minute objections to certain provisions in the draft directive for mutual assistance among national authorities in matters of direct taxes, the Council of Ministers reached agreement in principle on Nov. 22 and was expected to formally approve the measure at one of its next meetings. Considered the first concrete step by the Community against international tax evasion, the directive would enable the member-state tax authorities to exchange tax information in helping each other determine the tax liabilities of companies or individuals. Tax authorities in state A who believe that state B will lose revenue because individuals or entities there conduct their business via third countries just to avoid taxes could inform state B about this without the latter's request. The same would apply where the authorities have grounds to believe that a group of enterprises may have avoided paying taxes by artificially transferring profits within the group *(Common Market Reports, Pars. 9832, 9948)*.

Most recently, Luxembourg's Permanent Representative suddenly expressed misgivings about Article 6. This provision expands cooperation to the extent that tax officials are allowed to inspect tax returns and corporate books in

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

COMMON MARKET REPORTS, Issue No. 463, November 29, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Tax Avoidance *(contd.)*

order to ascertain the facts of suspected tax evasion. Although such inspection would not be mandatory, the Luxembourg government apparently was afraid that this approach might jeopardize its mild tax climate, which favors banks in particular and which would become even more favorable to its domestic banks and subsidiaries of large foreign banks under proposed legislation.

Another serious problem that arose during the Permanent Representatives' discussions was the issue of extending the proposal to include assistance in matters of indirect taxes as well. Here, the Commission convinced the Representatives that inclusion of this matter would unduly delay adoption of the proposal since it would require substantial editorial changes, necessitating once again the opinions of the European Parliament and the Economic and Social Committee.

Cool Reception for Economic Union Plan

Among the topics to be discussed by the heads of the nine member-state governments when they meet on Dec. 5-6 in Brussels will be the Commission's newest plan to mold the Community into an economic and monetary union. A confidential document on this matter was drafted largely at the direction of Commission vice-president François-Xavier Ortoli but also incorporates thoughts expressed by Commission president Roy Jenkins last month in Florence. In this paper, the Commission gives some general ideas about how this ultimate goal could be attained by integrating national economic, fiscal, monetary, and social policies into corresponding Community policies. Ortoli, who is Jenkins's predecessor and in charge of economic policy in the EC executive, wants the member states to gradually intensify their economic and monetary cooperation. He believes that every national measure should be oriented to Community targets and priorities. Ortoli calls also for a broad expansion of the Community's social policy, especially by increasing the financial resources of the Social Fund.

So far the reactions to the document from the national capitals have been skeptical for the most part. German government officials do not think that the time is ripe for such a design; instead they favor the current step-by-step approach - and small steps at that. They maintain that the present situation, in which all member states are struggling to cut unemployment and in which most states are having trouble containing inflation, does not really permit another attempt at an economic-monetary union at this time.

In Brief...

According to Brussels reports, the Commission has decided that import duty should be paid on U.S.-made parts for the General Dynamics F-16 aircraft to be purchased by Belgium, Holland, and Denmark (plus Norway) in the $2-billion "arms deal of the century." The import levies probably will not affect the three countries' plans to buy 276 of the jets,

In Brief
(contd.)

but they would raise the cost by about $100 million. Under the Treaty of Rome, member states may import vital military equipment duty-free, but the Commission has now decided that individual states may not unilaterally waive such duties without the assent of all EC member governments. Belgium's defense minister, Paul Vanden Boeyants, has publicly criticized the Commission's move, and all three countries plan to force a European Parliament debate on the matter + + + East German and Polish fishing trawlers will be barred from Community waters as of Dec. 1. This action was taken by the Council on Nov. 21 in reaction to the two countries' refusal to return to the bargaining table. Negotiations had broken down last summer over the allocation of catch quotas and the number of fishing vessels.

France: Government to Lift Curbs on Dividends

Recent speculation that the French government was planning to continue its dividend restrictions next year with an 8% ceiling on payouts has been indirectly rejected by the Economics and Finance Ministry. At this time, a spokesman said, there are no plans for any dividend ceilings, and an official statement to this effect was expected to be issued shortly. (For the current year, Paris had "recommended" that dividend increases be limited to 6.5% in comparison to the best payout within the previous three years - a limit apparently observed by all stock corporations.) It was pointed out that, in theory at least, those companies which would have been able to pay higher dividends this year could now decide to better compensate shareholders in '78. However, very few companies would be in that position, it was noted.

Clarification of the issue, though not yet official, was welcomed by the Bourse, but it did trigger comments by labor union spokesmen to the effect that the official austerity policies apparently continued for the workers but no longer for shareholders. Recent statistics, however, seemed to indicate that shareholders, too, have made their contribution to stability, even if involuntarily: in the five years from 1972 to '76, dividend payments rose by 5.8% annually on the average, while the inflation rate averaged 9.3% per year over the same period.

Netherlands: Uncertainties Delay Economic Decisions

The protracted political crisis in Holland has deepened concern over the country's future socio-economic course and has intensified disagreements between the caretaker administration and industry and labor. More than half a year after the May 25 parliamentary elections, there was still no final decision on whether Premier Joop den Uyl's governing Labor Party will continue in office for the next term or whether Holland's second-largest party, the Christian Democrats (CDA), will team up with another partner in a new coalition.

Uncertainties *(contd.)*

With the political uncertainties so great, Den Uyl and his administration do not appear to be in the position to take a dogmatic stand on any important issue. Most recently, the second round of tripartite talks involving the government, the employers, and the unions ended in complete failure, as had the first. The disagreements pertained mainly to incomes policy but also to a proposed 2.5-billion-guilder stimulatory package, of which 2 billion guilders would be spent on combating unemployment, safeguarding consumer purchasing power, and easing the tax and social insurance burden for businesses. The employers argue that, in order to contain soaring payroll costs and to sustain domestic demand, the government should sacrifice fiscal and social insurance revenue in the amount of 2.6 billion guilders. The labor unions, for their part, are particularly opposed to the government's plan to restrict automatic inflation adjustments of wages to only 80% of price index rises as of Jan. 1, 1978.

In the meantime, The Hague has decided to postpone the proposed value-added tax boost on energy consumption (electric power and gas) from Jan. 1 until April 1, 1978, and to delay approval of rent increases until July 1. The action came after the government was forced to revise downward some of its earlier economic projections: export activity is now expected to drop off, the stagnation in several production sectors to continue, and unemployment and budget deficits to rise. For the first eight months of the year, Holland suffered a foreign trade deficit of 3.97 billion guilders compared with a surplus of 1.95 billion guilders at the same time last year. Virtually the only positive aspect of economic development lately has been in the area of price expansion: the 0.4% increase from September to October was the lowest this year, so that the 1977 inflation rate may now wind up at 6.5% instead of 7% as earlier predicted.

In the political arena, in the meantime, Holland's third-largest party, the right-liberal VVD, for the first time has been drawn into the talks toward the formation of a permanent government. In fact, as of Nov. 22, the CDA and the VVD were reported to have basically agreed on a center-right coalition, which would be headed by CDA leader Andries van Agt. A CDA-VVD government, however, would hold only a very slim majority in Parliament - 77 out of 150 lower-house seats. At latest report, the two parties were negotiating over the cabinet portfolios.

Belgium: Employers Reject Call for 36-Hour Week

The economic policy talks between the Belgian government, the labor unions, and the employers are in jeopardy following the latter's refusal to discuss the introduction of a shorter workweek. The 36-hour week by 1980 is one of the main objectives of the country's two major union federa-

Workweek
(contd.)

tions, but the FEB employers' federation has refused to discuss anv reduction without a concomitant reduction in pay.

The FEB's position has sparked strong criticism from both the General Federation of Belgian Labor (FGTB) and the Confederation of Catholic Unions (CSC). Also, a spokesman for the Socialist Party, the second-largest party in the coalition government, said that the introduction of the 36-hour week by 1980 was a cornerstone of any future social contract. He said it would create an estimated 100,000 new jobs and called on the government to put pressure on the employers to reconsider.

According to the latest figures of the Belgian Statistical Office, the shorter legal workweek sought by the unions corresponds more or less to the hours actually worked. As of April 1977, blue-collar workers in all of Belgian industry averaged 35.3 hours per week (not including sick or absent workers). In manufacturing alone, the time worked was even slightly less, and in the construction sector it averaged 36.7 hours. White-collar employees in industry worked 40 hours per week.

any:
ties Modify
Positions on
Nuclear Energy

The German government can now continue on its charted course to ensure the nation's energy needs in the coming decades by building nuclear power plants, but the pace will be slower than projected in Bonn's 1973 energy expansion program. At their recent conventions, the government coalition parties modified their positions taken earlier this year on the issue of nuclear energy. The Free Democrats now favor licensing "a few" more power plants until 1980. (A party caucus last spring had voted for a ban on the construction of new A-plants.) Similarly, an overwhelming majority of the Social Democratic delegates meeting in Hamburg approved a compromise formula sponsored by the party leadership which provides for expansion of the nuclear energy potential if energy needs cannot be met through conventional power plants.

In September the same leadership, against Chancellor Helmut Schmidt's objections, had recommended that the party congress adopt a resolution banning the construction of any nuclear power plants until the issue of safe disposal of spent fissionable materials had been solved. This position was abandoned, however, under pressure from the unions, which fear that over 100,000 jobs would be jeopardized by a construction ban. The issue of safe disposal of nuclear waste still ranks high in the resolution adopted by the Social Democrats, but construction of new A-plants could continue if the waste was processed and deposited outside Germany.

The energy resolution emphasizes the use of domestic

A-Energy
(contd.)

coal. It calls for the replacement of existing coal-fueled power plants by modern, more efficient facilities in addition to entirely new power stations elsewhere; these plants would annually convert some 35 million tons of coal into electricity. Since opposition to new conventional power plants has also been strong, though not as violent as the protests against nuclear plants, the government may still have to make additional efforts to convince the public of the need for more conventional plants. Financial considerations are certain to enter the picture, and taxpayers will be presented with the bill: the demand for coal is bound to call for additional investments in the mines, and stricter pollution control requirements will be reflected in higher utility bills.

Britain: 'Restrictive Practices' at Stock Exchange

The U.K. Office of Fair Trading has stunned members of the Stock Exchange by placing the whole of the SE's "rule book" on the register of restrictive practices. The move follows the extension of U.K. law on restrictive agreements to services as of 1976. It will now be for the Stock Exchange either to abrogate voluntarily some of its most zealously guarded traditions or, more likely, to defend its terms of membership before the restrictive practices court. (In the latter event, the matter is not expected to come before the court until 1979.)

Among the many long-established practices affected by the OFT move (each restriction must be justified separately) are:

- fixed commissions;
- jobbers acting as brokers and vice versa (which is banned at present);
- restrictions on dealings with non-members, including the ability of brokers to make a market without a jobber;
- restrictions on deals in specified securities;
- advertising restrictions (at present, members must obtain SE approval before they can advertise);
- traditional SE Council approval before opening branch offices;
- Council-prescribed settlement procedures;
- provision of credit limitations (in regard to collateral); and
- the prohibition of SE members' doing business outside the Exchange without Council consent.

In each of the above instances the restrictive practices court would presume that the restrictions operate against the public interest and would prohibit them if the SE could not demonstrate to the court's satisfaction that such a prohibition would deny the public specific and substantial benefits. In some, if not all, instances, the SE may well encounter great difficulties in convincing the court. To take only one example, the abolition of fixed

Practices *(contd.)*

commissions can most probably be demonstrated to hurt brokers badly - as was the case when fixed commissions were abolished in the United States in 1975. What would not be so easily established, by contrast, is that the investors would suffer.

Switzerland: Incomes, Tax Data Prior to Referendum

In anticipation of the Dec. 4-5 national referendum on the introduction of a wealth tax, the federal tax authorities in Switzerland have released a statistical breakdown on incomes distribution and tax payments. According to these figures, which cover the year 1974-75, 2.032 million taxpayers paid more than SF 1.4 billion in federal income taxes, reflecting earned income of SF 62.5 billion and taxable income of SF 53 billion. Only 38,441 Swiss taxpayers earned less than SF 10,000 annually. Almost 38% fell into the SF 25,000-50,000 bracket, while 8.47% earned more than SF 50,000. The statistics show further that only 1.9% of Swiss taxpayers were reporting incomes of SF 100,000 or more. Their share of total declared income amounted to 15.9%. This goes to demonstrate that in Switzerland, too, the number of "big earners" is relatively small. In fact, the tax authorities listed only about 600 franc millionaires (in terms of income), who accounted for 2.2% of total reported income and for 8.1% of revenues collected.

The upcoming referendum was initiated by the Social Democrats (against the recommendation of the federal government - *Doing Business in Europe, Par. 30,859*), who are aiming for some incomes redistribution and more "fiscal justice" by placing a higher tax burden on incomes above SF 100,000. There are many other factions, however, who argue that the introduction of a wealth tax would lead to more tax evasion and a decline in fiscal honesty and that it would stifle entrepreneurial initiative.

The supporters of the referendum most recently have been helped in their campaign by analyses of the tax situation in the city and canton of Zurich, which were published in the local press. According to these reports, there were 2,915 individuals with a net worth above SF 1 million (thus classified as "millionaires") who represented 1.3% of all taxpayers and contributed more than 25% of the total tax revenue of the City of Zurich. Particular attention was focused on the fact that 50 of these individuals paid net worth tax but no income tax, and some of them were mentioned by name. However, a number of commentators warned against an "anti-millionaire drive," pointing out the availability of perfectly legitimate means of reducing or even eliminating income in the fiscal sense by writing off losses, interest charges, depreciation, etc. The few dubious cases that have emerged, noted one commentator, are in no way proportionate to the number of those rich individuals who ease the tax load for most other people.

Greece: Karamanlis Win Marred by Gains of Opposition

Although the New Democracy party of Prime Minister Constantine Karamanlis scored its expected victory in Greece's early parliamentary elections on Nov. 20, it did suffer considerable losses in comparison to the last previous balloting in the fall of '74. At that time, the *Nea Dimokratia* won the absolute majority with 54.4% of the votes cast, whereas it achieved only 41.9% this time. In the judgment of most commentators, the real winner of the elections was Andreas Papandreou's leftist Pan Hellenic Socialist Movement (Pasok), which nearly doubled its share of the vote to 25.3% and will replace the liberal Democratic Center (Edik) of Georgios Mavros as the No. 1 opposition party in Parliament.

Despite losing considerable ground, the New Democracy will benefit from Greece's proportional representative rule, allowing it to hold on to an absolute majority of 174 seats in the 300-seat parliament. Previously, the party had held 220 mandates. The Pasok won a total of 91 seats as against its former 12, and the Democratic Center Union now has only 15, as against its former 60.

These results admittedly came as a severe disappointment to Karamanlis, who had called the early elections to demonstrate that the extreme Left and Right had no future in Greece and to gain for himself a vote of confidence in preparation for the negotiations over EEC membership and a settlement with Turkey over Cyprus and the Aegean. Instead, the combined Left won more than 35% of the vote, and even the rightist National Rally party scored about 7%, which was twice as much as Karamanlis himself had predicted. Thus, to many observers, the outcome signaled political polarization rather than concentration in Greece.

Common Market Reports

EUROMARKET NEWS

Issue No. 464 *December 6, 1977*

IN THIS ISSUE

Community: Council Agrees on Banking Directive

The Council of Ministers has made some headway toward a common banking market with its Nov. 21 agreement on the banking coordination directive, which will permit credit institutions domiciled in one member state to gain better access to and operate with fewer restrictions in other member states. (A beginning was made with the adoption in 1973 of the directive that required the member states to abolish specific discriminatory restrictions on a "nonnational" bank's right of establishment and the freedom to provide services - *Common Market Reports, Par. 1349.10.*) This latest agreement on the first directive to coordinate national laws will eventually make it easier for a bank to establish a branch in another state and to provide services there; generally speaking, the measure will allow domestic and foreign credit institutions to operate under more equal conditions *(Common Market Reports, Par. 9702)*.

The directive applies to all types of credit institutions except for the member states' central banks and a few other specified institutions. This alone represents a considerable accomplishment because France had been insisting on excluding from the scope of the measure its people's banks and loan associations, which hold about 30% of total

COMMON MARKET REPORTS, Issue No. 464, December 6, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Banking *(contd.)*

savings deposits. Exclusion would have barred similar institutions of other member states from coming to France.

The measure sets forth the many requirements that a nonnational credit institution must fulfill in order to set up a branch, including those on solvency, liquidity, and managers' qualifications. Lack of economic need could no longer be invoked to block the establishment of a new bank, domestic or foreign. (Italy has used this instrument widely in the past to prevent new banks from becoming competitors of existing credit institutions.) Since immediate abolishment would create difficulties for those states which apply the economic-need criterion, the Council agreed on a 10-year grace period.

The adopted measure falls considerably short of the European Commission's proposal. Originally, nonnational branches were to be put under the control of banking authorities of the member state where the head office was domiciled and not those of the state where the branch operated. Under the adopted directive, the branch remains under the control of the member state where the head office is located, but the authorities are required to cooperate. The Commission attaches great significance to this formalized cooperation, which is to be brought about by an advisory committee to be made up of officials of the national banking control authorities. The Commission hopes that the committee will help in the planning of legislation that will be needed to make further progress in the creation of a common banking market.

Transport Priorities Detailed by Commission

The Commission has presented the Council with an action program indicating the priorities in the transport sector over the next three years, so that the aims set out in the Commission's 1973 policy program *(Common Market Reports, Pars. 9608, 9666)* can be attained. It was hoped that the Council would make a commitment on the specified priorities at its mid-December meeting; this would considerably increase the chances for some progress in what is admittedly the Community's most underdeveloped sector.

Access to the interstate road transport market is strictly regulated through quotas. Since the chances for abolishing the quota system altogether are nil for the foreseeable future, the Commission wants at least an enlargement of the present quotas. Next year will bring some improvement, since the requirements that truckers must meet to operate nationally and internationally within the Community will become uniform on Jan. 12 in all member states as a result of the Council's November 1974 directive *(Common Market Reports, Par. 1349.89)*.

Another priority for 1978 includes adoption of the first directive on commercial vehicle taxation. Bonn has been seeking this directive because a large portion of

Transport *(contd.)*

intra-Community and East-West trade is handled by trucks that use Germany's toll-free autobahns and highways. Partly to retain some leverage in this matter, Bonn has been holding out for a long time against a proposal that would raise excise-tax exemptions for fuel used by trucks in interstate transport.

Several of the priorities for 1978 concern shipping on the Rhine and the high seas. The Commission wants the Council to try to solve the problems of excess capacity on Rhine barges. Now that the Commission has amended those provisions in the Convention for the Establishment of the Rhine Laying-Up Fund that the Court of Justice found objectionable last April, it is urging the Council to establish the fund. However, Brussels also wants measures relating to liner trade problems resulting from the Convention on the Code of Conduct for Maritime Conferences. Three member states (the U.K., France, and Germany) have signed but not ratified this convention which in the Commission's view contains elements that cannot be reconciled with Article 85 of the Treaty of Rome. The Commission also wants the Council to chart a policy to counteract the dumping practices by the East Bloc's government-owned shipping lines; here the Council has already asked the Commission to study possible countermeasures.

Brief...

Counsel for United Brands Co. has filed a brief with the European Court of Justice, requesting a reopening of the oral procedure in United Brands v. the Commission (Case No. 27/76). UBC attorneys are alleging that Advocate General Henri Mayras's conclusions, delivered on Nov. 8, contain many errors of fact and that several quotations were taken out of context or were modified. It is the first time in the Court's history that a private party has invoked Article 61 in the Rules of Procedure. (Earlier this year the Belgian government - in a Dutch case in which it was allowed to submit comments even though it was not a party in the case - asked the Court to reopen oral procedure on grounds that the AG had not given sufficient consideration to certain words in a provision in the Council's second VAT directive. This request was turned down, however, by the Court.) + + + The Council has given the Commission a green light to negotiate a five-year trade agreement with China. The Community is prepared to offer Peking the most-favored-nation treatment for Chinese products. Commission officials anticipate that EC-Chinese trade volume will exceed $2 billion this year.

Germany: EC Action Prompts Changes in VAT Law

The extensive amendments to the Value-Added Tax Law that have been prepared by German government tax experts were largely prompted by the EC Council of Ministers' adoption last May of the sixth VAT directive, which provides for the

VAT Law *(contd.)*

harmonization of national VAT provisions governing, among other things, the base of assessment. Since compliance with the directive by the member states means more taxes for individuals and businesses in all of the states, Article 28(4) grants the national governments a five-year period for compliance in order to cushion the impact *(Common Market Reports, Par. 3165)*.

The amendments to the German VAT law would bring substantial changes not only in the scope of the 1967 measure but also in many details. The 70,000 small businesses with annual sales below DM 60,000 that have continued to apply the old system (a 4% rate on annual sales and a DM 12,000 annual exemption) could no longer do so because the VAT directive prohibits application of special systems outside the scope of VAT. It was the prospect of the added financial burden on those businesses that prompted the tax experts to propose several provisions to mitigate the brunt of the changes. Although the current DM 12,000 exemption would be increased to DM 18,000, a business selling goods or offering services worth more than DM 18,000 a year would not have to pay the full 12% VAT rate on sales below DM 26,000. Above that level, it would have to pay the full rate.

Telephone services in Germany are now exempt from VAT, but the amendments would change that. Shipping lines transporting goods and passengers across borders on rivers and canals also would have to pay turnover tax. (Currently they are either exempt or pay less VAT.) Dentists would have to pay the full VAT rate on services they provide that dental labs also provide. The laboratories currently operate at a competitive disadvantage because they pay the full rate of 11% (12% in '78) on commercial services, while dentists pay only half *(Doing Business in Europe, Pars. 30,935 and 30,958)*.

Although industry and trade organizations have been asked for their comments on the draft, government lawyers point out that only minor technical details could be changed since the substance is controlled by the sixth VAT directive.

France: Official Study on Income Disparities

Last year both United Nations and OECD statistics identified France still as the industrial country with the greatest income disparities in the world, specifically in regard to earned income. While this situation probably continues to exist, the gap has now begun to shrink somewhat as a result of above-average pay increases at the lower end of the scale and a larger tax bite at the top. This is the main result of an official study commissioned a year ago by Premier Raymond Barre. Its findings were publicized on Nov. 22 by the CERC research institute.

Incomes
(contd.)

Two developments of particular significance were reported in the CERC study. First, the earnings disparity between a senior executive *(cadre supérieur)* and a worker, which had grown from 3.4 to 4.5 from 1950 to '57, receded again to 3.7 by 1976. Secondly, from 1968 until last year, executive earnings improved by 86% on the average, whereas the minimum wage went up by 144%. This reversed the trend of the years 1955-68, during which executive pay rose by 190% compared to only 71% for the minimum wage. (Significantly, 1968 was the year of the worker and student revolts which brought on a new social consciousness in French political and economic life.)

The study's findings plainly document the redistribution effect of taxation over the last years. Gross earnings of executives in '76 were reduced by 42% because of taxes and social insurance contributions and again improved by 11.5% in benefits. For workers, these figures were 49% and 29.5%, respectively. Because of the differing redistribution ratios, gross earnings of executives were reduced to a net 69.5% overall, for medium-income employees to 75.5%, for other employees to 77.9%, and for workers to 80.1%.

Despite the narrowed differences, the CERC study revealed, for example, that every third wage earner (about 4 million individuals) still earns less than FF 2,000 per month, or about $412. On the other hand, only 1% of all wage earners had incomes of more than FF 11,000 per month. Nevertheless, the per-capita income of the population has nearly doubled since 1970, which corresponds to an annual real-term gain of 4.2%. The pyramid of average net pay at the end of last year looked as follows: senior executives, FF 8,400 per month; medium-income employees, FF 4,100; master craftsmen, FF 3,800; civil servants, FF 3,120; white-collar workers, FF 2,400; blue-collar workers, FF 2,200; and farm workers, FF 2,180. Within these individual groups, however, the differences can be considerable. For instance, about 20% of the medium-income employees earned less than FF 3,300, whereas 8% of the workers brought home more than that.

Italy:
Tax Revenues
Rise Heavily
in Nine Months

The Italian fiscal authorities collected considerably more revenues in the first nine months of this year than during the corresponding period of '76, according to Rome reports. The total was 25,624 billion lire as against only 19,312 billion in January-September '76. For the most important individual taxes, the comparative results were as follows: value-added tax, 6,350 (4,713) billion lire; personal income tax, 7,152 (4,920) billion; corporate income tax, 962 (844) billion; interest tax, 2,011 (1,671) billion; registration tax and stamp duties, 1,579 (958) billion; oil production tax, 3,391 (2,459) billion; and tobacco tax, 919

Revenues *(contd.)*

(797) billion. The income tax on self-employed individuals produced 312 (264) billion lire in revenues.

Switzerland: Bern Enacts Tighter Tax Evasion Curbs

More restrictive measures against tax evasion will take effect in Switzerland on Jan. 1. They primarily involve the reporting obligations of taxpayers but also of third parties with whom taxpayers maintain business relations, especially when the latter withhold information. Not affected will be professional secrecy rules guaranteed by law, except in criminal cases. Self-employed individuals will be required to retain documents and other records for a period of 10 years. Those who have annual turnover in excess of SF 100,000 will be obligated to record incoming and outgoing funds and to account for deposits and debts. The government plans to set up special investigative units, which will be empowered to search premises and confiscate documents if so directed by cantonal or departmental authorities. Serious tax violations will be subject to prosecution by the regular judicial authorities and to stiffer penalties, particularly in regard to forged documents and records. The maximum penalty is three years' imprisonment, and in those cases the court will be authorized to waive bank or professional secrecy.

In response to parliamentary inquiries, the government said that, beyond these measures, there would be no need to take steps against "legal" tax evasion, i.e., tax avoidance. Such steps recently have been demanded by the Social Democrats who complained that millionaires, especially those in Zurich, were being treated "too gently" by the fiscal authorities. In its reply, the government referred to the high tax contributions by those having large incomes and assets and emphasized the legality of reporting zero profits and writing off losses. A spokesman did confirm, however, that legislation now being drafted in connection with direct taxation and the harmonization of cantonal and communal taxes foresees the introduction of a "participatory profits tax" *(Beteiligungsgewinnsteuer)* to be imposed on the sale of "essential" parts of private assets.

Greece: Final Results; New Cabinet Sworn In

Final election results released by the Greek interior ministry on Nov. 23 showed that the New Democracy party of Prime Minister Constantine Karamanlis had gained 41.85% of the vote and thus won 173 seats in the 300-member parliament. Second was the Pan Hellenic Socialist Movement (Pasok) with 25.33% and 92 mandates, followed by the Democratic Center Union (Edik) with 11.95% and 15 seats.

Karamanlis, meanwhile, completed the reorganization of his administration, retaining his cabinet ministers for the most part but shifting several portfolios. Contrary to preelection expectations, the prime minister refrained from

Vote Results *(contd.)*

entering into a coalition government with the liberal Democratic Center because the latter had unexpectedly lost 45 of its previous 60 mandates. Such an alliance would not have gained Karamanlis the two-thirds majority needed to ensure his eventually planned bid for the state presidency. The two-thirds majority was blocked by the spectacular rise of the socialist Pasok under Andreas Papandreou, which will now lead the parliamentary Opposition with the help of the Communists. Also as a result of the Nov. 20 elections, Georgios Mavros resigned as leader of the Edik, saying that his party was hurt by the timing of the early elections, which Karamanlis had called one year before his term would have run out.

EURO COMPANY SCENE

Alcan/ Royal Dutch/ Atlantic Richfield

An agreement in principle has been signed for the construction of a giant alumina production complex at the Shannon River estuary in Ireland, which will require an investment of some $500 million. Shareholders will be Alcan Aluminum Ltd., Montreal (40%); Billiton BV, a Royal-Dutch Shell subsidiary (35%); and Anaconda Co., a subsidiary of Atlantic Richfield Co., New York (25%). Construction is to begin early next year and will last about four years. The plant will employ some 800 and will initially have a capacity of 800,000 tons annually, which could eventually be expanded to 2.4 million tons. The alumina will be produced from imported bauxite. The project originally had been planned for 1974 but was postponed because of the worldwide economic recession.

BBC/ Studebaker/ Turbodyne

Brown, Boveri & Cie. (BBC), the Swiss electrical engineering concern, has announced plans for the acquisition of the gas turbine division of Turbodyne Corp., a Studebaker-Worthington subsidiary. The plant, at St. Cloud, Minn., produces gas turbines for electric-power generation under BBC license and had a turnover this year of $80 million. With the acquisition BBC reportedly ends a series of several unsuccessful attempts to set up a U.S. production of heavy equipment. Although no purchase price was given, BBC said it has set aside $50 million for the acquisition, start-up losses, and subsequent investments. The Swiss company's consolidated sales this year are expected to slightly top last year's SF 8.4 billion, or $3.8 billion.

Schott/ Owens Illinois

Germany's Jenaer Glaswerke Schott & Gen. and Owens Illinois, Toledo, Ohio, have established a joint subsidiary for the design and construction of complete chemical production facilities in the United States. The new company, named O-I/Schott Process Systems, Inc., will take over a plant at South Vineland, N.J., as well as the Owens sales organization for chemical apparatus. Schott, glass specialists,

Schott/Owens *(contd.)*	had a worldwide turnover of DM 900 million in the past business year.
Salen/ United Brands	Sweden's Salen group has divested itself of its 8.6% minority stake in United Brands Co. The 735,500 shares were acquired by UBC's three major shareholders - Milstein Ventures, American Financial Corp., and UBC chairman Max M. Fisher, according to New York reports.
Olivetti/ SCM	Italy's Olivetti group has sold its U.K. typewriter plant at Glasgow to a subsidiary of a competitor, SCM Corp., New York, for an undisclosed price. The deal includes the agreement to continue producing, for an interim period, "Lexicon" portables at the plant and supplying Olivetti with these machines. The Lexicons are the first portables to use a single element, i.e., a "golfball." The Glasgow plant employs about 1,000. Olivetti said it will continue operating its portable typewriter plants in Spain and Mexico in addition to its office typewriter factories in other countries, including the United States.
Seagram/ Glenlivet	Seagram Co. of Canada, largest producer and marketer of distilled spirits and wines in the world, has announced that it has acquired some 27% of the equity of the U.K.'s Glenlivet Distillers Ltd. and that it plans to make a bid, at 440p per share, for the remainder. If completed as planned, the Seagram offer thus values Glenlivet at some $62 million. Prior to the announcement, Glenlivet shares were trading at 327p.

COMMERCE CLEARING HOUSE, INC.

Common Market Reports

EUROMARKET NEWS

Issue No. 465 *Report No. 333, December 13, 1977*

IN THIS ISSUE

Community: Unexpected Results at Summit Meet

The Dec. 5-6 meeting of the nine member states' heads of government in Brussels disproved the doubts of many pessimists in that it produced several unexpected results: introduction of a new unit of account; a rearrangement of member-state contributions to the EC budget; additional money for the Regional Fund; and the green light for the Commission to borrow on the international capital markets in order to improve the EC's financial resources.

Agreement on the introduction of a new monetary unit of account based on market exchange rates (DM 2.61 rather than DM 3.66) ended a long row between the U.K. and Germany. Application of the unrealistic DM 3.66 rate has meant higher contributions for Germany in the past. In the future, Germany will be paying less, Britain more. Since the changeover to the new European Unit of Account (EUA) will cost the U.K. £240 million more next year, a substantial additional burden that it cannot carry alone, the other EC partners agreed to share this amount in 1978. Britain had a major legal argument in its favor: under the terms of the Accession Treaty, its contribution to the 1978 budget may increase only modestly in relation to its '77 share and in the context of the Community's new financial setup. Or-

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

COMMON MARKET REPORTS, Issue No. 465, December 13, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Summit Meet *(contd.)*

iginally, the EC was to receive 1% of the member states' VAT revenue to finance its budget as of 1978. However, since all member states are behind in amending their VAT laws accordingly, the new EUA will not apply until 1979.

Another major accomplishment for the EEC concerns the additional funding of the Regional Fund. A total of 1.85 billion UA has been allocated for 1978 through '80; the Fund's resources over the 1975-77 period amounted to 1.3 billion UA. Grants will be made available to Community regions with problems in the areas of agriculture, industrial reorganization, or structural unemployment.

The go-ahead for the Commission to borrow up to 1 billion UA on the international capital markets to stimulate economic activity (and thereby alleviate the Community's total unemployment of nearly 6 million) must be seen as a real breakthrough because of the original opposition to the concept. Several member states, among them Germany and France, had strongly opposed the idea on the grounds that the Commission's resources were sufficient. Now Bonn and Paris have given in to the arguments of other states that the Commission might be able to do more to combat unemployment and help backward regions and industries in financial trouble. The Council allocates the funds, which will be administered by the European Investment Bank.

Trade Favors Approved for Poor Nations

The Council of Ministers has adopted the Community's generalized system of trade preferences (GSP) for 1978, a tariff arrangement that will assure some 90 developing countries duty-free access to the Common Market for their exports of manufactured and semimanufactured goods and processed agricultural products. If these countries make full use of the potential offered to them, the 1978 volume of their exported industrial products could reach 5.1 billion UA and for farm commodities, 1.3 billion UA.

Adoption follows consultation with the governments of the countries associated with the EC (for example, the member states' former colonies, but also others like Greece and Turkey) and those African, Caribbean, and Pacific nations (ACP) which are tied commercially to the EC through the Lomé Convention *(Common Market Reports, Par. 4281)*. The Council made practically no changes in the European Commission's proposal, which provided for some improvements over the current GSP. The most significant of these was the Community's agreement to extend favorable import treatment to several additional industrial products. Quotas for textiles were not raised in light of the crisis in the European textile industry and because of the current negotiations with textile-exporting nations. The Council simply extended this year's system to June 30, 1978.

For the nations at the bottom of the 90-country list, the so-called least-developed countries (LDCs), the Council

Trade Favors *(contd.)*

suspended application of quotas for all semi-sensitive and nonsensitive products. This measure is part of the new approach instituted in 1977; it assures these LDCs an additional privilege and a competitive edge over the more advanced nations.

The GSP was conceived in the late '60s as part of the Community's policy to help developing countries by "aid through trade" *(Common Market Reports, Par. 3861.13)*. In operation since mid-1971, it originally covered a trade volume of about $500 million; the figure for 1977 may be near $7.5 billion.

In Brief...

The Commission has threatened to take three member states (believed to be France, Germany, and the Netherlands) to the European Court of Justice unless they curb national subsidies to their domestic shipbuilding industries. Brussels wants to cut shipbuilding capacity by 45% by the early 1980s in accordance with declining world demand. State aids would be permissible only for the purpose of promoting rationalization and not merely for retaining jobs + + + The Council has agreed to foster better coordination of cooperation policies with the developing countries. This coordination work between the Community and the member states would take place in meetings of ad hoc committees where two or more states coordinate their bilateral activities in one or a group of developing countries or when the implementation of joint projects is involved. The meetings, which would be open to other states and the Commission, could take place in Europe as well as in the developing country concerned.

Netherlands: New Coalition to Take Over This Week

A new Dutch coalition government under the leadership of Andries van Agt, the former deputy premier and justice minister, was expected to be formally installed this week. The coalition would be formed by Van Agt's Christian Democrats (CDA) and the right-liberal VVD, succeeding a five-party coalition which had broken up last March, two months before the general elections of May 25. The CDA-VVD agreement ended the hopes of acting Prime Minister Joop den Uyl and his socialist Labor Party (PvDA) to continue in office: late last month, after half a year, Den Uyl finally had to abandon his attempts to find coalition partners.

The installation of the new administration was being prepared after the CDA and the VVD had basically agreed on the distribution of cabinet portfolios. Deputy prime minister and interior minister would be Hans Wiegel, the VVD's parliamentary floor leader. CDA members would take over the ministries of finance, defense, agriculture, development aid, and social affairs, while the VVD would be given the foreign affairs and economics ministries.

The agreement was overshadowed, however, by the refus-

Coalition *(contd.)*

al of six representatives of the CDA's left wing to give unqualified support to the coalition which, at best, commands only a slim majority of 77 out of 150 lower-house seats. With the exclusion of the six, a majority would no longer exist, raising the question of whether the new administration would be strong enough to survive serious parliamentary challenges. One commentator said that the new government was born "on the brink of an abyss." Still, most political observers tended to believe that the six CDA "dissidents" would not risk toppling the Van Agt administration, certainly not at so early a stage. Also, the coalition can expect to be supported by the smaller, so-called confessional parties, which together hold six seats in Parliament.

The formation of a government that leaves the Labor Party in opposition should not automatically augur a dramatic change of course, given the fact that the country's major political parties are not too far apart on many socio-economic issues. Thus, the new administration has already indicated that it will continue a policy of incomes redistribution by fiscal and other means, implement a mandatory employee profit-sharing system (with retroactive effect on Jan. 1, 1977), and seek to strengthen the role of employee representatives in enterprises.

France: OECD Survey; Minimum Wage, Pension Boosts

An economic growth rate of about 4.5% which is being sought by the French government for next year "seems necessary to prevent a further deterioration of the labor market," the Organization for Economic Cooperation and Development has concluded in its latest report (OECD Economic Surveys, France, Dec. 8, 1977). It would be easier for Paris to undertake the support measures that might be necessary to meet this target if, in the months to come, "significant improvements on the inflation front were achieved." Measures to stimulate demand, the OECD proposed, could include reductions in businesses' social security contributions - an action that would have the double advantage of supporting employment and calming inflation. (At latest report, unemployment stood at 1.2 million, and the OECD statistics for September put the annual rise in French consumer prices at 9.7%.)

Nevertheless, the Paris-based organization cautioned the authorities to adhere to a "prudent" economic policy, given the uncertainties of future demand: "It cannot be ruled out...that private nonresidential investment may have been influenced in 1977 by the climate of uncertainty surrounding the impending elections and that, once this uncertainty has been removed, enterprises' propensity to invest may rise spontaneously."

Meanwhile, on the eve of the Dec. 1 general strike

OECD *(contd.)*

called by the major union federations to protest the government's austerity policies, the French cabinet approved a 10% increase in basic old-age pension benefits, a 2.5% boost in civil service salaries, and an unscheduled raise for the minimum wage. (Also announced was compensation totaling FF 30 billion over a 15-year period for refugees from Algeria. This compares to FF 10 billion paid by the state since the end of the Algerian war in 1962.) President Giscard d'Estaing explained on national television that, since his election in 1974, basic pensions have been more than doubled - from FF 5,200 to 11,000. Even allowing for the effects of inflation, he noted, the rise in purchasing power of the pensions comes to 51%. Giscard also referred to promises his government had kept in regard to low-income employees: the latest rise to FF 10.06 as of Dec. 1 has boosted the hourly minimum wage by 12.4% within a 12-month period - which is twice as much as the administration had originally planned, he said.

Denmark: More Deficit Spending in New Budget

In presenting the 1978 budget draft to Parliament, the Danish finance minister, Knud Heinesen, has told his countrymen that they will have to keep waiting for better times. Despite the government's commitment to additional deficit spending, Heinesen said, the stagnation of the domestic economy will continue and unemployment could rise even further. Next year's budget is projected to rise by 16% to 101.2 billion kroner, which corresponds to about one-third of GNP. Revenues should go up by 14%. The resulting net cash deficit of 11.7 billion kroner would be comparable to this year's.

The real problem, namely, that of the precarious state of the public finances, is not reflected in the regular budget: Denmark's borrowing requirement next year will soar to 33.2 billion kroner, or more than one-tenth of GNP, as compared with 20.2 billion kroner for the current fiscal year. The explanation for this lies in the fact that, over the last years, Copenhagen has been financing its budgetary deficits with foreign and domestic short-term bond issues, which are now falling due. For Heinesen there is no other way but to continue borrowing in order to meet the interest bill. Thus, as in the current budget, the government intends to float issues in the total amount of about 20 billion kroner, three-quarters of that on the domestic markets. The extremely high Danish interest rates, the highest in Europe, require that 5 billion kroner alone be set aside for debt servicing.

Had it not been for the steady rise since 1963 of Denmark's international indebtedness (now totaling 48 billion kroner), the government actually would have been close now to its eventual goal of achieving an equilibrium for the payments balance. Without the accumulated interest burden

Budget (contd.)

on the loans outstanding, the payments deficit in '78 would be only about 2 billion kroner, or less than 1% of GNP. As it is, Heinesen is forecasting a shortfall of 9.5 billion kroner this year and of 6.5 billion kroner next year. Thus, the process of slowly returning to a healthy payments balance will still require from three to five years. Until then, Heinesen said, both the government and the consumers will have to make sacrifices.

A considerable portion of public expenditure, 8.7 billion kroner or nearly 3% of GNP, will be in the form of unemployment compensation next year. Yet, Copenhagen has no real means of reducing the jobless rate: any major stimulatory move would immediately widen the payments deficit, which is completely out of the question. As Heinesen emphasized in his budget statement, the road to a recovered payments balance is paved with incomes restrictions, and there can be no shortcuts.

Danish Assembly Backs European Parliament Vote

With a vote of 120 to 25 and nine abstentions, the Danish Folketing on Dec. 2 approved legislation permitting the government to call for direct elections to the European Parliament. Denmark's quota of EP representatives will be 16, with one of the members to be elected in Greenland. The elections tentatively are scheduled for next spring or summer.

Britain: NEDO Study on Export Competition

A recent study by the U.K.'s National Economic Development Office on international price competitiveness appears to demolish once and for all the widely held view that Britain's export competitiveness is automatically stimulated when sterling parity falls and, by the same token, is automatically endangered when sterling rallies to a position of comparative strength. This viewpoint has persisted since the mid-'60s and is not without political undertones. Successive governments have claimed that exchange rate "adjustments," i.e., progressive devaluation, were beneficial in that they remedied payments deficits and fostered export-led growth. The NEDO study now demonstrates that this has not been the effect. Instead, the facts are that payments deficits have increased, growth rates have been low, the commitment to invest has been small, and the export "drive" has achieved nothing in terms of alleviating unemployment.

To bolster its argument that short-term exchange rates have little or no effect on competitiveness or that a strong currency does not in itself inhibit competitiveness in export markets, NEDO points to Germany - stressing that product quality has been the determining factor there. Furthermore, both Germany and Japan enjoy high currency values as a direct consequence of their success as marketing nations. Stated bluntly, competitiveness based on

Competition *(contd.)*

overall economic weakness is illusory, NEDO says: true competitiveness can only be found where there is economic strength. While short-term exchange rate fluctuations may give rise to windfall profits, it argues, longer-term export success depends upon a consistent marketing strategy.

The NEDO report has been dismissed in some quarters as being of purely academic interest. Other commentators have reacted more positively, recognizing that the conclusions have immediate relevance to Britain's current economic "resurgence" as evidenced by the modest upward float of sterling and signs that a domestic boom may be predicted on the basis of oil revenues. The standard reaction to increased domestic demand has been for British manufacturers to neglect export markets and fill domestic requirements rather than create additional capacities to accommodate both markets. This is borne out by the fact that Britain supplies a disproportionately low percentage of western Europe's imports (an estimated 5% overall). The aim is to double this figure in the course of the next decade. To do this, however, British manufacturers must develop a genuine commitment to Europe, it is believed, and allay suspicions that their performance in terms of quality and delivery is below standard.

Belgium: Discount Rate Boosted in Support Move

The Belgian National Bank raised its discount rate from 6% to 7% and the rate for short-term treasury bills by up to 1.5% as of Dec. 2 in order to counteract speculation against the franc. National Bank sources referred to a "reluctant" decision, pointing to the retarding influence it was bound to have on the modest economic recovery most recently in evidence. On the other hand, the Belgian authorities wanted to demonstrate their determination to keep the franc in the European currency snake and to protect the franc's parity within the snake band.

It was pointed out that the National Bank can fall back on relatively large foreign exchange reserves, mostly in U.S. dollars, to defend the franc. In the week up to Nov. 28, the Bank had intervened to the tune of BF 6.4 billion to maintain the franc's position within the snake. The pressures on the Belgian currency were partly attributed to the high foreign deposits which had been accumulating at Belgian banks over the past months but lately were being reduced. Last June 3, the National Bank had dropped the discount rate from 6.5% to 6%.

Whereas monetary disturbances of the past were invariably linked to economic difficulties, there is at present no apparent reason for devaluation speculation against the franc: Belgium's payments balance has steadily improved over the past year, the inflation rate continues to drop, and the political situation is stable.

Switzerland: Voters Reject Wealth Tax, Back Savings

Only 38% of Switzerland's eligible voters turned out on Dec. 4 to reject by a margin of 801,000 to 639,000 the initiative on "tax harmonization, heavier taxation of wealth, and (fiscal) relief of lower incomes." The wealth tax proposal found support only in three and one-half cantons, and its rejection was seen as a clear defeat for the Social Democrats who had campaigned for heavier taxation of incomes above SF 100,000 and of assets in excess of SF 1 million. The voters did, however, back by a solid margin a "savings package" *(Sparpaket)* designed to eventually return the federal budget to an equilibrium. Approval of the legislation will enable Bern to cut expenditure increases by SF 500 million in 1978 and by SF 200-300 million in subsequent years. These reductions will affect no less than 36 budget positions. The vote on this measure was 870,000 to 524,000, with all cantons favoring it.

Observers commented that the defeat of the wealth tax initiative and acceptance of the budget savings package removed two major uncertainties that had still impeded Bern's plans for an equitable system of public finances, particularly in regard to fiscal harmonization among the cantons. The government can now move ahead with such draft legislation, which will again include the attempt to introduce the more equitable value-added tax in place of the existing cumulative turnover tax. Earlier reports said that Bern will seek a standard rate of 8% instead of a maximum rate of 10% proposed in the finance and tax reform package that the voters had turned down in a national referendum last June 12 *(Doing Business in Europe, Par. 30,951)*.

Common Market Reports

EUROMARKET NEWS

Issue No. 466 *Report No. 334, December 28, 1977*

IN THIS ISSUE

Community: Procedural Rules for Drug Marketing

A detail missing so far from the legal framework for marketing pharmaceuticals in the Common Market will be filled in shortly with the publication of the rules of procedure by the Committee for Proprietary Medicinal Products. Established under the Council of Ministers' second pharmaceuticals directive and composed of the member states' top health administration officials, the committee has the task of helping drug manufacturers by giving an opinion as to whether drugs to be sold in other member states meet the requirements *(Common Market Reports, Pars. 3504, 3504H)*.

Under the rules of procedure, a manufacturer may approach the committee for help only if he wants to sell a drug in at least five other member states. If, for example, a British producer wants to market a drug only in France and Germany, he must approach the governments of those countries separately. Although authorization for the marketing of drugs remains a national matter, the procedure of the committee, which is seeking to reconcile differences among member states over whether marketing authorization should be granted, will ensure that licenses are issued according to Community criteria *(Common Market Reports, Par. 3501.07)*.

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

COMMON MARKET REPORTS, Issue No. 466, December 28, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Drugs *(contd.)*

A manufacturer wanting to sell in at least five other member states must furnish the committee with six sets of the application, other documents with relevant data (for example, composition, indications, contraindications, side effects and control methods), and the home state license. The committee will send one set to each of the states designated and retain another for its own secretariat. Most of the documents must be submitted in the official language of the state where the drug will be marketed (for Belgium, in French or Dutch), but other documents, such as the results of the clinical tests, may be in other languages; for marketing in Germany and Belgium, English versions of these documents will suffice. The set destined for the committee may be in either English or French.

Drug manufacturers from third countries are subject to the same rules.

Review of EC-Greek Talks over Accession

The negotiations over Greece's accession to the three European Communities (Economic, Coal and Steel, and Euratom) have been going on since July 1976, and the third meeting at ministerial level scheduled for Dec. 18 was to review the progress made so far *(Common Market Reports, Par. 9809)*. It was hoped that the negotiations would by now have come to the stage where the experts could start drafting individual provisions after the Christmas recess. However, Council officials said that the experts would probably need several more months to discuss the remaining issues in those fields already tackled and expressed doubt that the talks could be wound up before next summer.

In five fields enough progress has been made to enable the foreign or trade ministers of Greece and the nine member states to make political decisions that the experts could incorporate in the articles of the future accession treaty. These fields are the customs union (essentially trade in industrial products), freedom of movement for individuals and capital, competition, harmonization of legislation, and matters concerning coal and steel. Some details have been left out here, too, such as the annual tariff reductions on imported industrial products, which can be established only after agreement has been reached on the length of the transitional period.

Aside from the fields of social policy and regional policy (here the main topic being the extent of the EC's financial aid to Greece), the biggest issue yet to be tackled concerns the access of Greek farm products to the EEC. Although France and Italy have modified their opposition, in that they no longer insist on a prior commitment on the part of the Community to French and Italian farmers and wine growers before the discussions start, Council and Greek officials nevertheless anticipate tough and prolonged negotiations on the matter. No solution is in sight as

Greece *(contd.)*

yet, but Council officials believe in the possibility of a financial commitment to French and Italian farmers. This aid could compensate the farmers for losses they are likely to incur when cheaper Greek citrus fruits and wines get free access to the Common Market of the Nine.

In Brief...

The Commission's preliminary draft regulation on patent licensing agreements will be discussed again by the Consultative Committee on Cartels and Other Restrictive Practices at its next meeting in mid-February. At its last meeting, on Nov. 23, several member-state antitrust experts reportedly urged the Commission to make some additional changes in the draft. Most member-state governments have been under pressure from national business organizations which still believe that several concepts of the proposal are far removed from long-established, proven practices + + + The European Court of Justice has held that Article 62 of the Lomé Convention, concluded between the EEC and 46 African, Caribbean, and Pacific countries (ACP), does not grant ACP nationals the right of establishment in the Community. A Madagascan lawyer requested admission to the French bar at Lille but was turned down. The Court has ruled that although Article 62 contains an obligation for both the EEC and the ACP countries to treat each other's nationals on a nondiscriminatory basis, it obliges neither an ACP country nor an EEC member state to ensure that nationals of the other side are treated in the same way as their own nationals (Case No. 65/77).

Germany: No Need Seen for Additional Fair Trade Laws

West Germany's Monopoly Commission recently took government antitrust attorneys by surprise when it said that there was no need for new legislation to curb a growing practice among chain and department stores of demanding money or favors from manufacturers in return for buying goods or for prominent display. (Since its establishment in 1974, the Monopoly Commission has repeatedly urged legislation to cope with new forms of restraints on competition.) In a special report prepared for the government, the Commission now says that the existing Law Against Restraints on Competition (GWB) is sufficient because it does confer broad powers on the Federal Cartel Office and state anticartel authorities in their fight against discriminatory practices of businesses and abuses by market-dominating enterprises *(Doing Business in Europe, Pars. 23,509, 23,511)*.

Government attorneys had counted on some help from the Monopoly Commission in the current process of writing amendments to the law that would tighten merger controls and which were to contain additional rules to stop payment demands. Bonn decided to act against these practices after many businesses apparently failed to abide by the voluntary code adopted last year by the business associations.

Fair Trade *(contd.)*

The Monopoly Commission was asked to come forward with usable criteria to help cartel authorities determine which type of practice should be allowed and which should be outlawed. It is here that the five-man body, which includes two law professors, was believed to have failed. According to the Commission, it is not possible to suggest a yardstick that could be applied in advance and which would not have any disadvantages for competition. In fact, a general rule outlawing discriminatory practices in the areas of prices, rebates, and other favors might even stifle competition. The Commission points out that growing case law on the matter seems to prove that the existing rules are sufficient. Earlier this year the Supreme Civil Court outlawed fees demanded by stores from manufacturers for including the latter's products in their stock.

France: Draft Law on Voluntary Health Plan

Health minister Simone Veil has introduced draft legislation in the National Assembly that would permit approximately 1.2 million Frenchmen who are not covered by public health insurance to be eligible for such coverage. The benefits to be offered under this new, voluntary insurance system would be comparable to those granted under the existing obligatory system. Contributions would be scaled according to the personal circumstances of the insured; for those with very low or no incomes, contributions would come out of social welfare funds. Eligible for this new type of coverage would be individuals without regular employment who until now did not fall under the mandatory health insurance system - for instance, independent professors, translators, or private investigators.

Escalation of Public-Sector Strikes

The latest strike actions in France literally turned into a power struggle over incomes policy between the government and the unions: the CGT and CFDT labor federations this month initiated selective electric-power cuts on a region-by-region basis in an attempt to force the management of the state-owned Electricité de France utility to resume pay negotiations. The unions deployed these tactics as a continuation of the Dec. 1 general strike, which had not proven as effective as planned. The power cuts, on the other hand, had a much more disruptive impact. Prime Minister Raymond Barre charged angrily that "an extended strike...is an ill-conceived move against the (economic) recovery of our country and against the labor situation..." A spokesman of the employers' federation labeled the strikes "economic sabotage," citing production interruptions and equipment damage. Public sentiment, too, ran against the utility employees who are thought to be much better off than most industrial workers in that they enjoy virtually complete protection against dismissal.

The country's largest labor federation, the CGT, which

Strikes
(contd.)

represents more than half of the EdF's 30,000 employees, expressed the hope that its show of force would persuade the government to enter "true negotiations." The demands are for pay increases beyond inflation compensation plus a bonus FF 200 per worker. The Barre administration so far has staunchly adhered to its position that the granting of any pay raises in excess of the officially decreed ceilings would automatically touch off a chain reaction in other sectors. At one time, Paris reportedly considered curtailment of the right to strike or the conscription of EdF workers but refrained from such drastic measures to avoid a further escalation of the conflict.

The first week of the EdF workers' strike was immediately followed by the unions' calling some 30,000 employees of the SNCF state railway system out on a four-day walkout. The protests were directed against "single manning" of engine cabs and other rationalization measures, which the unions claimed would mean a loss of 10,000 jobs. Other strike actions were reported by Air France cabin crews, Paris sewerage workers, and Bourse employees.

The proliferation of these protests has raised renewed questions on the public-sector workers' right to strike and is bound to make this topic a hotly controversial issue in the upcoming election campaign. The unions, for their part, have made it plain that neither the holiday season nor the election will influence their demands for a modification of official incomes policy.

Britain:
New Letter of Intent Due with IMF

The U.K. government is about to launch a new letter of intent with the International Monetary Fund following the recent round of negotiations between the IMF and senior Treasury officials. The letter will detail Britain's projected economic and fiscal policy through December 1978, focusing principally on the public-sector borrowing requirement (PSBR) and domestic credit expansion (DCE) - i.e., the domestic supply of money, excluding the impact of the total supply of money flowing in or out of Britain. For its part, the IMF reportedly will sanction continuation of the £3.9-billion emergency standby credit made available to the U.K. in December 1976.

Government sources have noted off the record that the two key variables, PSBR and DCE, will be postulated as "desirable" rather than expressed as hard and fast targets. Some reluctance is expected, however, as regards DCE: whereas the government anticipates no difficulty in meeting PSBR limits (these have been comfortably undershot to date), huge capital inflows from abroad have persistently clouded the DCE issue. In fact, the danger of artificial, "hot money" inflation is such that the government will no doubt look for an upward revision of the present DCE limit

IMF Letter *(contd.)*

from Ŀ6 billion to some Ŀ7 billion. Concerning PSBR, the considerable latitude now generated (Ŀ6.8 billion, i.e., Ŀ1.8 billion below earlier central government estimates) should result in the incorporation of substantial income tax cuts at the personal and, possibly, corporate level in the budget to be presented next spring.

Finland: Industry, Labor Agreement on Stability Plan

Wage and price restraints, a freeze on rents and dividends, and modest tax cuts to stimulate demand are part of a stability package with which Finland's five-party coalition hopes to have averted a government crisis and to have set the stage for an economic recovery next year. Neutral observers do not share this optimism, saying that the program's impact of 1.4 billion finnmarks would fall far short of what is required to pull the country out of its worst economic crisis since World War II. Business spokesmen also have expressed doubt over the adequacy of the plan and called for a moderate devaluation of the currency.

Initially, the Popular Front government of Prime Minister Kalevi Sorsa had called for a complete wage freeze for '78 in order to bring down price expansion from 13% at present to less than 5%. The unions' outright rejection of this proposal forced Helsinki to come up with an alternative plan providing in effect for a six-month pay freeze: it postpones the next collective pay increases from March until October '78 and, furthermore, suspends for another four months additional increments that would have been due at that time. Without such voluntary pay restraint, economists had estimated, wages would have risen by about 9% next year. The pay accord was supplemented by a formal promise on the part of industry to exercise strict price discipline.

In return for this cooperation, Helsinki will lower social security contributions and the electric utility tax for the export sector. This, however, is coupled with a demand to be granted emergency powers of intervention in the wages and prices sector. Legislation to this effect would require a five-sixth's majority for passage, which is not possible without the backing of the Conservatives, the largest opposition party in Parliament. While the Sorsa administration is hopeful, many observers see the risk of a renewed government crisis and predict another devaluation of the finnmark.

The economic difficulties are casting a gloomy shadow over Finland's 60th anniversary as an independent country. For next year, a leading research institute (Etla) has predicted that GNP growth will stagnate for the fourth year in a row, that investment activity will slow down further (to about half of that of '75), and that unemployment will average 7%. The reasons are seen in inadequate profits, re-

Stability *(contd.)*

strictive credit policies, underutilized production capacities, and weak demand.

Portugal: Solution Sought after Fall of Government

Talks between Portugal's president, Gen. Ramalho Eanes, and the country's political parties were continuing after the resignation on Dec. 9 of Prime Minister Mario Soares and his Socialist minority administration. The crisis was brought on by the government's defeat on a confidence motion that Soares had tied to a vote on a proposed deflationary budget package and on the terms imposed by the International Monetary Fund in connection with the pending $50-million and $750-million loans offered to ease Portugal's payments problems. The parliamentary vote was 159 to 100 against the administration and ended, after 17 months, the rule of the country's first constitutionally elected government. The prime minister will stay on in a caretaker capacity until a successor cabinet takes over or new elections are held.

Soares's fall confirmed the predictions of those who had given the government little chance to complete a full term. Although they represent the largest party in Parliament, the Socialists most recently held only 102 seats out of 263 and, moreover, had to steer carefully away from any alliances with the far Left or Right since this would have been sure to break up the party. Thus, to remain in power, the government was constantly forced into weak compromises - a policy that in the end satisfied no one and exposed the administration to charges of incompetence from virtually all sides.

With all parliamentary parties having voted against the Socialists, Gen. Eanes could now ask Sousa Franco, acting chairman of the Social Democrat PSD, the second-largest party with 73 seats, to attempt the formation of a new government. He could also offer Soares another chance, perhaps with the latter including independents in a second cabinet. (Soares insisted, however, that he would not make another attempt until all other possibilities had been exhausted.) Yet another possibility would be the appointment of a government of nonaffiliated independents, both civilian and military, in case no coalition were possible among any of the four major parties.

The most obvious solution - the immediate calling of new elections - is not considered opportune at this time: the young democracy still lacks the necessary electoral statutes and, secondly, Eanes wants no delays in the vital negotiations with the IMF and any short-term emergency measures required to maintain control over the precarious economic situation. Besides, new elections probably would fail to result in a significant change in the present parliamentary constellation.

EURO COMPANY SCENE

Unilever/ National Starch

Agreement in principle has been reached on the terms of the takeover offer made by the Anglo-Dutch Unilever NV to the shareholders of the National Starch & Chemical Corp. of Bridgewater, N.J. In a deal valued at about $485 million, it is proposed that the shareholders receive $73.50 per share or, alternatively, preferred stock of a new U.S. subsidiary of Unilever which would hold all National Starch shares following completion of the merger. Prior to the publication of the takeover offer, the 6.5 million outstanding National Starch shares had been traded at below $40 each. The acquisition would raise Unilever's turnover on the U.S. markets by 23%, from about $1.2 billion in '76. (Other North American holdings include Lever Bros. and Thomas J. Lipton, Inc.) National Starch produces adhesives, resins, starches, and specialty chemicals for industrial purposes and reported sales of $339.3 million and net earnings of $24.5 million last year.

Siemens/ Corning Glass

Siemens AG, the German electrical engineering group, is continuing its expansion drive on the U.S. market with the establishment of a 50:50 joint venture with Corning Glass Works, Corning, N.Y., for the distribution and eventual production of optical cables. The new company, Siecor Optical Cables, Inc., Horseheads, N.Y., will operate with an initial share capital in the equivalent of DM 7 million. It will serve primarily the private telephone companies, but also producers of industrial automation equipment, data processing equipment, satellite ground systems, cable television systems, etc.

Siemens/ Kraftwerk Union/ Allis-Chalmers

In related developments, Siemens and its 100% subsidiary Kraftwerk Union AG have signed an agreement with Milwaukee's Allis-Chalmers Corp. for the construction of a plant for the production of steam turbines and other power-generating equipment in Florida. The 261-acre site near Palmetto was selected after lengthy studies. The plant is to start operating in 1980 and will employ about 1,000 at full capacity. The project is under the auspices of the Allis-Chalmers Power Systems, Inc., which had been founded with Kraftwerk Union in 1970 for the distribution of steam turbine generators on the U.S. market.

Common Market Reports

EUROMARKET NEWS

Issue No. 467 December 30, 1977

IN THIS ISSUE

mmunity: Action Against East Bloc Shippers?

The Economic and Social Committee (ESC) has called on all Community institutions to tackle the problem of steadily mounting competition from East Bloc merchant shipping. If the Comecon companies continue to grow as they have in the past, the ESC foresees serious consequences for member-state shippers. The Permanent Representatives are already working on guidelines for the European Commission for possible action, but the unusual fact that the ESC prepared an in-depth report of its own gives some indication of the problem's magnitude.

The Commission has watched East Bloc carriers for years as they steadily increased their share of East-West shipping, but it has taken no action. Executives of several member-state shipping lines have charged Soviet, Polish, and East German carriers with dumping practices, an allegation that is difficult to prove considering the fact that all East Bloc shippers are state-owned and do not use the same accounting methods as Western carriers.

Last October the Commission submitted a working document on the matter to the Council of Ministers, which in turn instructed the Representatives to study the report and prepare guidelines for the Commission. The latter did not confine itself to an assessment but also described a whole

COMMON MARKET REPORTS, Issue No. 467, December 30, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Shipping *(contd.)*

range of options designed to meet the threat. These options include revision of existing bilateral agreements to provide for reciprocity - most East Bloc carriers have offices in the Community, whereas EC carriers have none in the East. Restrictions could be attached to EEC export credits. So far, contracts covering East Bloc exports contain a proviso that East Bloc carriers handle most of the shipping of these goods. The Commission would also consider unilateral moves such as curbs on the establishment and activities of East Bloc shipping lines in the Community, import levies, and establishment of minimum rates.

Officials of UNICE, the Brussels-based umbrella organization of national business associations, already are warning against any of these options because they might boomerang. UNICE favors instead the use of diplomatic channels. Most Brussels observers agree that some action will come, although it is still uncertain what form it might take.

Progress in Controlling Waste Discharge

The Council of Ministers has agreed on the directive on waste from the titanium dioxide industry and the directive on toxic and dangerous wastes. Formal adoption of the measures is expected after the Christmas recess.

Titanium dioxide is produced commercially from crystal forms found in nature. Production of one ton of white amorphous powder, which is chiefly used as a pigment or opacifier in paint, rubber, plastic, printing ink, and paper, results in some 15 to 20 tons of waste containing elements of titanium dioxide which is usually discharged into rivers and coastal waters. The titanium dioxide directive will require the member states to draw up national programs by July 1, 1980, calling for a reduction of water pollution caused by existing industries. Pollution by titanium dioxide will be eliminated entirely by 1982, according to the Commission, because discrepancies in the national programs will be ironed out by yet another directive.

Specifically, any new company wanting to produce titanium dioxide would need a license that would be given only if the producer used the raw materials, processes, and techniques that are the least damaging to the environment. Furthermore, a business would also need authorization for the discharge of waste into water, for storage and dumping on the ground, and for injection into the ground.

Agreement on the directive is bound to end a long dispute among European titanium dioxide industries. British titanium producers discharge the waste either directly into the North Sea or into rivers flowing into it. The French wastes go into the Channel and the Mediterranean, Italy's into the Adriatic and Mediterranean. Because titanium waste tends to "muddy" coastal waters and beaches, Italy has enacted legislation allowing discharge of those wastes

Waste *(contd.)*

only in neutralized form. This is a costly process which has made the Italian industry less competitive in relation to British and French producers.

The directive on toxic and dangerous wastes sets forth rules for the elimination or deposit of 27 types of waste, among them lead, arsenic, chromium, cadmium, and asbestos *(Common Market Reports, Par. 9683)*. Transport and elimination of these toxic matters, especially discharge into waters or deposit above or under ground, will be subject to licensing. Violators would be punished with fines. The directive is similar in many respects to German waste disposal rules, so that the competitive disadvantage under which German industry has been operating will be eliminated eventually.

In Brief...

The Council has adopted legislation that modifies the ban on spinchilling of chickens and allows the use of the so-called counterflow process. Also passed was a directive to approximate member-state laws on coloring matters that may be added to medicinal products + + + A compromise has been found in the Council in the dispute over what have become known as buttership cruises beyond member-state coastal waters: after Feb. 1, 1978, each passenger will be allowed to bring back only 1 kilogram of subsidized butter from these cruises.

Netherlands: New Coalition in First Test over Wages

Holland's new right-center coalition government faced its first challenge this week with the parliamentary debate over an incomes policy measure that actually had been worked out by the previous administration. It provides for collective wage increases to be kept within the rate of inflation and, consequently, for a freeze on higher, noncollective pay. Prior to going to Parliament with this bill, Prime Minister Andries van Agt was to establish direct contact on this issue with representatives of the employers and the labor unions, after the outgoing Den Uyl government had failed to bring about a "concerted action" in this respect.

The new coalition administration was sworn in by Queen Juliana on Dec. 19. Of the 16 cabinet members, 10 belong to Van Agt's Christian Democratic Appeal (CDA) and the others to the right-liberal Party for Freedom, Progress and Democracy (VVD). Only Van Agt himself and two other ministers have prior cabinet experience. This radical turnover was not of the Prime Minister's design but was necessitated by the refusal of several of the CDA's ex-ministers to switch from a left-center to a right-center coalition. In fact, Van Agt himself for a while was not even sure whether he wanted to take on the premiership, conceding publicly that his lack of knowledge in economics could be a severe handicap in the job.

First Test *(contd.)*

Nevertheless, political observers do believe that the new team in The Hague includes men who, by background and experience, are in a position to deal with the challenge facing the country and its leadership. Finance Minister Frans Andriessen (CDA) enjoys a solid reputation beyond his party and was the leading antagonist of Den Uyl in the aborted negotiations over an economic policy program. Gijsbert van Aardenne (VVD), the economics minister, has been the top spokesman for his party against the budgetary policies of the outgoing government. Social Affairs Minister Willem Albeda (CDA), who succeeds Jaap Boersma in that job, is recognized as a labor expert and faces the tough task of finding a consensus with the unions. The youngest cabinet member, at 36, is Deputy Premier Hans Wiegel (VVD), who took over the interior ministry.

Belgium: Discount Rate; Regional Reform Plan

With an unusually high boost of its discount rate by 2% to 9%, the Belgian National Bank on Dec. 14 underscored its determination to defend the franc against persisting devaluation pressures. (Only on Dec. 2 had the Bank raised the discount rate by one point to 7%.) The action was accompanied by a concurrent increase by 2% of the interest rates on treasury bills. The raising of the discount rate was part of the official efforts to maintain the Belgian franc's position vis-à-vis the German mark within the European joint currency snake. During the previous two weeks, the National Bank had spent the equivalent of BF 18 billion on the sale of U.S. dollars and D-marks to support the Belgian currency.

Earlier this month, Prime Minister Leo Tindemans gave a clear indication that his coalition government would resign if legislation currently drawn up failed to achieve peace between the country's two linguistic communities, the Flemish and the Walloons. In a major policy speech, Tindemans said his government's main aim was to end the differences "between various sections of society." To this end, a 15-member commission is translating into draft legislation the so-called Egmont agreement, on the basis of which a four-party coalition representing 81% of the parliamentary mandates was formed last June. The commission was expected to complete its work this month and have the bill ready for parliamentary debate in January. The legislation, said Tindemans, would bring about a fundamental restructuring of the Belgian state to which he was committed.

In responding to criticisms from many quarters about "government stagnation," the prime minister also outlined other coalition accomplishments and policies, particularly concerning employment. In the 12-month period that ended in October, he said, the number of young apprentices had about doubled to 15,000, the number of workers opting for early retirement had tripled to more than 30,000, and the

Discount Rate *(contd.)*

number of unemployed having been found work by public authorities had risen from 17,500 to 23,900. The efforts to contain inflation also showed some success (with the rate of consumer price increases at 6.5% at the end of September), Tindemans said, and the government was ready to contribute its share to economic stimulation with a program investing some BF 200 billion in private enterprise in '78.

Germany: Action to Stem Money Inflow, Shield D-Mark

At its last meeting of the year, on Dec. 15, the governing board of Germany's central bank approved a bundle of credit policy measures that seek to protect the D-mark against the effects of the anti-dollar speculation as well as lay down the guidelines of Bundesbank policy next year. As of Dec. 16, the Bank's discount rate was lowered from 3.5% to 3% and the Lombard rate from 4% to 3.5%. As of Jan. 1, the minimum reserve ratios on banks' foreign liabilities will be raised from 12.75% to 20% for sight liabilities, from 8.95% to 15% for sight deposits, and from 5.65% to 10% for savings deposits. In addition, there will be a minimum reserve requirement of 100% on the growth of foreign liabilities, based on a Sept. 16-Dec. 15 reference period. Further, the Bundesbank will no longer authorize the purchase by nonresidents of domestic bonds with terms of at least two and up to four years. Finally, it was decided to aim for the money supply to grow by about 8% in 1978.

As explained by Otmar Emminger, its president, the Bundesbank hoped that the combined measures would have the effect of bringing down domestic interest rate levels by at least half a point in the short term. An impact on longer-term rates is also possible, Emminger said, particularly if the upcoming collective wage talks result in significantly lower settlements than the previous round.

Emminger warned against interpreting the Bank's measures as a departure from official stability policies and considering the discount and Lombard rate cuts as a turning point in monetary policy. (The last previous discount rate reduction, from 4% to 3.5%, came on Aug. 15, 1975, and that of the Lombard rate, from 4.5% to 4%, last July 15.) The decisions could be justified only by the counterbalance provided by the latest exchange-rate changes, Emminger said. Since the beginning of the most recent monetary disturbances on Sept. 30 and until Dec. 15, the Bundesbank had intervened in support of the U.S. dollar to the tune of more than DM 10 billion. On a single day, its dollar purchases totaled more than DM 1 billion, yet it could not prevent the dollar from dropping another 1.5%.

Financial observers pointed out that the Bundesbank could not seriously entertain any illusion of single-handedly stabilizing the dollar without any help from Washington. On the other hand, they said, the Bank had to react

Money Inflow *(contd.)*

to the deep public concern over the latest developments: the strong appreciation of the D-mark, which works against German exports, over the last months has coincided with extremely weak foreign demand. If this trend continues, it can have dire consequences for Germany's economic performance next year.

Moonlighting Rules to Be Tightened

Bonn's coalition parties have agreed to introduce in Parliament amendments that would further tighten existing rules against moonlighting. This work, called *Schwarzarbeit*, is done for the most part in the evenings and on weekends by people with regular jobs. Often, however, these side jobs are turned into full-time occupations. Although the very nature of the practice makes it impossible to obtain half-way accurate figures, government officials estimate that several hundred thousand Germans are moonlighting, mostly in the building trades and in automobile repair. It is believed that the volume of work done on the side can be valued at several billion D-marks annually, with the corresponding loss of income taxes and social security contributions going into hundreds of millions. Moreover, moonlighting is aggravating the unemployment situation. (The planned legislation ties in with last year's rules that impose fines of up to DM 50,000 on firms and individuals found to employ illegal residents from non-EEC countries - *Doing Business in Europe, Par. 30,784*).

According to a 1957 statute, anyone who carries out a substantial amount of work for others without registering his business activities with the tax and social security administration faces a heavy fine. The person who accepts the work or service can also be fined. Relatives or neighbors who perform services out of neighborliness are exempt from the rule.

What has made prosecution of moonlighting so difficult in the past is that state's attorneys have difficulty proving avarice, a factor that the law says must be present for prosecution. Often the courts have simply thrown out charges because of insufficient evidence. Under the amendments, to be introduced after the Christmas recess, that criterion would be dropped, and in the future anyone who moonlighted for money would be subject to a fine in addition to the penalties that the tax and social security offices are authorized to mete out. The "neighborly help" concept would be revised: anyone who helped his neighbor for money would face a heavy fine if the compensation was more than two-thirds of what is normally charged by a business for the work.

Aside from revenue losses for the government and the negative impact on the labor market, moonlighting may have other consequences: if the individual is injured during this activity, he does not receive workmen's compensation

Moonlighting *(contd.)*

or free medical treatment. In fact, such an injury could expose him to a damage suit by his regular employer, since the latter continues to pay social security contributions during his absence. Finally, the recipient of the services has no recourse to the courts if the work turns out to be faulty.

Italy: Pressures on Rome by Unions, Communists

The collapse of talks between Rome and the Italian unions over the government's proposed budget plans has been followed by the decision of the three national labor federations - CGIL, CISL, and UIL - to call a general strike sometime between Jan. 10 and 18. The exact date was to be determined on Jan. 5. Also inconclusive were the discussions held by the Christian Democratic minority administration with the other five parliamentary parties tenuously joined in the programmatic agreement. The Communists, but also the Socialists and Republicans, were pressuring the Andreotti government to make further concessions to the political Left or risk its own survival. Enrico Berlinguer, boss of the Communist PCI, openly demanded the formation of a "government of national unity," i.e., one that would elevate Communist participation to cabinet level.

The budget draft unsuccessfully discussed with the unions would have to be renegotiated with the International Monetary Fund in any case. The concept of Treasury Minister Gaetano Stammati foresees a deficit of 24,000 billion lire, provided it is possible to shave some 4,100 billion lire off the previous budget plan as well as implement some tax boosts. Italian taxpayers in the upper income brackets would face additional sacrifices, and savings deposits would be subject to an increase in interest tax from 16% to 18%. Rome also intends to speed up tax collection and raise utility charges and rail fares.

Last spring the government had agreed with the IMF authorities to limit the 1978 budget deficits to 14,500 billion lire at most. However, the improvement of the Italian payments situation in the second half of this year subsequently led to an informal agreement to permit a deficit ceiling of 19,000 billion lire. Now, the renegotiation of the 1978 finance plan is necessary because a large part of the $4.8 billion of loan repayments due in '78 will have to be covered by additional borrowing abroad. Under these circumstances, Rome has had to insist on the budgetary and fiscal sacrifices that the unions have just rejected. Italy's internal financial situation again worsened in recent months, mainly because of the staggering losses accumulated by the major state enterprises.

Andreotti, meanwhile, has again urged all political factions to maintain the current "balance" and thus give Italy a chance to overcome its economic crisis.

Britain: Labour Gives Priority to Wealth Tax

Joel Barnett, chief secretary to the U.K. Treasury, confirmed on Dec. 19 that new wealth tax legislation would be a priority for the government in the first parliamentary session following a Labour general election victory. Barnett's confirmation came after an announcement by a Labour Party/TUC liaison committee that its members were unanimously in favor of such a tax. The government is now committed to preparing a White Paper and to drafting clauses of the relevant bill.

Similar proposals originally formed part of Labour's last preelection manifesto but Prime Minister James Callaghan has since formally acknowledged that there is no possibility of the tax being introduced in the lifetime of the present parliament. Exact details of the tax will not be known until publication of the White Paper; however, a joint working party report issued earlier this year suggests a sliding scale starting at 1% on assets of £100,000 and over, rising to 2% at £300,000, 3% at £500,000, 4% at £2 million, and 5% at £5 million. The proposals have been widely criticized as "vindictive," that is, as part of Labour's policy of "soaking the rich." Moreover, since the total yield would be a mere £500 million annually, the administrative complications involved in levying such a tax may well negate the eventual benefits to the Exchequer.

Common Market Reports

EUROMARKET NEWS

Issue No. 468 *January 4, 1978*

IN THIS ISSUE - The Nine at the Turn of the Year

Community: Hardly Closer to an Economic Union

The 1977 economic situation allowed the European Community even less elbowroom than it had in previous years. For all practical purposes, the EC has hardly come closer to its goal of harmonious economic development, both internally and in terms of world trade. Inflation ranges from 3.8% in Germany to 18-20% in Italy. Total unemployment is in excess of six million, and, while economic growth in France, Germany, and the Benelux countries may now pick up somewhat, this tends to widen the gap between the strong and the weak member states.

Several of the member states have been seeking the cover of protectionism as a way of easing the difficulties experienced by individual industries. Indeed, even the Community has taken some steps of its own that strongly resemble protectionism, especially by introducing reduced quotas for textile imports from third countries. Still, the joint stand taken in the GATT textile talks has averted the danger of unilateral action by individual states. Also, the Community continued to speak for the member states with one voice at the U.N.-sponsored North-South dialogue and, more important, assumed the role of mediator between the other industrialized nations and the developing countries by proposing a price stabilization fund for certain

COMMON MARKET REPORTS, Issue No. 468, January 4, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Community *(contd.)*

raw materials. The biggest political setback for the Community last year was the U.K. failure to make provisions to meet the 1978 date for the European Parliament elections.

The European Commission has fallen behind its self-imposed schedule for submitting numerous legislative proposals, especially in the areas of consumer protection, pollution control, and company law coordination. On the other hand, there was considerable activity by the Council of Ministers in '77. Adoption of the sixth VAT directive laid the foundation for the EC's new financial setup. Introduction of the new European unit of account should bring a more realistic yardstick to EC accounting. Important for individuals and companies was enactment of the directive on mutual national assistance in matters of direct taxation. Adoption of the lawyers directive permits attorneys in one state to represent parties in litigation before civil courts and to defend accused individuals before criminal courts throughout the Community. Agreement on the first banking coordination directive means that credit institutions will find it easier to establish branches and provide services in other member states.

The Council decision to make farmers share some of the responsibility for milk surpluses soothed some of the critics of farm policies. The Council was less successful on the fishing front: Britain and Ireland insist on some preferential treatment for their trawlers within the 200-mile zone, thus blocking agreement on a common fisheries policy. In selecting Culham, England, as the site of the EC's main energy research center, the Council proved that, on occasion, it is still able to move on by majority vote.

The Court of Justice's July judgment invalidating the Community's compulsory milk-powder purchase system reminded both the Commission and the Council that there are limits to what they can do under the Treaty of Rome (Case No. 119-120/76). In a ruling that will have a permanent impact on the EC's treaty-making powers, the Court did not take exception to the economic objective of reducing excess barge capacity on the Rhine River, but it did object to the legal details written into the draft convention on the European Laying-Up Fund for Inland Vessels (Opinion No. 1/76). Business lawyers on both sides of the Atlantic have been following one particular case, United Brands Co. v. Commission, to be ruled on this year. Although the facts and issues of this case on the abuse of a dominant position were interesting enough, UBC's request to reopen oral proceedings added a new dimension to the case about the role of the Advocate General (Case No. 27/76). The Court rejected the request last month.

Belgium: Rocky Road toward a Federal State

The government's regionalization plan is certain to dominate Belgium's political life early this year. Its failure would threaten the coalition of Prime Minister Leo Tindemans. In fact, the constitutional crisis combined with a general election captured the headlines in '77, too. Despite an election victory that strengthened his own Social Christian Party, Tindemans required almost seven weeks to form a new coalition which also included the Socialists and two linguistic parties, the Flemish Volksunie and the Brussels-based Front Démocratique des Francophones. In a way, the coalition is loosely in line with the aims of the regional reform plan, which a special commission was trying to bring into legislative form in late '77. In essence, the bill would seek to divide Belgium into three regions within a federal state (Flanders, Wallonia, and Brussels), with each of them to have more autonomous powers.

The regionalization issue apart, relations among the coalition partners have been strained by economic problems. There has been a public argument within the government on whether wage policy is too restrictive and thus holds down purchasing power and consumer demand. The unions have complaints over Brussels' failure to improve the gloomy employment picture: despite ambitious official plans to create more jobs, unemployment this winter was expected to break through the 300,000 barrier for the first time in postwar history. On the other hand, Belgium has come under pressure from its EC partners to reflate because of the comparative health of its economy, as reflected by a payments surplus and reduced inflation. This year's budget is predicated on a 3% growth of GNP and an 8% rise in prices. However, two industry sectors, steel and textiles, are still in serious difficulties and require massive aids and subsidies. With an export share of 80%, steel producers are particularly vulnerable to the worldwide lack of demand.

Britain: Financial Recovery But Modest Growth

There has been a pronounced upturn in overseas confidence in the U.K. economy since year-end 1976 following approval by the International Monetary Fund of a massive standby credit facility subject to specific budgetary and monetary conditions. Over the last 12 months, sterling has been in strong demand, interest rates have dropped substantially, and other financial indicators have generally improved. Most significantly perhaps, the authorized IMF limits on the public-sector borrowing requirement and domestic credit expansion have not only been achieved but have been undercut, with the result that the government is now in a position to move on income tax rates and structures.

It is to the credit of the Labour government under Prime Minister James Callaghan that these goals have been attained. Nonetheless, the sustained movement of resources into the payments balance as a result of North Sea oil pro-

Britain *(contd.)*

duction and strong growth of manufactured exports resulted in a GNP growth of merely 0.5% last year. To achieve a stabilization or even improvement of the crucial unemployment situation, a moderate cost trend and a sustained 4% growth of GNP would have to be achieved. The latter would require a significantly higher medium-term growth rate, and at present it is difficult to see how this can be done. There are, however, certain positive signs: whereas the level of output contracted somewhat in the first six months of '77 when both private consumption and public investment dropped sharply, there was a clear upward trend on both fronts in the latter months of the year.

The outlook for '78 is primarily dependent on the growth of earnings: the government is looking for a rate of some 10% between July '77 and July '78. Should this be achieved, it is thought that the economy could boast a GNP growth rate of around 2.5% and something approaching single-figure inflation (now 13% in annual terms). The government could then take cautious steps to introduce reflationary measures within the IMF guidelines and without triggering price pressures. As has been the case in the past few years, however, the labor unions are already advancing pay claims higher than the proposed 10%, although nominally still bound by a social contract with the government. Furthermore, since the Labour administration is effectively a minority government maintained in power by means of a tenuous pact with the Liberals, its ability to force through restrictive wage control legislation is severely curtailed.

<u>Denmark: Confidence in the Ability to Pull Through</u>

The Danish penchant for the good life is difficult to reconcile with the need for frugality dictated by the country's less-than-enviable economic situation. This at least has been the experience of the Anker Jörgensen government, which has been trying hard to brake consumer spending, especially on import goods, in order to ease the strain on Denmark's deficit-ridden payments and trade balances. The most recent of such efforts came last fall with an austerity package that included the raising of value-added tax from 15% to 18%. Critics like to point out, though, that the government is not exactly setting an example as it continues to borrow heavily on the international markets to finance its budget deficits: this year the borrowing requirement will soar to more than 33 billion kroner, or 10% of GNP.

Nonetheless, the Social Democrat minority administration so far has managed to win a parliamentary majority for its most urgent anticrisis measures, if often by compromise, after broadening its base in last February's early elections to 65 seats in the 179-seat Folketing. This rel-

Denmark *(contd.)*

ative political stability is among the reasons for the confidence, both at home and abroad, that Denmark eventually will succeed in bringing its economic house in order.

France: Waiting Game Delays Major Commitments

"Let's wait until after the elections." This has been the standard excuse given by the French business and industrial community during the past year for putting off major investment commitments so sorely needed by the stagnant economy. With the national elections due in March, the political uncertainties have, if anything, become even greater. Only a few months ago the Left Alliance parties appeared all set to win the elections and end long years of conservative rule. Such an outcome can no longer be safely predicted, however, following the dramatic rift last fall between the Socialists and the Communists over nationalization plans and ideological differences. The dispute left the Alliance's marxist *programme commun* of 1972 in shambles, with the result that the Left goes into the final campaign weeks without a joint policy program.

For President Giscard d'Estaing, the Opposition's split could present the opportunity next March to strengthen his popular base by drawing the Socialists into a center-left coalition government, which would leave his current majority partners, the Gaullists, on the sidelines. This strategy could even work, political observers agree, if the combined, yet divided Left were to win a slight majority of the votes.

Party politics apart, the election outcome will definitely be influenced by the voters' appraisal of the economic record and performance of Giscard's administration under the leadership of Prime Minister (and Economics and Finance Minister) Raymond Barre. A major factor here is the latter's unswerving commitment to a painful stability program which clamps a tight lid on incomes expansion and economic growth and has succeeded in returning the foreign trade balance to black figures (as of last September) and in maintaining the strength of the franc. It is questionable, however, whether these achievements will, in the voters' eyes, outweigh Barre's failure to push back inflation and unemployment. The latter now stands at 1.2 million, and the current price expansion rate of barely under 10% falls far short of the government's original target of 6.5%.

Germany: Economic Results Fall Short of Goals

Although the most dramatic event in Germany in 1977 was the terrorist activity culminating in the kidnap-murder of Hanns-Martin Schleyer, president of the employers' and industry associations, and the skyjacking of a Lufthansa plane to Somalia, most observers agree that economic issues still dominated the domestic scene. While his cool handling of the terrorism-related events undoubtedly enhanced

Germany *(contd.)*

Chancellor Helmut Schmidt's popularity at home and abroad, a parliamentary majority of only eight votes and attacks from within his own Social Democratic Party have made governing difficult for him. The tax relief package, for instance, squeezed through the Bundestag only narrowly because three left-wing Social Democrats objected to the lowering of net worth and business taxes which had been backed by practically all experts. Also, the Chancellor barely succeeded in getting a majority of delegates at the recent Social Democratic party convention to support a modest program of nuclear power plant construction to secure the nation's energy supplies in the 1980s and '90s.

At the turn of the year, the economic situation is far from what the government had hoped for or what its advisers had predicted. The 4.5% growth rate aimed for in fact turned out to be only 2.5%. Unemployment did not drop to around 700,000, as Bonn had anticipated, but again went over the one-million mark, as independent economists had feared. It is a consolation to the government that at least a few union leaders seem to accept the view shared by the Bundesbank and Schmidt's advisers that economic recovery - and thus a substantial reduction in unemployment - hinges on the outcome of the upcoming wage talks. Bonn's biggest problem here is how to get this message across to the rank and file who would like to see a repetition of the generous pay settlements of recent years. Because Germany has the highest production costs in the world, except for Sweden, companies and individuals last year invested more abroad (especially in the United States) than in any previous year.

Bonn has been successful in combating inflation: the current 3.8% rate is the lowest in Europe except for Switzerland. Another substantial trade surplus is shaping up (about DM 32 billion), and the payments balance will remain positive. This seems to refute the theory that German products are losing out on the world markets, though the dollar's decline and the corresponding rise of the D-mark could bring a change here.

Ireland: Better Outlook Except for Employment

Chronic unemployment continues to plague the Republic of Ireland's economy. On virtually every other front, however, the outlook continues to improve, and the key question at year-end is whether the six-month-old government of Prime Minister Jack Lynch will be able to sustain through '78 its newly found impetus, while at the same time making good on its "cut taxes, boost spending" commitments.

With domestic economic growth calculated at some 5% for '77, Ireland currently has the fastest growing economy in the EC. What is more, inflation (which was at a crippling 25% only two years ago) is now falling rapidly and is

Ireland *(contd.)*

estimated to be around 14% for all of '77. Interest rates have plummeted, and there has been an impressive 20% real rise in investment by manufacturing industry for the year. Although the current-account deficit is growing, external reserves - bolstered by borrowing and by foreign investment - are up by 25% over the previous 12-month period. Dublin's main problem at the moment hinges on the unions' acceptance of a restrained national wage agreement, which would have a crucial effect on the extent of the scheduled tax cuts as well as on price expansion.

Italy: Another Crisis Just Around the Corner?

Predictions of imminent doom are commonplace in Italy, particularly in forecasts for a new year, and the past weeks have seen their share. Once more, the pessimists can point to plentiful evidence of another crisis just around the corner: the intensified Communist pressures for a legitimatized role in government; the unions' recent break with the Andreotti administration and their announcement of a general strike later this month; Rome's desperate struggles to come up with a budget program that will also find acceptance with its foreign creditors.

Whatever fate awaits him this year, Prime Minister Giulio Andreotti and his *gabineto monocolore* last year again gave a remarkable display of brinkmanship, not least because of the "programmatic agreement" of last July which made the Communists and four smaller parties backseat "partners" of the Christian Democrat minority administration. Many political observers, in fact, consider it a miracle that the 39th postwar government has been able to survive for one and one-half years - a feat only rarely achieved by previous administrations.

On the economic scene, some progress undoubtedly has been made in stabilizing the currency and the balance of payments - the two most critical problem areas a year ago. These days, the most explosive issue should be the mounting threat to labor peace: officially, unemployment now totals 1.6 million, but a more realistic count would be 2 million, half of that made up of young people between the ages of 14 and 25. As a result, political extremism and labor militancy are again on the rise.

Over the past weeks in particular, the Andreotti administration has labored over a "believable" budget draft that would accommodate the ever-growing public-sector deficits. In 1978, a recent assessment has shown, these deficits will mount to 29,650 billion lire, compared with the 14,450-billion limit decreed by the IMF last April and later informally raised to 19,000 billion. With further spending cuts and some tax increases, the budget planners are now trying to cut the actual deficit this year to 24,000 billion lire.

Luxembourg: Steel Crisis Still Weighs on Economy

In its October economic survey, the European Commission said that it could see "no indications of recovery" for Luxembourg's economy up to the end of last year, and since then nothing has happened that would cause this assessment to be modified for the early part of '78. The estimates were for a 1.5% growth of GNP in 1977 and only a slightly higher rate this year. Inflation is down to below 6% from 9.8% at the end of '76. However, the continuing world steel crisis is now beginning to create real problems for the Grand Duchy: Arbed, the No. 1 employer by far, which accounts for 90% of domestic steel production, finally is being forced to cut its work force. Only because of its enormous reserves has the company been in a position to absorb heavy losses - LF 1.04 billion in '76 and LF 2.1 billion in the first half-year period of '77.

Netherlands: Tough Times Ahead for New Team

The agonies over the formation of a new government following the May elections proved to be a major liability on Holland's political scene last year and effectively blocked any real initiatives in the economic realm. In fact, in early December it appeared as though the embarrassing situation might be carried over to the new year when constitutional questions were raised on whether the two-party coalition of Prime Minister Andries van Agt would have the required parliamentary support.

These apprehensions still cannot be wholly dismissed, given the fact that the center-right coalition of Van Agt's Christian Democratic Appeal (CDA) and the right-liberal VVD has only 77 seats in the 150-seat Parliament and that even this slim majority could evaporate should six or seven CDA "dissidents" withhold their support on crucial issues. The big losers in the change of government undoubtedly are former Prime Minister Joop den Uyl and his socialist Labor Party (PvDA) which actually had emerged strengthened from last May's elections, yet lost their chance to continue in government when they made too many unacceptable demands of their would-be coalition partners.

The new administration is taking over at a most difficult time. In the first nine months of '77, Holland accumulated a trade deficit of 3.3 billion guilders, and the Central Planning Bureau has just estimated that the payments surplus will amount to only 2.5 billion guilders in '77 and to 2 billion in '78, which means a shrinkage of about 50% within two years. To reverse this trend, the government will have to help the export industries lower their wage and other costs - a step that will be fiercely opposed by the labor unions. The official plans are for limiting pay increases this year to the rate of inflation.

Common Market Reports

EUROMARKET NEWS

Issue No. 469 *Report No. 335, January 11, 1978*

IN THIS ISSUE

Community: Import Price Protection for Steel Makers

Acting to shield EEC steel producers from the effects of cut-rate import prices and dumping practices, the European Commission last month set up a price protection system for the first quarter of the new year. By April 1, Brussels hopes to have negotiated a new arrangement based on bilateral agreements with the EEC's major third-country suppliers covering price and quantity restraints. The Commission fixed "base" or minimum import prices for about 140 types of steel products, including specialty steels, calculating them on the production costs of the most efficient third-country exporters and no-loss sale prices. Penal tariffs will be imposed on steel imports sold in the EEC below the base prices, which are on the average 6.75% lower than internal Community guidance prices for the same products.

The import price system was supplemented by a compulsory internal arrangement extending existing minimum-price requirements to such products as merchant bars and hot-rolled coils. The minimum price for reinforcing bars remains at the level of that established last July. On the average, guidance prices were raised by 5%.

The two-pronged attack on the steel price problem was devised by Viscount Etienne Davignon, commissioner for industry, and had the backing of the European Coal and Steel Community's consultative committee. Part of the package

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

COMMON MARKET REPORTS, Issue No. 469, January 11, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Steel Prices *(contd.)*

was an agreement by the member-state governments to contribute a revenue share of the customs duties they impose on steel imports toward the long-term restructuring and modernization of the Community steel industries. The Commission will use these funds to subsidize up to 5% of the interest payable on EEC loans granted for this purpose. It was decided that such an approach was preferable to raising the existing EEC levy on each ton of steel produced, which would have been too much of a burden on hard-pressed manufacturers.

It was pointed out in Brussels that the temporary import price arrangement is in accordance with Article 8 of the GATT code, unlike the somewhat similar U.S. "trigger" system. Commissioner Davignon warned, however, against using the interim price protection as an excuse for delaying urgently needed reorganization measures in the respective national steel industries. He said the Commission would closely monitor national aid procedures to make sure that they conform to Brussels' targets, and he announced the publication in April of a medium-term concept (until 1985) for the steel sector.

In Brief...

The U.K.'s Distillers Company Ltd. reportedly has been invited to discuss alternative ways of complying with the Commission's ban of DCL's dual-pricing system after the company had decided to withdraw its prestigious Johnnie Walker Label and Dimple Haig brands of Scotch whisky from the U.K. markets in reaction to the ruling. Distillers' action was given serious consideration in Brussels, and officials indicated they were prepared to discuss the matter with the company. DCL had also said it would have to raise prices of its other brands (including White Horse, Vat 69, and Black and White) in the U.K. in order to bring them up to the level of those charged in the rest of the EEC. The Commission's move against trading practices of Scotch whisky companies also involves two other U.K. firms, Arthur Bell & Sons and Teacher (Distillers) + + + The Canadian government and the Community have come to an agreement on the resumption of Canadian uranium deliveries to the EEC until the end of 1980. Until last year's embargo, Canada had accounted for about one-third of the uranium supplies used in Community A-plants and reactors. The new pact became possible after France, which so far is not a signatory to the Nuclear Antiproliferation Treaty, had accepted certain safeguard clauses.

Italy: Big U.S. Loan for Energy Investments

Only a few days after announcing an ambitious 15-billion-lire energy investment program, the Italian government was able to secure the first major foreign loan in support of the program. After long negotiations, a U.S. banking consortium led by Chemical Bank agreed to grant Rome a $500-

Loan
(contd.)

million credit. At least initially, no details on the terms were revealed; many observers speculated that the deal made provision for U.S. manufacturers to act as suppliers for the planned Italian reactor centers, since much of the energy program rests on licensing agreements with General Electric and Westinghouse.

It was understood that the granting of the loan was preceded by Washington's quiet lifting of the "caution flag" previously held over Italy as a sign of its impaired credit standing. To many commentators in the European financial community, the removal of this "special mention" came as a surprise, since it continues to be uncertain whether the Andreotti government is capable or even willing to meet the still-stringent conditions of the International Monetary Fund in reducing its 1978 budget deficits. However, in talking to U.S. bankers and government officials late last year, both Prime Minister Giulio Andreotti and Treasury Minister Gaetano Stammati had emphasized that, at least for the time being, Italy no longer required foreign assistance in support of the lira but was now seeking financing for direct industrial investments.

Italy's foreign exchange position undoubtedly has improved further in the past weeks, not least because of the harsh currency restrictions still in force. As of mid-December, foreign exchange reserves totaled $7.75 billion and the foreign debt position of the banks had shrunk to $6.9 billion. There were even rumors in Milan of a possible early repayment of IMF credits, a move that would enable the government to regain some flexibility in its internal borrowing policies. An expansion of domestic public borrowing might be necessary to maintain minimum liquidity for the state enterprises, most of which are barely able to make ends meet. Only late last month, Rome had to set aside some 400 billion lire in public funds so that several major state concerns could pay December wages and the traditional 13th-month bonuses.

The newly approved energy program provides for the construction within the next five years of 14 nuclear power plants and a series of conventional turbine-powered plants. The cabinet also passed a five-year investment plan for the agricultural sector and a 10-year plan involving forestry and water resources. Together, these three programs would require an investment volume of 22 billion lire.

Germany: Unfinished Business for the New Year

As Bonn returns to full political activity this week after the holiday recess, politicians and parliamentarians will have to deal with plenty of unfinished business carried over from the old year. On top of the priority list are such familiar issues as the financial ailments of the old-age pension system, persisting unemployment, the inter-

Business *(contd.)*

rupted employer-labor dialogue, energy policy disagreements, and renewed pressures for a reform of income tax tariffs.

Pensions.--The government coalition has scheduled talks this month on new measures to prop up the deficit-ridden pension insurance system. Major topics will be proposals to raise contribution rates as well as introduce a health-insurance contribution requirement for pensioners. Labor Minister Herbert Ehrenberg also has floated a trial balloon on making pension benefits taxable - a concept that would be part of a major pension reform in the early '80s. In March, the government will have to decide on benefit increases (probably in the area of 5-7.5%) to take effect on Jan. 1, 1979.

Unemployment.--No patent solutions are in sight here, after Bonn has practically exhausted its arsenal of stabilization and support measures. A suggested lowering of the flexible retirement age could be financed only by way of higher pension insurance contributions, and its effects on the labor market are not even certain. Nevertheless, should there be no definitive acceleration of economic growth, the government will be pressed to come up with new ideas on combating unemployment.

'Concerted Action.'--This is the label for the traditional economic dialogue between the government, the employers, and labor, which was interrupted last summer by the unions in angry reaction to the employers' constitutional challenge of the codetermination law. Heinz-Oskar Vetter, head of the DGB national labor federation, has now indicated that the unions might be willing to resume the talks, and Chancellor Helmut Schmidt was designated the likely mediator.

Energy Policy.--Resistance by the state governments of Lower Saxony and Baden-Württemberg is seen as a distinct threat to the federal program for the promotion of energy-saving investments. Bonn will try to seek a consensus this month in talks with all state governments, and Finance Minister Hans Apel may have to bow to some of the financial demands advanced by the states. In February, at the latest, another parliamentary energy debate is due on the basis of the administration's forthcoming report on the safe disposal of nuclear waste.

Taxation.--After enactment of a string of fiscal relief measures worth some DM 13 billion *(Doing Business in Europe, Par. 30,985)*, the government is in no mood to come up with further tax concessions soon. However, the Free Democrats, junior partners in the coalition, are now pushing for a revamping of income tax tariffs by 1979-80, which would be primarily designed to ease the strain of the steep tax progression on medium-income taxpayers. Such modifica-

Business *(contd.)*

tions also would be backed by the Opposition. With the cost estimated at DM 7-14 billion, the coalition partners will have to decide soon whether such a tariff reform should still come within the current legislative period.

Netherlands: Approval for Government's Incomes Law

Even before hearing the policy statement by Prime Minister Andries van Agt (scheduled for Jan. 16), the Dutch parliament last month passed the first piece of legislation introduced by the new two-party coalition government. Social Affairs Minister Willem Albeda submitted an incomes policy bill that the Van Agt administration had inherited from the outgoing caretaker government. Taking effect on Jan. 1, the law affects some 1.3 million employees in medium- and upper-wage brackets and in small businesses who are not covered by collective bargaining agreements and whose salary increases will now be linked, for a two-year period, to those negotiated collectively in the respective industrial and commercial sectors. This approach is to reassure the country's labor unions that pay sacrifices asked of their own members will be more or less matched by unorganized, higher-income employees. The law required quick passage, since the new round of collective wage talks is already under way on a company and industry level. (Attempts to reach a national wage agreement met with failure last fall, and it is doubtful whether the new administration will succeed in having the employers and unions return to the bargaining table.)

Nevertheless, government and Parliament have been criticized for enacting legislation that many believe is not really necessary. According to the official Central Planning Bureau, the incomes of employees not covered by collective agreements have not risen as fast in the last few years as those negotiated by the unions. For this reason, both the affected employees and the employers expressed opposition to the law, and they were basically supported on this by the junior partners in the coalition government, the Party for Freedom, Progress and Democracy (VVD).

Prior to the parliamentary vote, political observers had speculated that the VVD's position on this issue would lead to a first clash with Van Agt's Christian Democrats. However, both parties agreed to avoid a major debate in Parliament over economic and social policy, since this would have preempted the forthcoming debate of the Prime Minister's Jan. 16 inaugural speech. As a result, all major parties approved the legislation, plus some amendments, with a broad majority, enabling the coalition to pass its first parliamentary test, while at the same time demonstrating its "social engagement," as some commentators put it.

Priorities Set by Dutch Businesses

At its recent annual meeting, the Dutch industry federation VNO established a list of priorities within its socio-economic concept for this year which includes the improvement of the business climate in general, promotion of exports, and "organizational and social innovation." Recovery of profits, which is usually part of such a list, was not expressly mentioned this time, apparently because the industrialists are confident that it would be forthcoming automatically, provided the new government adopts similar priorities in its own program. The hopes are not raised too high, though, because the Dutch business community recognizes that there are only minimal differences between the coalition agreement of the previous, socialist-led government and the one signed by the new center-right administration. Nevertheless, industry is relieved that the "policy of confrontation" allegedly pursued by ex-premier Joop den Uyl and his socialist Labor Party appears to be a thing of the past.

The business community is concerned, of course, that the new government's fragile parliamentary base - 77 out of 150 second-chamber seats and the possibility of seven leftist "dissidents" in its own ranks - will prevent the coalition from pushing through vital legislation against the opposition Labor Party. In fact, it is thought that Van Agt may even be in a weaker position than his predecessor when it comes to putting constraints on the labor unions. A test case should be the government's handling of the controversial excess profit-sharing proposal - another piece of uncompleted legislation left behind by the outgoing Den Uyl administration. The labor unions are clamoring for enactment of this law in return for cooperation on wages, i.e., holding pay increases this year to about the level of inflation.

Belgium: Tindemans Party Upholds Profit Motive

In addressing a congress of his own Social Christian Party last month, Belgian Premier Leo Tindemans emphasized the need for conditions that would enable the country's businesses to return to profitability and would reestablish the profit motive as a guiding economic force. "We must have the courage," Tindemans declared, "to stimulate investments in order to ensure a better future" for Belgium. This would mean a reduction of the tax burden and other costs to a level that again would permit entrepreneurial initiative to take over, Tindemans said.

Other party spokesmen criticized attempts by coalition partners in the government to use the current economic difficulties as a means of promoting new models of "collectivist" economic policy. Still other factions, it was charged, wanted to return to the old, rigid concepts of supply and demand, without taking the serious unemployment situation into consideration. The Social Christian Party, the speak-

Motive *(contd.)*

ers insisted, is not bound by rigid ideologies: it is in favor of an "incomes policy" and yet strives for a better distribution of incomes; it wants more employee participation and yet recognizes the need to maintain business profitability.

In the course of the convention, the party delegates adopted a resolution according priority to the inclusion of a company law reform in the programs of both the party and the government led by the party. It is proposed to confer certain rights now exclusively held by stock corporation shareholders to a supervisory board composed of shareholders and employee representatives. The chairman would be an individual elected jointly by all board members. A proposal to have each side elect the chairman in alternate years was rejected. Also turned down was a proposal by young members of the party organization to abolish banking secrecy, while another one seeking a 5:1 limit on the spread between the highest and lowest incomes was deferred to a later congress.

Britain: Some Easing of Exchange [illegible]rols

Strictly speaking, the United Kingdom is obligated under the terms of the treaty of accession to the Community to dismantle all national controls on capital movements to and from EC member states as of Jan. 1, 1978. In the last days of 1977, however, the U.K. Treasury succeeded in convincing the European Commission that wholesale dismantlement of controls could seriously jeopardize the current recovery in Britain's balance of payments. Accordingly, it has been conceded that Britain (along with Denmark and the Republic of Ireland) will have until the end of 1978 to align itself with conditions prevailing in other member states.

This notwithstanding, it was announced on Dec. 21 that a certain relaxation of the U.K.'s notoriously stringent exchange controls would take effect as of Jan. 1. As far as the Community is concerned, the key moves include an easing of the controls applied to direct investment to the effect that, for investment projects in EC countries, the amount of official exchange that may be made available has doubled to £500,000. At the same time, the 18-month period within which such investments are required to produce a balance-of-payments benefit equal to the original cost has been doubled to three years.

Other relaxations include a provision that foreign-currency loans taken to purchase securities issued by Community institutions (e.g., the European Investment Bank) may be repaid in currency bought at the official exchange rate over a five-year period. Further, the amount that may be freely exported by U.K. residents emigrating to other Community member countries has been doubled to £80,000.

By far the most important move, however, was the gov-

Controls *(contd.)*

ernment's decision to abolish the controversial and much-disliked "surrender rule" which has applied since 1965 to dealings in foreign securities and which required sellers of foreign currency-denominated securities to surrender 25% of their proceeds at the official exchange rate. The rationale was that this would boost Britain's official reserves. At the same time, however, the surrender rule resulted in investors' losing 25% of the investment currency premium on the sale of overseas stocks and thereby - so the City argued - acted as a major disincentive to investment. The abolition of the surrender rule will undoubtedly result in some loss of revenue to the Treasury but, in the view of City commentators, will give a green light to investment activity.

EURO COMPANY SCENE

Wilkinson/ Allegheny/ Swedish Match

Pending the approval of a shareholders' meeting next month, Britain's Wilkinson Match, the razor-blade and match group, will come under the majority control of Allegheny Ludlum Industries of Pittsburgh, Pa. The U.S. company last month signed an agreement to acquire 6.5 million ordinary shares of Wilkinson from Swedish Match Co. for £16.9 million in cash, which represents 29% of ordinary shares issued. Allegheny will then seek to raise its equity in Wilkinson to 52-55% by transferring a garden tools and fire extinguisher subsidiary, True Temper, to the U.K. company in return for a package of newly issued Wilkinson shares. Last month Wilkinson announced pre-tax profits of £7.2 million for the six months ending Sept. 30, 1977.

Kukident/ Richardson-Merrell

A leading German manufacturer of dental cleaning products, Kukident Kurt Krisp KG, which holds a domestic market share of 60% with annual sales of DM 55.5 million (1977), has been taken over by the German subsidiary of Richardson Merrell, Inc., Wilton, Conn. Neither side revealed details of the transaction or the price paid.

Common Market Reports

EUROMARKET NEWS

Issue No. 470 — *January 17, 1978*

IN THIS ISSUE

Community: Notice on Minor Cartel Agreements

In yet another definition of the field of application of EEC Treaty Article 85(1), the European Commission has published a notice that in effect exempts parties to agreements of minor importance from obtaining a negative clearance for such agreements from the Commission. Published in Official Journal No. C 313/3 (Dec. 29, 1977), the notice replaces a previous one dated 1970 *(Common Market Reports, Par. 2700)* and, like its predecessor, is designed to promote cooperation between small and medium-size enterprises. It will considerably ease the Commission's administrative work load because fewer requests for negative clearances will be made *(Common Market Reports, Par. 2411)* and the EC executive will have fewer decisions to render in individual cases to clarify the legal situation of agreements.

The Commission has maintained all along that agreements with a negligible impact on interstate trade and competition do not come under the cartel ban of Treaty Article 85(1). Agreements covered by the ban are those that have an appreciable impact on market conditions to the extent that they (1) alter the market position of businesses that are not party to the agreements and (2) affect consumers. Now the Commission has given a quantitative meaning to the

COMMON MARKET REPORTS, Issue No. 470, January 17, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Cartels *(contd.)*

term "appreciable." According to the notice, an agreement is not covered by Article 85(1) if (a) the products under the agreement and other products of the parties that are similar by reason of their characteristics, price, or use do not represent in a substantial part of the EEC more than 5% of the total market for such products and (b) the aggregate annual turnover of the parties does not exceed 50 million units of account. ("Substantial part" has already been defined in case law; "aggregate annual turnover" is defined as the sum of all sales made over the previous year by the firms that are parties to the agreement as well as by the companies in which those enterprises directly or indirectly hold at least 25% of the stock, control at least half of the voting rights, have the power to appoint at least half of the members on the supervisory and managing boards, or have the power to manage the companies' affairs.) The Commission also says that minor agreements are not covered by Article 85(1) even if the 5% market-share and turnover criteria are exceeded by up to 10% within two successive business years.

Consumer Credit Proposal Ready for Submission

The Commission will soon propose to the Council of Ministers rules for consumer credit and installment contracts that would bind credit institutions to truth in lending. The new rules would eventually afford individual borrowers in all of the member states equal standards of protection because the directive would force all states either to enact legislation along the lines set out in the measure or to amend existing rules accordingly. Several member states have already enacted consumer credit rules or plan to do so; the United Kingdom and Denmark are considered to have the most advanced credit rules.

According to the proposal, all credit agreements except overdrafts would have to be in writing. In the case of installment contracts, the seller would have to clearly specify the cash price of the item purchased, the credit price, and the effective annual credit charge. Each installment contract would have to state whether title is reserved to the creditor.

There would be a ban on fine-print clauses on the back page of the contract form. Also, there would be a seven-day cooling-off period during which the consumer could cancel any credit agreement concluded anywhere except at the creditor's place of business. There would further be a provision allowing consumers to pay off debts ahead of time and to receive a refund on interest and other charges. Finally, the measure would ban the use of negotiable instruments as collateral or as a means of paying off obligations.

In Brief...

The Commission's revised draft regulation on exempting patent licensing agreements from the prohibition of Treaty Article 85(1) contains 16 modifications but brings no funda-

In Brief
(contd.)

mental change in the heavily criticized original 1976 draft *(Common Market Reports, Par. 9927)*. The critics' main complaint was that the proposed rules would unreasonably hamper technology transfer. One minor change in the revised draft would permit clauses providing for arbitration and jurisdiction of disputes outside the EEC, but the British government reportedly has told the Commission that this and the other 15 changes are insufficient + + + Denmark, which heads the Council of Ministers during the first half of this year, will make a special effort to reduce distortion of competition in intra-EEC trade and in trade with third countries, according to Danish foreign minister Knud Börge Andersen. Copenhagen has asked the Commission to prepare a catalog of the member states' many direct and indirect aids and subsidies in order to demonstrate the extent of distortion now prevailing. Andersen does not visualize any new measures but rather increased efforts on the Commission's part to enforce existing competition rules.

Germany: Energy Savings Plan Held Up by Politics

Homeowners and businesses in Germany are anxiously awaiting the outcome of a dispute between the federal government and several state governments over a DM 4.3-billion program to promote energy conservation investments. If an agreement cannot be reached by Jan. 20, the program is expected to falter altogether. The disagreement involves largely fiscal and constitutional issues that can be traced back to the federal-state system.

Under the five-year program, to be financed equally by Bonn and the 11 states, homeowners and businesses would receive grants of up to 25% of the costs incurred in the insulation of existing homes and buildings. Installation of solar heating and pumps would also qualify. Although this measure, which would create additional jobs in the insulation industry, has generally been welcomed, two state governments have expressed opposition to the proposed financial arrangement. While the federal government hopes to obtain its half of the needed revenue by doubling the excise tax on heating oil (from the present DM 1 to DM 2 per 100 kilograms), the states are at somewhat of a loss about how they will finance their share. The Constitution requires that such a program, to be couched in an agreement between the federal and state governments, must be accepted by all. If one state fails to consent, the plan will fall through.

A purely political issue has entered the discussion. The federal minister for housing, Karl Ravens, has attached his political prestige to the program. Ravens, who will resign from his cabinet post in March, will head the Social Democratic party's ticket in the June elections in the state of Lower Saxony, whose Christian Democratic government is the principal opponent of the energy conservation

Energy *(contd.)*

program. The Social Democrats hope to unseat the present coalition between Christian Democrats and Free Democrats which is relying on a narrow margin. Observers say that the Christian Democrats want to prevent Ravens from using a successful energy conservation program as a campaign issue.

Belgium: Discount Rate; Revamping of Steel Sector

With effect on Jan. 5, the Belgian National Bank has lowered both its discount rate and the Lombard rate by half a point to 8.5%. The action so early in the year came as somewhat of a surprise to foreign exchange dealers and banks, even though there had been predictions of a slight reduction of the extremely high 9% rate for the end of January after Belgium had reduced its debt to the European Monetary Cooperation Fund. Only last month the National Bank had twice raised the discount rate by a total of 3% to 9% in support of the Belgian franc, which had come under pressure because of the D-mark's appreciation within the European joint currency snake.

In other developments, it was unofficially reported that the planned restructuring of the Walloon steel industry would mean the loss of at least 9,000 jobs. This figure, the reports said, is contained in a study being prepared by McKinsey & Co., the U.S. management consultants. It was also conceded, however, that the study spells out several hypothetical situations for the period until 1985, ranging from the possibility of eliminating up to 20,000 jobs to the (admittedly remote) chance of additional hirings. Etienne Davignon, the European commissioner for industry, for his part was reported to have warned against drawing hasty conclusions, saying that figures had been quoted out of context, that the McKinsey study was not yet completed and that, moreover, it covered not only Belgium but the whole of the EEC steel industries.

In related news, the managements and major shareholders of the Belgo-Luxembourg steel producer Metallurgique et Minière de Rodange-Athus (MMRA) and of Luxembourg's Arbed have now agreed that the latter will coordinate the financial reorganization of MMRA, which had been on the brink of collapse last summer. The overall reorganization plan earlier had been discussed by the two governments in close consultation with the European Commission. According to the agreement, Arbed as well as the two respective national investment corporations will join Belgium's Bruxelle-Lambert and Cockerill as major MMRA shareholders. The streamlining of production will require the redeployment (rather than outright dismissal) of some 700 out of 2,600 employees. MMRA's creditors have agreed to extend the existing payments moratorium until the end of 1978, and the European Commission will provide financial assistance under Articles 54 and 56 of the European Coal and Steel Treaty.

Italy: Currency Rules Eased; Payments Plus

The recovery of Italy's payments balance and foreign exchange reserves has enabled the Rome government to ease some controls on foreign exchange transfers. Benefiting from this relaxation are resident foreign individuals or entities with ("invisible") domestic proceeds from insurance policies, patents, licenses, copyrights, etc. Italian citizens traveling or residing abroad for purposes of study or medical treatment can be granted permission to export foreign exchange in excess of the maximum 750,000 lire per capita normally applicable. Finally, the authorities have liberalized the rules pertaining to domestic bank deposits of Italians domiciled abroad: as of Jan. 1, these individuals may freely draw on such deposits for purposes of effecting payments in Italy or covering expenses while staying in Italy.

According to estimates by Trade Minister Rinaldo Ossola, Italy's payments balance last year should close out with a surplus of 1,500 billion lire, which is a significant turnaround from the 2,300-billion-lire deficit at the end of '76. Ossola attributed the recovery mainly to a very good tourism year (800 million lire more in revenue than expected) as well as higher exports as the result of the weaker lira parity. The country's net currency reserves rose in November by $655 million to $18.5 billion, an increase that stems almost exclusively from the rise in short-term bank liabilities abroad. Twelve months earlier, prior to the adjustment of gold reserve value to free-market prices, the gold and currency reserves had totaled only $6.45 billion.

France: Barre Enters Campaign with 'Action Plan'

Premier Raymond Barre on Jan. 7 officially kicked off the final leg of the French election campaign by outlining an "action program" that would constitute the government's policy platform for the next five-year term should the administration be returned to power after the March vote. Worked out under the tutelage of President Valéry Giscard d'Estaing and unveiled by Barre in a speech held at Blois, the manifesto lists 30 "action targets" under four main headings - more civil liberties; more social justice; measures in support of the economy and, specifically, employment; and a better quality of life. The costs of the plan were estimated at FF 22 billion annually.

Commentators noted that Barre, who is also economics and finance minister, refrained from making any spectacular promises regarding the economy. He merely reemphasized the need for a continuation of existing policies seeking to strengthen and reorganize French industry which he himself had inaugurated one and a half years ago. Nevertheless, the Premier saw fit to give reassurances that his government had no intention to go overboard with its stabilization drive. There are no plans, he said, to raise within

Action Plan *(contd.)*

the next two years the social insurance contributions paid by employers. Also, during that time, small businesses hiring young people could depend on the state to take over the respective contributions for a one-year period. Barre even hinted at a freeze on direct and indirect taxes at present levels and said there would be administrative, financial and fiscal aids toward the creation of new businesses but also subsidy cuts to enhance the competitive climate. On the other hand, the government will continue to study the possibility of introducing a wealth tax.

Not to be ignored in the action program are the interests of the employees. Barre confirmed the statutory right to paid vocational training and for expanded worker codetermination. Concerning the latter, the official aims are for giving *cadre* representatives a consultative voice on administrative and supervisory boards and offering employees the opportunity to acquire shares of the companies they work for. Concerning future incomes policy (an issue that is now played up by the Communists and Socialists), Barre abstained from quoting exact figures but said that the targets here are still the same - preserving workers' purchasing power and rapidly raising the lowest incomes. Other social goals named by the Premier were increases in family allowances and minimum pensions, the option to retire at age 60, extending maternal leave to three months, lowering the workweek to 38 hours for certain jobs, and promoting the purchase of condominium housing.

French-U.S. Agreement on Reciprocal Tax Protocol

The U.S. and French governments last month achieved tentative agreement on a protocol to the income tax convention between the two countries. Before its provisions take effect, the protocol must be officially signed and the instruments of ratification exchanged.

Worked out in a year of negotiations between representatives of the U.S. Treasury and the French finance ministry, the protocol's primary purpose is to clarify the tax status of Americans residing in France, although it also "eliminates the need for registration by shipping and airline companies, covers the excise tax on insurance premiums, and brings up to date certain definitions." In general, the protocol provides for French tax exemption of U.S.-source business income. Investment income will be subject to taxation in France, "with a credit allowed for the amount of tax that the United States could impose if the recipient were not an American citizen." The U.S., in turn, will allow a credit for French tax on such income "by treating a portion of the investment income as if it came from sources within the country of residence." Pensions will be exempt from French tax to the extent that they are attributable to services during periods in which an American's principal place of employment was the United States.

Protocol *(contd.)*

There had been pressures on Washington and Paris to negotiate a protocol to the 1967 double-taxation treaty between the two countries as the French parliament discussed and approved draft legislation providing tax relief for French citizens residing abroad and, at the same time, repealing Article 164(1) of the tax code which in the past has protected American residents in France from double taxation. The repeal is to become effective on Jan. 1, 1979, although initially an earlier date was envisioned *(Doing Business in Europe, Par. 30,921)*. Even prior to the Assembly action, however, both governments had asserted in an Explanatory Note issued in November '76 that a repeal of Article 164(1) would not alter the basic agreement to avoid double taxation for Americans in France *(Doing Business in Europe, Par. 30,909)*.

Portugal: OECD Urges Tough Curbs on Demand

The need to bring down the country's current external deficits and galloping inflation remains among Portugal's most crucial objectives in the near future, even though the government's room for maneuvering is severely circumscribed, according to the latest economic report by the OECD (Organization for Economic Cooperation and Development, OECD Economic Surveys, Portugal, Jan. 5, 1978). The major problem in this respect is posed by the fact that many of the country's export products have little demand on the world markets these days. The textile and shipbuilding sectors, for instance, are typical crisis industries almost everywhere, and such products as foodstuffs, farm produce, and wine are subject to numerous import restrictions abroad. Any industrial restructuring and significant diversification of the export pattern, though desirable, would take too long to result in short-term improvements. For this reason, the OECD experts say, it is "ineluctable" for Lisbon to seek to reduce the volume of imports by tightly restricting domestic demand, both private and public.

The Paris-based organization also recommends that the Portuguese authorities continue their restrictive monetary and fiscal policies. Lisbon "apparently cannot count on any substantial inflow of private long-term capital before prospects for the economy improve very significantly." A major precondition for attracting sizable foreign investments would be the implementation of a price and incomes policy that would definitively slow down the wage-cost spiral. To achieve this, the government probably would have to negotiate a "social consensus" on the moderation of primary incomes. The OECD points out that consumer prices in Portugal rose about 27% in the January-October 1977 period, compared with 19.3% for all of 1976 - a situation that makes long-range economic planning exceedingly difficult.

No prediction could be made in the survey on the economic course of the next government in Lisbon: at the time

OECD
(contd.)

when the OECD conducted its annual review last month, the socialist minority administration of Prime Minister Mario Soares had just lost a vote of confidence in Parliament. In its 1978 draft budget, the government had proposed a further tightening of monetary policy with the aim of substantially reducing the current payments deficits and slowing down inflation, while maintaining a GNP growth of 3-4%. Despite the present political uncertainties, the OECD believes that "the evidence available does not warrant exaggerated pessimism, as there are a number of positive aspects in recent economic developments. More importantly, it is clear that appropriate policy measures could produce significant improvements..."

Norway: Total Ban on Artificial Food Coloring

Norway is the first country in the world to impose a total ban on artificial food coloring, which took effect on Jan. 1. According to the Norwegian Institute for the Food Processing Industry, the number of artificial colorings permitted in Norway had gradually shrunk in recent years until finally only five such colorings were allowed. From now on, only natural colorings may be used for foodstuffs, but even these are often subject to restrictions. For example, beet root and chlorophyll colorings are not permitted for products for which they have not been used prior the ban.

Among the manufacturers most affected is the important fish processing industry where the ban involves such products as smoked coalfish (salmon substitute) and lumpfish roe (caviar substitute). A canning industry spokesman said, however, that these two products would be allowed temporary dispensation until a natural coloring could be found as a substitute.

Common Market Reports

EUROMARKET NEWS

Issue No. 471 *Report No. 336, January 25, 1978*

IN THIS ISSUE

Community: Emphasis on Right of Establishment

With Denmark in the Council president's chair for the first half of 1978, the European Community could make some progress in several legislative areas, especially the right of establishment. The Danish government has told the other eight states that it wants to push for adoption of several measures or at least advance discussions to the point where the Permanent Representatives could take over to seek solutions on a political level.

The Representatives have already taken up the draft directives on the right of establishment of dentists and midwives, and adoption of these measures is expected in the coming months. Belgium wants to exclude oral surgeons from the measure, but Council attorneys believe that the Belgian government will give in on that point *(Common Market Reports, Par. 1349.15)*. The two directives concerning midwives apparently present no major problems *(Common Market Reports, Par. 1349.47)*.

Adoption of the coinsurance proposal has been delayed for lack of agreement on the concept of risks. (Should a coinsurance company also be allowed to insure in another state the risks entailed in the use of atomic energy and medical risks?) The location of a company's reserves is another contested issue. (Should they be located in the state where the risk is to be insured?) Here Council at-

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

COMMON MARKET REPORTS, Issue No. 471, January 25, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Establishment *(contd.)*

torneys are also optimistic that the Representatives will settle the remaining differences soon *(Common Market Reports, Par. 1349.343)*.

Two major problems are holding up progress on the fourth draft directive on company law coordination. The measure concerns national alignment of rules governing the content and presentation of corporate financial statements. The problem areas are the scope of application and inflation accounting, the latter being more a matter of taxation than of corporation law because of the obvious impact on tax returns *(Common Market Reports, Par. 1391)*. Progress on the third draft directive on company law coordination, which concerns safeguards for shareholders and creditors of stock corporations bound to merge, will depend on an agreement on the role of labor when companies merge *(Common Market Reports, Par. 1381)*. The discussions are going slowly, and no predictions are being made about when it might be adopted. The same holds true for the proposal on the European stock corporation; several member state governments and national business organizations are still questioning the need for such a corporate form.

The experts are still talking about some 20 proposals designed to align national specifications of products, among them those on automotive parts. Once the remaining measures on automotive harmonization are adopted, any car made in a member state according to the harmonized specifications would be admitted for sale in any other state without special authorization. This would bring up the question of whether third countries such as Japan should be allowed to benefit from the Community-type approval of vehicles *(Common Market Reports, Par. 3371)*. The answer may very well be found within the OECD or in direct Community-Japan talks.

VAT Proposals on Secondhand Goods, Refunds

The European Commission has submitted two proposals to the Council of Ministers in the area of VAT legislation: turnover tax treatment of secondhand goods, works of art, antiques, and collector's items and a common arrangement for refunding paid value-added tax. Provision was made for both measures in Articles 17(4) and 32 of the sixth VAT directive, adopted by the Council last May, but the details were left out then because agreement was not reached on Commission-proposed concepts *(Common Market Reports, Pars. 3165 S and 3166 G)*.

In the seventh VAT draft directive, dealing with secondhand goods and based on Article 32, the Commission is proposing a special taxation system under which a standard percentage of the selling price (the suggested figure is 30%) would be used as the taxable amount for VAT purposes. After considering other options and the problems they entail, the Commission believes that this approach is not

VAT Proposals *(contd.)*

only the best in terms of avoiding or mitigating the impact of cumulative taxation and of preventing deflection of trade but is also the simplest and most practical.

A taxpayer, such as a dealer in secondhand goods or works of art, would not be allowed to deduct from his turnover tax liability the value-added tax he paid when he bought the goods. This represents a major change from the Commission's original approach, suggested in its 1973 proposal for the sixth VAT directive, whereby the taxpayer would have been allowed such a deduction. The concept was dropped because no solution could be found to the problems involved.

A different approach would apply to used-car sales: the VAT tax base would be the resale price, and the car dealer would deduct from his tax liability the turnover tax he paid when he bought the car. VAT treatment of used-car purchases and sales differs from state to state, and lack of an agreement forced the Council to shelve the issue long before the sixth VAT directive was passed. The proposal was blocked by Bonn, largely because of anticipated revenue losses: in Germany the dealer pays VAT on the purchase price of the used car.

Passage of the eighth VAT draft directive would introduce the details to the VAT refund principle that was established in Article 17(4) of the sixth VAT directive. The Commission is proposing common rules on the VAT refund to which a business was entitled if it bought an item in another state and paid turnover tax on it. Since the rules governing refunds are more restrictive in some states than in others, equal treatment would stimulate intra-Community trade. *(Common Market Reports, Par. 10,018.)*

Italy: Cabinet Quits as Communist Pressures Rise

The quiet resignation on Jan. 16 of Italy's Christian Democratic minority administration under Giulio Andreotti was a predictable event after the previous weeks had seen an intensification of pressures for the formation of a new "emergency government" as a precondition to extending last fall's programmatic agreement. These pressures by the Communist PCI, the Socialists, and the Republicans - three of the six parliamentary parties joined in the agreement - in the end prevented a consensus on a long-term economic program and the 1978 budget draft and thus brought on the latest political crisis.

Andreotti's resignation cannot simply be interpreted as an admission of incompetence or indecisiveness. In terms of durability alone, the administration's 18 months in power easily surpassed the average 11 months of survival for the 38 previous postwar governments. Most important, Andreotti's team undoubtedly has achieved a certain degree of success on the economic front: the huge payments defi-

Cabinet Quits *(contd.)*

cits were rolled back, fiscal revenues were considerably improved, and Italy's credit standing vis-à-vis the international financial community was shored up. Draconic measures stopped the capital drain abroad, and some foreign exchange was actually repatriated. As a result, the Bank of Italy could recently report a payments surplus of 2.044 billion lire for 1977 and currency reserves of $8 billion. This turnaround of the external position, aided by the devaluation of the lira, was particularly evident in foreign trade and tourism. Exports last year rose 8.5%, while import growth - due to the increase of indirect taxes - slowed down to 3.5%. While pay indexation could not be abolished, the inflation rate nevertheless dropped from more than 20% to 14% at present. Finally, Rome was able to cool off the strike fever, cut absenteeism, and reduce the number of holidays.

Other problems loom as large as ever, of course - to mention only the massive deficits of the state industries and still-rampant unemployment. Yet, it was not the frustration over these challenges that caused Andreotti to step down but inability to cope with the forces that are pushing for direct Communist participation in government. It was nevertheless expected in Rome that President Giovanni Leone would ask Andreotti to attempt the formation of another government under his leadership, based on a constellation that would bring the Communists closer to their goal, though leaving them short of actual cabinet representation. Should Andreotti fail, his place could be taken by one of the other Christian Democratic leaders who are now openly advocating PCI participation.

Netherlands: Premier Van Agt Emphasizes Need for Sacrifices

In his inaugural address to Parliament on Jan. 16, Holland's prime minister, Andries van Agt, described the turnaround of the worrisome employment situation and the containment of price inflation as major targets of his new coalition administration. He emphasized the need, however, to reduce the influence and omnipotence of the state in many areas and to reemphasize individual initiative and responsibility. One measure, Van Agt declared, would have to be the scaling down of exaggerated incomes expectations, while the state would have to check the further growth of "collective burdens." The situation of the unemployed in the Netherlands is "more serious than indicated by the number 200,000," the premier said, because many jobless persons are not covered by labor statistics.

Observers noted that Van Agt's policy statement, while avoiding fine details, was marked by a certain deference to the leftist factions of his own Christian Democratic party (CDA) as well as to the influence of the liberal coalition partner, VVD. The prime minister said that more sacrifices will be asked of high-income groups than of others and that

Sacrifices *(contd.)*

price controls will continue, albeit "in consideration of the profit status of enterprises." Public-sector prices and rates would rise by 5% at most this year.

In reference to the European Community and international partnership, Van Agt warned that such problems as unemployment and inflation can never be solved by way of "resurfacing protectionism." Holland would submit in Brussels proposals on "continuant policies of the Community toward the Third World," while at the same time raising its aid to developing countries to 1.5% of the national net income. The assistance is to be concentrated on those countries that have the greatest need. In the area of defense policy, Van Agt referred to Holland's commitment to the western alliance in a way that contrasted with the more ambiguous position of the socialist government before him: the worrisome military buildup of the Soviet Union, he said, "makes the maintenance and improvement of the joint NATO defense efforts unavoidable."

Ireland: Labor Disputes, Pullout Tarnish Investment Lure

Ireland's Industrial Development Authority, the state agency responsible for the attraction of foreign manufacturing investment and administration of the generous tax holiday program, is trying to plug a gap created by the recent decision of the Dutch multinational Enka to close its £20-million plant (Ferenka) in Limerick. The pullout was given headline treatment in the Irish press, and it now falls to the IDA to persuade, if possible, a new manufacturer to take over the plant.

Ferenka's move was triggered by persistent labor relations difficulties, and the IDA and the government are worried that the closure may tarnish Ireland's reputation and possibly jeopardize some £500 million of investments currently in the pipeline. The special package of tax incentives offered by the Republic is extremely well-known, and the total tax relief granted on export profits has been instrumental in attracting no less than 700 foreign companies. Of these, the IDA is at pains to point out, less than 20% have experienced labor difficulties and, of these, only some 15 companies have had "significant labor problems." On the other hand, the latter count includes some firms that have been brought to a standstill for a year or more - for instance, the two U.S.-owned companies Crown Control and Dundalk Engineering. Others hit by prolonged disputes and stoppages include Japanese giant Asahi (which experienced 20 or so stoppages alone during the construction phase of its £50-million plant in Mayo County), the United States' Pfizer, and the Dutch-American Ross Engineering group. In Ferenka's case, the problems involved 25 "major" disputes, which resulted in total losses estimated at some £15 million.

Labor Disputes *(contd.)*

For obvious reasons, the IDA hesitates to apportion responsibility for these disagreements. It may well be, however, that foreign managements' labor relations expectations are higher than those of their domestic counterparts: figures released by the European Commission show that, for the years 1972-76, the annual average for days lost through labor disruption in Ireland was 732 per 1,000 workers - the highest total in the EEC after Italy. Significantly, perhaps, the number of days lost per 1,000 workers employed by foreign companies in Ireland was 821, although it must be borne in mind that this figure was inflated by the extremely serious disputes at a small number of plants.

Some observers believe that Ferenka's pullout may have been given disproportionate and "mildly hysterical" press coverage. On the whole, and judging by the experiences of the vast majority of foreign companies operating out of the Republic, it is felt that the financial and fiscal advantages greatly outweigh the disadvantages generated by Ireland's uncertain labor relations climate.

Germany: Lower Taxes on Foreign Investments

The German government has proposed to expand tax benefits for individuals and companies investing in developing countries. Until now the measures providing for these benefits have had a time limit necessitating recurrent action by Parliament: the existing Developing Country Tax Law, for instance, expires at the end of 1978. The Schmidt administration wants a statute whose application is not limited in time and which would help companies in the long-term planning of future investments. This change in approach also underlines Bonn's own economic interests, especially for reasons of better access to raw materials and energy sources, in addition to stimulating economic advancement in some 120 third-world nations.

Individuals and companies investing in the 27 least-developed African, Asian, and Arabic countries may now form a tax-deductible reserve of up to 100% of the investment; this reserve must be gradually restored to income starting in the sixth year following the year of investment. The proposed amendments would double that period to 12 years. Thus, an investor investing DM 12 million in a Benin mine in 1979 would claim a DM 12-million tax-deductible reserve on his 1979 income tax return. Starting in 1991, the taxpayer-investor would be required to restore to income at least DM 1 million per year.

Investors investing in those 92 African, Asian, or Latin American nations which are deemed to have a higher economic development are currently allowed to form reserves of up to 40%. After 1978, according to the proposal, they could claim reserves of up to 60% of the cost, and these would have to be restored after a 12-year period (at pres-

Lower Taxes *(contd.)*

ent six years). Taxpayers would qualify for these increased incentives only for projects aimed at opening new raw material resources and developing energy sources that Bonn considers worth supporting.

In addition to the forms of qualifying investments (for example, acquiring an equity interest in an incorporated entity or establishing a new entity), the amendments would also include as a qualifying investment the purchase of stock of holding companies established in developing countries and having their main office there. Furthermore, loans given to businesses engaged in mining or producing raw materials in developing countries would qualify as well under eased conditions. While under present law a loan qualifies as a tax-deductible investment only when the lender owns at least 15% of the borrowing entity's stock, a 5% equity interest would be sufficient under the proposed amendments.

Government officials estimate that such tax incentives cost the treasury some DM 220 million last year, and the proposed amendments would reduce revenue by an additional DM 30 million per year.

tria: sh Words for Investment Program

Business spokesmen and the political opposition in Austria have severely criticized the government's latest medium-term investment program as "numbers gigantism" designed to give the impression that Vienna is doing everything in its power to stop the rapid deterioration of the domestic economy. According to the Kreisky administration, its 10-year "employment-oriented structural program" will safeguard at least 130,000 jobs annually. The critics described the plan as merely a remake of a similar 1971 program, which since then has been revised no less than four times - the last time for the years 1975-84.

The latest, seven-point program begins with this year and lumps together all fund allocations in the federal budgets and other programs that in any way pertain to investments or "investment-related" projects - for instance, leasing programs for school construction or research promotion. In essence, these allocations are multiplied by 10 and rounded off to account for price expansion, future demand, etc. The financial framework has been set at 577.5 billion schillings, which compares with 204 billion schillings spent on investments and investment promotion in the 1971-78 period. The new figure appears less impressive when it is recalled that this year's regular budget already includes 47.5 billion schillings for the same purpose, plus 6 billion schillings out of the economic equalization budget. The government emphasizes, however, that more than 70% of the total is to be spent within the first five years.

Investments *(contd.)*

Within the overall program, Vienna wants to lay special emphasis on stimulating the investment activity of both state-owned and private industries, the commercial sector, and tourism. For the industrial sector, some 10 billion schillings are to be set aside for the next three years and made available through the state Investment Credit Corp. and the commercial banks. It has yet to be decided how this money is to be raised - probably on the capital markets. In addition, the government will allocate 300 million schillings annually in interest subsidies and plans to double the share capital of the Investment Credit Corp. to 600 million schillings.

The Kreisky administration was said to have timed the program's announcement to somewhat soften the fiscal blows visited on the business community at the beginning of this year (VAT increases, higher social security contributions, etc.). Nevertheless, the industrial association complained that the plan's shortcomings were its failure to strengthen profitability and competitiveness of industry and that, on the contrary, it tended to broaden the state's influence on investment activity.

Belgium: Gasoline Strike Canceled After Intervention

The threat of an acute gasoline shortage in Belgium was averted at the last minute when the labor unions representing some 5,000 workers in the country's petroleum refining industry called off a national strike that had been scheduled to begin on Jan. 17. In negotiations over the renewal of contracts that expired on Dec. 31, the employers had refused to accede to union demands for a 36-hour workweek. They also had rejected a government-supported compromise calling for a reduction of the workweek to 38 hours next July and to 36 hours by October 1979.

The scheduled strike was canceled after Employment Minister Guy Spitaels intervened in the dispute because of the serious economic consequences the walkout would have had; originally the government had refused to mediate. According to the two-year compromise contract finally accepted by both sides, the workweek will be cut to 38 hours as of Jan. 1, 1979, and wages will rise by 1% annually on top of the automatic adjustments based on the rise of the consumer price index.

Common Market Reports

EUROMARKET NEWS

Issue No. 472 *February 3, 1978*

IN THIS ISSUE

Community: Ready for Final Phase of GATT Talks

European Commission negotiators have gone to Geneva with clear guidelines from the Council of Ministers on what the Community hopes to gain during the final phase of multilateral trade negotiations which started on Jan. 23 and may last the rest of the year. At issue are not only tariff cuts for hundreds of industrial products but also the removal of nontariff barriers, whose relative importance has grown in recent years. This is reflected in the negotiating mandate, which calls on the Commission to seek mutually acceptable solutions to problems arising from nontariff obstacles such as the customs valuation methods, government purchases that discriminate against foreign bidders, export subsidies, administration of import licensing systems, and technical obstacles. Another topic will be access of foreign farm products to the GATT members' markets.

The outcome of the discussions in the nontariff areas will determine the extent of concessions that the Council eventually will be prepared to make on tariff cuts for industrial products. Under pressure from France and Britain, the mandate no longer sets a specific percentage for the cuts. (The other seven member states wanted a 40% figure included in the mandate.) Instead, the EEC negotiators will present a tariff reduction formula (sponsored by the

COMMON MARKET REPORTS, Issue No. 472, February 3, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

GATT Talks *(contd.)*

Swiss government) that has been accepted by the United States and Japan and provides for an average cut of 30% to 35%. The goal is worldwide harmonization of tariffs at a low level. This means that the negotiations will concentrate on lowering the high tariffs imposed by the USA and Japan.

If mutually acceptable solutions are found, the tariffs on industrial products and a long list of agricultural commodities would be effected in two stages starting in 1980; a five-year period would be followed by a three-year period, so that the tariff reduction process would be completed by 1988. Commission officials emphasized, however, that the planned time schedule could be kept only if the negotiators completed their discussions by the end of this year. The heads of government of the world's most industrialized nations who met in London last May said that they wanted the talks finished by the end of 1978 because another year is needed to act on the results of the negotiations.

Few Changes in 'Door-to-Door' Proposal

The Commission has made a few minor amendments in its proposal pertaining to contracts concluded in homes or in places other than business premises *(Common Market Reports, Par. 9911)*. The only surprise element was that the Commission, which under Treaty Article 149(2) may amend its measures so long as the Council of Ministers has not acted on them, did not wait for the European Parliament to formally adopt its report, though the discussions in the EP gave a fairly good indication of what the parliament considered desirable or objectionable about the measure. Several MPs had questioned the wisdom of including mail-order houses in the scope of the draft directive; others had similar doubts about including insurance agents. The Economic and Social Committee (ESC), which rendered its opinion on the proposal last June, had welcomed the measure and recommended several changes, two of which were included in the amendments.

The directive would provide consumers throughout the Community with a minimum of protection, especially in those member states that have no laws on the matter. According to the proposal, contracts negotiated away from businesses would have to be in writing, and the written contract would have to provide information that is particularly important for after-sales aspects (i.e., service, complaints). Most important, the consumer would have the right to cancel a contract within seven days after signing it.

One amendment made by the Commission would enlarge the concept of persons acting as sellers. A "seller" would not only be a natural or legal person who in the exercise of commercial or professional activity concludes contracts with buyers but also anyone acting on behalf of such a person. A number of contracts and situations would be excluded from the measure, such as deals initiated by the buyer, Door-to-Door *(contd.)*

contracts on real estate and related rights, and contracts concluded before a court or notary public. The two recommendations from the ESC that the Commission included propose that foodstuffs and drinks delivered by route salesmen also should not be covered and that the minimum value of contracts to be covered by the directive would be 15 European units of account instead of the originally proposed 25 EUA. Another Commission amendment provides that the seller could neither demand nor accept full or partial payment until the seven-day cooling-off period had expired.

In Brief...

The European Court of Justice is scheduled to render its judgment in United Brands v. Commission (Case No. 27/76) on Feb. 14. On the same day the Court will hear the oral arguments in another important competition case, Hoffmann-La Roche v. Centrafarm (Case No. 102/77) + + + The Council has given the Commission the go-ahead and instructions for negotiations on a new cooperation agreement between the EEC and Yugoslavia. The current agreement expires on Aug 31 + + + Negotiations for the first EEC trade agreement with the People's Republic of China were scheduled to start on Jan. 30. The agreement would run over a five-year period and would extend to China the most-favored-nation status. Peking recognized the EC as a legal entity in 1975, and diplomatic relations were established in the same year.

Germany: No Further Tax Incentives for Businesses

Chancellor Helmut Schmidt's policy statement before the German Bundestag on Jan. 19 dwelt heavily on foreign policy and internal security issues but contained some news for businesses. Schmidt reiterated his government's determination not to give in to pressure from abroad (especially from the United States but also from several EC member-state governments) to do more to put the sluggish German economy on a visible forward course and so stimulate domestic demand and thereby aid imports. An additional program to stimulate private investments and new measures on government spending are out of the question, Schmidt said. This is especially disappointing to countries with high trade deficits. Substantially increased imports would help whittle down the huge trade surpluses that Germany has been accumulating every year (in 1977 around DM 38 billion, the second-highest in history).

The public has been expecting a definitive answer about what the government will do to cope with the DM 20-billion annual deficit that the country's pension insurance funds will be facing in 1981. The squeeze is a result of sharply increased pensions, reduced revenue because the unemployed (over one million) do not pay into the system, and last year's measure cutting off payments from the health insurance funds to cover the medical bills of pensioners. Schmidt confined himself to saying that the pensions will

Tax Incentives *(contd.)*

not rise as much as they have in the past, but this alone would cut the deficit by only slightly more than one-half, so additional steps have to be taken. The Chancellor could not say more on the matter because the coalition parties are still arguing over two concepts: subjecting night, Sunday, and holiday pay differentials to social security tax (they are now exempt) and imposing a one-time annual "solidarity" charge of 1.5% on civil servants, who pay no social security contributions. Both concepts would yield enough to cover the deficit, but they are facing stiff resistance because the coalition parties do not want to anger labor or the civil service. Subjecting the pay differentials to social security contributions would bring in approximately DM 5 billion, and, since the contributions are shared by employees and employers, businesses operating around the clock would feel the added burden too.

Belgium: Devolution Legislation; Discount Rate

The first hurdle in what is expected to be a difficult year for Belgium's four-party coalition government was cleared this month with the publication of proposed constitutional changes which are to result in the country's becoming a federal state by the mid-80s. The proposals were published after months of discussions by a 15-member commission charged with translating into legal texts the terms of the Egmont Pact, the agreement that led to the formation of the coalition last June.

Although Flemish factions had earlier insisted on limiting largely French-speaking Brussels to its existing 19 boroughs, a compromise was eventually reached whereby Francophones would have equal administrative rights in seven additional Flemish boroughs around the capital. The main proposals in the commission's report are for further devolution of central and local government functions. The country would be divided into 25 administrative subregions - 13 in Wallonia, 11 in Flanders, and one based in Brussels. The subregions would take over some of the functions at present handled at state, provincial and borough council levels, and each would have a council to be elected every six years.

The proposals have won the approval of all coalition parties. The French-speaking FDF described itself as "satisfied," while the other federalist party, the Flemish Volksunie, claimed its negotiators had been able to get the maximum benefit for the Flemish community. Socialist Party president André Cools considered the commission's work as important as that involved in drawing up Belgium's first constitution in 1831, while the Social Christian Party of Prime Minister Leo Tindemans said that the agreement on the constitutional changes would now enable the government to better concentrate on dealing with the country's economic and social problems.

Devolution *(contd.)*

In other news, the Belgian central bank has dropped its discount and Lombard rates for the second time within two weeks. The latest action on Jan. 18 brought down both rates by a full point to 7.5%, whereas the reduction on Jan. 4 had been only by half a point. Financial commentators said that the central bank apparently took advantage of the calmed conditions on the international currency markets in reducing the base rates to levels deemed desirable in Belgium's current economic situation.

Luxembourg: Additional Currency Curbs; Tax Revenues

The Luxembourg government is seeking the introduction of additional currency controls so as to be able to ward off the inflow of unwanted foreign funds during periods of monetary instability, according to Finance Minister Jacques Poos. Draft legislation to this effect has been submitted to Parliament and is to be voted on in February. It is proposed that, during periods of severe exchange rate fluctuations, the domestic banks report regularly to the Banking Commission on their foreign currency positions, in addition to their existing monthly reporting requirements. Also, the banks would be obligated to abide by any criteria established by the Institut Belgo-Luxembourgeoise du Change (IBLC). In being amended accordingly, Poos said, Luxembourg's reporting rules would be brought in line with those of Belgium.

The main points laid down in IBLC framework rules concern the limitation or suspension of interest payments on foreign-held deposits and the mandatory transfer of such funds to blocked accounts. These measures could take effect only at the instigation of the IBLC, with veto powers reserved for the government. The monetary authorities thus would have a means of reacting quickly and decisively to speculative runs on, or withdrawals from, any currency. The principal objective would be, of course, to protect the Belgian/Luxembourg franc against speculation over its position within the European joint currency snake.

In other developments, Poos presented to the public a tentative report on the 1977 fiscal year, pointing out that the state finances could be given a clean bill of health despite the continuing economic crisis. Whereas Parliament had approved a budget showing an anticipated deficit of LF 712.3 million, the year actually wound up with a revenue surplus of LF 354.7 million. In the regular budget alone, revenues exceeded the original expectations by LF 2.2 billion - a rise of 6.4%. By contrast, expenditures in both the regular and the extraordinary budgets rose by a total of LF 1.2 billion, an increase of 3.3%.

The latest figures indicate that the banking sector has become the most important contributor to Luxembourg's budget: the additional revenues stem principally from cor-

Currency Curbs *(contd.)*

porate taxes, which in turn reflect better-than-expected bank profits. This means that the banks have overtaken the steel industry as the No. 1 taxpayers in the Grand Duchy.

France: Employers' Figures on Growth Needs

At its annual general meeting earlier this month, the Patronat Français (CNPF), the French employers' federation, renewed its familiar demands for faster economic growth and, in doing so, indirectly attacked the government for adhering to a strict stability course. In one of three keynote lectures, the 350 attending employer representatives were given exact figures which, in the CNPF's view, clearly document the urgent need for more vigorous economic expansion. Until 1982, the delegates were told, unemployment should rise by 580,000 and the foreign trade deficit should reach FF 20 billion if annual growth is limited to the current 3.2%. In order to absorb the expected annual increase in the national labor force of 300,000 additional workers, the CNPF experts claimed, the growth rate would have to be exactly 5.8%. With the need to reduce the high level of unemployment, annual rates of 6% and more would have to be achieved. (This latter estimate comes close to the forecast of 5.5-6% cited by the CNPF two years ago.)

In its calculations, the Patronat too had to deal with the imponderables presented by the existing and worsening energy bottlenecks and their effects on growth targets. In the years past, the rise in energy consumption, at about 5% annually, has been closely tied to overall economic development, or vice versa. In the 1980s, a reduction of the energy consumption rate to about 3% should be unavoidable, with a concomitant effect on the economy generally. To overcome this dilemma, the CNPF pointed to a high potential of untapped energy savings (40% for households and the service sector, 23% for industry, and 15% for transport) and, moreover, demanded of the government more emphasis on "energy-conscious industrial policy."

Another area that could offer solutions to the growth problem is that of immigrant labor, according to the Patronat. Here, the employers demand curbs on such immigration, which currently is adding 80,000 persons annually to the overcrowded labor market. In addition, they advocate a "careful and gradual" reduction of the number of foreign workers already in the country from 2 million to half that within the next eight years. Application of this formula would ease the pressures on the labor situation to the point where an economic growth rate close to 5% rather than 6% would suffice.

As to their own contribution to the employment picture, the Patronat two months ago announced that French industry was more than meeting its goal of creating an additional 300,000 new jobs by the end of '77. Within the

Employers *(contd.)*

July-November period, 264,600 young people were given employment. (This figure was somewhat misleading, however, in that only 42% of these positions could be considered permanent, whereas the remaining jobs were for trainees, apprentices, etc., and thus limited to specific periods of time.)

Switzerland: Formal Okay for VAT Plans; Workweek

The Swiss government this week was scheduled to formally sanction the decision seeking again the introduction of the value-added tax in place of the existing cumulative turnover tax, this time at a rate of 8%. (In a national referendum last June, the voters had defeated a finance and tax reform package which, among other things, provided for a maximum 10% VAT rate - *Doing Business in Europe, Par. 30,951.*) According to Bern's latest timetable, the bill would be taken up by Parliament this spring, with final details to be cleared up in the fall, so that the necessary referendum could be held in December. This timing would have the advantage of keeping the issue from interfering with the 1979 national elections. Jan. 1, 1980, would be the date for VAT to take effect.

After again consulting with all parliamentary factions, the government coalition parties in Bern have agreed not to seek another turnover tax increase so as not to stall the VAT efforts and risk repercussions on the growing federal deficits. This basic consensus, however, does not preclude arguments over related finance reform questions such as the extent of VAT reductions (for instance, for the gastronomic sector), modification of the federal income tax (progression rates, a heavier burden on higher incomes), and the overall structure of the 1978-81 finance plan which is to result in a balanced budget as of '81.

In other developments, the Swiss labor federation SGB has dropped its plans for an initiative seeking the introduction of the 40-hour workweek. The SGB obviously lacked the support of its own rank and file: various polls reportedly have shown that most Swiss workers would prefer longer vacations rather than a shorter workweek. The SGB - with a total membership of 440,000 - was able to collect only 45,000 signatures in support of the proposal. This fell somewhat short of the 50,000 signatures required for a constitutional initiative until the end of last year and decidedly so of the 100,000 signatures needed since Jan. 1.

EURO COMPANY SCENE

Budd/ Thyssen

The board of Budd Co., the Troy, Mich., suppliers of steel and plastic components to the automotive industry, on Jan. 17 accepted a takeover offer from Thyssen AG, the leading German steelmaker. The offer is on a cash basis of

Budd/ Thyssen *(contd.)*

$34 per share. In addition, Thyssen reportedly proposed that Budd's 5 7/8% convertible subordinated debentures and $5 preferred shares be called for redemption and that the outstanding warrants and employee stock options be retired. Thus, the total value of the offer would come to about $290 million. The final terms of the merger agreement are now to be negotiated and then scheduled to be submitted to a shareholders meeting, probably in April. For the first nine months of 1977, Budd reported sales of $959 million and earnings of $34.9 million. Thyssen's sales in fiscal 1977 amounted to DM 19.8 billion, a decline of 2.9%.

Sanyo/ Emerson

The Japanese electronics producer Sanyo Electric Co. is acquiring 30% of the share capital of the Italian television set manufacturer Emerson Electronics SA of Florence with a view to producing color TV sets under the Emerson-Sanyo label for the European markets. Sanyo's main reason for the step is said to be the fear of an Italian ban on Japanese TV imports. As part of the deal, Sanyo will purchase the new shares resulting from a capital increase from 2.5 to 3.57 billion lire.

IBM Italia

According to reports from Milan, the management of IBM Italia, in negotiations with the labor unions, has made commitments for the hiring of 1,350 new employees in its plants at Milan, Vimercate, Segrate, and Rome. In addition, IBM announced total investments of about 30 billion lire for the expansion of its plant at Vimercate (an industrial suburb of Milan) and projects in the Mezzogiorno. The new hirings would raise IBM's labor force in Italy to a total of 10,165, the reports said.

Hill Samuel/ First City of Texas/ Banque Arabe

First City Bancorporation (FCB) of Texas will be one of two new shareholders joining Hill Samuel, the London merchant bank, which is raising £9.3 million in additional capital. FCB, reportedly the second-largest multibank holding company in Texas, is to acquire 2 million ordinary shares at 100p per share and, over the next three years, will have the option of subscribing to an additional 1.3 million shares. The other new shareholder is Banque Arabe et Internationale d'Investissement, a Paris-based consortium bank in which Bank of America, among others, holds a small equity. Under the arrangement, still subject to shareholder approval, FCB would have a 3.1% interest in Hill Samuel's enlarged capital and Banque Arabe, 5.2%. If all options are exercised, the percentages eventually would rise to 4.8 and 9.7, respectively.

Common Market Reports

EUROMARKET NEWS

Issue No. 473 *Report No. 337, February 9, 1978*

IN THIS ISSUE

Community: Protection of Third-World Investments

The European Commission has recommended to the Council of Ministers the conclusion of agreements with developing countries to protect investments there by Common Market-based companies and individuals. Agreements barring discrimination against foreign investors and providing for compensation in case of expropriation already exist between individual member states and developing countries, but only Germany has concluded a significant number of such accords. The Commission is suggesting that the Community enter into contracts that will establish basic rules on the treatment of investments originating in the Common Market. Investment protection clauses could be inserted during the renewed negotiations of the Lomé Convention, which are scheduled for July *(Common Market Reports, Par. 4281)*.

In its message to the Council, the Commission points out that the investment climate in the developing countries is deteriorating. Potential investors have been scared off because of the political risks that cannot be avoided but the consequences of which could be minimized through corresponding agreements. Capital investments from Common Market countries in a large number of third-world nations have remained on the same level since 1972 and in some cases have even declined. The EC executive believes that it is

This issue is in two parts, consisting of 232 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 473, February 9, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U.S.A.

Investments *(contd.)*

in the interest of the Community to invest at least on the same scale as U.S. and Japanese companies. (The United States and Japan already have some agreements with developing countries that are designed to protect capital investments, and they are in the process of negotiating others.)

In addition to the capital investment protection agreements, the Commission is also suggesting special tripartite accords involving the particular developing country, the investor, and the Community. These agreements would contain conditions for specific investment projects and, most important, would have the Community assume the role of guarantor to cover the risk of war, restrictions on free transfer of profits, expropriation, or other unilateral action by the developing country that could deprive the investor of the benefits of his investment. The Commission is also recommending the inclusion of a clause that would have the investor cede his rights vis-à-vis the developing country to the EEC if the Community compensated him for expropriation. Because of the Community's potential in terms of trade and development aid, it is believed that a clause of this type would deter a country from taking unilateral steps against foreign investments.

Greece Seeking More Support for Accession

Greek Prime Minister Constantine Karamanlis has wound up his round of visits to West European capitals in Brussels, where he talked to his Belgian colleague Leo Tindemanns and to European Commission President Roy Jenkins. The purpose of his trip was to drum up more support for Greece's entry into the Common Market by 1980 *(Common Market Reports, Par. 9809)*. For the most part Karamanlis received the needed support, especially from German Chancellor Helmut Schmidt, for the final phase of entry negotiations which is expected to start in March. Jenkins also promised to help speed up these talks.

The Commission has just completed the first of a series of position papers on the various topics of entry talks, which will cover the customs union, free movement of goods, the right of establishment, agriculture, competition, commercial policy, regional policy, and institutional aspects. This first paper concerns the prospects and possibilities of achieving free movement of industrial goods and Greece's application of the common customs tariff (CCT). Once the Council of Ministers has discussed the paper, which it will do any day now, and has arrived at a common stand, the experts of both sides could get together to draft the pertinent articles of the future accession treaty.

Commission officials see some difficulties in Greece's commitment to apply the CCT, even though the path toward a customs union was charted in the 1962 Association Agreement, which provided for a 22-year transition period, i.e., Greece *(contd.)*

until 1984 *(Common Market Reports, Par. 5344)*. There is no way to avoid the common customs tariff, which is a necessary part of a customs union under GATT rules. Greece's current tariffs average 20%, while the EEC's CCT amounts to merely 8%. Also, Greece is facing the prospect of having to enter all of the trade agreements concluded by the Community with about 100 countries, so it will have to extend to those countries the very same trade preferences that the EEC has granted.

Karamanlis is still in the dark about one very important aspect of membership: Jenkins could not yet say what the Community might be prepared to do financially to cushion the impact of entry for Greece's economy. (Aid would come essentially from the Regional and Social Funds.) The Mediterranean country would be granted a transitional period, but the length of this period (possibly ten years) still has to be discussed.

In Brief...

The Commission has postponed legal action against the U.K. for its failure to comply with Community rules requiring trucks to be fitted with tachographs. Britain was to have passed legislation in 1976 to make installation of tachographs mandatory in new trucks used in the transport of dangerous products, and at the beginning of this year the U.K. should have passed a measure to include all trucks over six tons. A majority of the Commission members reportedly thought it unwise at this point to initiate proceedings under Treaty Article 169 and to give Britain a final deadline for compliance. The reason: London is supposed to make some concessions on the fisheries and farm policies + + + The Commission has assured five European oil companies that it will continue in its effort to make the Council agree to a cutback in Europe's present excess oil refining capacities. The companies - CFP and ELF Aquitaine of France, ENI (Italy), Petrofina (Belgium), and VEBA (Germany) - have no crude oil supplies of their own and thus depend on European refineries. Since capacity is exceeding demand, the Commission last year proposed a 16% cutback in refining capacity but was turned down by the Council.

Italy: Radical Shift of Course by Labor Unions?

The debate in Italy over recent statements made by the secretary-general of the Communist CGIL labor federation for a few days even took the spotlight from the continuing negotiations over the formation of a new government in Rome. In an interview for the newspaper La Repubblica, CGIL boss Luciano Lama said the unions should be prepared to give up a wage policy that ignores other economic factors and is based on "employment at any price." In effect, Lama advocated a return to the principle of labor mobility and thus indirectly acknowledged the occasional need for dismissals by financially troubled enterprises.

Labor Unions *(contd.)*

The CGIL leader recommended to Italy's workers a "policy of sacrifices" and the acceptance of the fact that their problems must take a backseat to those of the country's 1.6 million unemployed. The fight for higher wages should be conducted in muted tones in the next few years, and the mechanism of the wage equalization (unemployment insurance) funds would have to be reexamined from scratch. Only in exceptional cases should workers be allowed to draw benefits for more than one year. Lama specifically referred to abuses, most prevalent in northern Italy, of workers drawing unemployment compensation while engaging in moonlighting. He conceded that labor productivity in Italy has been lagging behind wage costs and that this has contributed to high unemployment. Lama said he was opposed to proposals to reduce unemployment by scheduling more short-time work, pointing out that Italy already belongs to the industrialized countries with the shortest work time (1,500 hours per year as compared with the European average of 1,700 and Japan's 2,000).

Coming as they did from one of Italy's most powerful labor bosses and a member of the Communist Party's politburo, the statements were widely described as "sensational" and were viewed by some as an open admission of misguided union policies in past years. Most Communist union functionaries came out in support of Lama, while other labor spokesmen - notably those of the militant metalworkers and the socialist UIL - referred to a "dangerously reduced interpretation" of the common policy paper drawn up by the country's three major labor federations.

Many observers wondered aloud whether Lama's statements truly signaled a sudden and dramatic shift in the unions' course, or whether they were purposely designed to help pave the way for a Communist participation in the next government. Guido Carli, president of the Confindustria industry federation, remained skeptical in view of Lama's continued insistence on pay indexation and his references to the ongoing "class struggle." Others were more hopeful. Republican leader Ugo La Malfa saw improved chances for a "social pact," and central bank governor Paolo Baffi also welcomed Lama's statements.

<u>France: Giscard Sees Economic Risks If Left Wins</u>

With a televised appeal to his countrymen to make "the good choice" of reelecting the incumbent center-right government, French President Valéry Giscard d'Estaing has actively engaged himself in the campaign for the national elections in March. In a much-publicized speech on Jan. 27 at Verdun-sur-le-Doubs, at the end of a two-day tour of the Burgundy region, the President warned the voters of the consequences should the leftist parties be given the opportunity to implement their "collectivist" common program. This, Giscard claimed, would push France into "economic

Giscard *(contd.)*

disorder" to the detriment of all citizens. It would "inevitably enlarge the budget deficit and speed the devaluation of our currency" and it would increase the foreign trade deficit, "with direct consequences for economic security and the employment situation."

The President sought to destroy the notion that the Left, at least the Socialists, would not actually enforce the common program in the event of an election victory. He said the program would be applied if the voters supported it and that he, the President, would have no constitutional powers to prevent this, even though his mandate runs through 1981. Further, Giscard warned against staking any hopes on the functioning of a minority government (conceivably, a Socialist administration under François Mitterrand, which many Frenchmen are said to be hoping for). In alluding to four major political "tendencies," the President said that "none of these tendencies will receive more than 30% (of the vote). None of them will be able to govern alone...and if the attempt were made, it would end soon and miserably." Although he did not expressly mention names, Giscard obviously referred to the Gaullists, the Center parties, the Socialists/Left Radicals, and the Communists.

The Opposition reacted to the speech by charging that the President had "brutally" violated his neutrality as a national "referee," whereas the governing majority applauded the clear stand Giscard had taken.

Predictably, any development at all that could bear on the outcome of the March elections lately has been seized upon by the forecasters. Thus, it was seen as a "psychological" success for Premier Raymond Barre when the monthly inflation rates for November and December 1977 dropped to 0.4% and 0.3%, respectively, which compared very favorably to the results of the previous months. This stabilization was primarily attributed to the tightened price and profit-margin curbs on foodstuffs as well as the restrictive incomes policies, which finally appear to show the desired effects. On the other hand, there has been a "gold rush" by French investors who are frustrated by the political uncertainties and worried by the opinion polls, most of which still predict a victory for the Left.

Germany: Bonn to Revive Plan for Energy Conservation

The German government has decided on a new approach to revive its five-year, DM 4.3-billion program to conserve energy in homes and other buildings. The program failed to pass last month when two Opposition-controlled state governments refused to sign a draft contract submitted to all eleven states by the federal government. (Contracts between federal and state governments that call for administrative cooperation in specific fields and in effect are a shortcut in the long process of formal legislation are per-

Energy
(contd.)

missible, but they must be signed by all 11 state governments in order to take effect, according to a ruling by the Federal Constitutional Court.)

If a bill presented to Parliament on Feb. 1 is passed, homeowners would be entitled to government grants to offset 25% of the cost of energy-saving investments in their houses, such as insulation of the roof and walls and replacement of single-pane windows. There would be a ceiling of DM 500,000 for commercial buildings but none for private homes.

The government hopes that both houses of Parliament will wind up their deliberations by the end of June so that the measure could, if approved, take effect on July 1. Thus investors would become eligible for grants on investments made from the second half of 1978 until mid-1983. Spokesmen of both the building materials industry and the powerful national homeowners' association have criticized Bonn for not seeking retroactive enactment as of Jan. 1. Their argument: homeowners and management are holding back on insulation investments to await the outcome of the bill, and there are tens of thousands without jobs in the building trades who could be given employment sooner. Government officials say, though, that they want to avoid anything that could jeopardize the bill, since the measure must take the hurdle of the Opposition-controlled upper house. However, they are hoping that at least one or two Opposition-controlled states will consent to the measure. Their assessment is based on the favorable responses from two state governments now that the bill has less of the political, constitutional, and fiscal impact that prompted Baden-Württemberg and Lower Saxony to veto the original proposal.

Denmark:
Tax Clampdown on Foreign Oil Companies

Multinational oil companies as well as other foreign enterprises operating in Denmark are facing higher income tax obligations there: Jens Kampmann, minister of taxes and levies, has announced that the fiscal authorities are being instructed to apply a clause in Danish company law permitting arbitrary assessments based on earnings a company probably would have made as "an independent entity transacting business with the foreign (parent) company."

Leftist factions in Parliament for several years have been criticizing the international oil companies in Denmark for not paying enough taxes or for paying only "symbolic" amounts. They are charging that the companies are in a position to manipulate import and export prices, thereby shifting profits to wherever the tax burden is lightest. Shell, Esso (Exxon), British Petroleum, and Gulf, the big four, have been specifically mentioned, with Gulf reportedly having paid no taxes at all for a decade because of

Clampdown *(contd.)*

large depreciation allowances resulting from the construction of refineries. So far, the oil subsidiaries have been taxed as resident Danish companies.

According to reports from Copenhagen, the oil concerns have announced their intention to challenge the new assessment procedure in the courts and, if necessary, carry their battle all the way to the supreme court. They also have warned that the government's action could persuade foreign investors to stay away from Denmark. With the government yet having to spell out details, it was assumed that the assessments would be on the basis of transfer prices between the Danish subsidiaries and their parent concerns.

Britain: Study Proposes Major Reform of Tax Structure

A committee of Britain's Institute for Fiscal Studies has now completed and published a voluminous report which serves as an indictment of the U.K.'s "illogical, inefficient and burdensome" system of direct taxation and, at the same time, proposes a radical reform of the prevailing tax structure ("The Structure and Reform of Direct Taxation," IFS London, 1978).

The Meade Report (so named after committee chairman J. E. Meade, emeritus professor of political economy at the University of Cambridge and the 1977 Nobel Prize laureate for economics) concludes that, if personal taxation were based on expenditure rather than on income - and, by the same token, corporate taxation were based on cash flow rather than on profits - then the entire tax system could not only be simplified but could also be made socially more equitable.

Radical as this proposal at first appears, such a change would be relatively simple to implement in practical terms, Meade says. The change is one of principle or tax philosophy rather than one of direction. Indeed, personal income tax in the U.K. has already moved some considerable way in the direction of a consumption expenditure base, as has corporate taxation (taking into account such provisions as investment allowances, stock appreciation relief, etc.). In the committee's view, it would be simpler to shift to a full-scale expenditure tax rather than try the "impossible" by revamping the present tax system yet again and institute a genuine income tax which would (a) incorporate a comprehensive and comprehensible definition of "income" and (b) make proper allowance for the fiscal effects of inflation.

Predictably, the Meade Report has already generated massive controversy. At the same time, it has been accorded due respect, because the report goes into full detail on how a transition to an expenditure base tax could be implemented and postulates a ten-year timetable for reform.

Tax Structure *(contd.)*

The advantages given for a tax based on expenditure are as follows: at the personal taxation level, the complete exemption for savings and for spending out of capital would ease the tax burden of those with high incomes and shift it on to those living on large accumulated wealth. Moreover, the equal treatment of income and capital would permit the abolition of capital gains tax, close-company provisions, a large proportion of the rules concerning trusts, and the intricate provisions in regard to "averaging" high temporary earnings over a period. At the same time, however - and this is said to be the most controversial part of the Report- a number of new taxes would be required, e.g., on gifts and inheritance, and on emigrants. Also, massive social security reforms would have to be introduced. Nonetheless, it can be claimed that the Meade proposals, if implemented, could remove most, if not all, of the anomalies and distortions of the present system and pave the way for "horizontal equity," i.e., fair treatment of similarly placed taxpayers.

Portugal: Second Soares Cabinet Takes Oath of Office

Prime Minister Mario Soares's second cabinet was sworn in on Feb. 1, ending Portugal's most recent political crisis after six weeks. Soares's previous Socialist minority government had resigned last Dec. 9 after its defeat on a confidence motion that had been tied to a vote on both a proposed budget package and the IMF loan terms. The new 16-man coalition cabinet includes 11 Socialists, three members of the Democratic-Social Center (CDS), and two independents. The participation of the CDS ministers - who were given the foreign affairs, trade and tourism, and administrative reform portfolios - has been particularly welcomed by the business community. Trade and tourism minister Basilio Horta, for instance, has the firm support of the CIP industrial federation. Another acknowledged economic expert is Vitor Constàncio, the Socialist minister of economic cooperation, finance, and planning, who previously was the deputy governor of the Bank of Portugal and head of the government commission negotiating with the European Community.

Common Market Reports

EUROMARKET NEWS

Issue No. 474 *February 14, 1978*

IN THIS ISSUE

Community: Britain Vetoes Joint Fisheries Policy System

At the Jan. 30-31 meeting of the EC's nine agricultural ministers in Brussels, Britain vetoed the Council of Ministers' resolution to establish a permanent system for a common European fisheries policy. Backed by the other eight states, the resolution contained rules on conservation, control, and structural measures; most important, however, were the details on the distribution of available resources. The failure to come to an agreement meant that all transitional measures expired on Feb. 1 and that the intended conservation measures fell back into national jurisdiction. Community funds already allocated for coastal patrol vessels for Ireland and Greenland are now blocked, and so are funds to help the various national fishing industries become more efficient. European Commission vice-president Finn Olav Gundelach said that talks with third countries would continue because the negotiating mandate given by the Council last year is still valid.

The U.K.'s refusal to accept the pact has once again caused the other member states to criticize the British for their lack of Community spirit and cooperation. The veto has been especially disappointing to the Commission, which had gone out of its way to accommodate London. The Commis-

COMMON MARKET REPORTS, Issue No. 474, February 14, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Fishing Policy *(contd.)*

sion's revised proposal, submitted to the Council last year, allotted substantially increased fishing quotas to the U.K., which the British government found acceptable. The Commission also met two of London's other major demands on conservation - a ban on herring fishing in the North Sea and a ban on large vessels in an area northeast of Scotland. (Scottish fishermen were most active in demanding that their government not give in to the Council resolution.) However, the Commission and the other eight states could not give in to the U.K.'s demand that its fishermen be given dominant preference in the 12-to-50-mile territorial waters surrounding Britain.

Despite the breakdown in the negotiations, the U.K. is still bound by the terms of the Accession Treaty and the Treaty of Rome. According to Article 100 of the Accession Treaty, no member state may impose restrictions on fishing rights within its 12-mile limit beyond those that were in effect on Jan. 31, 1971. Fishing conservation measures that Britain may introduce in its own coastal waters may not discriminate against fishermen from other member states, and they must be approved by the Commission.

Meanwhile, at their Feb. 7 meeting, the EC foreign ministers picked up the pieces left by the agricultural ministers and examined the chances of resuming the negotiations for a common fisheries policy in the near future.

EEC-Red China Trade Accord Initialed

Commission and Red Chinese officials needed only five days in Brussels to wind up their talks for a trade agreement, since most of the groundwork for the five-year pact had been laid by experts in numerous meetings over the past two years. The accord, the second of its kind with a state-trading country, will replace the bilateral contracts between Peking and the individual member states. For the Community the agreement takes on an added dimension because the EEC's trade with Red China showed a deficit in 1977 for the first time. (In 1976, exports from the People's Republic of China to the EEC totaled $750 million; EEC exports to Red China amounted to slightly over $1 billion.) The decline was due to the fact that China reduced its EEC imports last year by half but exported just as much as in previous years.

Commission officials are expecting a pickup in EEC exports to Red China. The nine member states are Peking's second-most-important trade partners after Japan. In recent years, 90% of the Community's exports to the People's Republic were made up of machinery, industrial equipment, rolling stock, and chemicals. Half of Red China's exports to the Community consisted of foodstuffs and raw materials, but the percentage of manufactured goods has been on the rise.

The agreement is nonpreferential in nature. It pro-

China Trade *(contd.)*

vides for the establishment of a mixed committee to oversee the smooth functioning of the agreement. The committee could also make recommendations to expand the list of Chinese products that could enter the Community freely or which would benefit from increased quotas. Peking would be expected to reciprocate by opening its markets to an increasing number of Community products. The accord binds the EEC and Peking to grant other countries most-favored nation treatment. It also contains a goodwill clause committing both sides to cooperate as much as possible in the field of trade. Protective measures may be taken only after consultation and would, considering the Community's excess capacities, affect primarily steel, textiles, and certain food imports. Finally, there are provisions that obligate China to offer products at fair prices and to refrain from offering tenders based on artificial, state-administered prices.

In Brief...

The chances for adoption of the draft regulation on conflicts of law in the foreseeable future have waned: the Council's working group has interrupted the talks in order to permit studies on enlarging the proposal's scope of application. The proposed measure would clarify which national law applies to an individual who is transferred from the parent company in his home state to a subsidiary in another member state. During the working group's discussions, several national experts thought it wise to give the measure wider scope (for example, by including agents) + + + On Jan. 31, the Council agreed on a two-stage devaluation of the "green pound," the fictitious monetary unit applied in intra-EEC trade of British farm products. There was a 5% devaluation as of Feb. 1 for pork, beef, and veal, and this will be followed by a 2.5% reduction for these products and a 7.5% devaluation for milk and milk products when the prices for 1978-79 are determined, which is expected in April + + + Having received the basic go-ahead from the nine heads of government at their Brussels summit last December, the Commission has now asked the Council for formal approval for powers to borrow up to 1 billion EUA in order to stimulate investments within the EEC.

France: Investors React Nervously to Franc Crisis

The anticipation of a victory for the political Left in next month's national elections has created an extremely nervous climate among French investors and in the business community. Within five weeks, share values on the Paris Bourse dropped by some FF 10 billion as many stockholders hurriedly disposed of their shares and rushed into gold, for which the price promptly rose up to FF 30,000 per kilogram. It was reported that other investors clandestinely transferred capital abroad, preferably to Switzerland. Many businesses took the legal route of exchanging francs into "hard" currencies such as D-marks, Swiss

Franc Crisis *(contd.)*

francs, and even U.S. dollars. The panic mood was fueled by newspaper headlines predicting the "collapse of the franc" and labeling the foreign exchange and securities markets as the "first victims of the election campaign."

Selective National Bank intervention and statements of reassurance by the government finally steadied the situation somewhat last week, but not before the U.S. dollar had risen 4.5% against the franc within a few days (as of Feb. 6) and the D-mark's appreciation had reached 35% since March '77.

The parties of the government coalition attributed the latest "catastrophal developments" to the fears of a Leftist takeover, and Premier Raymond Barre blamed "psychological factors" rather than actual economic reasons for the crisis. The head of the employers' federation, François Ceyrac, claimed that all hopes for progress must be abandoned if the Left implements its common political and economic program, which he described as a "threat" to businesses and the entire domestic economy.

The Communists and Socialists issued rebuttals to the effect that it was not their program but the total failure of government policy that had seriously undermined confidence in the franc. Georges Marchais, the Communist leader, declared that the current speculation against the fra was a "political maneuver by the people in power" and tha a government of the Left would put an immediate stop to this speculation and to any illegal capital outflow. Marchais referred specifically to tight controls on capital movements within multinationals and also announced plans for a strict clampdown on tax evasion, the introduction of a wealth tax, and a tax progression of up to 85%.

Meanwhile, a Louis Harris poll conducted on Jan. 30-Feb. 1 for the socialist weekly Le Nouvel Observateur showed no appreciable change in the voter constellations: the Left continues to lead with 51%, followed by the government parties, with 45%. On the basis of the latest projections, the Left could wind up with 255 seats in the National Assembly, compared with 236 for the conservative parties.

Netherlands: Minimum Capital Increase for Corporations

The establishment of new corporations in the Netherlands is to be made more difficult in the future by legislation raising the minimum capital requirement from 10,000 to 35,000 guilders. A bill to this effect has been passed by the lower house of Parliament and is expected to be approved by the upper house as well, so that it could become law this year. The legislation would affect the limited-liability company (*naamloze vennootschap*, NV) and the close corporation (*besloten vennootschap*, BV) - *Doing Business in Europe, Par. 26,711*. Justice Minister Jacob de Ruiter said

Capital *(contd.)*

he considered the proposed increase in the minimum capital requirement sufficient; the opposition Labor Party had pushed for a 100,000-guilder minimum.

It was also reported that the Justice Ministry is to investigate the possibility of holding management personally responsible for the debts of limited-liability companies in order to forestall abuses related to business failures. Dutch trade union spokesmen have alleged that bankruptcy petitions are often filed with the aim of avoiding the payment of wages, social insurance contributions, and taxes.

Belgium: Unemployment; Discount Rate Drops Again

The Belgian National Employment Office (ONEM) has released statistics putting the average monthly unemployment count last year at about 264,300, compared with 228,500 in 1976. The 1977 figure represented 9.8% of the insured working population; unemployment among people 25 years old or younger rose by 13.4%. The ONEM pointed out that the rise in unemployment by 36,000 could have almost doubled last year had it not been for government measures leading to the creation of 34,000 new jobs through apprenticeships, early retirements, and additional civil service openings. Meanwhile, however, the number of jobless is topping 300,000 (January).

In other news, the Belgian National Bank as of Feb. 2 once more lowered its discount and Lombard rates, from 7.5% to 6.5%, thereby practically eradicating the abrupt boost from 6% to 9% effected in the first half of December. Two previous reductions this year came on Jan. 5 and 19.

ermany: o-Slow by ir Controllers eld Illegal

In a landmark judgment handed down on Jan. 31, the German Supreme Civil Court has held illegal the air controllers' go-slow actions that forced the temporary shutdown in 1973 of several of the nation's airports, major cutbacks in scheduled flights, and long delays. Therefore, the air controllers' association would be held liable for damage claims that injured parties, such as the airlines and travel agencies, might bring.

The German air controllers were given civil service status in 1972, and it has been a long-standing principle that civil servants as well as public employees in vital services are not allowed to strike, so as to avoid negative consequences for the general public. Knowing this and in order to pressure the government to make additional concessions (after already having been granted generous pay raises and a lower retirement age), a large percentage of the 550 air controllers began "work according to the rule" at the beginning of the 1973 travel season. They thereby implied that they could not handle all takeoffs and landings without endangering air traffic safety. At the same time

Go-Slow *(contd.)*

an unusual number of them called in sick. Officers of the air controllers' association did nothing to curb these actions; on the contrary, in statements broadcast on radio and television, they identified themselves with the controllers' actions. The Supreme Civil Court, in contrast to the lower and appellate courts, believed that the officers thus acted in concert.

What makes the high court's ruling significant beyond this case is the justices' additional assertion that similar actions by employees against their employers would be equally illegal. The justices emphasized that there are limits to the constitutionally guaranteed right to strike and that any labor dispute must be fought in a fair manner. The air controllers' actions were not fair, the court declared, because they did not amount to an outright strike with clear fronts; the air controllers chose instead to hide behind a wall of anonymity and passive resistance, with entirely untenable consequences for the employer and the public. Such reckless means may never be deployed in a labor dispute, the court concluded.

The taxpayer will have to pay for the damage caused by the go-slow: the air controllers' association has assets amounting to only about DM 250,000, and it has been estimated that the damage claims amount to about DM 240 million. In a first action brought by a large travel agency the high court ruled last year that, under the Constitution and the Civil Code, the government must pay for the damage caused by civil servants, in this case the air controllers.

Italy: Strike Rate Declines as Pay Moves Up

Provisional data released last month by the Italian statistical office indicate a considerable decline in the country's strike rate last year to 111.6 million lost work hours, compared with 177.6 million in 1976. This result includes the high strike incidence of December when 12.5 million work hours were lost due to walkouts, in contrast to only 2.3 million in December '76.

The overall improvement in the strike statistics was attributed largely to the substantial wage and salary increments granted last year. Thus, the raises in collective minimum pay averaged 31.7% in farming, 27.4% in industry, 31.8% in commerce and the gastronomic sector, 25.7% in transport, and 15% in the banking and insurance sectors.

Sweden: Severe Setback for Fälldin on A-Issue

In what came as a serious blow to Prime Minister Thorbjörn Fälldin and his Center party, Sweden's official energy commission last month issued a statement saying that a retreat from the use of nuclear energy is unrealistic for the time being and calling for the continuation of the nuclear power program decided on in 1975 by the previous Social Democrat-

A-Issue
(contd.)

ic government. In its full report, to be published next month, the commission will spell out the reasons why Sweden cannot manage without nuclear energy and oil imports, even while developing alternative sources of energy. In effect, the commission advocates the continued operation of six existing A-plants and the go-ahead for the construction of seven additional plants.

To understand what these findings mean to the prime minister and his party, it has to be recalled that Fälldin's promise to make Sweden retreat from the exploitation of A-power was said to be a main reason for his victory in the 1976 fall elections. However, Fälldin's unbending stand on this issue has not been shared by his coalition partners, the Conservatives and the Liberals, who consider it unrealistic for reasons of both energy needs and investment policy. In order to delay a decision and not endanger the very survival of the coalition, the government decided to appoint an energy commission which was to study all ramifications of the problem and come up with suggestions of possible alternative energy sources. In addition to experts representing all parliamentary parties, the commission also includes three politically independent members who reportedly were chosen on the assumption that their views would be similar to those of the Centrists.

To the disappointment of Fälldin's factions, the commission's chairman, Ove Rainer, has now made it clear that 12 of the 15 commission members - including the three independents - are in favor of pursuing the course that had been set in 1975. Only two Centrists and one Communist oppose this majority decision, Rainer indicated.

The committee's recommendations obviously put a big question mark over Fälldin's future position on this issue. They may also have consequences for the application of a new law that imposes extremely tough rules on the A-power plant operations by requiring absolutely safe methods of reprocessing and/or depositing nuclear waste. At the time of passage, Energy Minister Olof Johansson had frankly admitted that none of these criteria could be fulfilled at present, so that a shutdown of the plants would seem inevitable.

EURO COMPANY SCENE

Deere

The European branch of Deere & Co., the U.S. agricultural machinery manufacturer, has announced plans to build its third German plant on a 100-hectare site at Bruchsal, between Mannheim and Karlsruhe. In the initial construction phase, some DM 40 million is to be invested in facilities for the production of supplemental and special equipment to augment the manufacture of farm tractors at the Mannheim

Deere *(contd.)*

plant (42,000 units last year). Some 85% of the Mannheim production is exported to other European countries, Africa, and the Near East, where Deere last year had a turnover of $751 million.

GM France

According to reports from Paris, General Motors France has unveiled plans to build a plant for the production of car heating equipment on a 50,000-square-meter site at Doncherry, near Sedan. Financial details were not given. The plant is to produce for the European markets and would eventually employ 300; it is to start up in the latter half of next year, the reports said. GM France already operates plants for the manufacture of accessories at Genneviliers, near Paris, and of automatic transmissions and carburetors at Strasbourg.

Siemens/ Advanced Micro Devices

Germany's Siemens AG, the electrical group, is further raising its equity in Advanced Micro Devices, Inc., of Sunnyvale, Calif. By Feb. 1, it was to purchase an additional 400,000 AMD shares for $18 million, which corresponds to $45 per share. Previously, Siemens had acquired 200,000 shares, so that the German company now holds a 20% stake in AMD. The two partners earlier established joint ventures in the USA and Germany for the development, manufacture and worldwide distribution of micro-computer systems; in these joint ventures, Siemens holds a 60% majori

Memorex/ Telex

Memorex Corp., of Santa Clara, Calif., has announced an agreement to take over the European activities of the Telex Corp., Tulsa, Okla. Memorex's product line in Europe includes data storage and data processor equipment, whereas Telex concentrates on computer tape systems and terminal products. The agreement insures the continuity of Telex customer and supply service. The European turnover of Telex in 1977 was about $39 million; Memorex last year had worldwide sales of $450 million, about 40% of this outside of the United States.

Common Market Reports

EUROMARKET NEWS

Issue No. 475 *Report No. 338, February 21, 1978*

IN THIS ISSUE

Community: Proposal on Amendment of Antitrust Rules

The European Commission is planning to amend its Regulation No. 67/67, which exempts certain categories of exclusive dealing agreements from the cartel ban of Treaty Article 85(1) *(Common Market Reports, Par. 2727)*. A draft of the amendments has been published in the Official Journal of Feb. 7 (No. C31), and the Commission is asking for comments from the business community, antitrust lawyers, and other interested parties *(Common Market Reports, Par. 10,022)*. All replies must reach the Commission by March 17.

Amendments have become necessary because of the European Court of Justice's case law. In a series of judgments over the past decade, the Court has interpreted a number of provisions of Reg. No. 67/67 and has partly enlarged the scope of application of individual provisions. Practice has shown that the wording of several provisions allows an interpretation that is not consistent with its purpose. The Commission also wants to adapt several provisions to changed circumstances by introducing new criteria that would be applied in exempting sole distributorship agreements from the ban of Article 85(1).

According to Article 1(c) of the draft regulation, parties would not qualify for exemption from the ban if the population of the territory covered by the contract exceed-

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

COMMON MARKET REPORTS, Issue No. 475, February 21, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Antitrust *(contd.)*

ed 100 million, unless intermediaries or consumers were able to obtain the same product not only from the sole distributor but also from at least two additional dealers established in different member states. An agreement also would not qualify for a group exemption where the item sold by a manufacturer to one or several dealers in a substantial part of the Common Market represented more than 15% of the same or other products that consumers consider similar in terms of characteristics, price, and use. A contract under which a manufacturer licenses another manufacturer for the exclusive distribution of goods in which both compete (or might compete later) would not qualify for exemption either. The Commission wants to broaden its powers to withdraw the exempt status from sole distributorship agreements if the dealer has abused the exemption by refusing, without valid reasons, to supply buyers who cannot buy the goods elsewhere on suitable terms (Art. 6 in conjunction with Art. 7 of Regulation No. 19/65 - *Common Market Reports, Par. 2717*).

EEC Pressures Japan to Open Its Markets

The Community is becoming increasingly impatient with the Japanese government because the latter is not doing enough to reverse the lopsided trade balance, which now shows a 5-billion EUA surplus in Japan's favor. At their Feb. 7 meeting in Brussels, the nine foreign ministers agreed on list of demands that were presented last week to the Japanese by Commission officials in Tokyo and at the GATT negotiations in Geneva. The EEC wants Tokyo to make a real effort to open up Japan's markets to Community products by adopting a program to step up imports of manufactured goods, ease access of Community bidders to government contracts, and implement measures to alter the structure of Japan's distribution system. Previous Community appeals to Japan have failed to produce the desired results; the United States recently was more successful at the GATT negotiations, when it pressured Tokyo into substantial concessions.

Although Japan over the years has taken several modest steps to slow the Community's increasing trade deficits, the foreign ministers point to the fact that the trade picture deteriorated during 1977. They believe that there will have to be a significant change in the trade and payments situation by the end of the summer of 1978. The Commission is to report back to the Council by the beginning of April on the results of its talks with Tokyo. On April 7, the heads of government are scheduled to meet in Copenhagen, and trade relations with Japan will be a major topic in these discussions.

The ministers' demand came in the midst of Community restrictions imposed on imports from Japan as well as other countries; singled out by the EEC for protective action (introduction of quotas, imposition of dumping levies) in

Japan *(contd.)*

recent weeks have been mainly steel imports and certain kinds of textiles.

In Brief...

In its judgment handed down on Feb. 14 in United Brands v. Commission (Case No. 27/76), the European Court of Justice has dismissed allegations that the company had abused its market-dominating position by charging excessive prices for its "Chiquita" bananas. In upholding this part of United Brands Co.'s appeal against the Commission's December 1975 decision, the Court cited insufficient evidence. However, on three other counts, it did uphold the Commission's decision: namely, that United Brands had charged discriminatory prices to some customers, that it had refused to sell bananas to a Danish customer over a two-year period, and that it had prohibited its customers from reselling green bananas *(Common Market Reports, Par. 9800)*. The Court reduced the fine that the Commission had imposed by 15% to 850,000 units of account. (A more detailed report will follow in next week's issue.) + + + The Commission has succeeded in breaking up what it called a nationwide cartel in the Netherlands that included nearly all manufacturers, distributors, and importers of pharmaceuticals and accounted for 80-90% of total drug sales there. The EC executive said that the practices of the Pharmaceutische Handelsconventie (PHC) violated Treaty Article 85(1) in that they restricted competition among parties to the PHC as well as outsiders and thus contributed to cementing the market structure.

France: Emergency Plan To Aid Franc Until Election?

At the "secret" monetary summit of the world's top five industrial countries on Feb. 12 in Versailles, France reportedly urged an international "defense line" for its embattled currency. By helping keep the franc stable, Paris is said to have argued, France's partners could do their share to minimize the chances of the French Left taking over after the March elections. There are indications that the most recent monetary disturbances and the falling prices on the Paris Bourse are indeed hurting the Barre administration: according to the latest opinion poll, the government parties have slipped to 44% of the potential vote, whereas the Left could now count on 52%.

Although the French finance ministry did not formally acknowledge the Versailles event, it was no secret that Premier Raymond Barre himself had presided at the meeting, which had come about on the initiative of his government. According to a report by the state television network, Barre presented to the other participants the outline of an "emergency plan" to prop up the franc and asked for their solidarity. Possible actions could include a requirement for French exporters to immediately convert their export proceeds into francs and another one preventing importers

Franc
(contd.)

from purchasing in advance the foreign exchange needed to pay their import bills. Some French experts believed that such temporary controls would be more effective and cheaper than having the National Bank run up billions in currency losses by intervening in support of the franc over the next few weeks. Besides, such action would merely anticipate similar curbs that the Left has vowed to impose should it win the March elections.

While the finance ministers and central bank governors involved maintained strict silence on the outcome of the Versailles session, "authorized" French sources said that the other four partners (Britain, Germany, Japan, and the United States) had agreed to provide the Bank of France with short-term swap facilities and to closely coordinate the intervention policies of their central banks. (Details reportedly were fixed at the Feb. 13 meeting of the central bank governors at Basel.) These external measures could be supplemented by internal moves, such as raising the discount and other interest rates.

Italy:
Approval for
Tax Credit
on Dividends

With the parliamentary passage of Law No. 904 (of Dec. 16, 1977), Italian legislation on the taxation of dividend income has moved a step closer to the system prevailing in other European countries. The law introduces a tax credit of one-third of the declared dividend and thus reduces the "double taxation" of dividends. At the same time, the dividend withholding tax *(cedolare secca)* has again been reduced to 30% after the rate was moved up to 50% in October 1976. The withholding-tax approach usually is chosen by investors who want to remain anonymous and who prefer a fixed (albeit high) tax rate to having to declare dividend income in their annual tax returns.

The new legislation should enhance the attractiveness of shares and is seen as an important advance toward the removal of fiscal distortions still afflicting the Italian capital markets. In keeping with pending EEC proposals *(Common Market Reports, Par. 3218)*, Rome eventually should be called upon to achieve complete harmonization of the fiscal burdens on the various forms of capital income. (Note, however, Parliament's most recent decision to raise the interest tax on savings and checking deposits from 16% to 18% as of Jan. 1, 1978.)

Law No. 904 further lays down higher minimum capital requirements for newly established companies, raising them from 1 million to 200 million lire for stock corporations and from 50,000 to 20 million lire for limited liability companies *(Doing Business in Europe, Par. 25,706 and 25,707)*. Transitional periods of compliance are provided for existing businesses.

Still in preparation, according to Rome reports, is

Dividends *(contd.)*

legislation that would offer fiscal incentives over a three-year period to investors who subscribe to newly issued shares of listed companies.

Germany: Compromise on Rescue of Pension System

The German government coalition's final compromise on the ways and means of staving off bankruptcy of the national pension insurance funds - for which a deficit of DM 35 billion is expected by 1981 - goes even beyond what was suggested in previous concepts. Pensioners can expect only a 4.5% pension increase for 1979 and a mere 4% in both 1980 and 1981. Earlier concepts had provided for a 5-6% boost. This means that the country's 6.5 million social security recipients will get just a bit more than what would be necessary to compensate for inflation, assuming that the latter stays at the present level of 3.7%. Adjustment under the current system, which gears social security pensions to the gross income growth of the working generation, would have meant annual increases of around 7.5%.

The lower increases decided on will permit Bonn to "go easy" on employees. The concept of subjecting pay differentials for night and Sunday work to social security taxes has been dropped, and so has the planned one-time, 1.5% solidarity levy that the 1.6 million civil servants were to have paid. (They pay no social security contributions and yet draw generous pensions upon retirement.)

Under the proposal, which still must be approved by Parliament, an employee's Christmas bonus that so far has been paid in December would, for the record, be added in three equal parts to the employee's income for October, November, and December. This means that the government would be able to get a larger tax bite: at present a large portion of the bonus escapes assessment because of the current DM 3,700 monthly ceiling for social security contributions *(Doing Business in Europe, Par. 30,991)*.

Should the economy in the coming years perform less than satisfactorily, contribution rates would be raised by half a percentage point (from 18% to 18.5%) as of 1981. Starting in 1982, pensioners would be required to pay a part of their medical bills by contributing a certain percentage of their pensions to the health insurance fund.

Britain: Dispute over Public-Contract Pay Clauses

A furor has erupted between the U.K. Labour administration and the country's industrialists over the government's announcement earlier this month that the award of public contracts in the future will be made dependent on the recipient companies' adherence to official pay policy - specifically, the "voluntary" (i.e., nonstatutory) annual 10% limit on pay increases. Secretary for Prices and Consumer Affairs Roy Hattersley had made the surprise announcement

Pay Clauses *(contd.)*

on Feb. 7 in the House of Commons, saying that the government would insert in future contracts a clause requiring companies to detail their existing or future pay controls. Violations would draw immediate sanctions in the form of contract termination.

The news triggered instant protests by the opposition Conservatives, left-wing Labour MPs, and industrial spokesmen. (Nevertheless, the Callaghan administration was able to defeat, by a Commons vote of 292 to 278, a Tory-sponsored motion accusing the government ministers of misuse of discretionary powers.) Some Conservatives used the term "blackmail" for the administration's move, and Sir John Methven, director-general of the Confederation of British Industry, said the CBI might take the "unique" action of recommending that its members strike any pay clauses from public contracts. This, for practical purposes, would be a boycott constituting an unprecedented protest in the CBI's 13-year history. Among the major reasons for rejecting the government's proposal, the Confederation listed Whitehall's attempt "to bring the force of law to a voluntary pay policy by the withholding of government contracts," the absence of any appeal procedure, and the liability of contractors for pay code violations possibly committed by subcontractors.

The government justified its staunch commitment to a 10% pay clause with the overriding need to reduce inflation, and said that, without this commitment, the most recent return to single-figure price expansion and this month's 10% pay settlement for the miners would not have been possible. Encouraged by these "successes," the Callaghan administration reportedly is now considering plans for "Phase 4" pay restraint once the present policy stage expires at the end of July.

Norway: Devaluation; Discount Rate; Price Freeze

At a Copenhagen meeting on Feb. 10 of the finance ministers and central bank governors of the six countries joined in the European currency "snake," the Norwegian government announced a devaluation of the krone by 8%. This was the fourth downward parity change, for a total of 19 points, within the last 16 months in attempts to stimulate exports and to stop the external deficits from growing too large.

At least for the time being, Norway will remain a member of the small monetary bloc, which also includes Germany, Denmark, and the three Benelux countries. There have been, however, intense domestic pressures on the government to withdraw from the snake, particularly by the shipping and wood-processing industries, but most recently also by a 3:2 majority of National Bank board members. According to reports from Copenhagen, it took a lot of arguing by the other snake members, especially the Germans, to persuade Oslo to continue cooperation within the bloc.

Devaluation *(contd.)*

The devaluation was accompanied by an increase in the discount rate from 6% to 7% and a temporary price freeze. Finance Minister Per Kleppe said the Social Democrat minority government was preparing "encompassing" price and profit regulations to replace the price stop next month. A few days earlier, the government had announced a number of import curbs. Businesses importing machinery, for instance, are now required to pay at least 50% cash at the time of purchase and the remainder within 12 months. Private individuals must even put down 80% cash when purchasing an imported car. (Norway has no automobile industry of its own.)

The reasons for the latest devaluation are again mostly domestic in nature. Last year's extreme production cost increases, which were 25% higher on the average than in other industrialized countries, prevented Norway's export industries from capitalizing on the slightly improved demand situation abroad: export volume dropped by 4% and thus was actually lower than in 1973. The price pressures were caused by wage boosts far exceeding the 2.5% limit on real-income growth that had been agreed upon by the government and the social partners. As a result, the volume of private consumption rose by more than 6% in '77, for a total of 19% for both public and private consumption within the last three years. So far this trend has been encouraged by Oslo in order to maintain full employment, but it is clear that this policy is becoming too costly: within the three-year span mentioned, the trade deficits accumulated to 65 billion kroner (1977 = 26.3 billion) and the foreign debt to nearly 80 billion kroner. Until Norway can fully reap the revenues from the slowly accelerating exploitation of its rich North Sea oil and gas reserves, no real turnabout of this situation is expected.

<u>Portugal: Soares Wins Approval of Austerity Plan</u>

The newly formed Portuguese government of Prime Minister Mario Sòares cleared its first hurdle this month with the parliamentary adoption of an economic austerity program conceived to lead the country out of its economic crisis. Passage of the legislation after a four-day debate was more or less automatic as the governing Socialists and Christian Democrats defeated - with a majority of 141 of the 263 votes - two Opposition motions for rejection of the administration's proposals.

The anticrisis package is regarded by the government as the backbone of its political program, at least until the 1980 election year. It is virtually composed around a set of conditions tentatively specified by the International Monetary Fund in exchange for a $750-million loan. These terms include demands for a stable government (which purportedly have now been fulfilled) and for drastic measures to cut the $1.3-billion payments deficit and cool off

Austerity Plan *(contd.)*

inflation, now around 30%. Meanwhile, the government has invited the IMF authorities to formally start the credit negotiations.

Detailed in a 300-page paper, the austerity program contains a series of guidelines for the administration's future course of action rather than a minute description of the actual measures to be taken. As a first step, it is planned to submit on March 15 a revised 1978 budget draft, to be followed on Oct. 15 by a medium-term program. In the meantime, the government wants to set up an economic development fund out of which to provide financing aids for industry and commerce. A higher tax burden on most taxpayers is a foregone conclusion, and the authorities also intend to wage a tough campaign against tax avoidance and evasion.

It is recognized in Lisbon that the delays so far affecting the processing of compensation claims resulting from nationalizations and expropriations have seriously undermined the confidence of foreign investors. To change this situation, it is proposed to (1) broaden the powers and efficiency of the agencies responsible for the promotion and clearance of foreign investments, (2) define priority areas within which such investments, given certain criteria, would always be authorized, (3) conclude capital protection treaties with countries wanting such agreements, and (4) facilitate Portugal's accession to the World Bank's international center for the settlement of investment disputes.

Common Market Reports

EUROMARKET NEWS

Issue No. 476 *February 28, 1978*

IN THIS ISSUE

Community: Details on United Brands Judgment

On Feb. 14 the European Court of Justice rejected for the most part United Brands Co.'s appeal against the European Commission's 1-million-UA fine imposed in December 1975. At that time the EC executive had ruled that the fruit company's ban on the resale of green bananas and its refusal to continue to supply a certain customer were abusive and that its pricing was discriminatory and unfair *(Common Market Reports, Par. 9800)*. United Brands was successful, however, in getting the Court to strike the allegation of unfair prices, and thus the fine was lowered to 850,000 UA. Each party is to pay its own costs.

With this judgment the Court has added new dimensions to the scope of Treaty Article 86, even going beyond those established in the *Continental Can* and *Commercial Solvents* rulings *(Common Market Reports, Par. 8171 and 8209)*. In those judgments the Court had substantially strengthened the Commission's powers to curb mergers and combat the restrictive practices and abuses of market-dominating companies. In United Brands (Case No. 27/76), it considerably broadened the Commission's authority to intervene more directly in the marketing and pricing policies of market-dominating companies.

Although the justices recognized the value of UBC's

COMMON MARKET REPORTS, Issue No. 476, February 28, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

United Brands *(contd.)*

quality standards, they believed that the clause banning the resale of green bananas went too far and thus was incompatible with the freedom of intra-Community trade because it limited the consumer's choice and partitioned national markets. The Commission was upheld in its condemnation of the company's refusal to continue selling to a Danish firm after the latter joined in a competitor's ad campaign; such a refusal hurts the consumer and in the end could drive a trading party from the market, the Court said.

Most important was the Court's reasoning upholding the Commission's finding that UBC charged discriminatory prices to customers in different member states. The Court said that if the costs of unloading and other factors are the same at various places of transaction, importers could expect supplies to have the same price. In this case the price differences varied between 30% and 50%, even though the unloading costs and other conditions at the two ports of Rotterdam and Bremerhaven were virtually the same. Thus, UBC was deemed to have abused its dominant position by applying differing prices to equivalent transactions, thereby placing traders at a competitive disadvantage.

Since UBC was cleared of the unfair-prices charge for lack of evidence, the Court did not delve into the major issue of whether the Commission has price rollback powers under Treaty Article 86. The Court did state, however, when a price would be deemed to be excessive - namely when the price has "no reasonable relation" to the product's value. The Court acknowledged that it may be difficult to prove the unfairness of prices because of the immense work involved in determining production costs.

Court Rules Against Ireland on Fishing

Two days after the *United Brands* ruling, the Court of Justice handed down two judgments on Irish fishing policy. In the first case the Court ruled that Ireland failed to fulfill its Community obligations when it adopted two unilateral fish conservation measures in February 1977. One barred all fishing vessels from a specific area and the other exempted from that ban all vessels less than 33 meters in length or with engines of less than 1,100 horsepower. After a majority of the member states objected to the measures, the Commission sued Ireland, charging that the measures were discriminatory and were not genuinely conservational; it also said that their effects on the common market organization for fisheries products were not kept to the "required minimum" (Reg. 101/76).

The Court agreed with the Commission to the extent that the measure was discriminatory because the criteria (limiting the size and power of trawlers) were in effect designed to keep out of Irish waters a substantial number of trawlers from other member states that have been fishing in those areas for years; there were no similar limitations

Fishing *(contd.)*

on Irish trawlers. The Court saw no need to rule on the other issues once it had been established that the measures were discriminatory, but the justices left no doubt that, in the absence of appropriate Community measures, Ireland was entitled to take interim conservation measures affecting its waters (Case No. 61/77).

In the other case, the district court of Cork, which is trying 10 Dutch captains of trawlers that fished in the disputed waters, had asked the Court of Justice for a preliminary ruling. The European Court reiterated its position that the member states are entitled to adopt interim measures, provided these are in line with Community law. But it also pointed out that Treaty Article 7, Article 2 of Regulation No. 101/76, and Articles 100-101 of the Accession Treaty prevent the newcomer states, of which Ireland is one, from taking actions of the type Dublin has tried to enforce. Most important, however, was the Court's ruling that the criminal charges brought against the Dutch captains had to be thrown out because the national statute was in violation of Community law (Case No. 88/77).

Observers believe that the two rulings can be considered an indirect warning to the United Kingdom, which vowed to introduce national fish conservation measures after the fisheries talks collapsed because London refused to agree to a resolution establishing a permanent Community regime for EC fisheries.

In Brief...

On March 1 an agreement between the EEC, Austria, and Switzerland goes into effect that extends the scope of application of the Community's transit rules. The accord complements the two separate 1972 agreements between each of the two countries and the Community. Thus, simplified customs formalities will apply also to goods shipped from one member state to another via Austria or Switzerland + + + The debate over labor representation in companies that the Commission hoped to stimulate with its 1975 Green Paper finally has gained momentum now that the Economic and Social Committee has given its opinion on the paper. The committee unequivocally supports the idea of giving labor a voice in management, but it favors a flexible approach in any future directive. The ESC recommends the inclusion of two practical concepts: (1) the introduction of the two-board system as an option in member states that have another arrangement and (2) establishment of a special body in large companies without board-level employee representation.

France: Socialist Plan Proposes Big Deficit Boost

The French Socialists' revised economic policy blueprint for the remainder of this year has been attacked by spokesmen of the government and the majority parties as unrealistic, while the Communists claimed it was completely inadequate. Premier Raymond Barre, who earlier had predicted

Socialists *(contd.)*

that the Socialist proposals would mean the doubling of "everybody's income tax," said in a campaign speech that the same people who had criticized his administration's projected FF 8.9-billion budget deficit were now coming forward with spending plans that would raise that deficit to FF 40 billion. Gaullist leader Jacques Chirac termed the proposed expenditures grossly exaggerated and said they would automatically necessitate massive tax increases. The Communists angrily denounced the proposals of their one-time allies as "timid and halfhearted" and as additional proof of the Socialists' "betrayal" of the joint *programme commun*.

François Mitterrand's Socialists themselves regard their plan as the only acceptable compromise between the extreme concepts of the Communists and the existing austerity policies of the Barre administration. To be implemented in the event of the Left's victory in the March elections (but certain to be amended if the Communists do become part of a coalition), the proposals concentrate essentially on fiscal matters. They provide for FF 70 billion in additional public spending during the current year, raising the government's projected FF 8.9-billion deficit to FF 39.8 billion. This new deficit would equal about 2% of GNP and thus, as the Socialists like to point out, woul[d] not be unreasonably high. The stimulatory measures would be expected to boost real-term growth this year to 4.9% (5.6% in '79) and lead to the creation of 390,000 new jobs (including 210,000 in the public sector alone). A temporary price freeze would deflect the initial impact of an abrupt rise in demand and would help keep the inflation rate to below 10%.

Additional spending this year - from April through December - would require some FF 62 billion, of which slightly more than half would go toward social improvements. Thus, the state would assume FF 27 billion in employer contributions to the social welfare system in order to compensate businesses for massive wage increases. The monthly minimum wage is to be raised by 37% to FF 2,400, and increases are also projected for old-age pensions, unemployment compensation, and family allowances. The FF 31 billion in additional anticipated tax revenue would mainly come from the following sources: FF 14 billion as the result of revived economic activity, FF 9 billion from higher taxation of businesses and large personal assets, and FF 4 billion from an intensified campaign against tax evasion. The remaining deficit of FF 40 billion would be financed for the most part via an indexed state bond issue of FF 25-30 billion.

Meanwhile, the latest Louis Harris poll, published on Feb. 20, still had the combined Left ahead with 51% of the potential vote, compared with the Right's 45%.

Italy: Austerity Plan Presented to Rome Parties

The unveiling on Feb. 15 of a new medium-term policy program by the incumbent and designated Italian government brought few surprises, even though Prime Minister Giulio Andreotti had waited until the very last minute with the presentation, wanting to be certain of the outcome of a policy convention of the major labor federations. Submitted to the six parties formerly joined in the "programmatic pact," including the Communists, Andreotti's austerity plan is designed to put an end to a period of economic emergency measures. On the other hand, the document also deals with such issues as public order and justice, public administration, the regions, the European elections, and four referenda that must be held in June unless Parliament acts in time to set a later date.

Essentially, Andreotti wants to limit the public deficit to 24,000 billion lire this year and, over the next four years, reduce the percentage of GNP represented by the public-sector deficit by 1% annually. This is to be done by keeping total public expenditure constant in relation to the national product, while raising revenues by 1.5-2% per year. To cover the remaining budget deficit this year it is proposed to raise 7,500 billion lire in revenue by cutting certain spending items (for instance, the proposed boost in pensions) and by lifting taxes and charges (electricity, public transportation, rail fares, etc.). The income tax progression is to be stiffened beginning at 6 million lire annually, and higher value-added taxation also is foreseen. Corporate taxes would not be affected.

Aside from the political imponderables of the next few weeks, there could be a chance for this or a similar program in view of the evident change of course accepted by the delegates of the three major trade union syndicates (CGIL, CISL, and UIL) on Feb. 14 at their Rome congress. On the initiative of the Communists, the labor representatives overwhelmingly endorsed a new policy that gives priority to the fight against unemployment and for more jobs for young people and advocates greater worker mobility for this purpose. The unions for the first time officially recognized the "sclerosis of excessive manpower" crippling many Italian businesses and also advocated a stop to unlimited exploitation of unemployment benefits. In essence, the new targets were identified as full employment, more investments (particularly in the south), a moderate wage policy, and more labor mobility.

Belgium: Fast Jump in Budget Gap; Defrenne Case

In a statement before Parliament, Belgium's Finance Minister Gaston Geens has attempted to dispel rising public anxiety over the dismal situation of the state finances. The Minister revealed that the government now anticipates a budget deficit of at least BF 65 billion in 1978 rather than the BF 24 billion originally projected and that the

Budget Gap *(contd.)*

discrepancy has come about without any additional expenditure. Geens insisted that the government still has no intention of introducing new taxes this year; it would instead concentrate on rigorously trimming public spending and reducing the public debt. A ministerial committee is now working to adapt the 1978 draft budget of BF 956 billion to the new circumstances.

The unexpectedly large hole in the budget is caused almost solely by lagging tax revenue, which in 1977 remained BF 55.8 billion below expectations. Two major factors have contributed to the erroneous projections. First, economic growth has fallen short by about two points of the predicted 11.2% rate, whereas unemployment has far exceeded the anticipated average count of 220,000 and now stands just below 300,000. Secondly, the (welcomed) slowdown in inflation has softened the "bite" of tax progression: the drop in the price index rate from 8% to about 5.7% alone means a revenue loss of BF 35-40 billion.

In other developments, the European Court of Justice for the second time in two years has been asked to adjudicate in a case of alleged discrimination by Sabena, the national Belgian airline. In 1976 the Court had recommended to the Brussels Labor Court that former stewardess Gabrielle Defrenne be awarded compensation to cover the difference between her salary and that of a steward between 1963 and '66 (Case No. 43/75 - *Common Market Reports, Par. 8346*). However, the EC Court had rejected compensation claims for having her career cut short at age 40 and for the loss of full pension rights. Ms. Defrenne appealed these decisions, and the Brussels Appeals Court has now referred the case to the European Court. Counsel for the plaintiff claims that Treaty Article 119 *(Common Market Reports, Par. 3941)* should be interpreted as prescribing not only equal pay but also equal work conditions.

Denmark: Glistrup Found Guilty of Tax Violations

After a trial that lasted almost four years, a Copenhagen court this month passed sentence on Mogens Glistrup, the controversial tax advocate and politician, whose anti-tax Progress Party had caused a sensation in Denmark's 1973 elections by becoming the second-largest faction in Parliament. The lawyer was found guilty of having violated tax and tax control laws and of having effected false entries in the stock corporation register. He was cleared of charges of having defrauded clients and of "substantial tax evasion." The court ordered Glistrup to pay a total of 5.6 million kroner (about $1 million) in the form of back taxes, a fine (1.5 million kroner), and legal costs, but it did not revoke his license to practice law.

It was established that Glistrup had set up some 2,700 corporations for the sole purpose of reducing the income

Glistrup *(contd.)*

tax obligations of his clients. This was done by complicated, "fictitious" intercorporate borrowing and lending activities, which had the additional "benefit" of misleading and confusing the tax authorities. On the other hand, the court had to concede that the lawyer committed his acts "openly" and in full view of these authorities.

Glistrup, his defense counsel, and his supporters said the verdict amounted practically to an acquittal. (The prosecution had asked for a prison term of up to 10 years.) His party termed it a "political and personal victory." Nevertheless, Glistrup indicated he would appeal and said he intended to continue his political mandate and activities at least until the case was brought to a final conclusion (which would be expected to take years).

Germany: Environmental Tests Due for New Chemicals?

German government experts have prepared legislation that would require manufacturers to test chemicals for their compatibility with the environment prior to putting them on the market. This obligation could also extend to chemicals already on the market. Manufacturers would have to notify the government about the test results of new products and their marketing plans. No authorization would be needed to sell a new chemical, but Bonn would have the power to ban marketing of new products, to allow marketing of specific quantities only, or to restrict the use of products that are considered dangerous to the environment. Government officials say that the measure would fall short of the requirements found in the U.S. Toxic Substances Act. No date has been set yet for introduction in Parliament.

Action will have to be taken for several reasons, the experts say. There is a need to get an overall picture about potential hazards to the environment since approximately 30,000 chemicals are now being sold and between 500 and 1,000 new ones reach the market every year. Since the Seveso, Italy, accident in 1976, the EC Commission has been studying ways of preventing similar catastrophes and has prepared a first draft of a directive that contains the same principles as the German draft but would establish broader reporting requirements.

Because of the financial implications for industry (the cost of testing an individual product has been estimated at DM 50,000), Bonn has approached the Commission with a solution that would be less burdensome for industry: chemicals would be categorized according to the degree of hazard and in terms of quantities to be sold. In other words, following adoption of the Community directive and its transformation into member-state law, manufacturers producing chemicals in large quantities that under testing turn out to be hazardous would have to notify their national environmental agencies prior to selling these chemicals.

Chemicals *(contd.)*

Bonn hopes to prevail with its approach either at this pre-legislative stage or later in the Council of Ministers.

German government officials make the point that the planned EC measure would grant leeway on some of the details of government intervention. They say that a manufacturer would be heard if the government planned to prohibit him from marketing a particular chemical or to restrict its use. A consultative committee composed of government experts, industry representatives, consumer organizations, and scientists would also be asked for its view on planned government action.

Finland: Cabinet Quits in Rift over Devaluation

The Popular Front government of Prime Minister Kalevi Sorsa resigned on Feb. 16 after a dispute within the five-party coalition over the 8% devaluation of the finnmark a day earlier. Both Sorsa's own Social Democrats and the Communists had opposed the devaluation - the former because they felt its margin was too large and the latter because of anticipated repercussions on price development. Actually, the government would have resigned anyway on March 1, which marked the beginning of a new six-year term for President Urho Kekkonen. Meanwhile, negotiations have started over the formation of a new coalition administration which conceivably could include the same partners.

Common Market Reports

EUROMARKET NEWS

Issue No. 477 *Report No. 339, March 10, 1978*

IN THIS ISSUE

Community: Three Decisions Clarify Use of Trademarks

In three decisions involving the use of trademarks, the European Commission last month further clarified its stand on what type of trademark licensing agreement is permissible under Treaty Article 85(1). In view of these decisions and the European Court of Justice's case law in this field, especially the *Café Hag*, *Centrafarm*, *EMI*, and *Terrapin/Terranova* rulings *(Common Market Reports, Pars. 8230, 8247, 8351, 8362)*, the Commission now believes that it has come to the juncture where it can start drafting a block exemption regulation for trademark licenses and agreements restricting the use of trademarks. *(Common Market Reports, Par. 10,026.)*

The Henkel ruling is considered the most important of the three decisions. At the Commission's urging, the Henkel company, a Düsseldorf-based detergents manufacturer, and Unilever, Rotterdam, agreed that neither would hamper the marketing of powder detergent bearing the Persil trademark by enforcing the nationally registered trademarks. Henkel owns the trademark in Germany, the Benelux countries, Italy, and Denmark, and Unilever holds it in the U.K. and France either directly or indirectly through subsidiaries. Henkel tried to bar cheaper Persil imports to Germany from the U.K., and Unilever did the same with respect to imports to France from Belgium and Luxembourg; both parties had

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

COMMON MARKET REPORTS. Issue No. 477, March 10, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Trademarks *(contd.)*

some success in the courts. To avoid further judicial battles on the matter, Henkel and Unilever agreed to do everything to stop sales from Belgium and Luxembourg into France and from the U.K. and France into Germany and other countries where the Persil trademark is owned by Henkel.

This kind of agreement is not compatible with case law of the European Court, which said in *Café Hag* and *Terrapin/Terranova* that a trademark holder may not bar the import of goods bearing the same trademark that was lawfully attached in another member state. Although the companies' practices amounted to a geographical market-sharing that cannot be reconciled with Treaty Article 85(1), the Commission does not object to Henkel's using the Persil trademark in red together with the word "Henkel" in a red oval and Unilever's use of the same trademark in green. According to the Commission, an agreement to ensure that consumers are not confused about the difference in origin without creating any obstacle to intra-Community trade may be attributed to the preservation of an existing trademark and therefore is not subject to Treaty Article 85(1).

The second of the three decisions was an exemption from the ban of Article 85(1) for agreements between Campari, Milan, and licensees in the Netherlands, Germany, Belgium, Luxembourg, and Denmark on exclusive use of the Bitter Campari trademark. All licensees are required to follow the licensor's instructions about the production of relevant products.

Finally, the Commission granted a negative clearance for an agreement restricting the use of the Penneys trademark. That agreement between J. C. Penney, Inc., New York, and Penneys Ltd., Dublin, grants Penney America all rights to the Penneys trademark in existence or applied for in the EEC. Penneys Ireland assumes several obligations, among them to refrain from challenging the validity of Penney trademarks registered in favor of Penney America in the EEC and not to use "Penneys" as a business name. The agreement bears no clause restricting free inter-member state trade.

EC Plan to Cut Oil Refining Capacities

The Commission's latest plan to help the Community's ailing oil refining industry is to be discussed by the Council of Ministers at its March 21 meeting. The refineries are suffering from overcapacity, a structural imbalance caused by excess refining capacity for heating oils and inadequate conversion capacity for gasoline, and growing competition from Middle East refineries. Helping the rationalization drive of the EC oil refining sector had been the object of a previous Commission plan submitted a year ago to the Council, which took no action, however, because of heavy opposition from the U.K. and Germany.

The Commission wants the Council to streamline the efforts of the oil refining industry and the member-state

Oil Refining *(contd.)*

governments. In the 1977 plan it was rather specific about a solution to the problem of surplus capacities: it asked for a reduction of 16%, to be brought about by stopping construction of new refineries and phasing out or closing marginally efficient facilities. This time the Commission is merely calling for an adaptation of refinery needs to demand by self-restriction of individual refineries. It wants management to base its production schedules on Commission data about Community needs and to communicate its production forecasts to Brussels. The Council, and thus the member-state governments, are asked to postpone the construction of new refineries until 1981. The Commission reserves the right to deny Community aid to planned expansions, and it would recommend that the European Investment Bank not grant any loans for this purpose.

As for the growing competition resulting from increased exports of refined products from the oil-producing countries, especially in the Middle East, the Commission wants primarily to maintain an equitable balance of interests between the EEC and third-country suppliers. It proposes medium-term forecasts for imports of refined products and emphasis on consultation with third countries.

<u>many:</u>
<u>rt Blocks</u>
<u>Fichtel & Sachs</u>
<u>Merger with GKN</u>

The German Supreme Civil Court has stopped the sale of the German manufacturing company Fichtel & Sachs AG to the British firm Guest, Keen & Nettlefolds, Ltd. *(Doing Business in Europe, Par. 30,875)*. The high court set aside the Berlin appellate court's Dec. 16 decision that had overruled the Federal Cartel Office's veto of the planned sale of an additional 50.01% of F&S. GKN already owns 24.98% of the German company's stock, and it wanted to increase its equity interest to slightly below 75%. (The principal shareholders and potential sellers, Gunter Sachs and his late brother's heirs, planned to keep 25% plus two shares in order to retain a say in the company.)

The Supreme Court's ruling is very significant because it gives a concrete interpretation of the tightened merger control criteria provided for by the 1973 amendments to the Cartel Law (GWB). Under Section 24 GWB, the Federal Cartel Office may prohibit a merger if the merged entity becomes market-dominating or increases the market-dominating position it already has. Fichtel & Sachs has a dominant position as a manufacturer of auto clutches, and GKN's minor role in this field (1.5%) would hardly have increased F&S's market dominance (64%). Under the law, market dominance is characterized not only by the fact that the particular enterprise faces no substantial competition or none at all but, since the 1973 amendments took effect, also that it has a commanding position over its competitors because of its financial strength and access to resources in addition to its market share, thus being in a position to frighten

Merger *(contd.)*

away any potential newcomer *(Doing Business in Europe, Par. 23,509)*.

The Cartel Office thought that access to GKN's financial resources would have strengthened F&S's position and would have considerably lessened the chances of any potential competitor entering the market. The Berlin appellate court did not agree. On the basis of the same facts, the Supreme Court has now prevented the sale, but, in contrast to the Cartel Office, the high court looked at F&S's increased market share in the light of not just its additional financial strength but other factors as well. What these are will not be known until the judgment is published, which may take several weeks.

The European Commission had approved the merger, although the Community's and Germany's merger criteria are not congruent *(Common Market Reports, Par. 9867)*. This apparently was the reason why the justices saw no need to submit the case to the European Court of Justice.

Netherlands: Tax Relief on Profits, Interest

The new Dutch government intends to give corporate and individual taxpayers some inflation relief this year with two measures that would cost the treasury some 1.1 billion guilders, a sum already accounted for in the 1978 budget. According to draft legislation still to be approved by Parliament, the first measure would initially reduce taxable earnings by 3% and subsequently by an amount that would correspond to 1-1.5% of a company's equity capital. Secondly, it is proposed to make tax-free the first 200 guilders of interest income from investments. Both temporary measures are in preliminary reaction to certain recommendations contained in the so-called Hofstra Report, a recently released official study on the effects of inflation on tax equality and possible corrective action (see story below).

Because of the drawn-out negotiations over the formation of a new government, which lasted the better part of 1977, the new Christian Democrat-Liberal coalition under Prime Minister Andries van Agt was forced to adopt virtually unchanged the 1978 draft budget of the previous, Socialist-led government. Finance Minister Frans Andriessen will have to postpone until next year the promised drastic reductions in public spending and a plan for the more equitable spreading of the tax burden. For this year The Hague has allocated 2.55 billion guilders for the purpose of stimulating hiring, protecting the purchasing power of average-income earners, and easing the employers' social insurance load. A total of 1.4 billion guilders specifically earmarked for the fight against unemployment is to be spent on public works programs (including road construction), other labor-intensive projects, financial aid to certain businesses, and export promotion. Another 500 million

Tax Relief *(contd.)*

guilders is to be kept in reserve for pinpoint deployment in the course of the year, possibly to give more relief to employers.

The new government is in agreement with Central Bank President Zijlstra, who recently said that Holland's international competitiveness is now weaker than at any time before. This, he said, was not so much a consequence of the guilder's appreciation but of the exceedingly high costs saddling domestic industry. Zijlstra saw a paramount need to get a grip not only on wage costs but on all other factors currently undermining profitability and competitiveness. He said he was hopeful that it would be possible to slow inflation to below 5% this year. (In January, the Dutch consumer price index had gone down by 0.4%, for what would be an annual average of 4.5%.)

Dutch Study Urges Inflation Accounting

A study commissioned in 1975 by the Den Uyl government and prepared by a committee headed by Prof. H. J. Hofstra, the former finance minister, is recommending the introduction of an inflation accounting system in Holland by 1983. The Hofstra Report was released on Feb. 21, and the Finance Ministry is now inviting the comments of the business community, the labor unions, and experts before possibly drawing up legislation.

The new system, to be implemented in stages if it wins legislative approval, would be designed to neutralize the effects of inflation on taxable profits and the distortions inherent in current accounting procedure. The changeover would result in an immediate reduction of taxable corporate earnings but also of the tax relief now granted to holders of housing mortgages, i.e., homeowners. Among other things, the 350-page report recommends a year-by-year separation of interest into an inflation component and a real-term component. Thus, a mortgage holder would be able to write off his income tax debt only the real-term interest element, not the inflation-caused portion. The mortgage creditor, on the other hand, would not have to pay taxes on that part of his interest income which merely represented the inflation gain.

Denmark: Tax Probers May Turn to Multinationals

Unofficial sources in the Danish government say that a "preliminary" review of the fiscal status of some 140 multinational companies in Denmark is under way following the decision of the tax administration board in January to arbitrarily raise the 1976 taxable income of four international oil companies. The increase amounted to a total of 260 million kroner and resulted in claims for additional tax payments of 96 million kroner, based on Denmark's corporate tax rate of 37% *(Doing Business in Europe, Par. 21,825)*. It appeared that the extra assessment corresponded to 15% of gross earnings. Spokesmen of the four compa-

Multinationals *(contd.)*

nies affected - British Petroleum, Chevron, Esso (Exxon), and Texaco - said they would challenge the revision of their tax bills, if necessary by going all the way to the supreme court.

The tax authority board, acting at the behest of the Minister for Taxes and Levies Jens Kampmann, had based its decision on a clause in Danish company law permitting arbitrary assessments on international companies transacting business with their foreign parents differently than would independent domestic companies. Pressure for this move had come from left-wing political factions in Denmark which have charged that the oil companies have been engaging in price manipulations to minimize their tax obligations and that, in fact, some have been paying no taxes at all because of large depreciation allowances. If the companies do challenge the arbitrary assessments, the courts most certainly will have to look into such matters as transfer pricing and the price relationships between the international subsidiaries and small, independent oil distributors, which are said to hold about 30% of the domestic market.

At least one member of the tax administration board, who was quoted in a newspaper article, said the investigators would be particularly interested in those among the 140 multinationals which have not reported any profits.

Nonresidents 'Lose Interest' in Danish Banks

In other tax developments, many foreigners maintaining bank and bond accounts in Denmark - because of the very attractive interest rates earned there - have been withdrawing their deposits at a very rapid rate lately, according to Danish reports. The withdrawals are prompted by tightened tax controls enacted by Parliament last June which obligate the domestic banks to provide the fiscal authorities with complete computerized data on deposits and interest accruals. For this purpose, customers by Oct. 1, 1977, had to give their personal identification numbers to the banks, which in turn will begin transmitting the account data to the authorities at the end of this year.

Kampmann, the tax minister, has estimated that the taxpayers' tendency to "forget" reporting interest income in their returns in the past has deprived the government of tax revenues on income of about 1 billion kroner per year. (Critics point out that this would correspond to merely 0.5% of total tax revenue and therefore does not warrant the huge administrative effort involved.) The new system also gives Copenhagen a complete picture of all accounts maintained by nonresidents. While it is at the government's discretion what to do with such data, it is well known that there is an exchange of information not only among the tax authorities of the Scandinavian countries but also within the European Community. The new rules do not

Nonresidents *(contd.)*

touch upon any international double-taxation agreements, so that there is nothing to be feared by nonresidents who report Danish interest income in their tax returns back home. Apparently, however, many of them have failed to do this and are now withdrawing unreported deposits from Denmark to avoid getting into hot water with their national authorities.

Switzerland: More Powers for Government, National Bank

With a two-thirds majority, the Swiss voters on Feb. 26 approved a constitutional amendment giving the federal government and the National Bank expanded permanent powers of monetary and economic intervention in their fight against inflation, recession, and unemployment. A similar proposal had failed in March 1975 *(Doing Business in Europe, Par. 30,898)*, and, with this in mind, everything had been done this time to carefully define the degree of Bern's broadened jurisdictions. Acceptance of the new amendment means the end of having to operate with temporary "emergency" decrees in "ensuring balanced economic development" for Switzerland.

In applying its newly-won authorization, the federal government is called upon to work together with the cantonal governments and the business community. Only in the "classical" sectors of money and credit, public finance, and foreign trade is Bern permitted to "depart if necessary" from the constitutionally guaranteed freedom of trade and commerce. Stability measures may be undertaken only in the form of tax and duty increases and decreases, whereas the 1975 proposal had also included changes in depreciation as well as the means of influencing cantonal policies by reducing federal funds to the cantons.

Immediately after the voters' acceptance of the new constitutional article, the Bern government passed the draft of a new central bank law. It would empower the National Bank to implement certain measures without first having to be authorized by Parliament and the electorate and without having to enter into agreements with the commercial banks. Such measures could include the imposition of minimum reserve requirements, controls on the emission of securities, curbs against the inflow of foreign capital, etc. The acceptance of the legislation also clears the way for more and improved economic and monetary statistics and a more accurate compilation of data determining Switzerland's gross national product.

In the same referendum, the voters also supported legislation for the financial reform of the country's social security system (AHV). In the future, retirement benefits will be hinged to a combined index based on the inflation rate and the average growth of incomes. Further, there will be an increase of contributions by the self-em-

Powers
(contd.)

ployed. Not accepted by the electorate was an initiative to lower the AHV retirement age.

Bern Tries
to Slam Gates
on Alien Funds

To stop yet another avalanche of foreign capital from entering the country and to counteract a further appreciation of the Swiss franc, Switzerland late last month imposed a series of tough monetary restrictions which most observers considered unprecedented. As of Feb. 27, the following measures took effect:

- The sale of Swiss securities, including bonds, to nonresidents was completely prohibited until further notice - an action that practically amounts to an investment ban.

- The importation of foreign bank notes was restricted to the equivalent of SF 20,000 per person and quarter. This limitation also had been in force in 1974 and '76 *(Doing Business in Europe, Par. 30,866)* but was subsequently rescinded. Violations are punishable by jail terms and fines of up to SF 100,000.

- The National Bank was authorized to engage in forward transactions in foreign exchange of up to 24 months (so far three months) "as long and as far" as necessary to discourage speculation in the franc.

The measures augmented actions taken a few days earlier, on Feb. 24, dropping the discount rate from 1.5% to 1% (the lowest level in National Bank history) and the Lombard rate from 2.5% to 2%. Another restriction was placed on existing Swiss-franc deposits by nonresidents, which so far had been exempt from the 10%-per-quarter "negative interest" charge, provided they did not exceed the level they had held as of Oct. 31, 1974 *(Doing Business in Europe, Par. 30,765)*. For these deposits, the penalty-free level will be dropped by 20% as of April 1 to an amount not below SF 1 million. Nonresident deposits in excess of SF 5 million will be subject to the full negative-interest charge, i.e., to an annual rate of 40%.

Financial observers could not immediately predict the overall effects of yet another measure which permits the domestic banks to cover their foreign exchange liabilities as a whole and not in regard to each individual currency position, as had been the case so far.

Common Market Reports

EUROMARKET NEWS

Issue No. 478 *March 14, 1978*

IN THIS ISSUE

Community: Draft Proposal on Misleading Advertising

The European Commission has sent to the Council of Ministers a draft directive designed to better protect consumers against misleading and unfair advertising. The proposal follows the three major principles set down in the EEC's 1975 consumer protection program *(Common Market Reports, Par. 9743)*: misleading advertising is not to be permitted; all information provided in advertisements must be accurate; any advertiser should be allowed to prove the validity of his claims.

Advertising would be considered misleading if it is partially or entirely false or if it misleads or is likely to mislead. Deemed unfair would be any advertising that (1) injures or is likely to injure the commercial reputation of another person by false statements or defamatory comments concerning his company, goods, or services, (2) exploits the trust or inexperience of the consumer, or (3) influences or is likely to influence a consumer or the public in an improper way. The proposal's definitions of misleading and unfair advertising and some of the instruments to correct them are patterned after German statutory and case law. Although unfair advertising is banned in all member states, the concept is interpreted differently. The German and British interpretations, for example, are far

COMMON MARKET REPORTS, Issue No. 478, March 14, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Advertising *(contd.)*

apart - a problem that is expected to be dealt with in the Council discussions.

The draft directive would require the member states to adopt effective legislation against misleading and unfair advertising. Persons hurt by such advertising as well as consumer organizations would have to be given recourse to bring action in court. The courts would be authorized to ban misleading or unfair advertising, and they could demand publication of corrections even before the matter - proof of fault or actual prejudice - had been proved in court. Comparative advertising would be permissible to the extent that it compares material and provable details and is neither misleading nor unfair. Whenever the advertiser makes a factual claim, the burden of proof that the claim is correct would rest on him.

Although consumerism is the major feature of the proposal, there are other aspects involved. Large companies launching advertising campaigns that are to be extended across member-state frontiers often run into trouble because of the differences in national laws that affect free movement of goods and services. Advertising on radio and television reaches across member-state borders. If certain ads are allowed in one state and not another, it is difficult, particularly in the border regions, to operate a uniform marketing system for goods and services. A company that has to conduct several concurrent ad campaigns for a single product is at a disadvantage because of increased costs.

Council OKs Shipyard Aid Directive

The Council has approved the Commission's draft directive on aid to shipyards. Like its three forerunners (the third directive expired at the end of 1977 - *Common Market Reports, Par. 2922.27*), the fourth directive is primarily conceived to align national aid measures to shipyards and to scale down production aids, the worst offenders of EEC competition rules. This latest measure will remain in effect until the end of 1980.

Shipbuilders in the Community, lured to expand their capacity by the boom of the '60s and early '70s, in recent years have felt the effects of the worldwide decline in demand for new ships, especially oil tankers. Common Market shipyards have also faced increased competition, mainly from Japan and South Korea. Most member-state governments have resorted to steps of their own to prevent mass layoffs, but at the same time they have welcomed Community action.

Following the pattern of the previous three measures, the fourth shipyards aid directive bars, as a rule, any production aids by the member states. While such aids are permissible in certain situations (only to improve efficiency), they may not distort conditions among member

Shipyard Aid *(contd.)*

states to an extent that they conflict with the common interest. Production aids will be tolerated by the Commission only if they are used exclusively to bring Community shipbuilding prices closer to those of nonmember countries. Aids may not be given if they discourage orders that normally would have been placed with shipyards in other member states had no assistance been granted. Since governments have in the past given a kind of indirect aid to shipyards by favoring shippers who have placed orders, the Commission will be checking to determine whether a member-state government has encouraged the placing of orders with domestic shipyards only.

National governments must notify the Commission if they plan to give investment grants to enlarge shipbuilding capacity; the EC executive could bar the plan if it were contrary to the common interest of the Community. Government aids to rescue ship construction, conversion, and repair businesses will be considered compatible with the Common Market if they are part of an acceptable long-term solution; but the aids may not discriminate against shipbuilding products from other member states.

In Brief...

The Permanent Representatives who are discussing the proposals on dentists' right of establishment in order to clear away the few remaining obstacles to Council adoption have found a solution to Belgium's objections. (The Belgians did not want to allow a foreign oral surgeon to perform oral surgery, which in Belgium may be done only by a regular physician with special training.) The compromise would be a setback to the principles of the right of establishment and the freedom to provide services: a foreign dental surgeon wanting to settle in Belgium would be allowed to do regular dental work only, and no surgery + + + The EEC and the EFTA countries Austria, Finland, Norway, Portugal, and Switzerland have concluded agreements that replace the Community's unilateral protective measures against steel imports (import licenses, minimum reference prices) taken late last year for the first quarter of '78. The negotiations went rather smoothly because of the steel industries' similar problems in both trade blocs. EEC overtures to other steel exporting countries (e.g., Japan, Australia, and Spain) have so far found little understanding.

Britain: CBI Pushing for Major Tax Cuts in Budget

The U.K. government has been urged by the Confederation of British Industry to build an attractive "growth incentive" into this year by making provision in the April Budget for income tax cuts of £3.6 billion in annual terms, which would cost the Treasury some £2.5 billion in the upcoming fiscal year. The CBI's recommendations were presented at a March 2 meeting of its leadership with Chancellor of the

Tax Cuts *(contd.)*

Exchequer Denis Healey. Industry's major proposals are for a 10% boost in personal allowances (minus the percentage of the planned child benefits), a reduction of the basic tax rate from 34% to 32%, and a widening of the tax band, so that the next tax step of 40% would begin at £10,000 in annual income rather than the present £6,000. The CBI also advocates considerable cuts for those earning more than £21,000 per year by lowering the top rate from 83% to 60% in 1978-79 and further to 50% in '79-80. This, it is argued, would be a "morale booster" for businessmen and managers, on whose shoulders falls the burden of keeping the economy going. (Previously, the Confederation had wanted a reduction to only 60%, but it changed its position at the urging of its members at last November's annual conference and in the wake of the council meeting in February.) Finally, the government is called upon to drop the 2% surcharge on the employers' national insurance contributions, which costs industry an estimated £1 billion annually.

Meanwhile, the U.K. Central Statistical Office has released figures showing that Britain's public-sector borrowing has been reduced to the lowest level in four years, which suggests that the Callaghan administration will indeed be in a position to schedule tax cuts of £1.5-2 billion as it had proposed for next month's Budget. On the basis of these latest data, the public borrowing requirement for the current fiscal year should not exceed £5.7 billion, which compares favorably to any previous official estimates (e.g., the Treasury's forecast of £7.5 billion last fall). The main reason for the reduced PBR (£3.6 billion, seasonally adjusted, for the first nine months of the 1977-78 fiscal year) is seen in improved revenues, even though the tax cuts effected last fall should slightly boost the borrowing requirement in the final quarter.

Netherlands: Unions Offer Deal to Gain Job Security

This year's collective bargaining in Holland is dominated by labor union pressures for a "work place consensus" - labeled with the Dutch acronym APO. This term describes the unions' drive for a job safeguards arrangement whereby they would seek merely inflation compensation and no real-term wage increases in return for industry's cutting the workweek to 34-36 hours. In the talks held so far, the union negotiators have asked for a 2% pay boost to make up for price rises in the April-October 1977 period as well as a pledge by the employers not to schedule dismissals this year.

In labor's opinion, the APO concept should be a long-term policy tool with which to adapt the existing job potential to the size of the available labor force rather than going the opposite, traditional route. Under present and future economic conditions, it is argued, the normally legitimate quest for high pay increments must be subordi-

Job Security *(contd.)*

nated to job security and a "just distribution" of work. This demands concessions by both employers and unions, with the latter willing to do their share. The unions claim they are not basically opposed to labor-saving rationalization and automation if this helps to make machines take over "menial" tasks. The creation of new jobs must be concentrated in the public and service sectors, they say.

The NVV and NKV labor federations currently are trying to test this concept in key industries. In the negotiations with Hoogovens steel and the Royal Dutch oil group, they demand a switch from four-shift to five-shift operations, which would reduce the workweek to 33.6 hours. In the case of Hoogovens, Holland's only steelmaker, with 23,500 employees, the unions have offered to sacrifice 1.5 percentage points of the proposed inflation compensation, which would save 15 million guilders in wage costs annually. The company has argued that the workweek cut alone would cost ten times as much and that it would be unable to get additional workers for production, where there is a traditional manpower shortage. (The administrative work force is highly overstaffed as a result of initial projections for expanded production capacities.) As at Hoogovens, Dutch employers generally are against any institutionalization of the APO concept, if it were tried: any job guarantee, they say, would give only superficial protection to workers in endangered enterprises and would actually discourage further hiring.

The Dutch government, which generally assumes a key role in bringing collective bargaining to a successful conclusion, has not directly taken sides in these discussions. It is willing, however, to set aside funds from its employment stabilization programs to have the APO system implemented.

Belgium: Plan to Expel Unemployed Foreigners

A political dispute has arisen in Belgium over the plan by the opposition Liberals to force unemployed foreigners (i.e., non-EEC nationals) to leave the country. The proposal is contained in a bill introduced in Parliament by Georges Mundeleer, the Liberal party leader; it has the support of some political groups but has also been fiercely criticized by the Socialists and by trade union leaders.

According to the Mundeleer bill, unemployment benefits should be withdrawn from non-EEC nationals who have been out of work for more than six months of the previous year and who have lived in Belgium for less than five years. A "repatriation allowance" should be granted, based on 100 times the daily unemployment compensation, plus an extra 10% for each dependent leaving the country at the same time.

In support of his controversial proposal, Mundeleer

Foreigners
(contd.)

said that at the end of October 1977, there had been some 280,000 people out of work in Belgium, almost 40,000 of them foreigners. Of the latter, 16,000 - or 7% of the total - were citizens of non-EEC countries. He added that the government expected to pay out BF 80 billion in unemployment benefits this year. Between BF 11 and 12 billion of that would go to foreigners and again BF 5-6 billion to non-EEC nationals. "Belgium cannot continue paying these charges," Mundeleer insisted. "The situation...must be reviewed, and the most effective solution would be some form of repatriation."

Meanwhile, however, figures released by the National Employment Office showed a further slight drop in the jobless rate. At the end of February, about 291,000 people were listed as unemployed, compared with more than 299,000 the month before.

Germany:
Less Red Tape
for Building
Permits, Codes

Germany's 11 state governments have agreed to present draft legislation to their parliaments to simplify building codes and regulations and to cut red tape in processing applications for building permits. Under the Constitution, it is for the states to establish rules governing construction of all types of buildings; thus, aside from general planning, the Bonn government is extremely limited in proposing any piece of federal legislation that might have an impact on the states' rules governing the issuance of building permits.

It now takes about two months to obtain a permit for a simple addition to a house, three to four months for one to build a home, and up to half a year for one needed for the construction of an office building. A permit for a factory can take a year or more because the application may have to be scrutinized not only by the local building commissioner but also by several other local and state agencies, including the environmental protection agency.

If the states succeed with their plans, the processing of building permit applications would be facilitated in a number of ways. Local boards would get more staff. The authorities would have to keep to a minimum their examinations concerning the fire protection, soundproofing, and insulation of a planned one- or two-family home. The same would go for farm buildings, one-car garages, and similar noncommercial buildings. The modernization of individual apartments, homes, and apartment buildings would not require the approval of the state agencies that exercise control over local building authorities. Minor additions to existing homes and buildings would be exempt from building regulations, though the state governments have not yet agreed on the list of exemptions.

Substantial time would be gained through better coop-

Permits *(contd.)*

eration between the local boards and the state's supervisory agencies. At present, applications processed by the local boards are often accumulated until a batch can be sent to another agency; this would be stopped. The plan also would give local boards some of the supervisory powers that state agencies now have.

Switzerland: Central Bank Deposits; Investments

The Swiss government has informed the central banks of other countries that they too are subject to the "negative interest" commission of 10% per quarter on any Swiss-franc deposits they maintain in Switzerland. This decision, affecting some SF 3 billion of such funds as of March 1, is part of the latest series of monetary and investment restrictions designed to stop, or at least slow down, the most recent speculative inflow of foreign capital.

Financial commentators described the government's action against the central bank funds as a step of "last resort" when it became evident that the earlier measures had only temporarily inhibited the franc's revaluation vis-à-vis the U.S. dollar and the D-mark. By taking this step, they agreed, Bern had virtually depleted its defensive arsenal, unless it would introduce a split exchange market for a financial and a commercial franc in order to protect the country's hard-hit export industries. National Bank President Fritz Leutwiler for his part vehemently rejected such suggestions. It would be doubtful in any case whether such a split rate could be defended against the powerful international market forces, especially by a small country like Switzerland.

The National Bank in the meantime has published explanations of the regulations concerning foreign investments in Swiss securities. In contrast to previous practice, the Bank this time wants to make absolutely certain that the rules are observed to the letter. For instance, Swiss banks may not release from their custody any securities deposited in the name of nonresidents. This is to prevent these securities from being exported and from being traded in a "grey market" abroad. Foreigners may sell such Swiss franc-denominated shares only to Swiss citizens in Switzerland. Swiss nationals residing abroad are not considered nonresidents within the meaning of the regulations. On the other hand, foreigners who hold a Swiss residence permit and have worked in Switzerland for at least two years are treated just like Swiss nationals for the purpose of the investment regulations.

EURO COMPANY SCENE

Rhone-Poulenc/ Morton-Norwich

The French chemicals concern Rhone-Poulenc SA, Paris, announced last month an agreement to acquire up to 20.5% of

Rhone-Poulenc/ Morton-Norwich *(contd.)*

the equity of Chicago-based Morton-Norwich Products, a diversified company manufacturing household products, chemicals, drugs (Pepto-Bismol), and salt (Morton Salt). Rhone-Poulenc already holds 4.8% of Morton's share capital and now plans to purchase an additional 800,000 newly issued shares at $31 each, which would raise the equity to 10.5%. The agreed 20.5% limit, which is to apply for a period of 10 years, is to be achieved through stock market and private transactions. Both companies plan to develop the U.S. sales of Rhone-Poulenc's pharmaceuticals, which in 1977 totaled about $100 million. The French concern reported sales of more than $4.8 billion for last year, while Morton had a turnover of $609 million in the last fiscal year.

Eaton/ Tilling

Eaton Corp. of Cleveland has sold its lock manufacturing division to Thomas Tilling Ltd., London, with the latter taking over plants in Europe and North America with some 4,300 employees. Tilling ranks among the U.K.'s 50 largest companies and reported sales of £388 million and pre-tax earnings of £22 million for the first six months of 1977.

Bendix/ Lucas/ Ducellier

France's DBA, a subsidiary of the U.S. Bendix group, has sold the remaining 49% of its subsidiary Ducellier & Cie. to Lucas Electrical, of the U.K.'s Lucas group, which thus is now 100% owner. Ducellier is the largest French producer of auto electrical equipment and employs more than 7,0 in five domestic plants. Lucas indicated that it eventually plans to turn over part of the Ducellier equity to French interests but that it would retain control. The sale still requires the approval of the French authorities.

Gloucester/ Battenfeld

The shareholders of Massachusetts-based Gloucester Engineering Co., Inc., have approved the takeover of Battenfeld Maschinenfabriken GmbH, a leading German manufacturer of plastics extrusion equipment. Through the acquisition, Gloucester will be enabled to start the production of Battenfeld equipment in the United States and to take advantage of the German company's worldwide distribution network. No financial details were given.

Common Market Reports

EUROMARKET NEWS

Issue No. 479 *Report No. 340, March 21, 1978*

IN THIS ISSUE

Community: National Law Subordinate to Community Law

On March 9 the European Court of Justice reaffirmed the primacy of Community law when it held that a national judge must refrain from applying any contrary provisions of national legislation even if they were adopted after the Community measure took effect (*Simmenthal v. Italian Minister for Finance*, Case No. 106/77). This has been an established and generally accepted principle in European case law, but never before has the Court of Justice expressed it so strongly.

Simmenthal, a Monza-based Italian company, imported meat from France. Italian customs, in accordance with domestic law, inspected the consignments and charged about 600,000 lire for the inspection. Simmenthal paid but sued for recovery, charging that the inspection fee was illegal under Community rules. The Italian court at Susa suspended the proceedings and in April 1976 requested a preliminary ruling from the Court of Justice to determine whether a health inspection constituted a measure having an effect equivalent to a quantitative restriction. The Susa court further asked whether the fee, if not a quantitative restriction, could be construed as customs duty or a tax, both prohibited by Treaty Articles 9 and 95. The Court of

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

COMMON MARKET REPORTS, Issue No. 479, March 21, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

National Law *(contd.)*

Justice answered that veterinary and public health inspections at the frontier, regardless of whether they are carried out in a systematic manner, are illegal under Treaty Article 30 because Community rules require health inspections in the exporting member state (Case No. 35/76, *Common Market Reports, Par. 8388*).

The Italian judge ruled in favor of Simmenthal and ordered the Finance Ministry to return the fee. The Ministry refused, arguing that the Italian Constitutional Court must first rule on whether the national provisions invoked to impose the fee are compatible with Community law. This was a new aspect, and so the Susa court once again approached the Court of Justice for a preliminary ruling, this time with a specific question: can a national court directly bar the application of a national law adopted subsequent to, and conflicting with, directly applicable EEC law, or does the national law remain in force until repealed by Parliament or declared unconstitutional by the proper judicial body? (In several judgments in recent years, Italy's highest court reserved the right to rule on the compatibility of EEC and national law before the Community law would be fully applied by the national court.) The Court of Justice answered in the affirmative to the first question, adding that a national judge was committed to bar application of the national law.

Giving Thought to New Lomé Treaty Talks

The European Commission wants the Council of Ministers to begin giving thought to the Community's position on negotiations for a new Lomé Convention with 53 African, Caribbean and Pacific (ACP) countries, referred to in Brussels as Lomé II. Article 91 of the current convention (Lomé I), which took effect on April 1, 1976, and expires on March 1, 1980, provides that "18 months prior to expiration, the contracting parties shall enter into negotiations in order to examine what provisions shall subsequently govern relations between the Community and its Member States and the ACP States." Thus, the Council will soon have to give the Commission the instructions for negotiations since the talks are to start in July. The Commission has put in a general memorandum some of the matters it believes should be discussed and eventually written into Lomé II; detailed proposals will follow on matters such as fishing rights. It is expected that the ACP countries will also raise a number of issues to be negotiated.

Lomé I allows free access of ACP products to the EEC and grants financial aid totaling 2.5 billion units of account, in addition to 400 million UA set aside to stabilize the ACP countries' export earnings in times of fluctuating world market prices *(Common Market Reports, Par. 4281)*. The system has not been in operation very long, so the Commission recommends only minor changes here. ACP countries are increasingly benefiting from Lomé I by boosting their

Lomé Talks *(contd.)*

exports to the EEC (in 1977, these rose 26% over '76), but problems are bound to develop when ACP products compete with the same or similar products of Community industries that are experiencing or facing structural changes. Here the Commission wants the present arrangement of consultations among government officials expanded to include industry representatives from the EEC and the ACP countries. The EC executive would like to make these consultations compulsory for particularly endangered industries; it is hoping for some sort of coordination, so that both sides can avoid hurting each other with their marketing and export policies.

In Brief...

For the second time the Economic and Social Committee (ESC) has postponed action on the Commission's products liability draft directive. Some ESC members last month introduced several amendments because they felt that the opinion drawn up by an ESC working group was not satisfactory. After a long debate at its March 1-2 session, the ESC decided to return the measure to the working group when it became clear that the latter's draft opinion would not get a majority + + + The Commission has submitted a questionnaire to the Spanish government to obtain a comprehensive picture of the political, economic and social situation in Spain, which applied for EC membership in July 1977. The answers are to be supplied in a number of meetings until the summer, and they will enter into the deliberations when the Commission prepares its opinion on Madrid's application as required by Treaty Article 237. Commission vice-president Lorenzo Natali has said that it would take about a year to prepare the opinion.

Italy: Andreotti Presents His Fourth Cabinet

The most recent political crisis in Italy ended on March 13 after almost two months with the formal installation of the country's 40th postwar government, which once again consists of a Christian Democrat *monocolore* cabinet under the leadership of Giulio Andreotti. The main difference, however, to previous administrations is the return of the Communists into a parliamentary government majority for the first time since 1947. While the Communist PCI still is not represented in the cabinet as such, the party has cooperated in working out a policy program and has agreed to support the Christian Democrats in Parliament alongside the Socialists, Social Democrats, and Republicans. This would mean a government majority of 577 votes in the 630-member Assembly and a similar margin in the Senate. The anti-Communist Liberals, who had been part of last fall's six-party programmatic pact, this time refused to join the new agreement, charging that Andreotti had made too many concessions to the PCI. The Communists and their leader Enrico Berlinguer view their role within the framework of the latest ar-

Andreotti *(contd.)*

rangement as yet another significant step toward direct participation in government.

Andreotti's new cabinet, his fourth, hardly differs from the previous one, which had resigned on Jan. 16. Eighteen of the 20 ministers are continuing, and a handful have merely traded portfolios. Among the more important changes are the moves by Filippo Pandolfi from Finance to the Treasury and by Gaetano Stammati from the Treasury to Public Works (in what was considered a "demotion"). The only woman in the cabinet, Tina Anselmi, shifted from Labor to Health.

As in past years, the conclusion of a broadly supported political pact is not viewed as a guarantee of long-lived success for Andreotti and the Christian Democrats. The fragility of the agreement is most evident in the intentional ambiguousness of its economic portion. Ugo La Malfa, the Republican leader, complained that the latter was "incomplete and unclear" and doubted whether the labor unions would support the proposed austerity policies to the extent necessary to overcome the country's economic crisis. Indeed, the program does not include any firm commitments on wage moderation on the part of the unions, and it is here where most observers see the greatest problems for the new administration in the near future.

Netherlands: <u>April Start for European Options Market</u>

Final preparations have begun in Amsterdam for the April 4 opening of the European Options Exchange, the first in continental Europe that will offer investors a regulated market for dealing in options for share futures at predetermined prices. Last month the Dutch Finance Ministry appointed a five-member supervisory commission to oversee EOE operations and protect the interests of the investing public. It will be headed by Dr. P. Korteweg, professor of monetary economics at Rotterdam's Erasmus University, and also includes a representative of the Ministry.

Basically regulated by the Dutch bourse law of 1914, the commission's activities will, among other things, include the setting of trading hours (10:30 a.m. to 4:30 p.m., Mondays through Fridays), determining operating procedures, and deciding which options are to be traded. To help the commission discharge its duties effectively, all organs of the Exchange are required to provide it with information upon request. For instance, the EOE management board would be obligated to inform the commission whenever disciplinary action is taken against a member.

Initially, the EOE will handle share options of 20 major international companies, a number that eventually is to be raised to 60. The inaugural list includes the shares of five U.S., five British and five Dutch companies, with the remainder made up of German, Belgian, and Swiss companies.

Options *(contd.)*

Unlike in the United States, trading will not be on a dollar basis but through a multicurrency system, which requires investors to pay contracts in the currency of the shares in which the options are exercised. This means that there could be an additional foreign exchange risk involved.

France: No Slowdown in Investments by U.S. Firms

Despite the uncertain political and economic climate that permeated France in the months prior to the March legislative elections, American investors appear to have had confidence in the country's future economic situation. U.S. investments in France increased substantially in 1977 and so far this year, and several large U.S. companies recently announced expansion plans for their existing investments. Equally interesting should be the fact that France has displaced Britain as the most favored European location, after West Germany, for American investors.

The U.S. Dept. of Commerce recently released statistics indicating that American affiliates worldwide raised their capital expenditure by 12% in '77. In contrast, affiliates of U.S. firms in France committed more than twice that much, namely, 25%. The DoC has forecast that American investments in France - new direct investments coupled with reinvestments by existing U.S. affiliates - will total $1.7 billion in 1978, rising from $1.5 billion in 1977 and $1.2 billion in 1976. Total employment in France by American companies and affiliates stood at 325,000 in 1977. This figure was expected to increase by 10-15% this year.

As for individual companies, IBM, Chrysler, and Merck, Sharp & Dohm announced in the last few months that they would boost current capital outlays in France by $200 million, $135 million, and $42.5 million, respectively, over the next three years. General Motors, Quaker Oats, Caterpillar Tractors, Texas Instruments, Levi Strauss, and a host of other firms were similarly committed to a substantial expansion of existing investments.

Foreign businessmen and investors in France are reluctant to openly predict the conditions under which business and industry will operate during the remainder of '78. This state of uncertainty is likely to continue for some weeks following the elections before the new government's full intentions, policies, and attitudes become clear.

American businessmen in Paris, for their part, attribute the rise in U.S. investments in France to the apolitical nature of American multinationals. Pierre Carrigue, the director of the French Industrial Development Agency in New York, also subscribes to this belief, saying recently that he was convinced the elections would "not have a very profound influence on companies planning to invest in France." Carrigue was equally confident that the French Left "seems hardly likely to sour the climate for foreign

Investments *(contd.)*

investment." However, another theory to explain the recent rally in U.S. investment activity is that companies wanting to become solidly implanted in France have rushed to finalize their plans before the elections, fearing that a leftist government would extend them a less hearty welcome than the incumbent administration.

Germany: Buildup of Worst Labor Conflict?

A series of regional strikes and lockouts in Germany's metalworking industry this month threatened to build up into the country's worst labor conflict in postwar history. The rank and file of the organized metalworkers in North Rhine-Westphalia and northern Baden-Württemberg voted overwhelmingly to turn their occasional warning strikes into a full-scale walkout as of March 15. In Baden-Württemberg, around Stuttgart, the home of major automotive and engineering industries, the strike kept some 80,000 off their jobs and shut down such companies as Bosch, SEL, Daimler-Benz (Mercedes), and Porsche. Earlier, negotiations and mediation efforts in both states had failed to reconcile the unions' demands for pay increases of 7.8% and 8%, respectively, and the employers' offers of 4.2% and 3.5%.

In the past, collective wage contracts covering the metalworking industry in northern Baden-Württemberg have always set a pattern for the same sectors in other regions as well as for other production sectors throughout the nation. The dispute this year centers not only on the demands for pay boosts of up to 8%, which most economists consider excessive, but also on another issue: for the first time, the unions want a commitment from the employers to refrain from putting into lower wage categories employees whose jobs fall victim to automation. In other words, they demand a permanent guarantee that employees remain at the same wage level even when they are given a lesser job.

(In this particular respect, the conflict in the metalworking sector is similar to that in the German publishing and printing industry, which also has been hit by a series of strikes and lockouts. Here, linotype operators and compositors have been assured retraining and the same pay for the new jobs created by the introduction of electronic typesetting equipment, yet they want a guarantee that they will never lose their jobs.)

Industry leaders and independent economists have warned of the consequences if the unions' concept for the metalworkers is accepted: companies would be substantially hampered in their policy to produce at lowest cost in order to remain competitive. Most observers charge that the union leadership in northern Baden-Württemberg seems oblivious to the economic realities of 1.3 million unemployed, forecasts of 3.5% in GNP growth at most, and a continually sliding dollar that puts a damper on exports.

Austria: Court Rejects New Net-Worth Tax System

The higher taxation of the net worth of smaller Austrian capital companies that recently took retroactive effect for all of 1977 has been declared invalid by the country's Constitutional Court. The ruling concerns a provision of the amended 1976 net-worth tax law which established fictitious minimum assets of 1 million schillings for limited-liability companies and of 10 million schillings for stock corporations, regardless of their actual net worth. The new minimum assessment base was 10 times higher than the old one and was set as the government raised the net-worth tax rate from 0.75% to 1%. The Constitutional Court ruled that the modified method of taxation constituted discriminatory and unjustified treatment. Further, the Court deemed it "excessive" in nature and considered it potentially damaging to the basic right to own property.

The ruling should mean a substantial revenue loss to the government, which in its 1978 budget had projected a net-worth tax income of 3.2 billion schillings, i.e., 23% more than in 1977. In view of the Court's decision, Finance Minister Hannes Androsch reportedly was considering raising the required minimum equity capital of limited-liability companies from 100,000 to 500,000 schillings.

den: e Contract for Private Sector

The SAF employers' federation, the LO labor organization, and the PTK Private Employees' Cartel on March 11 accepted a compromise proposal of a state mediation commission for a collective wage agreement covering 1.4 million employees in private Swedish industry. The contract will run until Nov. 1, 1979, and brings labor cost increases of 10% this year, inclusive of a fifth week of annual leave, which is now legally required. Nevertheless, the agreement will not result in any real-term increments to workers, given the current inflation rate of about 12-13%.

The 10% rise in wage costs is seen as the limit at which there will be neither improvements nor disadvantages for the export competitiveness of Swedish industry this year. For 1979 the outlook is somewhat better, providing inflation can be brought under control. The new contract gives the unions the right of cancellation in case prices rise by more than 7.75% within this year and by more than 5% in '79. Following the signing of the agreement, labor spokesmen urged the government to impose a general price freeze, lower value-added tax on daily-use consumer items, and raise family allowances.

EURO COMPANY SCENE

Scholten

Koninklijke Scholten Honig (KSH), a leading Dutch foods group, has been granted a payments moratorium until Sept. 21 in efforts to save the firm from bankruptcy. The gov-

Scholten *(contd.)*

ernment, through the Ministry of Agriculture, has extended another emergency credit of 34 million guilders to KSH after already having granted a 90-million-guilder loan last fall. The Hague's latest intervention has persuaded the company's 3,600 domestic employees to give up their occupation of KSH plants and facilities. Scholten Honig employs another 2,000 in Britain, Germany, and South Africa. According to Dutch reports, KSH expects a loss of 40-50 million guilders in the current business year.

Ford Belgium

Workers at the Ford Motor Co. car and truck assembly plant at Genk, Belgium, have been on strike since late February, for the first major walkout in the plant's history. The unions are demanding a reduction of the workweek from 40 to 36 hours, which they claim would create an extra 1,000 jobs. Management has rejected the demands on the grounds that such a cut would seriously affect profits. All but 10% of the plant's 10,000 workers were supporting the strike, labor spokesmen said.

Purolator Germany

Purolator Services GmbH, Frankfurt, of the U.S. Purolator group, has entered what would be the German equivalent of Chapter XI proceedings following the decision to terminate immediately the company's German parcel delivery service, which so far has brought substantial losses. In past years Purolator Germany also had problems with its armored car service, which had been involved in a spectacular series of holdups and thefts, with losses in the millions of D-marks. Currently, this service is considered profitable, with a German market share of 70%, and there have been press reports that it will be taken over by domestic interests.

Goodyear U.K.

Reacting to the continued stagnation in the British motor industry, the management of Goodyear Tire & Rubber's U.K. plant at Wolverhampton has announced plans to cut back the work force of 5,500 by 400-500 employees, if possible on a "voluntary" basis. The company reported net losses of almost half a million pounds on sales of £159 million last year, after it still had a profitable year in 1976.

Common Market Reports

EUROMARKET NEWS

Issue No. 480 *March 28, 1978*

IN THIS ISSUE

Community: Slow Progress in Insurance Liberalization

Liberalization of the Common Market's insurance sector will not progress further until the Permanent Representatives find solutions to the problems involving three draft directives that deal with direct life insurance, coinsurance, and insurance on matters other than life *(Common Market Reports, Pars. 1349.354, 1349.343, 9959, 1349.35).* (One of the proposals is a follow-up to two different measures adopted in 1973.) All three are designed to ease access of foreign insurance companies to a member state's insurance market, enabling such companies either to set up subsidiaries or branches there under the same conditions applicable to domestic insurers or to provide services there.

Two major problems arising from the life insurance proposal pertain to specialization and to the financial criteria applicable to the proposed solvency and minimum margins. Council attorneys expect an early settlement on the latter issue. They are not so sure about the specialization problem, where an agreement presupposes a political rather than a legal or technical decision. Thus, the issue will probably be presented to the economics and finance ministers in mid-April.

COMMON MARKET REPORTS, Issue No. 480, March 28, 1978. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $525 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Insurance *(contd.)*

The difficulties go back to the discrepancies between the liberal systems in the U.K., Belgium, and Holland and the rigid systems applied elsewhere. The Commission originally proposed that an insurance company establishing a subsidiary in another state would have to specialize if that were the legal requirement in that state; this would have forced the separation of a company's life and indemnity insurance operations. It was further proposed that existing multiple-line insurers could sell both types of insurance but would have to keep management and accounting separate. One of the compromise solutions that the Permanent Representatives have now come up with provides that existing multiple-line insurers could continue but new insurers would not be permitted after the directive took effect. Not all of the member-state governments like this idea. Another problem: should a company wanting to sell life insurance in another state that applies the specialization concept be required to establish a subsidiary, or should management be enabled to choose between a subsidiary and a branch?

A major problem concerning the two proposals on coinsurance and non-life insurance involves the proposed system of matching assets: underwriting liabilities expressed in a particular currency would have to be represented by assets expressed or realizable in the same currency. This means for all practical purposes and in order to avoid exchange risks, that an insurer would have to set aside technical reserves in the country where the risk was situated or in the currency of the contract. The Commission is favoring a flexible approach, which is supported by the U.K. and Germany, while France is insisting on a rigid concept.

<u>Common Energy Policy Still Urgent Goal</u>

The EC's energy commissioner, Guido Brunner, has suggested that the United States be presented with a full-fledged Community energy policy when President Jimmy Carter comes to Bonn on July 15 to attend the summit meeting of the leaders of the western world's most industrialized nations. However, the chances for the forging of such a policy in the coming months are slim, since the initial Council discussions on the Commission's latest attempt to bring about a consensus among the Nine have not been encouraging.

In a recent memorandum to the Council, the Commission has suggested priorities for a common energy policy that take into consideration the probable developments on the world energy market during the next decade. It cautions the Community not to be lulled into a false sense of security just because there seems to be an abundance of crude oil at the moment and because the OPEC countries' recent attitude on pricing policy has been moderate.

Viewing the prospect of a future oil shortage as very real, the Commission believes that the EEC should strive to meet the coming challenge through (1) energy conservation, Energy Policy *(contd.)*

(2) more use of conventional sources, especially coal, (3) exploration of new sources by underwriting the costs of research and development, and (4) steady development of the nuclear energy potential. As to the latter, it believes that popular resistance to nuclear power plants would lessen if the public were given objective information on the issues involved.

Most of the Commission's ideas are not new. One that has already found its way into Council action is the energy conservation drive, although it took the form of a nonbinding recommendation rather than a binding directive. The Council also allocated funds for energy project studies. Commission officials are, however, disappointed by the Council's failure to move more forcefully on the energy front. So far, a common energy policy has been blocked by the refusal of several member states to give up certain rights or positions. For example, the British do not want any part of a common policy since they are counting on the benefits and the foreign exchange from their rich North Sea oil fields, while France does not want to disturb the rapport it has with some of the Arab countries.

In Brief...

The Distillers Company Ltd. has appealed to the European Court of Justice for an annulment of the Commission's December 1977 decision requiring the company to end its discriminatory pricing policy. DCL, the most important producer and distributor of spirits in the U.K. and of Scotch whiskey in the EEC, has been charging its British customers differential prices. The Commission believes that this restricts the export of spirits to other member states + + + The Commission has agreed to the British government's new £300-million job support program, which eventually will replace the current temporary employment subsidy (TES) program. Under the existing plan, to be used in a modified form for another year, an employer is granted £20 a week for a maximum of 12 months for each full-time job maintained. A continuation of TES in its present form was considered incompatible with the Community's competition rules.

Italy: Confidence Vote for Reinstated Government

The kidnapping of Christian Democrat leader Aldo Moro overshadowed all other developments in Italy this month, including Parliament's overwhelming vote of confidence for the reinstated Andreotti government on March 16, just hours after the terrorists had struck. The vote was 575 to 30 in the Chamber of Deputies (with a similarly wide margin in the Senate) in what was clearly a spontaneous demonstration of support for the embattled administration. For the first time, the Communists voted with the government majority.

In his policy statement, cut extremely short under the impression of the tragic events that day, Prime Minister Giulio Andreotti confined himself to the barest essentials.

Confidence *(contd.)*

Concerning economic policy, he briefly identified the administration's key short-term objectives this year: a 4.5% growth rate for the gross national product, an inflation rate of no more than 13%, and a limit on the public-sector deficit of 24,000 billion lire (instead of 29,000 billion lire as originally projected). Rome intends to spend some 4,000 billion lire on economic stimulation and support measures, primarily to benefit housing construction and agriculture. The main targets in stabilizing the economy are a lowering of unemployment and boosting the industrial and infrastructural development of the Mezzogiorno, the southern regions.

France: Hopeful Mood After Defeat of Left Bloc

A wave of relief swept through the French business community early last week with the news of the victory of the incumbent government coalition in the legislative elections. The center-right parties had barely edged ahead of the Left by taking 50.7% of the popular vote as compared with the Opposition's 49.3%. However, aided by the French election system, they still wound up with an absolute majority of 291 seats in the Assembly, leaving the Left with only 200. There was a brief spell of euphoria in the days immediately following the second-round balloting on March 19 as businesses and investors reacted to the fact that the Socialist/Communist takeover threat had failed to materialize. Dealers at the Paris Bourse were swamped with orders for shares in domestic companies, and the franc climbed on the exchange markets.

The elation subsequently was tempered with caution over uncertainties about the social climate of the next few months. The French voters may have rejected the common program put forward by the Left, but they still demonstrated their deep desire for significant social changes in France. Observers predicted that the new government would be obliged to give priority to such reforms, and the labor federations have already demanded an immediate start of negotiations for an increase in the minimum wage, a lowering of the retirement age, and other social benefit improvements. Even though the Patronat, the employers' association, is willing to join in these talks, this offers no assurance of early, mutually acceptable agreements. Thus, strikes and industrial unrest may be in the offing later this year, unless the frustration evident in much of the working population can be sufficiently appeased.

A dramatic expansion of capital investment in France is considered unlikely at this time because of the remaining surplus of industrial capacities. Limited expansion may be forthcoming from small and medium-sized firms which over the past year or so held off with their commitments to await the outcome of the elections. The bulk of new in-

Left Defeat *(contd.)*

vestments is expected to come from overseas and from foreign investors already active in France.

With the elections out of the way, the economy is predicted to settle down for a period of moderate and restrained growth, perhaps with an accelerated pace in the fall. Most business leaders would oppose a distinct reflationary policy on the part of the government, which might destroy last year's successful efforts to curb inflation.

Belgium: Outline of New Investment Policy Program

The Belgian government on March 14 presented to Parliament details of a new industrial policy program with which the Tindemans administration intends to take an active role in the rejuvenation of the country's industrial structures. This participation will, however, concentrate more on aiding the private sector with risk capital and loans rather than on promoting the activity of state-owned enterprises. Economics Minister Willy Claes told Parliament that there is a joint responsibility of the government and private business to search out activities and products with which Belgian industry will be enabled to remain internationally competitive. Brussels plans to provide assistance especially for modernization projects and for the development of products with a high value-added potential. This assistance would not generally involve subsidies but an emphasis on equity participations and loans. The government further wants to help identify new technologies abroad and assist industry in entering into international licensing and know-how agreements.

The presentation of the policy program was supplemented by a government assessment of Belgium's current industrial situation in which the private enterprises were criticized for a lack of initiative and dynamism. The powerful financial holding groups, which still dominate the traditional industries in Wallonia (steel, metalworking, glass) are tending to shy away from any risks, the report said. Despite an abundance of funds, they are more and more inclined to close down unprofitable plants rather than modernize them. In the Flanders region, on the other hand, many of the most efficient industries (refining, chemicals and petrochemicals, mechanical engineering) are operated by foreign owners, so that the development of this northern region increasingly depends on the latter's investment policies.

In the parliamentary debate on the industrial policy program, Prime Minister Leo Tindemans said his government is setting itself a target of reducing taxes in order to meet the economic "after-crisis" created by what he described as "greed" developed in the affluent '60s. First, Tindemans said, public expenditure would have to be cut drastically, which would enable the government to remove

Investments *(contd.)*

some taxes that are no longer economically justified - for instance, VAT on job-creating investments. "We must reduce taxes," Tindemans declared, "otherwise we risk wasting our resources on activities that are not economical or which have no future."

Fourth Belgian Discount Rate Cut This Year

With the March 16 reduction of its discount and Lombard rates from 6.5% to 6%, the fourth cut this year, the Belgian National Bank has brought down these rates to the level that prevailed at the end of November 1977. In December, they had been boosted to 9% to counteract the devaluation speculation against the Belgian franc in the wake of the dollar's decline. Since the beginning of this year, the franc's position within the European currency snake has again stabilized despite the continuing dollar weakness, permitting the Bank to gradually reduce the interest rates in consideration of the sluggish domestic economy.

Britain: OECD Predicts 1978 Growth Rate of 2.75%

An economic growth rate of 2.75%, unemployment of 6-6.5%, and an inflation rate of below 10% are among the key forecasts for this year in the latest review of the U.K. economy by the Organization for Economic Cooperation and Development (OECD Economic Surveys, United Kingdom, March 1978). The report on the whole reflects a cautiously optimistic outlook, stating that higher public spending and lower taxes should combine to bring on a recovery of demand and output which, "for the first time since 1973, would be close to that of the potential expansion of the economy."

Nevertheless, the OECD experts describe as a matter of concern the deterioration of exports and the acceleration of imports. A solution lies in the improvement of the competitiveness of British products, although the benefits of such a strategy can be expected to materialize only over the medium term and will depend heavily on an expansion of world trade generally. The Paris-based organization makes a case for the government's continuation of "prudence in demand management," given Britain's above-average inflation rate and persisting wage cost pressures under Phase III and, probably, thereafter. "There may be a risk that inflationary behavior will heighten: there could be a further escalation of pay rises endangering the recent improvements in price performance and in the balance of payments and sapping the base for economic recovery."

The government should follow a policy of "controlled expansion," which would require (1) some fiscal stimulus to support demand, (2) further progress in reducing inflation, and (3) the lowering of domestic costs so as to maintain international competitiveness and to ensure both a continued healthy payments balance and sustained growth. "Policy-making would be facilitated and the constraints on the expansion of activity would be reduced," the OECD conclud-

OECD
(contd.)

ed, "if a consensus could be developed between the social partners about wage and price objectives consistent with the simultaneous achievement of growing living standards and diminishing inflation."

Germany:
Implications of Printer Strike Settlement

The strike and lockout actions in Germany's printing industry that left some areas without newspapers for up to three weeks ended on March 20 with a compromise that could serve as a model for solving other labor disputes in the future. The settlement, more generous to employees than an earlier proposal rejected by the rank and file, represents a new junction in German labor-management relations because employees need not fear unemployment or pay cuts when new equipment and techniques are introduced. On the other hand, publishers can continue to rationalize production methods, though at much greater cost because of the added financial burden they accepted under the new contract.

The conflict arose over the widespread introduction of electronic typesetters which, while expensive, can do the work much faster than Linotype operators at their machines. Because the electronic typesetters are relatively easy to operate, even persons with a few weeks' training can do the job, and at far less pay. The unions wanted the highly paid linotypers to be given the jobs on the new electronic equipment; in other words, the operators should be paid for jobs they no longer perform.

The unions succeeded in a way: linotypers will be given priority in operating the new equipment and will retain the same pay. Compositors, who cannot be given jobs at the new machines, will retain the same high pay over the next eight years. Employees who lose their jobs or want to work in the same profession elsewhere are entitled to a moving allowance of 150% of actual costs and one year's equalization pay to make up for the difference in remuneration between their old and new jobs.

Printing industry executives say that the generous settlement for the linotypers - a lifelong guarantee of high wages - is justified by the fact that it involves a dying profession. They are aware that many small publishing houses may not survive under the financial burden projected in the settlement. They also contend that under the compromise, other wage earners such as keypunch operators will be earning more than salaried employees doing identical jobs. Many observers fear that if this first-of-a-kind settlement model is carried over to other industries, it could effectively stymie efforts to produce at the lowest possible cost. In fact, it is not considered inconceivable that similar arrangements concerning labor-saving automation could be included in a settlement of the current labor dispute in the metalworking industries.

Austria: Vienna Cuts Road Levy on Foreign Trucks

Bowing to intense international pressures, the Austrian government has decided to reduce appreciably the transit levy on foreign trucks that it will impose as of July 1, 1978. The levy - Vienna claims it is not a tax - will now definitely be 0.25 schillings per kilometer and ton for loaded vehicles above 5 tons; at one time, it was proposed to charge 1 schilling. However, oil tax and VAT are to be collected on fuel of more than 50 liters in the trucks' tanks upon entry; this is to prevent foreign trucks from passing through Austria without once fueling up. The levy system will not spare domestic transporters: they will have to pay a standard fee of 100 schillings per ton and month for vehicles of 5-8 tons and of 200 schillings for heavier vehicles. To prevent discrimination, foreign truckers will not have to pay more than their Austrian counterparts; this limit probably will be determined on the basis of revenues collected within a certain period for equivalent domestic vehicles.

The Vienna government revised its plan following loud protests from abroad. The European Commission complained that the levy is discriminatory and still wants it to be made temporary. Much of the intra-EEC transport of goods - for instance, between Germany and Italy, and vice versa - runs through Austria, and so do major trade routes from central Europe to southeastern Europe and the Near East (Turkey, Iran). The Munich Chamber of Commerce said earlier that, on the basis of what it called the (original) "highway robbery" proposal, a Munich-based trucker serving northern Italy about seven or eight times a month would have had to pay DM 6,000 per month for a 24-ton truck. It said that hauling costs from Munich to Vienna would have risen by 79%, to Bolzano by 41%, and to Milan by 29%.

The revised regulations are expected to net Vienna only half of the 4.4 billion schillings in annual revenue anticipated from the levy, which already had been budgeted for the second half of 1978.