Common Market Reports

EUROMARKET NEWS

Issue No. 501 *Report No. 351, August 2[illegible], 1978*

IN THIS ISSUE

Community: More Judges Requested for European Court

A growing case load has prompted Professor Hans Kutscher, president of the European Court of Justice, to recommend to the Council of Ministers that the Court be enlarged. Kutscher believes that raising the number of justices from nine to 12 and the number of advocate generals from four to six would enable the tribunal to distribute the work load among three chambers. At present there are two chambers handling cases involving minor issues, while major cases are being heard by the full court.

Since the enlargement of the Community in 1973, when Denmark, Ireland, and the United Kingdom joined the EC, the number of cases annually brought before the EC tribunal has nearly doubled. A total of 158 cases were brought before the Court in 1977, and this year's case load is the biggest yet: Case No. 150/78 was placed on the docket prior to the summer recess on July 15. Beyond appropriating funds for salaries paid to translators and additional clerical staff, however, the Council has done nothing to help the Court cope with the growing work load.

In his memorandum, Prof. Kutscher underlines the fact that so far the Court usually has been able to meet its goal of winding up within nine months proceedings based on direct actions (suits brought by the Commission, the member

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Judges *(contd.)*

states, individuals, and businesses - *Common Market Reports, Pars. 4615, 4621, 4635*). Proceedings based on requests of national courts seeking a preliminary ruling on the interpretation of Community law are usually wound up within six months *(Common Market Reports, Par. 4655)*. Keeping to these self-imposed time limits has become increasingly difficult, according to Kutscher. National courts are requesting more preliminary rulings than ever from the EC tribunal. Out of last year's 101 decisions, 75 involved preliminary rulings, which have a transcendent integrating force because the requesting national judge is bound by the Court's ruling.

Kutscher points out that a follow-up on his recommendations does not involve complicated amendments to the treaties; a unanimous decision by the Council would suffice *(Common Market Reports, Par. 4605)*. Kutscher counts on a positive reaction from the national capitals after the summer recess; he could then put his suggestions into a formal proposal and submit it to the Council.

(In 1974, the Court had recommended to the Council that a lower tribunal be set up to handle suits brought by employees against Community institutions as their employer. A decision will be made on the matter in late '78 or early '79.)

EC Shipyards to Handle Problems on Their Own

The shipyards in the Common Market cannot expect much help from the Community in coping with their problems, created essentially by excess capacity. A draft resolution pending before the Council of Ministers calls on shipbuilders to handle the problems largely themselves. Adoption of the resolution was blocked by the United Kingdom at the Council's last meeting before the summer recess. (London reportedly wanted to stress that the governments have a responsibility to help the shipyards.) The proposal would not rule out supporting government measures to back up steps taken by the shipyards themselves.

Whether the British lift their objections at a Council meeting early next month or later is of secondary importance, Council officials say. They believe that the main thing is the free-market philosophy behind the draft, which would return the various national aid efforts to the confines imposed by the Treaty of Rome's provisions on state aids *(Common Market Reports, Pars. 2921-2931)*. This should also ease the task of the Commission which, while showing understanding for national measures designed to stave off mass layoffs by shipyards, must enforce the EEC rules that put strict limits on such aids.

In the draft resolution, based on a Commission paper submitted in November 1977, the Council would merely commit itself to common action "warranted by the necessity to retain in the Community a healthy and competitive shipyard

Shipyards *(contd.)*

industry," which is commensurate with the significance of the EEC's shipping trade and with its economic, social and strategic importance. The measures necessary for a qualitative and quantitative adaptation to reduced demand should be, according to the draft, primarily the responsibility of the shipyard owners. (Council attorneys stress that it would be the first time a Community measure would emphasize strategic implications, a factor that was also discussed in the Council during the debate involving measures for the steel industry but was never put in writing.)

There are 188 shipyards in the Community, and 149 of them are located in three member states (Germany, 53; the U.K., 49; the Netherlands, 47). France has 12 shipyards, Italy has 10, Belgium eight, and Denmark seven.

In Brief...

The Commission believes that the Community's steel industry will have to cut back its production capacity by 9%. The sector's current annual output is 201.5 million tons, and the Commission estimates that only 186 million tons will be needed annually by 1985. Demand is down because of cutbacks in construction and shipbuilding that were precipitated by the 1973 energy crisis. The prospects for the industry are somewhat brighter for 1990, when an estimated 201 million tons could be sold + + + The first direct elections for the European Parliament will be held on three days next year between June 7-10. Some leeway is necessary because in several states the polls stay open for two days.

France: Early Lifting of Industrial Price Controls

As of Aug. 15, French industry may set its prices freely and without official intervention. Thus, the government's program of step-by-step liberalization of industrial producer prices has been completed 45 days earlier than originally intended. (The announcement had been made last May - *Doing Business in Europe, Par. 31,049.*) Only the prices of pharmaceuticals for which the costs are reimbursable under the social health program, newsprint, oil products, and gas and electricity for household consumption continue to be subject to state control. The next phase of price liberalization will extend to the commercial and service sectors, though it will be "more complicated and slower," according to Economics Minister René Monory.

Earlier, on Aug. 9, in what the French press described as a "revolutionary" event, the government had lifted all controls on bread prices. (However, bakers were required to display their new prices outside the premises.) In one way or another, the price of bread in France had been subject to official regulation since 1791, that is, since the Revolution. The decision by the National Price Committee was explained by Monory as yet another step in the Barre administration's campaign to return the economy to free-market conditions.

Price Controls *(contd.)*

The news was received with mixed emotions by the consumers, since most bakers raised their prices immediately by 8-10%, some even up to 16%. The standard loaf, the 250-gram *baguette*, was sold for FF 1.35 instead of FF 1.25 almost everywhere in Paris, and in some stores its price was up to FF 1.45. In addition, price controls no longer apply to other freshly baked goods such as the traditional breakfast *croissants*. Only last November, the government and the bakers had carried on a feud when Paris ordered a price freeze on croissants and many bakers temporarily withheld them from the market.

Denmark: Government Probes Status of Foundations

Justice Minister Erling Jensen has appointed a commission of experts to review the legal and tax situation and the business activities of Denmark's 10,000-plus foundations, some of which control leading domestic companies. Labor union economists in particular have expressed suspicions that a number of the foundations (all of which officially operate "for the common good") are engaged in tax manipulations and clandestine merger activities. Actually, only about 50 of the listed foundations are of special interest to the government, since they are the shareholders of such well-known firms as Carlsberg (beer), Danfoss (heating techniques), A. P. Möller (shipping), Tjäreborg (travel), as well as a number of newspapers.

Private foundations in Denmark benefit from a reduced inheritance tax rate of 12% as opposed to a standard rate of 35%. In addition, they are not subject to corporate income tax, provided they engage in "passive" investments only. Under Danish law, this is the case even when a foundation holds the entire share capital of a stock corporation. Only when a foundation actively engages in business does it become subject to the standard corporate income tax rate of 37% *(Doing Business in Europe, Par. 21,825)*.

The establishment of a private foundation in effect assures the heirs of permanent control. Only one neutral person is required to sit on the board, while the remaining seats may be divided up among the heirs. According to labor union economists, this makes it possible for families to manipulate investments, credits, fees, etc., for private gain and without public supervision.

The commission appointed by the Social Democratic minority government initially is to establish whether manipulations are in fact taking place. If necessary, it would then work out proposals for legislative countermeasures. These could, for instance, take the form of a requirement that foundations publish annual profit and loss statements and other "relevant" information. The unions are also demanding that, in the long term, those foundations that are corporate stockholders fall under the codetermination laws

Foundations *(contd.)*

and thus have employees share in their administration. Most important, however, they are campaigning for a fiscal harmonization that would lead to a sharing of the tax burden by the active and inactive parts of a foundation.

Germany: Proposal for Health Warning on Cigarettes

Following the example of most other western industrialized nations, the German government will soon propose regulations that would compel manufacturers to put health warnings on packages of cigarettes, cigars, and tobacco. Advertising in newspapers and magazines would also have to bear the warning. (Cigarette ads on TV and radio are barred.) Health Ministry officials are still working on the label's exact wording but, according to reports, it would be similar to that used in France and Italy ("abuse is considered dangerous") and thus far less explicit than the statement that is mandatory under U.S. regulations. Rather than stating that "smoking is dangerous to your health," German tobacco manufacturers would probably warn that "excessive smoking is considered detrimental to your health."

Since the government already has the statutory power to issue such regulations, it merely needs the Bundesrat's consent, which is expected. Health officials justify the planned inclusion of cut tobacco in the warning by the fact that, since the excise tax increase on cigarettes two years ago, more and more smokers are rolling their own.

The tobacco industry has responded by offering a voluntary commitment from all manufacturers and processors to put health warning labels on their products. Officers of the national tobacco manufacturers' association point to the nonbinding 1976 agreement under which the members undertook to state the tar and nicotine content on cigarette packs. This has worked well, the association says, and so has another pact on the use of the terms "light" and "mild." Although the Economics Ministry is supporting the association's position because of its traditional philosophy of preferring industry's own effort to mandatory rules, observers in Bonn predict that the Health Ministry will prevail in the cabinet.

Britain: TUC, Labour Map Industrial Strategy

A joint Trades Union Council-Labour Party document was published in the U.K. last month, containing the terms of the agreement reached between the two groups on future British industrial strategy. Even more than a similar one last year, the paper ("Into the Eighties") lays emphasis on protectionism and the need for a far bolder approach to limit the degree of import penetration in British industry.

According to the document, the public sector should adopt a positive "buy British" policy, and priority should

Strategy *(contd.)*

be given to systematic agreements between U.K. users and manufacturers on what needs to be done to avoid imports exceeding agreed market shares. (Some 80% of British imports are accounted for by manufacturers or intermediaries rather than the ultimate consumer.) The government should be prepared to employ selective and temporary import controls if these prove necessary, since "neither the U.K. nor any of the other industrial countries will be able to resist (internal) protectionist pressures...if the growth of world trade continues to be depressed."

The TUC-Labour Party paper urges the establishment of a tripartite foreign investment review agency which would be concerned with the categorization of different types of investment (to see what approach would best serve the national interest), the continuous review of all important cases, and the collation of material on the activities of multinational companies. The government should ensure that agreements between multinationals and itself should, if possible, "take the form of planning agreements in respect of both inward and outward investment, whether financial investments, takeovers, or investment in green-field site operations."

The Bank of England should reinforce government policy rather than act independently as on behalf of financial institutions, and the Dept. of Industry should ensure proper links between such bodies and industrial strategy generally. The National Savings Bank and the G.I.R.O. should be formed into a new publicly owned bank which could compete on equal terms with the four main clearing banks. An investment reserve fund also should be established.

In addition to a sustained attack on tax evasion and avoidance, the document endorses a comprehensive system of capital taxation with the introduction of an annual wealth tax on those with net assets exceeding £150,000 (as opposed to £100,000 last year). However, the paper's authors also appreciate "the need for adequate rewards for skill, effort, and responsibility as part of a move to ensure that the contribution to society and the economy is the criterion for standards of living at the higher level rather than inherited wealth."

Belgium: No Tax Rise in Near Future, Tindemans Says

Following a cabinet meeting specially convened to finalize details of the national budget, Prime Minister Leo Tindemans has confirmed that the Belgian government will impose no increases in taxation or introduce any new taxes in the course of the next two fiscal years. In an interview immediately after his statement, Tindemans conceded that this pledge might have to be reviewed in "exceptional" circumstances, although such circumstances would have to constitute an emergency.

Taxes *(contd.)*

The prime minister announced that his government was planning to impose a freeze on all departmental budgets "after allowing for inflation." Noting that every ministry "will have to make sacrifices," Tindemans then gave details of expenditure earmarked for 1979 - a record BF 1,022 billion. This apparent paradox can be explained by the fact that the planned 6.75% rise in spending for 1979 represents, despite its record proportions, a cutback from the predicted 14.4% for this year.

Luxembourg: Questions on Rejection of Danish Bank

What are the criteria by which the Luxembourg government may or may not allow a foreign bank from another EEC member state to establish itself in the Grand Duchy? This is a question currently being discussed in European banking circles and one that could possibly be put before the European Court of Justice. It was raised in reaction to the news from Copenhagen this month that, without giving any reasons, the Luxembourg authorities had turned down the application of a Danish bank, Finansbanken, to set up operations in Luxembourg. According to Danish reports, the supervisory board chairman of Finansbanken's holding company said that the rejection would be appealed to the Luxembourg state council and, if necessary, to the EC Court.

Financial commentators have pointed out that Finansbanken has a reputation in Europe for "aggressively" soliciting the deposit of funds by offering high interest rates. In the past, much of this solicitation has been aimed at potential depositors in Germany, many of whom may have tax reasons for wanting to maintain a bank account abroad. Lately, however, it has been noted, things may have become a little more difficult as the Danish fiscal authorities have begun to supply data on the interest income of foreign depositors to the home countries of those depositors.

If it had the opportunity to solicit nonresident deposits from a Luxembourg base, the commentators said, Finansbanken obviously could operate under the shield of the Grand Duchy's strict bank secrecy laws and thus assure its depositors of total anonymity. The rejection of the bank's application, they said, could well mean that Luxembourg is not interested in a buildup of a large private-deposit business, which eventually could give the Grand Duchy the image of a "second Switzerland." So far, Luxembourg's reputation as an international financial center has been built on large-scale Euromarket transactions, primarily on a D-mark basis. Also, the government may not want to complicate relations with the EEC authorities, which already object to the "extraterritoriality" of the Luxembourg Euromarket, as well as with the German banking supervisory authorities, which are pressuring domestic banks that maintain Luxembourg affiliates to reveal more details of their operations there. The 21 German banks now operating in the

Rejection (contd.)

Grand Duchy reportedly account for more than 50% of the banking business in that country and for 14% (DM 63 billion) of their parents' balance-sheet total.

EURO COMPANY SCENE

Chrysler Europe/ PSA Peugeot-Citroën

PSA Peugeot-Citroën will become Europe's No. 1 automaker and the fifth-largest in the world with the acquisition of the French, British and Spanish operations of Chrysler Corp. According to the announcement on Aug. 10, which came as a total surprise, the family-owned French group will pay $230 million in cash and turn over 1.8 million of its shares to Chrysler. Thus, the latter would acquire 15% of the PSA share capital, which at present totals FF 668.5 million. Currently employing 184,000, Peugeot-Citroën manufactured about 1.5 million vehicles last year and reported a consolidated turnover of FF 41.9 billion and consolidated net earnings of FF 1.25 billion. It had a domestic market share of 43% for passenger cars and 34.3% overall. Chrysler Europe turned out some 775,000 vehicles last year and reported sales of $3.26 billion. The three European affiliates employ 77,000.

The new, enlarged Peugeot-Citroën group would hold a 17.9% share of the European car market, followed by Ford (13.2%), Renault (12.7%), Fiat/Seat (11.8%), and Volkswagen (11.5%). It would, on the present basis, have an output of 2.2 million vehicles per year, a turnover of more than $11.5 billion, and a total of 261,500 employees.

Occidental Petroleum/ RPB

Because of losses that have accumulated to about BF 1.4 billion since 1974 and have now reached BF 1.5 million per day, the United States' Occidental Petroleum Corp. has announced its intention to shut down its Belgium Petroleum Refinery (RPB) at Antwerp, which has an annual capacity of 4.5 million tons and has been in existence since 1933. According to Brussels reports, the 450 RPB employees and the unions have demanded that the Belgian government take over the refinery; negotiations started on Aug. 8. However, any state action in that direction could be in conflict with the recommendations of the European Commission for a considerable reduction of EEC refinery capacities. The Belgian capacities, at 55 million tons annually, are about twice as high as the domestic consumption of oil products. Four of Belgium's eight refinery complexes are located in Antwerp, and they operate at 65% of capacity on the average.

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IN THIS ISSUE

Community: Work Proceeds on Planned Currency Setup

Despite the summer recess, work is continuing on the planned EC currency stabilization system that the heads of the nine governments agreed on at their July 6-7 meeting in Bremen. A major objective is to reduce exchange rate fluctuations in order to make the currency of any member state less vulnerable to speculation. Speculators trying to exploit the weakness of the U.S. dollar would face the bloc of those currencies that are part of the system. The details are being worked out at present on three different levels - the Permanent Representatives, the EEC monetary committee, and the committee of central bank presidents. A rough draft is expected to be presented to the finance ministers of the Nine when they meet in Brussels on Sept. 19.

Two major problems have emerged during the talks. They concern the planned European monetary fund and the European currency unit (ECU). The fund, to be made up of 20% of the member states' gold and dollar reserves, would have a double function as a clearing and credit institution. The fund's overall reserves would be the equivalent of $50 billion. Obligations and receivables among the member states' central banks would be cleared in ECUs rather than in dollars (the present system applied by the members of the so-called monetary snake). Each central bank transfer-

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Currency *(contd.)*

ring 20% of its gold and dollar reserves to the fund would be credited with a corresponding amount expressed in ECUs. Obligations incurred by any central bank by the very fact that other central banks were compelled to support a particular national currency would be fulfilled by drawing on that bank's ECU account with the fund. Details about the planned ECU itself have not yet been settled.

Part of the currency fund's overall reserves would be held separately and would be used exclusively for credit purposes. A member state in economic difficulties could apply for credit but would have to accept certain conditions. It is not yet definite just what legal strings could be attached to each credit; the United Kingdom reportedly wants to ease the access to credits. Some observers believe that the conditions would be similar to those that the International Monetary Fund is entitled to impose. For example, a member-state government faced with a substantial payments deficit could be made to assume the commitment of greater economic and monetary discipline.

The idea of a currency stabilization system has been met with skepticism in the United States and several European capitals. Although U.S. government leaders concede that the dollar would benefit from such a functioning system, they also see the possibility of having their freedom of action restricted by a concerted European exchange rate policy. They admit that, in the long run, the system could become attractive for OPEC investors. In Europe it is primarily the British government that wants to make its cooperation dependent on what has been described as the "transfer of resources" - a term referring to aid given by the financially strong members to the weak ones. London wants more funds to be spent by the Community's Regional Development and Social Funds and less on the common agricultural policy.

Delay for Report on Equal Pay

The European Commission is having trouble getting the member-state governments to report on how much progress they have made in applying the principle of equal pay for men and women. This question and many others related to the principle are contained in an extensive questionnaire sent to the national governments early this year. One reason for the delay in the replies is the fact that the governments need the help of employers and trade union organizations in order to respond. The questions are numerous and detailed; they focus on legal aspects, such as the remedies available to prejudiced employees, as well as purely economic aspects, such as job classification and evaluation. Since the Commission plans to publish the results of the questionnaire in a report, several governments are apparently reluctant to come forward with some information that might be unfavorable to them. The Commission will examine possible measures, such as another Community directive or

Equal Pay *(contd.)*

legal steps against individual member states, to see that the principle of equal pay for equal work is strictly applied.

This principle was written into Article 119 of the Treaty of Rome, and there was much argument about whether that article was directly applicable or if it required implementation. The Commission, the Council of Ministers, and all member-state governments thought that subsequent legislation was necessary. Thus, a 1961 Council resolution called for gradual implementation, and a 1975 Council directive gave the member states a final deadline to put the principle into effect. However, the Court of Justice rejected these notions and the deadline, saying that Treaty Article 119 has been directly applicable since 1962 for the original six member states and since 1973 for the three newcomers *(Common Market Reports, Pars. 3942.01 and 3942.21)*.

On Aug. 1 another important labor law deadline expired: all member states were to have brought their national rules in line with the Council's 1976 directive calling for the implementation of the principle of equal treatment for men and women with respect to access to employment, vocational training, promotion, and working conditions *(Common Market Reports, Pars. 9718 and 3910.123)*. Because of the financial consequences for employers and the national social security carriers, the directive granted the states an exceptional 30 months for compliance (the usual time limit is 18 months). Observers say that here, too, most member states are slow in reporting on the progress of adapting legislation.

In Brief...

The European Patent Office in Munich received over 500 patent applications in June, the first month it started officially accepting such applications. They came from all corners of the world, and the volume corresponds to the estimate made by EPO officials earlier this year + + + In spite of the Common Market, the total number of officials working in the member states' customs administrations is going down only slowly, and in several states it has even gone up. According to the Commission, the number of customs officials in the original Six has dropped slightly from 69,400 in 1958 to 67,900 in 1978. The decline is essentially due to the fact that in Germany there are now 29,900 customs officials as against 35,100 twenty years ago. Holland and Luxembourg also registered a small decline, whereas in France, Belgium, and Italy more people work in the customs administrations than in 1958. The number of customs officials in the three newcomer states Denmark, Ireland, and the U.K. went up to about 34,600 from the 1973 figure of 28,500. A major reason for the increase was the added work that customs authorities had to cope with. Although duties are no longer imposed in intra-Com-

In Brief *(contd.)*

munity trade, officials still have to check compliance with VAT rules or harmonized tax rates and inspect goods for health and agricultural reasons.

Denmark: Budget Draft Still Subject to Change

Because of the transitional period stemming from a change-over of the fiscal year to the calendar year, the Danish government has presented a budget draft for the first time during the parliamentary summer recess instead of November. In the past, the fiscal year began on April 1 and ended on March 31 of the following year. The change is being made to bring the national budget period in line with that of the districts and the communities. It is the reason why the budget proposal for 1979 comes closer to being a finance bill than the traditional economic policy program.

The draft itself does not contain any surprises, representing the continuation of previously established budget policy. Finance Minister Knud Heinesen has made it clear, however, that the administration does not accept most of the predetermined figures and the economic perspectives they entail. In its present form, the 1979 budget draft projects a volume of 109.1 billion kroner (+ 8.9 billion over '78) and a deficit of 15.8 billion kroner (+ 4.5 billion). Thus, expenditure would rise by 10.8% and revenue by only 4.9%, causing an increase of the total borrowing requirement from 32 to 41.3 billion kroner. As in previou[s] years, Denmark will keep up its international borrowing policy to finance its deficits - 4.9 billion kroner this year and 6.5 billion in '79. As of May, the country's total foreign debt stood at 27 billion kroner.

It was commonly agreed that the current negotiations by the incumbent Social Democratic minority government for a broader parliamentary base would result in some painful alterations in the budget, probably in the form of new incomes policy guidelines as well as tax increases. Heinesen warned both industry and labor that any undue pay increases would inevitably lead to higher indirect taxes. Of the deficit growth of 8.9 billion kroner, he said, 5.75 billion alone is attributable to price and wage increases.

For 1979, the government forecasts an unemployment rate of about 9%, which would include 170,000 individuals covered by unemployment insurance and 25,000 others. This situation would remain essentially unchanged until 1982, unless specific countermeasures were enacted. Heinesen also predicted that only a tightening of fiscal policy could prevent another deterioration of the current-account payments balance next year. (In the second quarter of this year, the payments deficit fell to 500 million kroner, which was the smallest since the third 1975 quarter and compares with a shortfall of 2.3 billion kroner for the corresponding period last year.)

Belgium: Constitutional Doubts over Devolution Bill

The devolution bill currently before the Belgian parliament was originally drafted in an attempt to transfer powers from the central government to the three principal "regions" of the country, namely, Flanders, Wallonia, and Brussels, the capital. The timetable proposed for such devolution foresees first steps being effective as of Jan. 1, 1979. Although the issue has been hotly debated and there have been countless claims and counterclaims from the different regions, each seeking to secure as strong a decision-making autonomy as feasible, the Belgian government nonetheless felt that the major obstacles to the bill's passage had been overcome.

As things now stand, however, this is emphatically not the case. There is now a major hurdle to be cleared or, quite possibly, skirted - namely, the question of the proposed legislation's constitutionality. The parliamentary committee reviewing the draft legislation "referred" it to Belgium's Council of State for an opinion as to whether it was constitutionally watertight. Far from it, said the Council, a 13-member body of Belgian legal experts whose principal function otherwise is to advise on the drafting of legislation. Details of the bill's unconstitutional aspects are considered less important than the simple fact that it is generally in distinct contravention of the 1831 Constitution. To align it, moreover, would require a considerably more radical amendment to the Constitution than the "fine tuning" amendment that had been foreseen.

The constitutional aspects of the devolution debate assume considerable importance on the political front. Should the government accept the Council's opinion (which it is not obliged to do, since the Council's role is "advisory") then it must declare that the soon-to-be-reconvened parliament will be a "constituent assembly" and call a general election. The other option, to disregard the Council's expertise, would mean that Prime Minister Leo Tindemans must pilot the bill through Parliament in its present form. (A feature of Belgian law is that no court may rule that legislation duly passed by Parliament is unconstitutional.) Support for pressing ahead with the bill as it stands comes from the Socialists, the No. 2 party in Belgium's ruling coalition. They allege privately, however, that their partners, the Flemish Christian Democrats, are secretly opposed to devolution and may use the unconstitutionality ruling as an excuse to go to the polls and switch coalition partners, aligning themselves with the Liberal party, which has openly opposed the devolution bill.

Germany: Lockout Action Supported by Lower Courts

Roughly 34,000 cases challenging lockouts are pending before labor courts in the German state of Baden-Württemberg, and only 112 have been settled so far. Of those, all but one went in favor of employers, who had responded to last

Lockouts *(contd.)*

spring's labor dispute in the metalworking industry by locking out their employees. Union lawyers have been arguing that the lockouts were "excessive" and thus illegal to the extent that they also affected employees who had not joined the walkouts. In the 111 cases decided in favor of employers, the courts saw nothing unlawful in the lockout actions; they considered lockouts to be part and parcel of the constitutionally guaranteed freedom of employers and employees to form associations to further their interests. Also, the courts did not see an excessive element in the lockouts.

In some instances the losing parties have appealed the lower-court judgments, and decisions are expected next month. Meanwhile, the chief justice of the Supreme Labor Court stated publicly that the unions are on the wrong track in supporting individual employees' actions against their employers. It was essentially the high court that developed in case law the concept of the employees' right to strike and the employers' right to lock out *(Doing Business in Europe, Par. 23,421)*.

Italy: Advertising of Patent Drugs; Drug Costs

The pharmaceutical industry in Italy is campaigning hard against a provision in the health reform bill now before Parliament that would outlaw any advertising for patent medicines. According to a recent report in the official publication of the American Chamber of Commerce in Italy, the ban would effectively abolish the only kind of direct advertising the industry is permitted in the print media and on radio and television. (Promotion of ethical drugs can only be made directly to the medical profession.)

The prohibition of advertising would, according to the drug makers, effectively prevent the development of new products and thus ultimately hurt the consumer. However, this argument is rejected by the consumer organizations, which claim that there is already too much psychological pressure for "unnecessary" medical purchases.

The Chamber report said that there are currently some 200 brands of patent medicines on the Italian market, covering 61 separate items (against headaches, colds, indigestion, etc.). Total sales of such medicines amount to the equivalent of $125 million annually (5.3% of all drug sales), and consolidated advertising expenditure comes to the equivalent of $9.3 million.

In related developments, the Chamber of Deputies early last month passed legislation requiring those covered by the social health insurance system to pay a part of the cost of drugs, which in the past were dispensed free of charge. The introduction of the so-called ticket will save some 350 billion lire in social health expenditure and thus help relieve the enormous deficits of the health insurance

Drugs *(contd.)*

funds. Also, the government hopes that the new ticket system will prevent the excessive and unnecessary purchase and consumption of drugs.

In the future, only pharmaceutical products deemed "essential" - about 1,660 - will be dispensed free of charge. For all others, the contribution of the insured individuals has been set at 200 lire for drugs costing up to 1,000 lire and at 400 lire for those priced up to 3,000 lire. Beyond that, there is a standard charge of 600 lire. Pensioners will be given an extra bonus of 10,000 lire.

Permit Needed for Import of Gold Coins

The import into Italy of foreign gold coins that are legal currency in their home countries has been made subject to prior approval by the Foreign Trade Ministry this month. For practical purposes, the requirement amounts to an import stop with which the authorities hope to curb speculative gold trade and, at the same time, plug one of the channels often used for illegal capital exports.

The soaring price of gold most recently has led to a boom in gold coin purchases, particularly along the Swiss-Italian border, by individuals who reportedly are hoarding gold in order to protect themselves against the erosion of the lira.

In contrast to that of jewelry and other gold products, the sale of gold coins is not subject to value-added tax in Italy. The sale of gold bars is prohibited, except for commercial or industrial purposes (for instance, to jewelers). Not affected by the new regulation are collectors' coins and silver.

Britain: Paper Stresses Conservative, Union Links

Britain's Conservative Trade Unionists have published a policy document entitled "A Plan for Government" which is intended to influence the strategy of a future Tory government and which is likely to be reflected in the party manifesto for the general election (probably to take place in October). It is emphasized that some 40% of all U.K. trade unionists are in fact Conservative, and the document says that "the strength of the CTU bears witness to the fact that the Conservative Party is an integral part of the trade union movement, and the trade union movement, an integral part of the Conservative Party. Those who seek to suggest that there could be conflict or lack of cooperation or understanding between the Conservatives and the trade union movement do not understand the interrelationship between our two movements." It is doubtful whether David Basnett, the current chairman of the Trades Union Congress and secretary of the General and Municipal Workers Union, would echo these sentiments in view of his recent challenge to William Whitelaw, the deputy Conservative leader, to substantiate similar claims.

Conservatives
(contd.)

The report stresses that the process of collective bargaining should be as unrestricted as possible. "Responsibility in wage bargaining will be encouraged by lower direct taxation and by a greater understanding of both the size of the national cake and the ingredients of the social wage. Pseudostatutory wage policies are divisive, and blackmail by governments over contracts is dishonest and unnecessary." There should be a shift of emphasis to indirect taxation and a cut in the basic rate of tax to 30%, with reductions in public expenditure, the paper said.

The main cause of strikes is viewed as the breakdown in communications between management and shop floor - "lack of information, lack of consultation, or inadequate procedure agreements." Many strikes could be avoided by participation plans and a greater understanding of the sheer boredom of many production line jobs. For this reason, the government should give positive and strong encouragement to companies to introduce worker participation, although, as every company is different, "it would be absurd to legislate for a single model of participation. We prefer the concept of the government recommending a whole range of different schemes which would not be exclusive but would serve as guidance. We do, however, believe in positive encouragement, and this might take the form of company tax incentives."

A more flexible policy on retirement is proposed, with the standard pension payable at the age of 60 and additional rights for each year worked until 70. Employers should be encouraged to give a half day off per year on full pay for each year worked from the age of 55. Also, the Employment Protection Act of 1975 should to some extent be modified to encourage small businesses to take on extra employees.

Some of the proposals may be somewhat radical for the Conservatives' party hierarchy, but observers believe the CTU will have an increasing influence upon party strategy in the future.

Common Market Reports

EUROMARKET NEWS

Issue No. 503 *Report No. 352, September 7, 1978*

IN THIS ISSUE

Community: Protectionism an Issue in EC-U.S. Talks

Certain aspects of the so-called Davignon Plan, which in essence calls for a reduction in industrial production capacities to meet demand, will have top priority in high-level meetings scheduled this month in Washington between Community antitrust officials and the U.S. Justice Dept. The timing of these talks presents somewhat of a problem for the European Commission: it was decided in July that further discussions on the plan would be held off until October, at which time an analysis of the problems of the European synthetic fiber industry could be completed and, it is hoped, some solutions proposed. Also, legal doubts have held up draft legislation that would empower the Commission to temporarily exempt crisis cartels, such as the one formed by nine European fiber producers, from the cartel ban of Treaty Article 85(1) *(Common Market Reports, Par. 10,068)*.

At the upcoming Washington conference, Brussels observers say, the EC will be at pains to explain how it can seriously consider permitting such a plan within its own boundaries while roundly denouncing protectionism elsewhere in the world. Another key issue will be what has been called "creeping European cartelization," which the United States views as a major threat. This development is creating severe practical problems for U.S. companies operating

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Protectionism (contd.)

in Europe: in effect, they are not able to join in such cartels because this would violate U.S. antitrust law. At the same time, however, refusal to comply with cartel arrangements sanctioned by European governments would hurt their standing vis-à-vis those governments, conceivably exclude them from the decision-making process affecting their sector, and tarnish their "local" image.

It has been unofficially confirmed in Brussels that the EC delegation to the Washington meeting will therefore urge the Justice Dept. to permit U.S. companies working within affected sectors to "observe voluntarily" the rules of the synthetic-fibers cartel on the grounds that this forms a vital constituent of the European Commission's industrial strategy. The request is expected to be backed by a major precedent: special U.S. legislation already offers immunity from antitrust prosecution of American oil companies that participate in activities of the Paris-based International Energy Agency, provided that strict procedures are complied with. These include, for instance, the presence of Federal Trade Commission and Justice Dept. representatives at all IEA meetings and the forwarding to Washington of verbatim transcripts of such meetings.

It is doubtful, observers say, that the Justice Dept. would accede to such a request. Apart from differing philosophies on competition between the EEC and the U.S., Washington also must take into account that the crisis cartel for fibers may be the first of many: the automotive, oil and plastics sectors are all serious contenders for similar European cartelization, and in each case U.S. companies are a major, if not the major, force.

One solution that has been proposed is that governments should legislate so as to have companies act in a certain way rather than simply encourage them to act. This, says one body of opinion, would let certain (if not all) U.S. companies off the antitrust hook: "foreign compulsion" is recognized as a valid ground for exemption from U.S. antitrust requirements. A more likely solution, however, and one which would prove difficult to administer, would be the establishment of yet another code of conduct, probably monitored by the OECD. This would feature specific agreements on procedures in cases where national antitrust interests conflict. Such a code would, on the other hand, limit considerably the U.S. Justice Dept.'s scope in enforcing U.S. antitrust law outside the United States.

<u>Move Seen for Repatriation of Yugoslavs in EC</u>

This fall the Commission will come forward with detailed suggestions on repatriating the some 500,000 Yugoslavs who are currently working in the Community. The Yugoslav government wants them back to reintegrate them into the national economy, especially since many of them have learned trades abroad or have otherwise become qualified labor. In

Repatriation *(contd.)*

view of the high overall unemployment in the Common Market (around 6 million), no member-state government would mind if the Yugoslavs would gradually return to their home country.

Commission vice-president Wilhelm Haferkamp has had preliminary discussions with Yugoslav government leaders about the plan, but the details will have to be hammered out in negotiations. For this the Commission needs a mandate, which is expected once the proposal is presented. Assuming that the Council of Ministers gives its consent, the talks could get underway next January at the earliest.

Reintegration of half a million workers and their dependents (an estimated 2.3 million) is an ambitious enterprise for any nation. It will not be easy for Yugoslavia, which at present has 700,000 unemployed. Still, although Yugoslavia has derived many benefits by letting nationals go abroad to work, the most important one being increased foreign exchange, in the long run they were overshadowed by the disadvantages, particularly the problems caused by emigration and the shortage of skilled manpower.

Belgrade needs the Community's help in several ways to achieve successful reintegration. It wants financial aid to put up new factories and provide new jobs for the returning workers. It also wants reassurances that the products made in those factories will have access to the Common Market. Internal discussions among member-state government officials have revealed a desire to help. The issue of selling Yugoslav products in the EEC will be taken up by Commission and Yugoslav officials during their trade talks aimed at a new trade agreement.

In the social security field, Belgrade hopes that the Council will commit all member states to conclude social security agreements similar to that in force between Yugoslavia and Germany, where there are around 400,000 Yugoslav workers. This agreement bars any discrimination of Yugoslav workers in matters of social security and credits each worker with the periods that he was covered by the system in Germany. This crediting is also seen as an inducement to return because the social security benefits that the retired person eventually receives from his government reflect the periods of coverage at home as well as abroad. A member state that agrees to this credit system would thus have to make corresponding payments to the Yugoslav government.

Germany: Payroll Tax Issue Holds Up Tax Bill Move

Introduction of the German government's tax bill to Parliament has been delayed by opposition from mayors of large cities of the heavily industrialized Rhine-Ruhr district over the planned abolishment of the payroll tax. The bill, a follow-up to the Western economic summit in Bonn on

Payroll Tax *(contd.)*

July 17-18 at which Bonn pledged to stimulate demand and promised an additional 1% in GNP growth, was to offer tax cuts to individuals and increase children's allowances. Businesses were to benefit from the abolishment of the payroll tax and an increase in the exemption of the business profits tax from the current DM 24,000 to DM 36,000 *(Doing Business in Europe, Pars. 23,385 and 23,386)*.

It was the prospect of losing some DM 3.5 billion in payroll rax revenue annually without sufficient guarantees of compensation from other sources that brought strong protests from the mayors. Most of them are Social Democrats, who have controlled the city halls of large cities since after World War II, and they are particularly upset that leaders of their party, Chancellor Helmut Schmidt and Finance Minister Hans Matthöfer, could suggest such a thing.

The payroll tax is no longer levied by any city in the states of Bavaria, Baden-Württemberg, and the Saarland; Berlin had planned to forego this tax as of Jan. 1, 1979. But it does play a role in the big cities along the lower Rhine and Ruhr rivers where the revenue derived from this tax may pay for 25-35% of a city's budget. Thus, the city council of Düsseldorf, located in the state of North Rhine-Westphalia, can be more generous in financing public programs and services than, for example, the city council of Mannheim, which does not impose the tax because it is located in Baden-Württemberg.

Government economists have been saying for decades that the payroll tax is an anachronism and is detrimental to employment, an assessment that did not produce any results during the past boom years. But now it is felt that removal of the payroll tax would create a better climate for the creation of new jobs. Although an employer may deduct this tax when computing his liability for income tax purposes, it nevertheless represents an appreciable burden.

Finding a solution on how to compensate those cities that would face this major drain in revenue will be difficult. A simple change in the revenue-sharing system to the extent of channeling additional funds to those cities would violate the Constitution's principle of equal treatment. Finance Minister Matthöfer has suggested that the cities could help themselves to some extent by having the city councils raise the municipal coefficient applied in computing the federal business tax *(Doing Business in Europe, Pars. 23,385 and 23,392)*. This would bring business tax revenue up to the level in the cities elsewhere in the country. The mayors point out that this approach would make up for only half of the loss that city treasurers would have to cope with. Observers say that it will take some ingenuity to find a way that satisfies the mayors in the state of North Rhine-Westphalia, which accounts for one-third of the nation's electorate.

Britain: TUC Conference Seen to Back Administration

The Trade Union Congress, whose annual conference began on Sept. 4, has decided to delete from its rules certain long-established policy objectives, although observers believe too much significance should not be attached to this as many have already been achieved. Such objectives include "public ownership and control of natural resources and services," adequate participation in management of public services and industries, minimum wages for each industry, a maximum 40-hour workweek, and adequate industrial safety and health provisions. The General Council says "the detailed list of objectives no longer reflects the range of TUC work and aims. Moreover, all decisions of the Congress in practical terms become part of the TUC's objectives, and if the detailed list were revised, it would very soon become out of date."

Membership of the TUC has increased by nearly 350,000 in 1977 and now totals 11,865,000, or more than half of the total number of some 22.2 million employees in Britain. There was an even larger increase in 1976-77 of 480,000 new members, but there are still about half a million workers in nonaffiliated unions. The TUC says that "membership is increasing across the board, notably among clerical, technical and managerial employees," and it adds that "working people are forever being told that trade unions are unpopular and that their influence is resented. The answer that working people are giving is that in every sort of occupation they are flocking to join unions." Even professional people have been persuaded that "by combination they can provide themselves with a service they can obtain in no other way."

The conference is likely to endorse a general, if grudging, acceptance of the government's 5% guideline because it will not wish to embarrass the Labour Party on the threshold of a likely general election in October. Prime Minister Callaghan was to address the conference the day before the unions debate wages policy and stress the need for moderation.

Ireland: New Efforts Made to Cut Unemployment

While the Irish government White Paper "National Development 1977-80" (published last January) set out as one of its main economic targets an average reduction of 25,000 a year in the numbers out of work, the subsequent Green Paper "Development for Full Employment" seeks to go further. The government's fresh strategy was prompted by the assumption that even if the 25,000 target of new jobs were achieved, and in 1978 a net increase of some 20,000 is expected, there could still be about 80,000 without work.

Excluding agriculture, the increase in industrial employment between April 1965 and April 1977 was only 15,000 as compared with 56,000 in service jobs, primarily in the

Unemployment *(contd.)*

public service, and the government wishes to reverse this trend. In the government's view, the essential foundation for full employment must be an adequate growth of employment in the production sectors of the economy.

According to the Green Paper, the scope for increased industrial output and employment rests to a considerable extent on increasing the number of small firms. The Industrial Development Authority (IDA) already aids firms with less than 50 employees and fixed investment assets of up to Ł300,000. The maximum grants available are 60% in designated and 45% in nondesignated areas *(Doing Business in Europe, Par. 25,406)*. In 1977 a record 225 projects were approved involving grants of Ł30 million, and in 1979 the number is expected to be 300, with 3,500 potential new jobs.

The IDA has introduced an Enterprise Development Program to encourage new projects by first-time entrepreneurs. The IDA will now guarantee loans raised toward working capital as well as make grants toward the reduction of interest payable on such loans, and the initial response has been most encouraging. The IDA is also financing a study of industrial cooperatives to examine the potential in Ireland for new enterprises based on the cooperative structure.

Expenditure on research and development by Irish firms is at present the lowest in the EEC as a percentage of GNP. However, the IDA provides up to 50% of research costs and capital grants for research, buildings, and equipment to a maximum of Ł50,000 for a single project. It is to encourage permanent facilities in existing companies, including overseas companies, and some 20 new laboratories are likely to be established each year.

Denmark: Job Program Faces Some Difficulties

Denmark's Liberal Party, the country's second-strongest political force, has joined the minority government headed by Prime Minister Anker Jörgensen, who has been seeking to broaden support for his Social Democratic government for quite some time in order to better cope with the nation's economic problems, especially unemployment and inflation. One of the programs his government presented recently is a plan to put some 50,000 unemployed back into jobs by 1980 through generous subsidies to employers, but it is facing so many difficulties that most observers doubt its success. Chances are that the government may have to launch a major public works program in order to get the 50,000 unemployed back to work. Current unemployment now stands at 180,000 (8%) and is expected to rise over 200,000 (10%) toward the end of the year.

A law enacted by Parliament prior to the summer recess commits the government to put 12,000 unemployed into jobs as of Jan. 1, 1979. An employer who creates a new job and offers it to an unemployed person under the age of 60 is

Job Program *(contd.)*

entitled to employment grants amounting on the average to 40% of the worker's wages over a nine-month period: during the first three months of employment this grant is 20 kroner per hour (or over 50% of the current average hourly wage), 15 kroner hourly during the following three months, and ten kroner hourly during the final three-month period.

It is the local governments that have been largely entrusted with implementing the new law; they are supposed to approach private employers to induce them to offer new jobs. However, the municipalities now believe that at most perhaps only one-third of the 50,000 jobless will find employment in the private sector of the economy. Small businesses and management of large companies have been reluctant to hire unemployed people, especially those over 50 who have been out of jobs for some time. Some employers are reluctant to hire a worker who has been unemployed for a longer period of time, theorizing that he may have lost touch of what is required in a particular trade. There are, of course, also productivity considerations.

Italy: Balance of Payments Much Improved

A whopping 3,422 billion-lire balance of payments surplus during the first seven months of 1978 has stimulated confidence in the Andreotti government and has confirmed expectations outside the country that the Italian economy has reentered stable waters. Last year's figure was a 730 billion-lire deficit. The money brought into the country by this year's influx of more than 15 million tourists contributed heavily to the surplus, especially during the peak month of July, but industrial production and exports also picked up substantially.

The positive balance of payments has also improved the central bank's standing as an actual and potential borrower abroad. The bank's total currency reserves in foreign exchange and gold stood at 15,698 billion lire at the end of July, nearly 4,000 billion lire more than at the beginning of the year. For the first time in Italy's history, the country's gold reserves have reached a volume big enough to back up all bank notes in circulation.

Netherlands: Study Asked to Ponder Company Law Reform

The Dutch government has asked the Social Economic Council, an advisory board comprised of government, employer and labor union representatives, to evaluate current Dutch company law provisions in respect of supervisory boards. At present, the law requires that workers and shareholders be accorded equal rights to recommend new members to the supervisory board, but accords the final decision on such recommendations to elected members on the board *(Doing Business in Europe, Par. 26,721)*. The Social Economic Council's study could provide an answer to whether the present system should be replaced by one under which one-

Company Law *(contd.)*

third of the board members would be nominated by the company's employees, one-third by the shareholders, and the final third jointly. The government's request must be seen under the broader perspective of the Community's company law coordination program.

Action Is Urged Against Land Speculation

The Dutch Christian Democratic Party is urging speedy governmental action to legislate against land speculation and associated abuses. (The Christian Democrats are the senior partner in the two-party, right-center coalition government.) According to sources in The Hague, sufficient preparatory studies have been completed to permit almost immediately the submission of an appropriate bill. It is understood that the bill would contain provisions not unlike those of the U.K.'s controversial new development land tax legislation, which imposes severe fiscal penalties on land speculators. This debate will be crucial: it will be recalled that it was precisely this issue that brought down the previous left-center coalition government.

Greece: Selective Price Controls Set Till End of '78

In order to curb inflation (currently 12%), the Greek government has decreed price controls on a number of products, a broad range of services, and rents. Prices of cars, motorcycles, bicycles, and spare parts will remain under government controls until the end of this year. The markup in trade of these items may not exceed 100%; for example, a car imported from France may not be sold by a Greek distributor at more than 100% over the import price. Since the building sector has been a major cause of inflation, prices of construction materials will also remain frozen until the end of the year. The government is planning to issue rules to control current markups in the trade of construction materials. Prices of restaurant meals and hotel accomodations may not be increased, nor may prices of all types of winter clothing and shoes go up.

The Greek government has also temporarily closed borders to all imports from Japan. There is, furthermore, a temporary ban on imports of specific Swedish, Yugoslav and Pakistan products.

The government's action came only days after the OECD published its report on Greece's economic situation. In this report the experts of the Paris-based organization expressed concern about the country's economic development in 1977, and they see little promise of improvement for the next few years. The OECD urged Athens to give priority to fighting inflation and whittling down the balance of payments deficit.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Work on Lower Tribunal Plan Advancing

Work on a proposal to establish a lower tribunal at the European Court of Justice to handle disputes between employees and Community institutions has advanced to the stage that the member states' justice ministers will discuss the draft at their October meeting. Commission attorneys are optimistic about the plan and expect that the Council of Ministers will approve the proposal by the end of the year.

It was the Court of Justice that in 1974 suggested the establishment of a labor court to relieve its docket from the ever-increasing number of staff cases. Although the number of these cases, which involve disputes between civil servants and other employees of the EC institutions, such as the Council, Commission, Parliament, and the Investment Bank, over salaries, pensions, job classification, and promotions, has gone down in recent years (14 of the Court's 101 judgments in 1977), they still represent an undue burden for the high court. Four years ago the Court of Justice also came forward with a number of principles it thought should be reflected in the setup and proceedings of the lower tribunal. The drafters, made up of Commission, member-state government and Court officials, largely followed these principles and added a few more of their own.

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Tribunal *(contd.)*

According to the proposal, the tribunal would be a court of facts as well as of law, and thus it could check the facts submitted by the litigants. The plaintiffs, usually EC employees, could approach the tribunal only after having exhausted all other remedies; for example, a Commission official who feels that he or she was unjustly bypassed for a promotion could not go to court right away but would have to appeal first to the employing institution. Retention of a lawyer would not be necessary; the plaintiff could plead himself, but he could also be assisted or represented by a person of his choice. The tribunal would first have to make an attempt at conciliation, an approach embedded in the labor laws of all the member states. A tribunal decision would be enforceable under the conditions set forth in Treaty Article 192 *(Common Market Reports, Par. 4915)*. The proceedings before the tribunal would be governed by the rules of procedure drawn up by the Court of Justice and approved by the Council of Ministers.

Any decision handed down by the tribunal could be appealed to the European Court of Justice on grounds of violation of essential rules of form, treaty rules, the Statute on the Court of Justice, or other important rules or principles of law. An appeal would have to be brought within two months from the day of the tribunal's decision. A ruling that the Court of Justice sets aside could be remanded to the lower tribunal with instructions on how the case is to be decided.

The tribunal would be composed of a president and vice-president chosen by the Court of Justice from its members. In addition, there would be a judge and an assistant judge chosen by the EC Court from a list presented by the Community institutions as well as a judge and an assistant judge appointed by the Court from a list of names furnished by the institutions' personnel committees, which often are strongly influenced by unions.

EC Works on Standardization of Measurements

A Community institution that never makes headlines and yet whose work is important for industry is the Community Bureau of References (BCR). Established by the Council of Ministers in 1976 as part of the Community's research program, the BCR is attached to the Commission's directorate for research, science, and education. The objective of the institution's program is to lay down standards for measuring by establishing accurate reference methods and to produce so-called reference materials, such as metals of a certain size or weight, used for calibration and for verification of measuring techniques. The BCR coordinates the Community's work carried out at its Ispra and Pelten facilities with that done in several hundred other laboratories in the various member states.

Today's society and economy require an ever-increasing

Measurements *(contd.)*

amount of accurate measurements for a large variety of activities. Commerce, industry, and science have had a long tradition of finding comparable measurements whose standardization and coordination are essential. Dwindling supplies of raw materials also require accurate collection of data by means of measurement. The BCR's reference materials make it possible to test the functioning and accuracy of measuring methods and instruments; they insure that valid comparisons can be made between results obtained in different laboratories in the same or different countries.

A few examples of the BCR's practical work: national industries have produced reference samples in the nonferrous sectors, but none have been available for raw materials. The BCR stepped in and, in cooperation with industry, prepared zinc, lead, copper and tin concentrates for use as reference materials. Seven such samples are now available, and five others are being developed. Cracks and defects in parts can be identified and measured by using ultrasonic techniques; the BCR is undertaking a comparison of measurements from various European laboratories. The measurement of frictional losses in machines is still in its infancy, but it is significant both for energy conservation and aspects of safety. A start has been made with the development of reference materials needed for reliable calibration that are important for industry. In all these efforts the BCR has helped in coordinating national research and development and in the standardization of work.

In Brief...

The Commission is expected to publish soon its notice on subcontractors that will clarify the position of subcontracts and their compatibility with Articles 85 and 86 of the EEC Treaty. According to Brussels sources, the document seeks to strike a balance between businesses' needs, since manufacturers depend on suppliers for many parts of end products, and the Commission's task to insure suppliers' and subcontractors' freedom of action + + + A dispute over fishing rights within the 200-mile zone is threatening relations between the Community and Spain. The Council of Ministers granted Spain only 121 licenses, even though there used to be as many as 500 Spanish trawlers in the EEC's waters. There have been some "incidents" at sea, the first having occurred off the coast of Ireland. The Commission fears not only a detrimental impact on the Spanish economy but also sees repercussions for the future negotiations aimed at Spain's entry into the EC. Still, observers count on the current negotiations to avoid large-scale incidents at sea.

Germany: Canceling High-Interest Loans Goes On

Despite a recommendation from the Bundesbank and heavy pressure from the national bankers association and the country's life insurers association, the German government has ruled out a repeal of Section 247 of the Civil Code

High Interest *(contd.)*

(BGB). This provision entitles a debtor to cancel a loan on six-months' notice if the interest rate exceeds 6%; the contract must have been in existence for at least half a year. Banks and insurance companies are currently facing a wave of credit contract cancellations because borrowers have been able to find money at lower interest elsewhere. Not only individuals but also companies are canceling. The government is, however, apparently prepared to recommend to Parliament an amendment to Section 247 to the effect that companies and other legal persons could no longer invoke the provision against usurious interest rates, but individuals would be able to do so; Section 247 would thus be turned into a mere consumer protection clause.

Hundreds of thousands of residents signed up for long-term loans years ago and are now paying dearly for it. The annual interest rates for bank credit in 1974 ranged between 11% and 13%; nowadays most loans cost between 8% and 10%. Mortgage loans were obtainable in 1974 for roughly 10% interest; now a prospective homeowner may succeed in obtaining a loan for 6% if he shops around long enough. In 1974-75, Section 247 BGB played hardly any role at all because a borrower could rarely obtain cheaper credit. Interest rates are now lower than they have been in the past 20 years, and credit is available in abundance. Section 247 gave borrowers the statutory leverage to look for cheaper credit sources. The provision may be invoked even if the underlying contract contains a clause barring the borrower from giving notice within the six-month period. However, the same law allows a mortgage bank to tie a borrower to the terms of the contract because it normally refinances the mortgage loan by issuing long-term mortgage bonds. A borrower is entitled to know whether his bank has refinanced.

<u>Bill to Lower Retirement Age of Handicapped</u>

The German government has proposed legislation that would entitle severely disabled employees to retire at an earlier age. The normal retirement age for any employee is 65, but employees may retire at 63 (handicapped persons at 62) if they are willing to accept a corresponding cut in their pensions *(Doing Business in Europe, Par. 23,451)*. Under the recent bill, a handicapped worker who has reached the age of 61 by the beginning of 1979 could retire as of Jan. 1; in the following year, a handicapped employee aged 60 could do so as of Jan. 1, 1980. Around 70,000 persons would qualify for earlier retirement under the measure, and the federal government would foot the bill, estimated to be near DM 700 million.

The proposal is part of the government's overall plan to reduce unemployment and stimulate investments that was announced in late July. Labor Minister Hérbert Ehrenberg hopes that employers will hire young disabled people to replace those retiring at age 61 and 60. There are nearly

Retirement *(contd.)*

50,000 disabled who could fill these jobs, according to Ehrenberg.

Under German law, every business and government agency with more than 15 employees must either reserve 6% of its jobs for severely disabled persons or pay a DM 100 levy monthly instead for each disabled person it should, but does not, hire. The money is spent on training the severely disabled for specific jobs they could perform despite their handicap *(Doing Business in Europe, Par. 23,432)*. Government leaders have appealed to businesses to refrain from escaping their obligation to society by choosing to pay the levy rather than hire a disabled person.

France: Increases in Excise Taxes Planned

Even though it is hard-pressed for additional revenue, the French government is living up to its promise made last March to refrain from proposing increases in individual and corporate income taxes and the value-added tax. Instead it is planning hikes in excise taxes on, among other things, gasoline, cigarettes, and alcoholic beverages in order to close half of the roughly FF 15 billion gap in the proposed budget for fiscal 1979. No details have been released yet on the extent of the planned tax increases; they will be included in a bill expected in the coming weeks.

The promise not to raise individual or corporate income taxes and the value-added tax came from Prime Minister Raymond Barre prior to last spring's national elections. Barre wanted to give industry more leeway for additional investments, but at the same time he wanted to warn the electorate because a victory of the left-wing parties could not be ruled out at that time.

The draft budget for 1979 calls for expenditures of FF 456 billion; FF 441 billion in revenue is anticipated. With this FF 15 billion deficit, the Barre government is largely fulfilling its commitment assumed at the economic summit in Bonn on July 16-17 to stimulate economic growth without pushing the inflationary spiral. While half of the deficit would be covered through added revenue from increased excise taxes, the other half would be made up by borrowing and cutting back on as yet not specified government activities that are not considered essential. The proposed deficit means a departure from the government's practice of the past two years to avoid going into debt in order to help revitalize the economy and stabilize the franc.

Britain: 1977 Payments Balance Shows Improvement

The U.K.'s balance of payments in 1977 shows a very considerable improvement in the external financial position over the previous year and reflects the importance of "invisible" earnings such as tourism and insurance despite a de-

Improvement *(contd.)*

crease in 1977. It also underlines the significance of North Sea oil and gas for the balance of payments.

In 1977 there was an estimated surplus on "invisibles" of Ŀ1.9 billion, and after allowing for a computed trade deficit of Ŀ1.7 billion on "visible" earnings, the current account surplus is now put at Ŀ289 million compared with a deficit of Ŀ1.1 billion in 1976. As regards the capital account, a loss of Ŀ2.5 billion in 1976 was converted into a surplus of Ŀ7.1 billion in 1977.

The surplus of "invisibles" was reduced from Ŀ2.4 billion in 1976 to Ŀ1.9 billion last year, and there was also a fall during the same period in the contribution made by the financial institutions in the City from Ŀ1.8 billion to Ŀ1.7 billion, of which insurance comprised over half (Ŀ909 million), more than double the 1975 figure. However, there was a marked decline in commodity trading with a halving of earnings to Ŀ109 million and in the net interest received on overseas loans by the bank some Ŀ76 million, or merely a third of the previous year's total, which was due to the narrow margin operated in big Eurocurrency markets. The net earnings of British banks at Ŀ254 million in 1977 reflected a Ŀ162 million decrease on the year before. Tourism provided a net surplus of Ŀ1 billion last year and so replaced insurance to top the net earnings' table. During the year, contributions to the EEC of Ŀ750 million were partially offset by EEC payments to Britain of Ŀ359 million, and the British military presence in Germany cost th taxpayer Ŀ607 million.

North Sea oil and gas contributed over Ŀ1.5 billion to the 1977 improvement in "visible" earnings of Ŀ1.8 billion which had reduced the 1976 "visibles" deficit of Ŀ3.5 billion by approximately half, but against this there were increased outward payments such as dividends of Ŀ367 million, 15 times those in 1976. Oil companies made a sizable contribution to the overseas investment in the private sector. Their capital outlays increased by about Ŀ1 billion in 1977 to Ŀ3 billion.

Denmark: Austerity Seen As Remedy for Economy's Ills

The new government in Copenhagen made up of Social Democrats and Liberals believes that only a powerful remedy can cure the country's ills, especially its chronic balance of payments deficit (9.8 billion kroner in '77). They think that the ingredients of the remedy are curbs on private consumption, restraint on government expenditures, moderation in wage increases, and a general price stop. Thus, the government will soon propose an increase in the value-added tax rate from 18% to 20% to put a damper on the demand for consumer goods, especially imports, that grew after cuts in the individual income tax last year. The government's own contribution to the belt-tightening program

Austerity *(contd.)*

would concentrate primarily on slowing down the construction of public buildings, roads, and highways.

The success of the program will largely depend on the unions' cooperation, and the government hopes that the envisaged price stop will convince the union leadership and the rank and file that wages should follow the August 1976 guidelines that called for an overall increase of 12% for the next two years. As it stands now, the average wage hikes have been around 10% annually, a fact that contributed to Danish manufacturers' increasingly losing out on foreign markets because their products were no longer competitive.

One more ingredient is supposed to make the program more palatable to the unions: the government is going to propose a capital profits tax payable by land and homeowners who sell their property, thus fulfilling an old demand of the unions and the Social Democrats.

Switzerland: Swiss Voters to Decide on New Canton Jura

The Swiss electorate goes to the polls on Sept. 24 to vote on the establishment of a new canton - Jura - and the result will either extinguish or kindle a long-smoldering political issue. The outcome of the plebiscite could also reveal whether the country's political and economic system, marked predominantly by stability and continuity, is also flexible enough to adapt to changes brought about by evolutionary democratic developments. A positive outcome is expected but by no means assured. Roughly 100 years ago the electorate was against removing a canton from the map when political forces sought to unify two German-speaking cantons (Basel Stadt and Basel Land), and it did so again in 1970.

Approval of the referendum would mean that three French-speaking regions bordering on France and belonging to the now overwhelmingly German-speaking canton Bern would be carved out to form Switzerland's 23rd canton. Like the other cantons, it would have its own legislature, which is important because the powers vested in any canton cover a broad range of activities, from cultural matters to taxation *(Doing Business in Europe, Par. 29,102)*. Cantonal taxes play a much bigger and more varied role than those imposed by the federal government *(Doing Business in Europe, Pars. 29,301, 29,311, 29,331)*.

If the Swiss voters approve the referendum, it would close a chapter that was opened in 1815, when the allied powers at the Congress of Vienna changed borders to balance power and largely ignored questions of nationality in the process. At that time the three French-speaking regions were incorporated into the canton Bern. Since then there have been many movements for a change, ranging from an attempt at outright secession from the confederation and in-

New Canton *(contd.)*

corporation into France to creation of a new canton. Swiss observers point out that the people of the three regions mainly want to preserve their cultural heritage. In 1974 the electorate of the three regions voted overwhelmingly (74%) for the establishment of a new canton, and last year they approved the new constitution of the future canton with an even more convincing 82%.

Austria: Opposition Moves to Repeal Road Levy

The Christian Democrats (ÖVP), the opposition party in Austria, have called for a repeal of the controversial road transit levy that has been imposed since July 1 on foreign trucks using Austria's highways; a bill to that effect will be introduced in Parliament late this month or in early October. The chances for a repeal are still uncertain, even though government leaders are now being confronted with a situation that they did not anticipate and that only a few opposition lawmakers touched upon during parliamentary debate. Not only have Czechoslovakia, Hungary, Romania, and Yugoslavia reacted in retaliation by imposing a similar levy on Austrian trucks (Austria's levy is 0.25 schillings per kilometer and ton for loaded trucks and trailers over five tons), but Italy too is now levying a charge on Austrian trucks; however, its tax is much higher than what Italian trucking firms must pay to the Austrian government.

Vienna has decided to reimburse Austrian truckers for whatever they have to pay to the four East Bloc countries and Italy. Since Austrian firms handle a disproportionately high share of cargo shipped in east-west trade as well as in north-south transport, critics say a large portion of the 4.4 billion schillings expected annually from the road transit levy will have to be diverted to compensate Austrian truckers. Even government officials concede that they did not expect retaliation. It has been estimated that 1 billion schillings will be left over yearly when all is said and done, but even that figure does not take into account the overall administrative costs, especially now that the government has been liberal in granting an extension of payment as a way of mollifying truckers who blocked Austria's main border crossings for one week after the levy took effect.

The reason the levy was imposed in the first place, the government claimed, was to force the foreign trucking firms that use Austria's roads in east-west and north-south transport to share part of the cost of highway construction and maintenance (some 800,000 trucks passed through Austria in 1977). Critics say, however, that the additional revenue is not earmarked for roads but rather to help close the widening budget deficit.

Common Market Reports

EUROMARKET NEWS

Issue No. 505 *Report No. 353, September 21, 1978*

IN THIS ISSUE

Community: Higher Quotas Proposed for Hauling Permits

The European Commission has proposed raising the current Community quotas for intra-EEC trucking by 20% to a total of 3,402 licenses. In support of its proposal submitted to the Council of Ministers, the Commission says that an increasing number of national trucking firms are making use of the system, which was introduced by Council Regulation No. 1018/68 in 1968 and has been expanded since then. A license issued under the system allows a trucking firm to have its vehicles pick up and deliver cargo anywhere in the Community. The number of licenses available at present under the Community's quota system accounts for merely 4% of the 71,000 licenses that are granted under bilateral agreements between the various member states. For example, a Dutch trucking company wanting to transport goods to and from Germany or France must have a license to do so, and the number of licenses that each state grants is laid down in bilateral agreements. These licenses must conform to uniform Community standards *(Common Market Reports, Par. 1812.29)*.

The Commission's ultimate goal is to gradually do away with the bilateral quotas and replace them by a Community system. Several member-state governments, however, are resisting the idea, and that is why development of the Commu-

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Permits *(contd.)*

nity system has proceeded only on a step-by-step basis during the past decade; between 1975 and 1977, in fact, it remained stagnant. Because of the three-year standstill, the Commission last year proposed for 1978 to double the number of Community licenses allotted to each member state. Germany objected, reasoning that doubling the number of licenses would make no sense in the absence of progress on the harmonization of various national rules on trucking in order to eliminate distortions of competition. Eventually, however, Bonn relented and agreed to a 20% increase in the EEC quotas for 1978 if progress were made in aligning national rules on truck dimensions and weight as well as harmonizing provisions on truck taxes and social legislation affecting truck drivers *(Common Market Reports, Pars. 1812.33, 1812.35, 1812.37)*. The Council has been talking about all of these subjects since the mid-1960s. The United Kingdom is blocking positive action at present.

If the Council approves the proposal on the quota increases, the individual member states would be allotted the following quotas: Belgium, 378 (currently 318); Denmark, 251 (203); France, 573 (491); Germany, 621 (512); Ireland, 69 (60); Italy, 480 (383); Luxembourg, 98 (84); the Netherlands, 549 (458); and the United Kingdom, 383 (326).

Alcohol Tax Suit Against Four EC Members

The European Commission has finally decided to take four member-state governments to the European Court of Justice for alleged infringement of Treaty provisions in connection with duties they impose on alcoholic beverages. Specifically, the Commission challenges the long-standing practice in Britain, Denmark, France, and Italy of applying different systems of taxation to imported alcoholic beverages, thereby protecting domestic manufacturers. Treaty Article 95 provides that no EC member state may impose on the products of other member states "any internal taxation of any kind in excess of that imposed directly or indirectly on similar domestic products" *(Common Market Reports, Par. 3,001)*.

In the past the Commission has often complained about the discriminatory nature of the various national alcohol tax systems, but to no avail. For instance, the duties imposed by Denmark on Akvavit and other clear spirits produced domestically are on the average 42% lower than those levied on "similar" imported products. In France, the tax advantage enjoyed by cognac vis-à-vis such imports as Scotch whiskey or vodka amounts to about 30%. In Italy, these imports are taxed about four to six times higher than the native grappas and brandies. In the case of Britain, finally, the Commission objects to the wide disparity between duties imposed on beer and wine. The tax burden on the latter, nearly all of it imported, is about five times higher than that on beer, most of it produced domestically.

Alcohol Tax *(contd.)*

In Denmark, a wholesaler of wines and spirits decided recently that he would not wait for any legal action on the Commission's or anyone else's part. He informed the Danish customs authorities that henceforth he would pay only that portion of the levies on imports which corresponded to the tax imposed on domestic alcoholic beverages. The excess amount normally collected by the government, he said, would be deposited into a special bank account, pending the outcome of possible litigation. If necessary, the wholesaler said, he would take the case to the highest court; he might also claim a refund of excess taxes paid since 1973.

(Following drastic tax increases in August 1977, the sale of imported alcoholic beverages in Denmark has dropped by 30%. The levies on Danish spirits currently amount to 167.50 kroner per liter of pure alcohol, while imports such as gin, whiskey, or cognac are subject to a 257.15-kroner levy. Thus, the retail price per bottle is about 40-50 kroner higher for imports than for domestic products.)

In Brief...

A group of national banking experts headed by a Commission official is drafting several proposals that would be follow-up measures to the general banking directive. They concern the establishment of a credit risk registration center, which would enable credit institutions to exchange information, and the content of banks' financial statements. Participants at the meetings say that progress is slow, but they anticipate new impetus from the advisory committee provided for in the general banking directive and to be made up of representatives of the national banking control authorities + + + The EEC drastically reduced its trade deficit in 1977 to $7.9 billion, down from $17.5 billion in 1976. Last year's imports amounted to $387 billion, an increase of 10%, while exports reached a volume of $379 billion, a rise of 14%. The trade balance with the United States was positive for the Community as a result of a 26% increase in exports, which amounted to $32 billion. Imports from the USA increased only by 1% ($29 billion). By contrast, the EEC's deficit in trade with Japan was $5.2 billion, an increase of $1 billion over 1976.

Italy: White Paper on Three-Year Recovery Plan

The major Italian labor federations have mounted a heavy attack on some of the austerity proposals contained in the White Paper on a three-year economic recovery program recently presented by Treasury Minister Filippo Pandolfi on behalf of the government. The unions' anger is specifically directed against the suggestion that real-term wages be subjected to "zero growth" within the 1979-81 period and that both employers and unions accept obligatory mediation in the event of bargaining stalemates.

The business community, too, has voiced certain objections to the proposed austerity plan. Guido Carli, boss of

White Paper *(contd.)*

the Confindustria industrial federation, said it offered no guarantee for a correction of the "semicollective" nature of Italy's economic system and, at best, would merely stall the system's further deterioration. The former central bank governor wondered aloud whether a government that controls and allocates some 70% of the new financial resources generated each year leaves enough room for a pluralistic economic system and freedom of private competition.

In the White Paper, which was submitted to the major political parties and the unions on Sept. 1, Pandolfi actually referred to a period of "blood and tears" that the Italians would have to endure if they want the domestic economy to return to firm ground. Unless the current stabilization policies are continued and further extended, Pandolfi warned, the situation could deteriorate to the point where Italy might even be forced to drop out of the European Community. In addition to zero growth of wages and pensions, the document proposes a drastic increase of the tax burden, contributions to the health funds by the insured, lower social welfare expenditures, and reduced public spending in numerous other areas. By boosting both direct and indirect taxes and by cracking down severely on tax evasion, Rome would hope to raise fiscal revenues by 2,000 billion lire within the plan's very first year. The expenditure cuts proposed for the social welfare and the health sectors would amount to 2,400 billion lire and 1,500 billion lire, respectively.

In addition to the measures previously approved, the government proposes investments in the amount of 4,000 billion lire, of which half is to be financed via international bond issues. Fulfillment of its target of 500,000 to 600,000 new jobs by 1981 will depend to a large degree on Italy's export performance in the coming years, the government said, which in turn hinges on the development of domestic labor costs.

The document unequivocably puts the chief blame for the competitive losses suffered by Italian industry in recent years on the *scala mobile*, the system whereby wages are indexed to inflation. Unless this mechanism is revised, the government warned, the gains most recently reported for the balance of payments will be eradicated, and a repetition of the monetary crises of the past will be unavoidable. For this reason, the country's labor unions must be persuaded of the need to keep the overall increase in wages and wage costs within the rate of price expansion. In return, the government would undertake to reduce unemployment with all means at its disposal and to boost the industrial development of the southern regions. Also proposed is the creation of a "heavy" lira to replace the current, eroded currency unit by a ratio of 1,000:1. A revaluation of the lira, however, was ruled out.

Discount Rate Cut Lifting Business Hopes

In conjunction with the publication of its White Paper on the economy, the Italian Treasury as of Sept. 4 reduced the discount rate and the Bank of Italy's Lombard rate from 11.5% to 10.5%. The move was made possible by surplus liquidity on the money market, the continued buildup of the country's foreign exchange reserves, the ongoing improvements in the payments balance, and the containment of some inflationary factors. Government authorities expressed the hope that the lowering of the rates would stimulate private investment activity, industrial production, and employment. The last previous reduction of the discount rate, from 13% to 11.5%, had come about a year ago, on Aug. 26, 1977.

As a result of the latest rate changes, the business community was looking for a general reduction of money costs. The banks indeed cut their prime rate to 15%, which was at least one point below the previous levels. With a total corporate indebtedness of 77,756 billion lire, an interest rate cut of 1% would reduce the interest burden by 777 billion lire, and the annual interest payments on bank credits would be reduced from 6,764 billion to 5,987 billion lire, it was reported.

Germany: Upper House ...ks Consumer ...ass Actions

The upper house of the German parliament has recommended that consumer organizations be given the right to sue companies that engage in restrictive trade practices. This would mean that private actions could be brought to enjoin companies from continuing unlawful trade practices, in addition to the steps that the Federal Cartel Office and the states' cartel authorities may take against businesses under present law. The recommendation was made during the Bundesrat's deliberations of the amendments to the Law Against Restraints on Competition (GWB) that the government proposed to Parliament last May and which would enable the cartel authorities to better control mergers and abusive practices of market-dominating enterprises. Among other things, there would be stiffer sanctions for abuses, such as fines as high as DM 1 million (the present maximum is DM 100,000 - *Doing Business in Europe, Par. 31,039*). However, there is nothing in the bill along the lines suggested by the Bundesrat.

Although the law seeks to retain freedom of competition also for the benefit of the consumer, the latter has merely a theoretical chance of bringing suit against businesses that engage in restrictive practices or violate restraining orders issued by the cartel authorities. Section 35 GWB provides that an individual consumer may sue for damages or seek an injunction to stop a party's unlawful behavior if the particular provision or administrative order that was violated was designed to protect his interests *(Doing Business in Europe, Par. 23,512)*. In practice, this provision hardly plays a role at all, partly because the

Consumers *(contd.)*

average person does not know about this right and partly because the general public is reluctant to get involved in litigation. Critics say that the provision is so broadly phrased that it is difficult to perceive what the courts would do if they were approached on a large scale: there is no general line of thinking as to which provision is designed to protect the consumer as well.

The Bundesrat believes that the situation would change if the consumer organizations were given the right to go to court. (These organizations would not shy away from litigation, if only for the sake of clarifying the legal situation.) In that case, they could ask for a preliminary injunction - for example, against a company that charges abusively high prices - and would no longer have to wait for the cartel authorities to take action.

Britain: CBI Manifesto Urges More Tax Incentives

The Confederation of British Industry published on Sept. 7 an industrial manifesto entitled "Britain Means Business 1978" which envisages that over the next three years the U.K. could achieve an annual growth rate of 3.5% with the creation of one million extra jobs and cuts in taxation of £5.25 billion. The main priorities, according to the document, are reductions in inflation and unemployment, together with more effective wage bargaining methods, less government interference, more practical methods of employee participation, and greater tax incentives. As for personal taxes, the CBI says, the basic rate should be 30% instead of 33%, while the highest rate should be 50% rather than 83%, as at present. Corporation tax and small-company tax should each be reduced by 2% to 50% and 40%, respectively, and the surcharge on investment income should be lowered appreciably.

The CBI generally approves of the government's 5% pay guideline, provided that it is not too inflexible. However, it advocates an economic forum such as perhaps an all-party parliamentary select committee, which would each year examine in the light of economic trends what options on pay policy were available. The document recommends a reversal of the present practice whereby unions in the public sector generally settle their claims early on in the annual wage rounds and those in the private sector resolve their claims subsequently. This would ensure that the public sector had to conform, rather than setting an "inflationary pace," and it "would lessen the need for special treatment and forward commitments which have been a feature of successive pay policies." In addition, the negotiating period for unions in both sectors should be confined to a six-month period between November and April.

The CBI strongly opposes the reduction of the workweek from 40 to 35 hours, which recently has been much favored

CBI Manifesto *(contd.)*

by trade unionists, because this would lead to an increase in costs - of some 14-20%, for example, in the engineering industry if there were no corresponding cuts in wages. The CBI believes that the labor legislation of recent years has been intentionally biased against employers and that this must be corrected. It would like to circumscribe certain powers of the unions and change the format of industrial tribunals dealing with unfair-dismissal cases.

Belgium: Slight Growth Pickup Seen by OECD

The Organization for Economic Cooperation and Development concludes in its latest annual report on the Belgian economy (OECD Economic Surveys, Belgium, August 1978) that a slight acceleration in growth is possible this year, following very low growth in 1977. Real growth in '78 is predicted at around 2.75% - a rate which the OECD believes will lead to a further rise in unemployment, possibly up to an average 7.5%. The annual unemployment average for last year was 6.6%.

The survey also concludes, however, that the Belgian economy is unlikely to exhibit any marked recovery in the course of the next few months, largely because of comparatively unfavorable prospects for world trade generally. The report notes that the government has very little room to maneuver at present: because of Belgium's heavy dependence on foreign trade, it would be "difficult and probably ineffective" to try to introduce a distinctly more expansionary demand management policy in order to achieve a growth rate that would be rapid enough to improve the employment situation.

The optimal strategy for the government, the OECD implies, is to control the growth of public expenditure (which the administration has already undertaken to do) and, at the same time, "to increase efficiency." The OECD recipe for the latter calls, at least in part, for the government "to impart a stimulus to the economy through investment in the public sector" (an apparent contradiction given the recommendation that public spending be curbed) and/or "increased government participation in investment by private enterprises within the framework of the industrial restructuring policy." The latter recommendation should find favor with the Socialists in the government coalition. Moreover, the report's concluding remarks are being interpreted by the country's labor unions as vindication of their claims for a shortened workweek: Belgium should "try to introduce measures - if only temporary - for a more widespread distribution of the work available."

Denmark: Narrow Okay for VAT Rise, Price Freeze

On the last day of a special parliamentary session, on Sept. 8, the Danish Folketing passed by slim majorities the first measures of the government's economic austerity program, including an increase of the value-added tax rate

VAT Rise
(contd.)

from 18% to 20.25% as of Oct. 1. Also approved was a "modified" price freeze covering the period from Aug. 28 (retroactive) to March 1, 1979.

The Social Democrats of Prime Minister Anker Jörgensen and the Liberals, which form the new government coalition, hold only a total of 88 of the Folketing's 179 mandates. Thus, the balloting brought the administration precariously close to defeat. One Social Democrat MP, former finance minister Henry Grünbaum, voted against the VAT increase, and two members of the Opposition did not participate in the balloting, so that the legislation passed by a margin of only two votes, 86-84.

Contrary to original plans and in response to pressures by the Social Democrats, the government agreed to additional compensation to families and pensioners in order to soften the impact of the VAT increase. Since this will require additional outlays of some 400 million kroner, it was decided to raise the VAT rate to 20.25% rather than 20%. (This fractional increase was strongly criticized by some parties and business spokesmen because it complicates the calculation of prices for goods and services.) The price freeze legislation contains provisions outlawing price increases effected to offset wage increments that are not part of collective agreements.

The parliament will convene its new session in October, and until then the government will work out the remainder of its austerity program, which would be centered around a restrictive incomes policy. Thomas Nilsson, chairman of the Danish labor federation, said that these plans reconfirm his opinion that the government's measures are of a one-sided nature and demand too many sacrifices from the working man. He warned that his organization would not partake in collective agreements going along with this incomes policy.

The unions' disappointment with the course in Copenhagen is also reflected in public opinion: according to a poll published in the newspaper Politiken, the coalition agreement between the Social Democrats and the right-center Liberals has caused the popular support for the former to shrink from 40% to 31%.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Job Vacancy Clearance Plan to Be Enacted

The Council of Ministers is expected to enact this fall a Community-wide labor exchange program called SEDOC, or European vacancy clearance system, that would compel the member states' labor exchange administrations to pass along to the other states information about jobs available as well as the names and addresses of individuals looking for work. The program, which was six years in the making, was devised to encourage the freedom of labor movement within the Common Market and to help relieve bottlenecks in the national employment markets. Unemployment in the Common Market stood at 5.9 million at the end of August.

SEDOC was first tried on a selective basis with a few national labor offices. It provides for the coding of vocations and training requirements that are considered essential not only because of language barriers but also because curricula differ substantially from state to state. The code system would provide the national labor administrations with a simple way of describing the background of a person seeking a job and of the opening offered by an employer.

Commission officials believe that SEDOC could be of help to tens of thousands, especially single people, who might be inclined to accept employment outside their home

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Clearance Plan *(contd.)*

state. Although the proposed system does not contain any rules about paying an individual's moving costs, the officials say that a solution could perhaps be found on a bilateral basis. For example, a current agreement between Rome and Bonn provides that the Italian government pays the moving costs up to the Austrian-Italian border of an Italian worker taking up employment in Germany. From there the German government pays the costs and recovers part of the money from the German employer, who is required to pay a fee to the labor exchange office that found the Italian worker the job.

Italy: Rome's Terms for Joining Monetary Fund

In the current discussions between the European Community partners and Italy over the latter's eventual participation in the proposed European monetary fund, both sides are trying to establish under what conditions Italy would be willing and able to join. During a visit to Rome earlier this month, European Commission president Roy Jenkins was reassured that there could be no question about the Italians' willingness to be part of such a system, which had been agreed on during the EC summit at Bremen in July. However, since such participation would impose certain hardships on the country, the Italian government expects significant concessions from the EC, particularly in regard to farm policy ("green lira"), the financing of the Regional Development Fund, and social policy.

At a meeting of Christian Democrats in Pescara, Treasury Minister Filippo Maria Pandolfi subsequently went into specifics about Italy's conditions for joining the European currency stabilization system. First of all, Pandolfi said, his government was expecting a "robust" monetary fund which would operate with the equivalent of at least $50 billion and to which the participating central banks would have direct access. Establishment of the fund would have to be gradual, with an ample period of transition provided, so that Italy would have sufficient time to bring down its rate of inflation still further (currently 11.9%). The monetary system would have to be able to tolerate strong fluctuations among the participant currencies and to withstand heavy shocks from the outside. For this reason, Rome wants a fluctuation band of 4% for the lira as opposed to 2.25% now in force for the European "snake" (of which the lira is not a part). In any case, Italy would be opposed to fixed intervention limits as prescribed for the snake members, favoring instead a more flexible approach, similar to that practiced in the calculation of special drawing rights (SDRs). More flexible parities, Pandolfi explained, would permit wider fluctuations and thus generally fewer acts of intervention.

The obligation for intervening on the foreign exchange markets, the treasury minister said, should be tied to an

Monetary Fund *(contd.)*

index based on both the European unit of account and the effectively weighted geographic distribution of the member states' foreign trade. The advantage of this approach would be in imposing a greater burden on the hard-currency countries - for instance, Germany - and in making these countries defend their own position within the monetary system whenever the U.S. dollar came under pressure.

France: New Layoffs Likely to Boost Unemployment

The unemployment issue has again hit the headlines in France with the outbreak of protest strikes in the steel and ship-repair sectors and with the government's announcement that the demand for jobs had risen by 5.7% in August. It was the seventh consecutive month that an increase was registered, pushing the unemployment figure to a historic high of 1.16 million and leading to official predictions that it may well reach 1.2 million before year-end.

Some 10,000 demonstrators marched in Marseilles earlier this month to protest further layoffs at Terrin, the country's largest ship-repair group, which has been in receivership since April, when it could no longer meet its payroll. The company announced that 1,760 more workers will have to be dismissed, following the layoff of some 800 last May. All proposals for a rescue plan have been turned down so far by the Terrin employees and the unions because they invariably involved additional layoffs. The explosive labor situation in the Provence-Côte d'Azur region is further complicated by mass dismissals at the Chantiers de la Ciotat shipyards, near Marseilles, whose Arab owners are vainly trying to persuade the French government to take over the facilities.

On Sept. 14, the French cabinet had announced the establishment of a FF 3-billion "adaptation fund" to be used to set up alternative industrial activities in those sectors and areas most affected by the economic slowdown. A large percentage of this fund (with FF 1 billion to be made available this year) has been earmarked for the steel and shipyard industries. Both the unions and the political Left have criticized the allocations as completely insufficient. They also attacked Labor Minister Robert Boulin who, after being informed of the demonstration plans in Marseilles, canceled a visit to that city, where he had been scheduled to meet with labor leaders. Boulin, for his part, rejected allegations of a lack of action and commitment by the government: unemployment, he said, remained the "priority of priorities," but it would be unrealistic to expect an improvement of the situation in the short term.

Meanwhile, in Paris, the labor federations called for a general strike on Sept. 25 in the Lorraine region to protest the threatened layoff of some 6,000 steelworkers there. The government nonetheless is reportedly pushing

Layoffs *(contd.)*

ahead with plans for the temporary nationalization of the steel industry to save the latter from bankruptcy. According to unofficial sources, the concept would involve the expenditure of an additional "several billion" francs as well as the dismissal of a further 10,000-12,000 steelworkers and would make the state the majority shareholder of Sacilor and Usinor, the country's leading steel groups.

Germany: Air Pollution Standards to Be Raised

The German government has sent to Parliament two related pieces of environmental legislation that would raise air pollution standards and at the same time bring more legal security to investments planned by businesses. For the first time there would be maximum levels for emissions of lead, cadmium, and a number of other chemical substances that are suspected of causing cancer. An amendment to the 1972 Clean Air and Noise Abatement Act would raise to statutory level, and thus make binding, air pollution criteria currently laid down in administrative rules *(Doing Business in Europe, Par. 23,544A)*.

The fact that these criteria are not binding at present has led to difficulties in enforcement and to discrepancies in what the courts thought should be the standards for a particular area. This in turn has created some legal insecurity because corporate management could not reasonably anticipate what the courts' reaction to a planned investment might be if individuals and environmental organizations should decide to challenge plant construction or expansion. Under the proposed amendment, a court could no longer consider the maximum levels set forth in administrative rules as mere guidelines, which in the past resulted in a license being granted in one case but denied in a similar situation. If the emissions from a planned project are not expected to exceed the future statutory levels, the license would in most cases have to be granted.

There would, however, be two exceptions to the proposed approach. An application for a license to construct or expand a plant could be rejected even if emissions are expected to stay below the statutory levels but, in a particular situation, nevertheless would endanger human health if the emissions would be highly concentrated at a particular hour and then sharply drop the next hour. A license could also be denied if certain pollutants, such as sulfur dioxide, might endanger animals or plants (but also landmark buildings) that are much more sensitive than humans to those pollutants.

Government officials say that the proposed amendments would have hardly any effect on the investment plans of small or medium-sized businesses, which usually have a low pollution potential. However, a company wanting to establish large-scale production facilities in a less polluted

Pollution *(contd.)*

area could face considerable difficulties: it would be granted a license only if the particular area had been designated by the state government for industrial development or if the investment was in the public interest for employment or energy reasons.

Britain: More Emphasis Demanded on Consumer Needs

The U.K.'s Consumer Council, which was established in 1975 by the government in response to public pressure and whose present chairman is Michael Shanks (formerly the European Commission's director-general for social policy), has produced a document entitled "Real Money, Real Choice, Consumer Priorities in Economic Policy," which it hopes will persuade the government to pay greater attention to the interests of the British consumer, who falls far behind his American counterpart in this respect.

The Consumer Council takes exception to the tripartite nature of present economic decision-making by the government, the Confederation of British Industry, and the Trades Union Congress and would like to see an advisory council concerned with pay policy, which would include representatives of the consumers as well as of the three other bodies. It is emphasized that consumers alone are basically concerned with price stability, while "employers and unions have other, and sometimes conflicting, objectives."

The advisory council would suggest pay guidelines in keeping with the current economic situation, and, after being approved by Parliament, these would be implemented voluntarily. A competition and efficiency commission should also be established to look into proposed wage settlements and other recommendations to see whether they conform with the guidelines. (However, the commission would not have the power to prevent settlements.) It would also be concerned with looking into examples of "restricted or distorted competition" which, the document argues, is essentially more damaging than inflation. The latter should be reduced to 5% by 1979 and eventually to 2% to obviate what the Council terms "social tension." Import controls should only be a last resort, since "there is nothing to be gained by shoring up industries where Britain will never be able to compete on equal terms in the international market."

Netherlands: Big Budget Gap Despite Heavy Spending Cuts

In presenting his 1979 budget draft on Sept. 19, Dutch Finance Minister Frans Andriessen painted an extremely gloomy portrait of the present state of Holland's economy which, he said, is characterized by dwindling business profits, a decline in investment intentions, and a "perceptible worsening" of competitiveness. It came as no surprise, therefore, that the budget calls for a record public-sector deficit of 116.2 billion guilders, equal to 6% of the gross national income. Andriessen argued that this deficit was

Budget Gap *(contd.)*

both "unavoidable" and "permissible" within the current economic framework, particularly if job creation is to be furthered and business profits restored. At the same time, however, the minister conceded that the deficit had been "stretched to its utmost limit": it would not be repeated, he said, nor would it be allowed to stray over the 1979 ceiling. To the irritation of most analysts and the displeasure of the parliamentary opposition, Andriessen declared that the government had formulated what he termed "an emergency brake procedure," details of which are, for the time being, not disclosed.

To the surprise of some observers, the budgetary measures - representing the first phase of a three-year economic recovery plan - have already been criticized on the ground that the proposed spending cuts are too drastic. Generally, the Opposition parties (in Holland and elsewhere) argue that public expenditure reductions are essential to successful government. The argument that the cuts, taken in conjunction with a concerted attack on inflation, will result in improved corporate earnings also seems to find little favor with the Dutch labor unions: they maintain that (a) no assurances have been given that such an improvement will actually generate more jobs and (b) there is no guarantee that the benefits of those improved earnings will be reflected in wages and purchasing power. Thus, the government is expected to run into strong labor opposition in the forthcoming negotiations aimed at securing the wage moderation called for in the "Bestek 81" (Blueprint), the three-year program published in June on which the present budgetary measures are based.

On the tax front, the principal developments relate to increased levies on energy, tobacco products, and motor vehicles. A major source of revenue would be created by the abolition of the temporary profit deduction of 3% from income and corporation tax, a measure that had been introduced on an interim basis pending implementation of the so-called Hofstra inflation accounting proposals. A further source of revenue would be the termination of a temporary reduction in value-added tax on newspapers, periodicals, and certain cultural activities. Further, the housing sales tax would be increased, and income-tax rates for the lowest-paid would be reduced.

Switzerland: Amendments to Improve Aliens' Legal Status

The Swiss government has presented a bill to Parliament aimed at revamping the current law on aliens and thereby improving the legal status of foreign residents in Switzerland *(Doing Business in Europe, Par. 29,465)*. Under the proposal, an alien would be automatically entitled to an extension of his residence permit after five years of continuous residence. After 10 years, he would have a statutory claim to stay permanently and would have the same

Aliens
(contd.)

rights as Swiss citizens except the right to vote and run for public office.

Although the government is not proposing a quota on the number of aliens (Switzerland has at present some 900,000 foreign residents, representing 15% of the population), it would retain control over the influx of foreigners in several indirect ways. An alien who has not been in the country for five years could have his residence permit renewed only if no Swiss citizen, no alien with a permanent residence permit, or no alien with five or more years' residence could be found to fill the job that alien was holding. Also, the government could deny aliens with five years' residence the automatic right to extension of the residence permit if unemployment were to rise drastically. Government officials say that this could possibly affect some 150,000 aliens.

Even though the government of the Canton of Geneva has been seeking a repeal of the provisions curbing immigration of seasonal workers (about 80,000 Italians work in Switzerland during the tourist season in hotels, restaurants, etc.), the government did not want to propose this to Parliament for political reasons. Instead it is seeking a considerable relaxation of the current system. A seasonal worker could give notice during the tourist season unless he were bound by a long-term contract; he does not now have this right. Also, under present law, a seasonal worker may not bring his family to Switzerland; the proposal would relax this so that a worker who has been employed in the country for at least 35 months over the previous four years could apply to have his seasonal permit changed to a normal residence permit, which would allow him to bring his family along.

Norway:
Export Woes
Force Price,
Wage Freeze

On the basis of emergency legislation, the Norwegian government has imposed a price freeze as of Sept. 12 and extended the collective wage agreements then in force until the end of 1979. The decision, which initially was to have been announced during the presentation of the new draft budget early next month, was taken after the Social Democrat minority administration consulted briefly with the employer and labor organizations, whose bargaining rights will once more be curtailed by the latest measures.

It is Oslo's intention to bring down inflation as rapidly as possible from the current level of 7.3% to 4-5% and to reduce the country's balance-of-payments deficit, which, at 26.5 billion kroner last year, corresponds to 14% of GNP. Prime Minister Odvar Nordli explained that the price and wage freeze became necessary after all efforts had failed to stimulate exports via cost-dampening measures. In the offshore oil and gas sector, export revenue expecta-

Wage Freeze *(contd.)*

tions also could not be fulfilled because of the weak price situation and unexpected production delays.

EURO COMPANY SCENE

Massey-Ferguson

As part of its plans to cut its worldwide labor force from 67,000 to 58,000, the Canadian farm equipment producer Massey-Ferguson of Toronto is expected to lay off some 4,000 of its European workers this year, it was reported from London. The reports raised the possibility of a phase-out and eventual closure of Massey's combine-harvester production plant at Kilmarnock, Scotland, where 1,400 are employed. Operations could then be concentrated at a similar plant at Marquette, France, which is closer to the main European and Mideast markets. The company also was reported to be considering the closure of a construction equipment assembly at Aprilia, Italy.

U.S. Steel/ MHL

U.S. Steel Corp. has announced plans to divest itself of its German subsidiary Metallhüttenwerke Lübeck (MHL), an ore processor employing 1,300, of which the American group had purchased a 70% majority share in 1975. Since then, the worldwide steel crisis has caused MHL's sales to slump from well over DM 200 million to DM 159 million last year, resulting in a DM 20-million loss in '77. U.S. Steel spokesmen were quoted as saying that negotiations were under way to sell MHL to "a strong German company."

ICI/ American Color

The U.K.'s Imperial Chemical Industries (ICI) has reached agreement in principle to take over American Color & Chemical, Charlotte, N.C., a dyestuffs manufacturer currently owned by North American Philips (52%) and Koppers (48%). The price reportedly is about $50 million, which corresponds to annual sales. American Color maintains production operations in both Carolinas and in Pennsylvania and employs some 1,000.

Motorola/ Thomson CSF

Talks are progressing between Motorola, the U.S. electronics group, and a French counterpart, Thomson CSF, for setting up joint semiconductor operations in France. Motorola already maintains a semiconductor plant at Toulouse, with 2,000 employees. Should the deal come off, the Toulouse operations probably would be stepped up to cover the most advanced integrated-circuit technology.

In Britain, Motorola intends to expand its semiconductor plant at East Kilbride, Scotland, and to double its work force there to about 1,000 over the next few years.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: 3rd Company Law Directive Ready for Approval

The third company law coordination draft directive is scheduled for adoption by the Council of Ministers now that the Permanent Representatives have ironed out virtually all of their remaining differences on the proposal. The only problem left concerns the effective date of implementation: the working group favored a three-year period following adoption, but the Commission prefers two years. Council attorneys say that the time limit is a minor issue that will be solved soon.

The proposal concerns mergers of stock corporations established in one member state. (Work is continuing, meanwhile, on the draft treaty on international mergers involving corporations established in different member states.) Approximation of national provisions on mergers is necessary to afford shareholders and third parties, especially creditors, equal protection *(Common Market Reports, Pars. 1350.17, 1381)* because of the steady rise in national mergers and an ever-increasing volume in intra-Community trade. Not all of the member states have merger provisions in their corporate laws, and those provisions that do exist differ from state to state. Adoption of the directive would mean that the states without merger provisions would have to enact them.

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

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Company Law *(contd.)*

Protection of shareholders would be achieved in several ways. Any merger proposal would have to be published and would have to contain a minimum of information, such as the exchange ratio for stock and the amount of cash given in return for shares. Corporate management would have to prepare reports on the planned merger for the shareholders, giving legal and economic reasons. Independent experts would check, among other things, on the fairness of the terms relating to the exchange of stock, and they would also have to draw up a report for the shareholders of the merging corporations. The shareholders would be entitled to inspect all relevant documents at the corporation's registered office at least one month prior to the date of the general shareholders' meeting that is to decide on the merger proposal.

The member-state laws would have to provide for adequate safeguards for creditors of acquiring and acquired companies that have claims predating the publication of the merger proposal. According to the draft directive, the member states would have some leeway on the form that the safeguards may take.

During the discussions by the Council's working group and Permanent Representatives, the Commission's original proposal underwent substantial changes. This is especially true for Article 6, which dealt with the protection of employees. Since this issue was settled in last year's Council directive on safeguarding employee rights in the event of a transfer of undertakings, businesses, or parts of businesses (No. 77/187/EEC - *Common Market Reports, Par. 3923*), there was no need to retain the elaborate proposal. Also removed was Article 21, which concerned other operations treated as mergers, generally known as split-ups. The content of that article is now being discussed in a separate proposal.

Adv. General Pleads Leniency for La Roche

Advocate General Gerhard Reischl has called for leniency in the legal fight between the Swiss-based drug giant Hoffmann-La Roche and the European Commission. Presenting his conclusions in Case No. 85/76 on Sept. 19, Reischl recommended that the fine of 300,000 UA against La Roche be dropped and that the court costs be split between the parties. Reischl agreed with the Commission that La Roche had a market-dominating position with respect to certain vitamins and that it also abused it, but in contrast to the EC executive the AG believes that the abuse was neither intentional nor negligent. Reischl stated that the company's directors may have negligently erred about the illegality of their actions and should be exculpated from any guilt. He added that if the Court does not accept his reasoning, which is based on a concept embedded in German criminal law called *entschuldbarer Verbotsirrtum*, or exculpable legal error, the justices should at least consider that the minor

La Roche
(contd.)

guilt on the part of the La Roche directors does not warrant a fine.

If the Court accepts Reischl's view, it would bring a new element to that court's jurisprudence and generally to the future interpretation of Treaty Article 86 *(Common Market Reports, Par. 2101)*. Commission attorneys point out that Reischl devoted a large part of his 100-page opinion to this aspect of the case and that, aside from the innovative concept of exculpable legal error, the AG's conclusions stayed within current judicial practice. According to EC case law, no fine should be sustained in a test case if the abusive practices were halted after the Commission started its investigation.

In June 1976 the Commission fined La Roche on grounds that it had abused its market-dominating position by granting buyers of its vitamins so-called loyalty rebates, which were based not on the difference in the cost of quantities supplied but rather on the customer's requirements. The Commission also contended that the company's exclusive and preferential supply contracts with a number of bulk buyers enabled it to keep its biggest competitors away from those customers *(Common Market Reports, Pars. 2111.64, 9853)*.

Several antitrust lawyers say that the Commission's case is weak and that this is reflected in the fine, which amounted to only a fraction of 1% of the group's total sales (the statutory maximum is 10% - *Common Market Reports, Par. 2541*). The EC's Consultative Committee on Cartels and Abusive Practices, composed of national antitrust officials, had recommended only a token fine or none at all. Critics say that the source of evidence may also weaken the Commission's case. Hoffmann-La Roche claimed that all of the Commission's evidence came from a former La Roche executive, who was jailed in Switzerland after a court there found him guilty of passing on company information. The Commission said that it did not rely solely on the information from the executive.

The Court's judgment is expected for November or December.

Netherlands:
Compromise by
Coalition on
Works Councils

Political differences in the Dutch government, which have troubled the two-party coalition since its formation last December, surfaced again last month in connection with the draft legislation on a reform of the 1971 Works Councils Act *(Doing Business in Europe, Par. 30,854)*. After lengthy discussions, the two coalition parties - the Christian Democrats (CDA) and the right-wing Liberals (VVD) - reached a compromise that would give the works council a more autonomous role in Dutch enterprises, yet keep the management informed of council actions. Many observers called it a weak compromise, saying that it had "trivialized" the vital is-

Works Councils *(contd.)*

sue of industrial democracy - an assessment shared by some representatives of both employers and unions.

As originally submitted to Parliament, the reform bill provided for greater independence of the works council in that company directors would no longer be able to participate in council deliberations. (Under the current system, a company director always acts as the chairman of the council sessions.) In reaction to pressures by the Liberal coalition partners, the government proposed an amendment of the draft legislation to the effect that the company management could still participate in any council meetings in which "important decisions" were to be made. This, however, was not acceptable to the CDA's parliamentary faction, which insisted on the original reform version.

After difficult internal deliberations, which at times threatened the survival of the coalition, the partners finally arrived at a compromise solution: it provides that management be excluded from the council's deliberations and decision making but that it be informed in detail in a subsequent joint meeting. The government parties rejected a proposal by the opposition Socialists that would have given the works council temporary veto powers in cases where company management did not take account of the council's opinions and decisions.

Germany: Lawyers Reject Major Labor Law Recommendations

This year's annual convention of German lawyers ended on a spectacular note when the convention chairman, union lawyers, and leading Social Democratic legal experts charged employers with a concerted effort to bar any further development in the labor law field. The allegations were based on the fact that the 21 resolutions prepared by the convention's labor law section were defeated by the majority of the 3,500 lawyers who attended the meeting.

Among the rejected proposals were recommendations that employers hire a minimum number of women and youths, that there be employment guarantees for juvenile workers at their first job, and that a fired employee be allowed to stay on the job until a labor court rules on the dismissal. Another rejected recommendation had suggested speeding up and simplifying judicial proceedings involving an employee's action against unfair dismissal by resorting first to arbitration at the place of employment.

Prominent independent jurists have expressed their concern about the confrontation at the convention and the subsequent charges. They fear for the convention's century-old reputation, and they would hate to see a weakening of the impetus that the meeting has given to new legislation in the past. The critics give the national union leadership a great deal of the blame for the defeat of the proposed recommendations. The powerful national union fed-

Labor Law *(contd.)*

eration (DGB) had asked well-known jurists with Social Democratic affiliation to come out in favor of the resolutions in articles appearing in legal magazines. This prompted the national employers organization (BDI) to use its influence on individual associations of industry and urge them to send to the convention lawyers known for their pro-management views.

The one issue important for businesses on which the lawyers did agree was a recommendation that there be legislation to give citizens an opportunity to get involved on a much broader scale in the planning of new industrial plants and public projects with environmental connotations. Under current law, the licensing agency is merely obligated to announce a project in official publications and a local newspaper *(Doing Business in Europe, Par. 23,543B)*. The lawyers say that the licensing agency should also have to publish all data pertaining to the environmental impact of the planned project, and they believe that the law should give citizens a right to look into other relevant documents.

Italy: 'Maxi Bond'; Bank Deposits; Payments Boost

According to as yet unconfirmed Milan bank reports, the Italian government is preparing to float a "maxi bond" issue, perhaps in the amount of 5,000 billion lire. The reports said that the plans are for tax-free treasury bonds with a maturity of five years, a coupon of 12%, and an issuing price of 98.25 lire per 100 lire in nominal value. The proceeds would enable the central bank to reduce excessive short-term indebtedness, which to a large extent is tied to ordinary treasury certificates.

The considerable liquidity of the Italian banking system is in part due to the rapid buildup of savings and checking deposits which, at 23.3% in annual terms, nearly doubles that of inflation. At the end of July, the Bank of Italy reported, these deposits totaled 163,000 billion lire, which was about 30,800 billion more than a year before. Lending volume, on the other hand, rose by only 2,203 billion lire, or 2.8%, to 80,716 billion lire. This disparity was explained by both the restrictive official credit policy (curbs on credit volume expansion) and the continuing reluctance of business and industry to add to its debt burden.

In the meantime, however, the government has somewhat loosened the monetary reins with its decision last month to allow a cut from 30% to 6.5% of that part of the commercial banks' deposit increase which the banks are obliged to invest in certain government bonds. This is expected to help the banks operate with more flexibility and to stimulate the bond market to some degree.

The monthly surpluses of Italy's balance of payments, meanwhile, continued in their 15th month: in August, they

'Maxi Bond' *(contd.)*

totaled a record 1,450 billion lire, compared with 1,140 billion in August 1977. As a result, the eight-month surplus has accumulated to a level of 4,830 billion lire. The latest boost in the traditional vacation month was primarily due to tourism revenues but also to the dollar devaluation, which helped to lower the import bill for raw materials and semifinished products and also benefited exports. The latest payments figures apparently have cleared up any remaining doubts on the official predictions for a surplus of 3,000-3,500 billion lire this year.

Britain: Managers Seek 'Consultative Status' in EC

Representatives of management organizations from Belgium, France, Italy, Germany, Britain, and Ireland met in London last month to discuss the preparation of a joint manifesto for European managers prior to the forthcoming Community elections. The eventual aim would be for the managers to have "legal consultative status" within the EEC, thus echoing the proposals outlined last July in a similar report by the British Institute of Management. That document, "Good Management for a Prosperous Britain," urged the political parties to create "the right environment to raise the commercial, industrial and administrative performance of the nation." The paper had provoked widespread interest among similar bodies in EEC countries, resulting in the London meeting.

In its own document, the BIM stressed the need for managers to be formally involved in the national consultative processes regarding economic and industrial policy through direct representation on the National Economic Development Council. BIM chairman Sir Derek Ezra said, "we would like a system where we could be consulted as of right, and by law." The manifesto stressed the need for continuity and consensus in industrial strategy and for lower direct taxation to provide incentives with adequate differential award for skill and knowledge. As regards inflation, the government should "set up some form of anomalies procedure to facilitate the adjustment of relativities and differentials" and should raise public awareness of the results of excessive pay settlements. It should also promote better understanding between industry and education and "update educational curricula to reflect today's industrially based society."

The BIM's 1978 annual report, which was published last month, states that the Institute, which represents over 50,000 leading British managers, has concentrated on four main areas in the past year: managers' remuneration and taxation, employee participation, the contribution of managers to national economic recovery, and the status of managers in society generally. The report stresses "the fundamental importance of ensuring a place for the manager in his role as employee in any development of employee partic-

Managers *(contd.)*

ipation" and that legislation should not predetermine this pattern throughout industry.

Ireland: Most Profitable Location for U.S. Investors

The 1977 annual report of the Industrial Development Authority indicates a booming Irish economy which is expanding rapidly on all fronts. Many new major projects negotiated last year emanated from the United States, and Dept. of Commerce figures reveal that Ireland is now the most profitable location in Europe for American investment abroad. In fact, this influx is anticipated to again reach a new high in 1978. New foreign industries locating in Ireland will enjoy complete tax exemption on export profits until 1990, and the Dublin government has now stated that "export sales relief will be replaced by an equally attractive scheme which will last for many years."

The report reveals that 1977 was a record year for Irish exports, which totaled £2.516 billion, an increase of 33% in value and 15% in volume over 1976. This was, in fact, the highest rate of expansion in any EEC country and has been sustained in the first four months of this year when overseas sales generally have risen by 26% in value. Exports to France actually rose by 78%, spearheading the large rise in the proportion of exports going to EEC countries - from 18% in 1974 to 29% last year. The U.K. market is now correspondingly less important. The sectors that recorded the largest increases in value last year were transport equipment, machinery, and pharmaceuticals, and these relied heavily on investment from abroad. Indeed, overseas industries in Ireland are heavily geared toward exports: American companies sell 95% of their Irish output overseas, but only 20% to the home market in the USA, and EEC firms export 77% of their goods.

France: Mixed Reaction to Steel Rescue Program

The French steel industry federation has reacted with ambivalence to the government's sweeping rescue program for the crisis-stricken domestic steel sector. Federation president Jacques Ferry labeled it "a deep-reaching financial recovery program" which entails both opportunities and risks but, at the same time, criticized the government for pushing the private shareholders into a subordinate role. Being left with a stake of only 15%, he said, they cannot muster even a blocking equity (which for French stock corporations begins at 33.3%). On the whole, however, Ferry conceded that Paris had undertaken a "courageous surgical operation," though he bemoaned the fact that it covers only three steel groups which together represent merely 60% of the industry's turnover and 70% of total production.

Under the plan as announced on Sept. 20 after a cabinet session, the French government will take a direct 15% equity in new holding companies for the country's three

Rescue
(contd.)

largest steelmakers - Usinor, Sacilor, and Chiers-Châtillon. In addition, it will exercise indirect control via the participations of the state financial agencies (40%) and the bank creditors (30%), most of which are also state-controlled. This has given rise to charges that, despite Paris's assurances that the rescue plan will remain in effect only until the financial crisis is overcome, the steel sector is being quietly nationalized. There is no firm commitment in the plan, the critics say, to eventually return the steel groups to private ownership. In fact, the owners were not even consulted.

Stated in the most simple terms, the new financial arrangement provides that (1) the outstanding state credits be converted into "participatory loans" with a symbolic annual interest rate of 0.1%, (2) the servicing of the outstanding public bonds of FF 14 billion be taken over by a state amortization fund, and (3) the state and bank creditors agree to a five-year repayments moratorium and the forfeiture of FF 400 million in interest due. By these means, it is hoped to reduce the extremely high finance costs from more than 15% of turnover to a more normal 5%. (At the end of 1977, the industry's total outstanding medium-term and long-term debt amounted to FF 38 billion, which compares to an annual turnover of FF 34 billion.)

The state rescue operation comes in the wake of an agreement early last year between the government and the steel industry to shut down inefficient plants and to sc[ale] down the labor force by 16,000 over a two-year period. It is assumed that the new arrangement will not necessarily preclude the dismissal of additional steelworkers, even though the aim is for the protection of 140,000 jobs in this sector.

Greece:
Levy on Income Taxes, Profits, Passenger Cars

After having decreed a selective price freeze last August, the Greek government has now surprised the business community and the taxpayers with a bill to impose a levy of 10-15% on profits and the 1977 personal income tax debt. The Finance Ministry explained that the extra revenue was needed to cover expenditures of about 10 billion drachmas incurred in connection with the earthquake that hit Thessaloniki last July.

As part of the same draft legislation, it is planned to raise the gasoline price by about 2 drachmas per liter and to impose on private passenger vehicles a monthly levy ranging from 20 to 200 drachmas, depending on engine horsepower.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Fiber Cartel Proceedings Postponed

The European Commission made an unprecedented move on Sept. 27 when it decided to postpone until Nov. 8 the start of antitrust proceedings against the fiber industry cartel agreement under Regulation No. 17. By that date the Commission expects to have an in-depth report on the problems of western Europe's synthetic fiber industry and possible solutions to its legal and other problems.

Even before the agreement among nine major fiber producers was notified last July 14, Commission lawyers expressed doubts that the agreement could pass the hurdles of Treaty Article 85(1), which prohibits restrictive agreements between companies *(Common Market Reports, Par. 2005)*. They had even more doubts after they started analyzing the agreement, which essentially provides for production quotas and commits the parties to exercise price discipline. Antitrust experts in Brussels said it was not likely that the agreement would be exempted from the cartel ban under Treaty Article 85(3) because there was apparently no way of reconciling its basic terms with consumer interests *(Common Market Reports, Par. 2061)*.

The basic question is whether consumers would obtain a fair share of the benefits that are supposed to result from the agreement - a precondition for an exemption. According

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Fiber Cartel *(contd.)*

to Brussels sources, experts at the Commission are working under pressure to interpret Article 85(3) in a way that would make an exemption from the cartel ban possible. There appear to be no other alternatives since the Commission has, for all practical purposes, shelved its draft regulation on crisis cartels. That regulation would have empowered the EC executive to exempt crisis cartels from the cartel ban of Article 85(1) for a period of up to three years after receiving the go-ahead from the Council of Ministers to take individual action. The proposal was shelved not only because of opposition from several commissioners but also for legal reasons: Treaty Articles 85(3) and 87 could not be bent in any way to provide a halfway solid statutory basis for the regulation.

Move to Accept Conduct Code in Shipping

The European Commission is pressing for positive action on a draft regulation proposing accession by the member states and the Community to the draft Convention on the Code of Conduct for Maritime Conferences. Last June the EC transport ministers discussed the proposal without making much progress, and they are again scheduled to take up the matter at their mid-November meeting. Shipping and air transport are the only sectors of the Community's economy where the Treaty of Rome's competition rules do not apply as yet *(Common Market Reports, Par. 2760.01)*.

The code of conduct, part of the draft convention adopted by a 1974 United Nations conference in Geneva, provides for cargo sharing and rate fixing among shipowners. If EC shipowners were to apply the proposed criteria as they now stand, they would violate Treaty Article 85. The Commission wants the Council to make some modifications in the code at least for internal EC use so that there would be no discrimination against shipowners in the Community. This would require either renegotiations aimed at amending the draft convention or some other formal stipulation in a Community act. The Commission is also dissatisfied with a number of the code's provisions, such as the method of adjusting freight rates automatically to cover currency fluctuations and the loyalty clause that ties shippers to a particular shipping line in return for rebates.

Although the code of conduct is basically contrary to the Commission's line of thinking and the philosophy of Treaty rules, the EC executive has tolerated shipping conferences - cartels under which shipping lines agree on cargo sharing and price fixing - mainly for political reasons. This was not always the Commission's attitude, but under pressure from several member states, especially France and Germany, it has modified its opposition. (At one time, in fact, the EC executive had threatened to take Belgium, France, and Germany to the European Court of Justice because those states wanted to ratify the draft convention, which 15 other countries had also signed. Subsequently, Conduct Code *(contd.)*

however, it decided not to sue after the Council said that to do so would stifle progress in the transport policy sector.)

The member states are still divided over details of the code of conduct and the extent of necessary changes. The United Kingdom has resisted the code all along on grounds that it is cumbersome and most likely to be inefficient. Denmark also objects to the code.

In Brief...

A recent Council decision commits the member states to take the necessary steps to allow them to monitor activities of third-country vessels engaging in rate-cutting practices. The information to be collected would include the percentages of shipping volume, value, origin, and destination of goods loaded or unloaded in a national port as well as freight rates. Although the measure is not explicitly directed against the East Bloc's state-owned shipping lines, it is anticipated that, if the Council decides to take action against the fleet of any country, one or several East Bloc states would be affected + + + The Council has extended Spanish fishermen's fishing rights in EEC waters for another three months; it also doubled the number of licenses from the previous 110 to 220 and raised the catch quota.

Germany: nn, Bern ree on Change in Tax Treaty

The German and Swiss governments have agreed on an amendment to the existing double taxation treaty which would reduce to 15% the current 25% rate of withholding tax on dividends *(Kapitalertragsteuer)* distributed by German subsidiaries to Swiss parent companies *(Doing Business in Europe, Par. 23,329)*. The agreement could serve as a model for current and future negotiations with other countries. Set forth in a protocol, it must be approved by the legislatures in both countries before taking effect.

Ever since the corporate tax reform took effect on Jan. 1, 1977, corporate and individual nonresident investors have been complaining about what they call discriminatory treatment. This allegation is based on a major feature of the new system: elimination of double taxation of dividends by crediting shareholders with the corporation tax that the company paid on the dividends distributed to the particular shareholder. However, only resident shareholders are credited with this tax when filing their income tax returns; nonresidents are not credited *(Doing Business in Europe, Pars. 23,342 and 30,882)*.

There are no provisions in the corporate tax reform act that would treat nonresidents like residents in tax matters; government officials say that this is impossible for administrative reasons. As a result, there have been demands to eliminate this disadvantage by reducing to zero the current 25% withholding tax on dividends. (The rate is

Tax Treaty *(contd.)*

15% under several tax treaties, among them the one with the United States.) Last spring five international organizations representing the interests of foreign companies with subsidiaries in Germany called on the government to make the change, implying that otherwise foreign parent companies might have to review their investment policies *(Doing Business in Europe, Par. 31,033)*. Although it ignored these suggestions, Bonn did indicate its willingness to renegotiate existing tax treaties with the aim of lowering to 15% the withholding tax on dividends, though not more than that. The German-Swiss protocol just signed is a realization of this promise.

Switzerland won an additional concession to the extent that the reduced 15% rate would also apply if the dividend receipts were reinvested in Germany. Thus the amendments to the German-Swiss tax treaty would be more favorable than the provisions of the current German-U.S. tax treaty. Although Article VI of the latter limits to 15% the dividend withholding tax paid by a German subsidiary on dividends to its U.S. parent company, it reinstates the 25% rate if the parent corporation reinvests the dividends in its subsidiary within a three-year period.

Britain: Consultative Document on Accounting

A so-called consultative document, "Setting Accounting Standards," was published on Sept. 27 by Britain's Accounting Standards Committee. It examines proposals for improving the procedure by which such standards are set and discusses possible means of enforcement. Furthermore, its purpose is to seek the views of accountants on such questions as whether standards should be developed for particular industries and whether the auditor's report should refer to compliance with standards or to material departures, regardless of whether or not an auditor agrees with them.

In Britain, there is considerable flexibility in the accounting standards employed by various companies, and this makes comparability extremely difficult - for example, as regards price/earnings ratios. Legally, accounts just have to present a "true and fair" view of a company's performance. The report notes this, stating that such standards are required, "not necessarily imposing uniformity but at least narrowing the choices so as to make financial statements more helpful to users." It stresses the need for definite accounting principles to narrow the choices available to a company's directors and states that standards should not just be bench marks from which deviations can be noted. However, the report finds that there is no agreed conceptual framework available at present since users of financial statements have different objectives, making it impossible to develop a generally acceptable foundation based on definitions of profit, the balance sheet, or capital maintenance. Accordingly, accountants

Accounting *(contd.)*

can only "proceed from a historical cost starting point to a pragmatic and experimental basis."

In the United Kingdom, there is at present no effective means of enforcement, unlike the United States where a government body, the Securities & Exchange Commission, can refuse to register accounts if they fail to conform to the required standards. In Britain accounts may be qualified, but this rarely serves as a deterrent. The report envisages that the newly established Council for the Securities Industry could be responsible for imposing sanctions since the Stock Exchange has indicated its reluctance to become involved - for instance, by suspending the shares of companies that were unwilling to conform. The report advocates broader consultations with industry and other interested parties, including informal discussions with the press and public hearings of the ASC.

In the last session of Parliament, the Financial Secretary to the Treasury, Robert Sheldon, said that some interim method of inflation accounting might have to be imposed within the nationalized industries if no standards were available, and accountants are increasingly concerned about possible state intervention in the private sector *(Doing Business in Europe, Par. 30,964).*

France: ...ing of ...edit Curbs; New State Bond

Two hundred of the smaller French commercial banks will soon be exempted from the system of credit growth restrictions that has been applied since 1972. This means that the banks will be completely free in their lending policies. The upcoming relief measures, announced late last month by Economics Minister René Monory, will not apply to any of the nationalized banks. For the current year the government originally had prescribed a maximum credit growth rate of 8% for the country's small and medium-sized banks; for the large banks, the rate was set at 5%.

The French banking community had been demanding a relaxation of the credit curbs for some time but always ran into the government's argument that this could possibly endanger economic recovery, in particular as regards price development.

In other news, the Economics Ministry has announced the floating this month of an FF 3-billion state bond issue which will bear a somewhat lower interest rate than that of 9.8% attached to last July's issue. The issue is one of a series to help cover this year's budget deficit, which originally was set at FF 8.9 billion but meanwhile is estimated to reach FF 27 billion. It will be the third issue this year, after one of FF 3 billion last May 22 and one of FF 2.5 billion last July 12. A fourth issue is to be floated in December.

Italy: Rome, Unions Set on Pension Reform Details

The Italian government and the country's labor unions have reached agreement in principle on some of the most crucial and controversial elements of the proposed reform of the old-age pension system. In its efforts to reduce the huge public-sector deficits, including that of the pension system, Rome has been looking for an alternative to the present procedure by which pension benefits are regularly adjusted to both the cost of living and industrial wage growth. It has now been agreed that, as of 1980, adjustments should be tied to overall earnings growth, which is invariably lower than that of the industrial sector alone.

The agreed proposal further provides that the normal retirement age would be set at 60 years for men and women alike, although the latter could voluntarily retire at age 55. Also, both men and women could continue working until the age of 65 if this were necessary to accumulate 40 years of contributions to the pension insurance system - a precondition for the right to maximum pension benefits (equal to 80% of previous earnings). Another change would be higher contributions for small businessmen (shopkeepers, self-employed craftsmen) and small farmers, who in the past have benefited from more or less extensive state subsidies. Eventually, their pension insurance system would become self-supporting. Gradually to be phased out as well would be special pension arrangements granted for certain occupations (for instance, mine workers, pilots, or journalists), although any vested rights would be protected for at least five years, until the end of 1983.

The government was acting under pressure because the financial restructuring of the country's antiquated pension system was a key part of the 1979 budget draft, which had to be submitted to Parliament by Sept. 30. The consultations and negotiations prior to the consensus had been accompanied by union demonstrations in major cities in support of "a fair deal" on pensions. It is the government's intention to cut the cost of pension benefits by more than 2,000 billion lire next year.

Netherlands: Action to Boost Performance of Exporters

The Dutch government has introduced a package of measures designed to improve Dutch competitiveness in foreign markets. A principal feature is the proposal to link a percentage of the 1979 foreign development aid funds to "relevant" export transactions, i.e., to allocate a yet-to-be-specified portion of them to tied exports of goods and equipment.

Other features of the package include:

- an extension of the present "matching fund," which provides for financing of capital goods exports to be state subsidized if and to the extent that foreign competitors in the same sector are already receiving similar subsidies;

Exporters *(contd.)*

- the negotiating of lines of credit with specific national governments: an agreement already exists with Poland, another is being negotiated with South Korea, and it has been confirmed that several other such arrangements are in the pipeline;
- a doubling of state subsidies for "collective single export initiatives": this takes the form of a 40% subsidy to underwrite costs of initial market penetration;
- the relaxation of the condition that 70% of the goods and services in turn-key projects be of Dutch origin (50% of the cost of turn-key projects is met by the state if an order is lost); and
- an increase of up to 50% in subsidies paid to small and medium-sized businesses toward the cost of training export personnel.

Switzerland: National Bank Intervention to Weaken Franc

It is unusual for a country's monetary authorities to take measures deliberately designed to weaken their own national currency. Nonetheless, the Swiss National Bank was obliged on Oct. 1 to bring in major provisions in order to lower the Swiss franc's exchange rate. The basic aim, Bank spokesmen said, was to effect a rapid and lasting weakening of a clearly overvalued Swiss franc. The immediate effect of the measures was evident in the money markets the following day, when the franc dropped sharply on European exchanges to close at 1.5915 against the U.S. dollar as compared with a Sept. 29 closing of 1.55. At one point, the franc fell to 1.62, but it rallied in late trading as market analysts injected a note of caution: a permanent weakening of the franc may not be feasible, they pointed out, given the persisting underlying pressures on the dollar itself.

Specifically, the Swiss measures called for strong and consistent intervention on the currency markets and, in a parallel move, the encouragement of Swiss-franc loans to overseas borrowers. In other words, the National Bank is pursuing an aggressive purchasing policy in an effort to restore a semblance of parity with the franc's archrival, the Deutschmark. As to foreign lending regulations, these are now eased to the effect that foreign borrowers are obliged to convert (via the National Bank) only one-half of Swiss-franc proceeds into dollars instead of converting the entire proceeds, as formerly. The remaining 50% will be freely exchangeable with Swiss commercial banks. Moreover, nonresident investors are now permitted to subscribe to up to one-half of foreign Swiss-franc issues as opposed to 35%, the limit imposed on such participations last February. Finally, the National Bank stated that it is now willing to facilitate investment of liquid assets in foreign currencies by major Swiss industrial concerns and that it will also look favorably on any project aimed at financ-

Franc *(contd.)*

ing additional raw material imports or leading to the expansion of corporate strategic reserves.

The motivation behind the Oct. 1 measures is clearly identifiable, as financial observers have noted. Although Swiss exports have shown gains in the first eight months of 1978, there is growing concern over the substantial narrowing of the trade gap. Moreover, the relationship between import and export figures has been thoroughly distorted by the currency situation, with the runaway strength of the Swiss franc leading to a drastic falloff in demand for Swiss products, not only in the export markets but also at home. Industrial profits are plummeting, output has been curtailed, and there is increasing (though still very low) unemployment. On the plus side, of course, Swiss direct investment abroad has never been cheaper.

EURO COMPANY SCENE

Ford U.K.

The 23 Ford plants in the U.K., which employ 57,000 blue-collar workers, were brought to a standstill early this month by strike action called by the three major unions representing the labor force. The walkout was in opposition to the offer made by Ford in accordance with the government's 5% pay guideline, even though last year's agreement guaranteeing labor peace had still two weeks to run. Union negotiators insisted on £20-per-week increases. Th 16,000 white-collar workers at Ford U.K. were not as yet affected. The International Metal Workers Federation showed its support for Ford strikers by banning overtime in four other European Ford plants which produce cars or parts for the British market, and all imports from Europe of Continental-built Ford vehicles were halted due to industrial action by dockers.

Chrysler/ Peugeot-Citroën

The British government gave final approval on Sept. 28 for the Peugeot-Citroën takeover of Chysler U.K., and Industrial Secretary Eric Varley said that the prospects for the company "will be at least as good as under the present arrangement." No guarantees were given regarding the 23,000 employees or that uneconomical plants would not be closed, and everything will depend on "prevailing economic conditions." Peugeot-Citroën has signed a declaration of intent that it will take over Chrysler's debt to the British government and "ensure that the facilities of Chrysler U.K. receive equal consideration with other facilities in the Peugeot-Citroën group in terms of investments and product allocation." However, the French company would not agree to the British government's taking an equity share in the new undertaking or nominating a member of the board.

Common Market Reports

EUROMARKET NEWS

Issue No. 509 *Report No. 355, October 17, 1978*

IN THIS ISSUE

Community: Insurance Law Proposal to Be Finalized Soon

The European Commission and national experts are expected to get together once more early next month to wind up their discussions on the preliminary draft directive on the harmonization of member-state laws relating to indemnity insurance contracts. If the talks are in fact completed, the proposal would then go to the full Commission, which would decide whether to submit the measure to the Council of Ministers. This could take place sometime in December.

The proposal seeks to align the member states' widely differing insurance contract laws. It covers the essentials of an insurance contract, such as formation of a contract, the insured party's obligation of disclosure, change of risk, payment of premium, documentation, cancellation of a contract, and the rights of third parties.

At their November meeting, Commission and member-state officials will have to clear up a number of points that they were unable to settle during their last discussions. A major issue concerns the declaration of risk and the consequences; specifically, how should a claim be treated that is made before a contract is amended to cover an increased risk about which the insured party failed to inform the insurer? The proposal says that the insurer should provide

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Insurance *(contd.)*

the agreed coverage minus the difference between the premium paid under the contract and the premium that the insured should have paid because of the increased risk. The proposal also says that if the insured party deliberately misled the insurance company about the true nature of the risk, the company should be released from all liability and merely obligated to return the premiums paid.

The experts have yet to decide which law should govern the contract - that agreed on by the insurer and the insured or that of the country where the risk is located. As it now stands, the proposal still leaves the option open, but Commission officials say that most national experts tend to favor legislation under which the insurance policy would be governed by the law where the risk is located.

Another issue concerns the scope of the proposal. It has not been decided whether the measure should exclude maritime insurance and suretyship contracts as well as life insurance contracts. Some of the experts reason that because maritime insurance is covered by international agreements, it would be better to exclude it from the directive's coverage. The Commission is already working on a separate proposal on the harmonization of laws on suretyship contracts in the event the latter are excluded from the measure.

U.K. May Face Legal Action Over Fishing

The European Commission apparently is prepared to take the United Kingdom to the European Court of Justice over its unilateral fisheries protection measures. For months the EC executive had hoped that the British government would accept the compromise proposals on fishing policies on which the other eight member states had agreed prior to the summer recess. Commission lawyers are drawing up the legal papers for action under Treaty Article 169, which allows the Commission to bring suit against any member state that has failed to live up to the duties it assumed under the Treaty of Rome *(Common Market Reports, Pars. 4615, 4616).* The Commission believes that some of the U.K.'s unilateral measures are anticonservationist, unnecessary, and, most of all, discriminatory against other member states.

Officials of the EC executive point to several instances of discrimination against trawlers from other member states. They say that the measures were taken under the pretext of conservation but were actually meant to keep out non-British trawlers. The fishing quotas off the coast of Northern Ireland cut the catches of British trawlers by some 10% but reduced those of other member states by up to 80%.

The Danish government has been pressing for legal action against the U.K. to clarify one particular issue of Britain's fisheries policy. The Danes are challenging the

Fishing *(contd.)*

U.K.'s recent conservation measure in a certain part of the North Sea, in effect a ban from October 1978 until March '79 on all industrial fishing of Norway pout. Copenhagen says that the ban will reduce commercial fishing of Danish trawlers by some 200,000 tons. If the Commission does not bring action against the U.K. in order to clarify the legality of this and other measures, the Danish government is prepared to sue the U.K. directly under Treaty Article 170. This provision gives a member state the right to take another to the Court of Justice. If Copenhagen decides to do so, it would be the first time that a member state sued another directly under the Treaty of Rome *(Common Market Reports, Par. 4622)*.

In Brief...

The Council has adopted the third company law coordination directive. The last remaining problem involving the effective date of the measure was solved by the Permanent Representatives along the lines of the working group's suggestion - three years for compliance rather than the two-year period favored by the Commission *(Common Market Reports, Pars. 1350.17, 1381)* + + + Meanwhile, the Council's working group has started its deliberations on the seventh company law coordination draft directive, on group accounts *(Common Market Reports, Pars. 1350.51, 1407)*. The discussions began on such an optimistic note (all member-state governments are in favor of it, and so are the national business associations) that Council attorneys predict adoption within one year, especially since the major issues were settled by the fourth company law coordination directive, adopted last July.

Britain: Labour Congress Turns Down 5% Pay Policy

At the Labour Party conference on Oct. 2, the British government's 5% pay policy was defeated by a 2-1 majority of the delegates because of deep-grained union opposition to a fourth stage of pay restraint. More than half of the 1,155 delegates were trade union representatives, who commanded some 6 million of the 6.75 million votes available. Three weeks before, at its annual conference, the Trades Union Congress had overwhelmingly supported the reelection of the Labour government, but it has now committed the Labour Party to a campaign against the government's wage control strategy. Union leaders are to have "urgent" consultations with Prime Minister James Callaghan, who indicated at the conference that he would try to interpret his administration's fixed pay policy "as easily as possible" within the limits laid down in last July's White Paper. He added, however, that the government "will carry out its inescapable obligation to prevent inflation by whatever means" at hand. He and Chancellor of the Exchequer Denis Healey have indicated the likelihood of tougher fiscal and monetary policies if the administration deems future wage settlements to be excessive.

Pay Policy *(contd.)*

It has been suggested that a revised guideline of 7% to 8% might win greater union support, but TUC general secretary Len Murray has said that "we are not in the market for norms at all. In any discussion that might take place, I don't believe the General Council would be trying to make 5% into 10% or 50%." Moss Evans, general secretary of the Transport and General Workers' Union, with over two million members, has stated that his officials were not prepared to abrogate their responsibilities by giving up policies decided by the members: "The policy of our union and of the whole TUC is to achieve a return to free collective bargaining."

In related news, Ford U.K. - after lost sales amounting to at least £10 million per day - has decided to hold pay discussions under conditions of free collective bargaining. The decision takes into account the thousands of workers whose livelihoods depend on the automaker and the fact that a prolonged strike would, in the words of the Ford chairman, "bring about permanent and irreversible damage" to the company. Ford will therefore not be bound by the government's pay guidelines. (British Oxygen, meanwhile, has made an offer to its 3,000 blue-collar workers that would increase the company's wage bill by at least 7.7%, and it has also committed itself to start talks on a 35-hour week.)

Netherlands: Further Delay for Bill on Profit Sharing?

The Dutch government's controversial plans for an "excess profit sharing (VAD) system, which was to have taken retroactive effect on Jan. 1 of this year, may now have to await implementation until Jan. 1, 1979. This was announced on Oct. 2 by Prime Minister Andries van Agt, who warned that the delay was inevitable if the collective part of the program *(Doing Business in Europe, Par. 30,818)* could not win parliamentary approval before next spring. The individual portion of the plan is still to take retroactive effect as of Jan. 1, 1977, and it is assumed that the businesses affected have accumulated reserves for that purpose.

Anticipating strong labor union hostility toward such a delay (the original VAD proposals had called for implementation as far back as 1975), Van Agt confirmed that the government would, as a form of compensation, channel state funds into the collective fund. Later it was announced by the Ministry of Social Affairs that a government contribution would be in the range of 150-200 million guilders.

In other developments, a new Dutch labor federation to be called Industriebond FNV is to be formed by July 1, 1979. It would join two of the country's larger trade unions, the Socialist Industriebond NVV and the Catholic Industriebond

Profit Sharing *(contd.)*

NKV, which together have about 300,000 members. After the completed merger, the FNV would represent the largest organized labor group in Holland *(Doing Business in Europe, Par. 26,922).*

Belgium: Decision to Borrow Abroad; Doubts on GNP

For the first time in 10 years, the Belgian government is tapping the foreign capital markets in order to help cover its budgetary deficits. To avoid upward pressure on domestic interest-rate levels and repercussions on the weakened franc, the government this month arranged for a BF 7.5-billion loan through the Bank of International Settlements (BIS), a move that raised Belgium's foreign debt to about BF 14 billion.

Finance Minister Gaston Geens commented that these transactions should not be dramatized. He said Belgium's foreign debt totals only a fraction of 1% of the public debt, compared with 9% in 1970 and 14% in 1960. It was thought wise to go to the BIS, he explained, because of the two coinciding factors of a rapidly growing public deficit and a weakening of the franc.

In other developments, Belgian government circles this month have expressed serious misgivings about the OECD's expectations published last August of a real-term growth rate of 2.75% for the Belgian economy this year and a slight acceleration thereafter. Informed sources in Brussels reported that the Central Economic Council has doubts on whether this rate can be achieved, pointing to key economic indicators for the first half of '78. During those six months, consumer sales increased by only 2% over the same 1977 period, while export earnings registered a negligible 1% increase. While conceding that there was a distinct upswing in July and part of August, the Council does not believe that this surge can boost the overall growth rate to the level predicted by the OECD.

France: Unemployment Insurance Fund Running Low

The administrative board of the French unemployment insurance fund, Unedic, is desperately looking for a solution to the fund's critical financial situation: unless effective action is taken soon, the fund will be unable to meet its commitments as of January 1979, according to the latest reports. Administered jointly by the employers and the unions, Unedic operates autonomously and without any interference or assistance from the government. With this in mind, the latter has repeatedly rejected suggestions and pressures for an infusion of public funds, even though there might be the possibility of an interim credit of FF 1 billion from the Caisse des dépôts. No chance of realization is seen, however, for another proposal to levy a tax on overtime work and channel the revenue to Unedic.

Unemployment *(contd.)*

Established some 20 years ago, when unemployment in France totaled only 30,000, the unemployment insurance system now is straining to cope with the financial pressures brought on by a record jobless count of 1.2 million. Last year Unedic paid out FF 10.7 billion in compensation, and within the last 12-month period, applications for benefits have risen by no less than 17%. Since 1968, the rate of contributions has gone up from 0.35% to 3% of wages, of which the employers contribute 80% and the employees the remainder.

The discussions within the Unedic administration board on a solution to the financial crisis so far have been stalled over the employers' refusal to have their share of contributions raised once again. If this were done, they argue, it would drive up unemployment even further and would, moreover, be contrary to government policy, which is constantly and emphatically emphasizing new investments and the creation of new jobs. (In this connection, the head of the Patronat employers' federation, François Ceyrac, has cited as an example the system in Germany, where the contribution quota is shared equally by employers and employees and where the government steps in with assistance when unemployment reaches a certain level.)

Although no agreement within the Unedic administration is in sight, commentators have pointed out that not much time remains until Nov. 21, when the board was scheduled to meet again and at which time some consensus must be achieved to protect the fund's financial status.

Italy: Cabinet Passes Budget Draft, Pension Bill

The Italian cabinet early this month passed the 1979 draft budget, the report on the country's economic development this year, and draft legislation on the reform of the national pension system. The 1979 budget deficit is scheduled to rise to 38,600 billion lire. While this compares with a budgeted deficit of 13,800 billion lire this year, it is far more representative of the true spending picture than the '78 budget plan. The increase is attributed to the expansion of current expenditure from 49,800 to 74,300 billion lire and of the capital account (investments) from 13,800 to 18,800 billion lire.

Thus, total budgeted expenditure comes to 93,100 billion lire, which represents more than 39% of GNP, and is offset by only 54,500 billion lire in revenue. The public interest debt alone (16,000 billion lire) exceeds the revenue from personal income taxes. New taxes are expected to yield only 2,000 billion lire, and another 3,000 billion is to result from the inflation-caused growth of incomes as well as the higher turnover of industry and commerce.

In the economic preview for 1979, the government's ex-

Budget Draft *(contd.)*

pectations are for a real-term GNP increase of around 4% (this year, an estimated 2%), a decline of the inflation rate from 13.9% to 12%, and a rise in labor costs by 14%. Capital investment, forecast to drop by 1.8% this year, is seen to expand by 12.4% in '79. In a press conference, Treasury Minister Filippo Pandolfi explained that the administration is hoping for additional foreign loans to finance investment projects, particularly in the Mezzogiorno. These credits would be backed by a payments surplus of about $5 billion and currency reserves of $24 billion (compared with a foreign debt of $16 billion).

As reported earlier, the pension insurance reform bill now passed by the cabinet seeks to lower the cost of old-age pension benefits by some 2,400 billion lire annually and also provides for changes in the legal retirement age. However, for technical reasons, there will be a postponement until July 1, 1979, of the obligatory membership of all blue-collar and white-collar workers in the state pension system.

Germany: Unilateral Move Proposed on Seabed Mining

Members of the German parliament who attended last month's U.N. Conference on the Law of the Sea in New York have urged their colleagues in Bonn to speed up deliberations on a bill that would assure the country's access to raw materials supplies from seabed resources. Their call came after the industrialized and developing nations failed to reconcile their differences on the approach toward seabed mining. The western countries, especially the United States and Germany, had hoped for a conciliatory attitude on the part of the developing nations, which hold a majority in the U.N. Assembly. Most of all, the industrialized nations wanted the developing countries to accept a compromise formula advanced by former U.S. secretary of state Henry Kissinger that would have allowed a U.N. agency and private businesses from the industrialized world to engage in exploration and exploitation. So far the majority of the developing countries have rejected this suggestion; they want to give a U.N. agency dominated by the developing countries the monopoly in controlling seabed resources.

When Germany's lawmakers anticipated a year ago that an agreement would not be reached, they got together and agreed on a common course of action. (The administration remained in the background because it did not want to jeopardize the U.N. talks.) The resulting bill, drafted by experts of the three parties represented in the Bundestag, was introduced in Parliament earlier this year. The legislators saw a need for a measure to safeguard the country's raw materials supplies once the land deposits of copper, cobalt, manganese, and nickel are exhausted. Many industries would not be able to survive without these metals.

Seabed Mining *(contd.)*

The German lawmakers believe that they are on the right track because the U.S. delegation made a similar recommendation and urged the U.S. Congress to take unilateral action. Both houses in Washington have been debating a bill that is similar to the German proposal.

Sweden: Government Resigns over A-Power Issue

A deep rift over nuclear energy policy led to the fall of Sweden's three-party coalition government on Oct. 5. Thus ended, for the time being, the "conservative experiment" in a country that for more than four decades, until 1976, had been run by the Socialists. The internal dispute over expansion or termination of Sweden's nuclear energy program had clouded the cooperation within the coalition from the very first day: the Centrists of Prime Minister Thorbjörn Fälldin have always been strong foes of nuclear power, while their partners, the Liberals and Conservatives, have been favoring a cautious expansion of the program. The end of the coalition came when Energy Minister Johansson, a Centrist, insisted on practically insurmountable safety requirements for the operation of reactors and the disposal of nuclear waste. The Center also wanted a referendum on the issue if a compromise could not be achieved.

Political commentators predicted that the Fälldin cabinet would be succeeded by an interim minority government to be formed by Conservatives and Liberals. Such an administration would command only 94 seats in the 349-seat Parliament and could not expect to survive beyond the next general elections in September 1979. With the opposition currently riding on a crest of popularity, observers say, it is likely that these elections would see a return to power of ex-premier Olof Palme and his Social Democrats.

Just prior to its resignation, the government had decided not to implement a price freeze on certain foodstuffs and household goods that had been previously announced. As a result of talks with retail trade representatives, the administration agreed to a compromise permitting price increases of up to 0.6% compared with those of 1.5-2% sought by the retailers. The price freeze on certain basic foodstuffs such as milk, cheese, and some meats will remain in force, however.

Common Market Reports

EUROMARKET NEWS

Issue No. 510 *October 24, 1978*

IN THIS ISSUE

Community: Newcomer States Accede to Convention

Representatives of the nine member states on Oct. 9 signed in Luxembourg the Convention on Accession by Denmark, Ireland, and the U.K. to the 1968 Convention on Jurisdiction and Enforcement of Civil and Commercial Judgments and the Protocol on its interpretation by the European Court of Justice. Once the Convention on Accession is ratified by the nine legislatures (expected within nine months), both individuals and businesses in the three aforementioned countries will be able to exercise the rights provided for under the 1968 Convention (Brussels Convention) and the Protocol that their counterparts in the original six member states have been enjoying for several years.

Since the Brussels Convention entered into force on Feb. 1, 1973, national courts have applied the rules of the Convention in several hundred cases. So far the Court of Justice has rendered 16 rulings under the Protocol, which went into effect on Sept. 1, 1975. These judgments gave binding interpretations to national courts and thus settled basic questions on the interpretation of the Convention *(Common Market Reports, Pars. 6001, 6003)*.

The purpose of the Brussels Convention is to simplify the formalities governing reciprocal recognition and enforcement of judgments handed down by courts in civil and commercial matters. The Convention also establishes rules on the jurisdiction of courts. Thus, a defendant may be sued at his domicile, but there are special rules that

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Convention *(contd.)*

allow a plaintiff to sue the defendant - for example, at the place where the obligation has been or is to be fulfilled or the place where the tortious act occurred.

When Denmark, Ireland, and the U.K. joined the EC, they agreed to accede to the Brussels Convention and the Protocol. Adjustments in the Convention were necessary to account for legal peculiarities in the law of the three new member states and the latter's status in certain economic sectors. The negotiations lasted four years, but their success may be measured by the fact that the adjustments were made without altering the Convention; indeed, the latter's scope was expanded.

Several provisions take account of the U.K.'s special trust law situation, and a series of provisions on maritime shipping insurance have been added to reflect the British courts' involvement in this field. There are several important amendments to the Convention section establishing jurisdiction in insurance matters. Article 12, which provides for agreements on jurisdiction, has been extended by allowing such agreements with policyholders outside the EC. Also, a new Article 12A enumerates the risks for which the insurer and insured may waive the Convention's provisions and agree on clauses establishing jurisdiction of a different court. Finally, the amendments broaden consumer protection in that a buyer may sue in his home state an enterprise that advertises in that state but is established in another; the buyer, in turn, may be sued only in his home state.

No Additional Judges Approved for EC Court

The European Court of Justice will not get additional judges for years to come, certainly not before the Community is further enlarged with the accession of Greece, Spain, and Portugal. This conclusion emerged at the justice ministers' meeting in Luxembourg on Oct. 9.

Prof. Hans Kutscher, president of the Court, earlier this year had asked for additional judges and advocate generals so that the Court would be able to adhere to its self-imposed deadlines in winding up pending cases. The Court usually responds within six months to requests by national courts for preliminary rulings; decisions on appeals brought by individuals and businesses against Commission acts are rendered within nine months. In a memorandum addressed to the member-state governments and the Commission, Kutscher had presented a strong case for an enlarged bench to cope with the Court's ever-increasing case load. He suggested that this could be done in a simplified manner under Treaty Article 165, fourth paragraph *(Common Market Reports, Par. 4605)*.

At the Oct. 9 meeting, Kutscher explained the situation once more before the nine justice ministers, but he did not get the unequivocal support he had hoped for.

EC Court
(contd.)

There had been considerable opposition to the plan within the Council from the very beginning, especially from the British government, which has repeatedly aired its anger over what it described as the Court's increasing tendency to write new law rather than apply and interpret existing rules. London would prefer to relieve the Court in another way - by seeing to it that national courts make less use of their prerogative under Treaty Article 177 to request preliminary rulings from the Court of Justice. Observers see some difficulties here because the judiciary is independent from the other branches of government.

Council attorneys believe that it would be possible to ease the workload if the Council appropriates funds for more personnel. They say that if a judge were given two or more clerks, he could handle more cases. (At present, each judge normally has one clerk working for him.)

Much to the disappointment of the Court, the establishment of a lower court to handle disputes brought by civil servants and other employees against Community institutions will be delayed. That court is now not expected to hear cases until late 1979. Although the Council has always supported this plan, it will not give its final approval until the European Parliament and the Court of Justice have given their opinion on the Commission's proposal, presented last August. The EC executive believes that the lower tribunal could be established by merely amending the Statute on Civil Servants.

Belgium:
Tindemans Quits
As Coalition
Breaks Apart

Prime Minister Leo Tindemans tendered his resignation to King Baudouin on Oct. 11, thereby dissolving Belgium's coalition government comprised of Socialists, Social Christians, and regionalists. Commenting on his decision, Tindemans referred back to a similar move last June and stressed that the task of holding the coalition together had become impossible.

The two key factors that prompted the government's dissolution were a total lack of agreement over public expenditure cuts recently proposed and, secondly, the continuing and at times violent controversy over devolution proposals that would accord a measure of autonomy to Flanders, Wallonia, and Brussels, the three "regions" of the country. Much of the devolution debate - an infinitely more explosive issue than the spending cuts - had centered on the question of constitutionality: leading Belgian experts concluded last August that a considerable number of provisions in the proposed devolution bill were not admissible under Belgium's present constitution. Furthermore, any attempt to effect the constitutional changes such a bill would properly entail could be made only after new general elections.

Tindemans *(contd.)*

Although the coalition government formally adopted the view that no court could overturn the legislation if it were passed by Parliament (a point freely conceded by the legal experts), both the opposition Liberals and certain backbenchers in Tindemans's Flemish Christian Social Party took a stand on principle against the regional reform proposals. Insiders in Brussels believed that Tindemans actually welcomed this stance because he did not relish the prospect of another tier of government and a further buildup of bureaucracy. It is well known that Tindemans is impatient to remove himself from the Belgian political scene and offer himself as a candidate in the June 1979 elections to the European Parliament.

One interesting aspect of the coalition's demise, observers say, is that - immediately prior to his Oct. 11 resignation - Tindemans had announced tax cuts for the next fiscal year, some of them "substantial." At the time, he declined to be more specific. Now, given the prospect of a new government or a new coalition structure, the envisaged tax changes may not materialize.

Netherlands: Coalition Gets OK for Budget, Austerity Plans

The Dutch center-right coalition has narrowly passed its first major parliamentary test in gaining passage for its economic austerity plan and the 1979 budget draft. Several members of the largest government party, the Christian Democratic Appeal (CDA), voted with the opposition, so that the Van Agt administration needed the help of right-wing splinter parties to survive the Oct. 12 balloting. The coalition holds only 77 of the 150 mandates in Parliament.

During the week-long debate, the CDA parliamentary faction succeeded in pushing through several modifications in the austerity program, which essentially calls for spending cuts of 10 billion guilders over the next three years. The government reluctantly agreed to make implementation of the plan to some degree dependent on the forthcoming discussions with the unions and employers. Should the unions agree to greater income sacrifices than now foreseen, then the program is to be adjusted to include more direct employment aids. Also accepted was the CDA's demand that high-income groups bear a heavier burden of the austerity measures than was originally planned.

Other concessions included the agreements to cancel a provision that would have required insured individuals to pay 100 guilders annually toward their medical costs, to lower the ceiling of permissible rent increases in '79 from 7% to 6%, and to accelerate social housing programs. The Finance Minister was instructed to consult with Parliament before implementing any additional budget savings that he might consider necessary.

Observers could not immediately agree on whether the

Budget
(contd.)

outcome of the budget session had left the coalition in a healthier position or not. It was believed, however, that the government's stability in the near future will much depend on the results of the upcoming collective bargaining talks and the unions' attitude in these discussions.

In other news, the Dutch Central Bank on Oct. 13 lifted its discount rate from 5.5% to 6.5% and the Lombard rate from 6.5% to 7.5%. One reason for the move, it was rumored, was to discourage speculation about a possible revaluation of the guilder. The discount rate already had been boosted by one point on Sept. 26.

Denmark: Conflicts over Incomes Policy, Profit Sharing

The opening of the new parliamentary session in Denmark and the impending start of collective bargaining have been accompanied by serious confrontations between government and labor over such issues as incomes policy and industrial democracy. There have been sharp exchanges between Prime Minister Anker Jörgensen and Thomas Nielsen, the boss of the LO labor federation, and the unions have underscored their position by calling strikes involving shipyard and construction workers and newspaper typographers.

Denmark's largest single union, which represents the unskilled workers, already has listed demands for additional benefits, which alone would boost labor costs by about 20%. These include a cut of the workweek from 40 to 35 hours at the same pay, a fifth week of annual leave, and an increase of the vacation bonus from 10% to 15% of annual earnings. In addition, the union is asking for a rise in the legal minimum wage.

While the government has not decreed definitive pay rise ceilings for the next year, it has made it amply clear that excessive pay demands would pose a threat to the necessary improvement of Denmark's industrial competitiveness. Nevertheless, there are differences of opinion on incomes policy even within the coalition itself. The Liberals believe that a freeze on real-term wages is needed and justifiable in order to stimulate exports and thus reduce the payments deficit and unemployment. Jörgensen's Social Democrats, on the other hand, would be prepared to permit private consumption to expand by 1-2% next year.

A major point of dispute involves industrial democracy - specifically, labor's campaign for employee participation in stock corporations. As part of the upcoming bargaining talks, the unions plan to push a proposal that would require these enterprises to contribute 1% of annual payroll and 10% of after-tax profits to a central employee fund as of Jan. 1, 1980. For companies with more than 50 employees, two-thirds of this contribution would be in the form of shares.

Conflicts
(contd.)

In his statement inaugurating the new session of Parliament, Jörgensen did not delve into this issue, except to say that his administration wanted to await the results of studies now being prepared. A few days earlier, however, the Prime Minister had declared that he saw no chance for the near-term realization of the concept, given the current parliamentary configuration. (The coalition falls two mandates short of the absolute majority in the Folketing.) The employers' federation has refused all along to negotiate the industrial democracy concept, arguing that it would constitute an unacceptable change in the country's economic system.

Britain: Tories' Stand on Economic Strategy

The annual conference this month of the U.K. Conservatives was dominated by economic issues, particularly in reference to incomes policies. One of its highlights came on Oct. 13 when party leader Margaret Thatcher affirmed her belief in "realistic, responsible collective bargaining, free from government interference." Earlier, James Prior, the shadow Employment Secretary, had said that "a rigid pay policy, statutory or imposed, is not the answer. Certainly, after three years, the time has come for greater flexibility," which presumably did not rule out some form of statutory wages policy. While Edward Heath, the ex-prime minister, expressed sympathy with the Labour government's attempts to enforce the 5% guidelines, Sir Keith Joseph probably was more in tune with current Conservative philosophy when he said: "We do not think that controls on pay, prices, and dividends, on balance, do good for the people of this country."

Mrs. Thatcher directed a large part of her speech at trade union leaders, saying that they must play their part responsibly: "Responsibility cannot be defined by the government setting a fixed percentage for everyone, because the circumstances are different in every concern in the country, whether nationalized or free. It is up to you to act realistically in the light of all the facts, as the government must do. If you demand too much, you will bargain your firm into bankruptcy and your members onto the dole." She mentioned Germany, saying that the British people want the same living standards, output, and low rate of inflation. "But remember," she added, "what they have also in Germany is strict control of the money supply, no rigid incomes policy, less state control than we have, lower personal tax, and unions which are on the side of the future, not refighting the battles of the past."

During the conference, clear indications were given of the economic and industrial strategy of a future Tory government. Sir Keith Joseph stressed that ailing companies could not expect to be bailed out. "We must make it clear," Tories' Stand *(contd.)*

he said, "that we are not in the business of using taxpayers' money to rescue companies crippled by lack of cooperation or bad management..." Prior said that tax incentives would be provided to encourage profit-sharing plans and wider share ownership; there was a case for "sensible amendment" of the Employment Protection Act. He also promised a code of practice in regard to the closed-shop situation, which he anticipated the unions would accept. Finally, Sir Geoffrey Howe, the shadow Chancellor of the Exchequer, pledged "real and substantial" cuts in income tax, with a considerable reduction in the investment income surcharge, and a greater emphasis on indirect taxation.

France: Giscard Lists Short-Term Policy Goals

In an open letter to Prime Minister Raymond Barre, French President Giscard d'Estaing has outlined a series of guidelines for government policy in the next six months. Giscard spelled out details and set a timetable of action in reference to previously established targets relating to the economic recovery, the removal of social inequities, and the strengthening of political responsibilities and powers at local level. Emphasis is to be accorded to certain social measures - specifically, improvements in pension benefits and unemployment compensation and the further buildup of the health insurance system.

The Barre administration is to devote particular attention to the fight against inflation and to strengthening the competitiveness of domestic industry so as to promote the creation of new jobs. Special consideration is to be given to the plight of the unemployed, particularly in the hard-hit regions of the north (Pas de Calais) and the Lorraine. Giscard referred to the need for employment assistance to small and medium-sized businesses and urged the speedy implementation of the second "national pact." The latter involves higher indirect taxes and provides for the state to assume part of the burden of social insurance contributions so as to open up employment opportunities for school leavers.

Early in October, the Barre administration had survived a censure motion introduced by the Socialists in the opening session of the National Assembly. They as well as the Communists and Gaullists portrayed the government's austerity program and 1979 budget as inflationary, unimaginative, and ineffective. However, the Gaullists did not join in the censure motion, and they have since agreed to extend their support of the administration for another six months. This would give them time for "mature reflection" on their current relationship with the government.

The major labor unrest at one time predicted for the fall season so far has not materialized in France, even though there has been a rash of strikes involving postal

Policy Goals *(contd.)*

workers, railroad personnel, air traffic controllers, shipyard workers, and others. In most cases, the strikers are demanding improved working conditions, but there is also broad dissatisfaction with the pay freeze (wages are raised only in accordance with the cost of living), record unemployment, and double-digit inflation. Nevertheless, Prime Minister Barre has again made it clear that he has not the slightest intention of deviating from his austerity course and that it would be unrealistic to expect significant improvements within the foreseeable future.

Sweden: Minority Government by Liberals

With the passive assistance of the opposition Social Democrats, the Swedish parliament on Oct. 13 elected Ola Ullsten as the new prime minister of a Liberal minority government. Ullsten, 47, a former journalist, succeeds Thorbjörn Fälldin of the Centrists, whose three-party coalition administration had collapsed the week before following disagreements over nuclear energy policy.

Ullsten's election became possible only because of a provision in the Swedish constitution according to which a candidate prime minister is deemed to be elected if the parliamentary majority does not vote against him. Ullsten was elected solely with the 39 votes of his own party, whereas the Conservatives and the Communists, with a combined 66 mandates, voted against him. Thus, the key role in the balloting fell to the Social Democrats and the Centrists, with a total of 215 abstentions.

The new administration is expected to perform in an interim capacity until the next general elections in September 1979, which may well see the return to power of the Social Democrats under Olof Palme. Ullsten's 19-member cabinet, formally presented on Oct. 18, consists exclusively of Liberals.

In his inaugural address, the new prime minister said the government would pursue a "social-liberal" course, laying emphasis on reducing unemployment and maintaining Sweden's status as a "top-ranking industrial nation." In reference to the controversial energy issue, Ullsten pledged that his government would try to explore new energy sources in an effort to minimize the country's dependence on oil imports. The "apprehensions of many people" over the use of nuclear power would be carefully considered by applying the "most stringent safety rules" possible.

Common Market Reports

EUROMARKET NEWS

Issue No. 511 *Report No. 356, November 1, 1978*

IN THIS ISSUE

Community: EP Postpones Debate on Liability Draft

The European Parliament (EP) has postponed debate of the Commission's products liability draft directive by the full house and has returned the measure to its legal committee for further consideration. This move enables the Commission to choose the better of the only two alternatives in practice left by the EP's legal committee - accept defeat of the measure, withdraw it, and introduce a new proposal (the Economic and Social Committee would have to get involved again) or amend the current measure so that the legal committee can continue its deliberations.

Defeat of the measure was anticipated after the legal committee passed a resolution last July rejecting the proposal in its present form and calling for a number of amendments. The committee did recognize, however, the need for harmonizing national rules making manufacturers liable for damage caused by their defective products *(Common Market Reports, Par. 9891)*. It was a coalition of Christian Democrats, Conservatives, Gaullists, and - with a modified stand on individual points - also Communists that supported the resolution. Only the Socialists voted against it.

Brussels observers expect that the Commission will re-

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Liability
(contd.)

act quickly and incorporate most of the suggestions in an amended proposal. This would mean that the Economic and Social Committee (ESC) would not have to give its opinion on the amended measure. After several delays the ESC last July adopted its opinion in which it backed the Commission's basic concept but also called for numerous amendments.

A major objection raised by the EP legal committee concerns the statutory basis of the measure - Treaty Article 100. The majority held that the present draft directive does not meet the requirements of the article, whereby the Council of Ministers may enact legislation aimed at harmonizing national provisions to the extent this is necessary for the establishment and functioning of the common market. The majority of the committee believes that the Commission has failed to show the need for such legislation because it did not make an in-depth analysis of certain distortions existing as a result of differing national products liability systems. It believes that, if distortions do exist, then adoption of the proposal would necessarily distort competition between EEC and EFTA manufacturers, and the Community's adherence to the proposed Council of Europe draft convention on products liability would be the preferable approach.

Finally, the committee's majority resolution maintain[s] that the introduction of the proposed system would not really eliminate differences already existing in the member states because the proposal would not replace national systems; thus the consumer might be confused as to who is liable and what the deadline is for bringing action against a manufacturer.

Details Snarl EEC Monetary Discussions

There are increasing signs that the planned European currency stabilization system - usually referred to as the European monetary system (EMS) - will not be operational as of Jan. 1, as originally envisaged. Despite working overtime, member-state experts and central bank officials have been unable to present even roughly completed proposals. At their Oct. 16 meeting, the finance ministers also did not come up with political decisions to clear up existing differences; they merely asked the experts to return to work and report at the next meeting, scheduled for Nov. 20.

Differences exist over the technical details of the proposals. A main issue is the intervention mechanism. The German government originally insisted on what is known as a parity grid arrangement similar to that applied within the "snake," under which the participating currencies are directly related to each other. Whenever a member country's currency drops below the 2.5% fluctuation margin, the central banks of the other countries are required to intervene without any elaborate consultations. Most other mem-

Discussions *(contd.)*

ber states - especially the U.K. and France, both of which do not belong to the "snake" linking Germany, the Benelux, Denmark, and Norway - want parities to be tied to a monetary unit of account based on the European basket of currencies. This would allow greater flexibility within the EEC, they say. Bonn has relented somewhat but still is not satisfied with the methods of intervention that are proposed by the other states and which would be applied to maintain the agreed relationship between currencies. Since inflation rates in Britain and France are roughly three times higher than in Germany, the Schmidt administration fears that the system based on this mechanism would open the door to price pressures in Germany.

Another issue concerns the temporary credit facility to be used until the proposed European Monetary Fund goes into operation, which is expected for Jan. 1, 1981. For the two-year interim the German government, supported by the Dutch, favors a 50% boost in the Community's medium-term currency standby support system, from 5.4 to 8 billion units of account. Both favor a change in the short-term standby credit facility, so that the credit volume of both would reach a total of 25 billion units of account, while all other member states want the volume of both expanded to 25 billion each.

Brief...

The Commission has proposed to the Council abolishment of postal charges imposed by the national post offices upon presentation to customs of parcels from other member states that contain goods exempt from value-added tax and excise taxes. While customs duties have been abolished in intra-EEC trade, VAT and excise taxes are still levied on most products upon importation. All national postal administrations collect a charge from the recipient for presenting the parcel to customs, regardless of whether the contents are exempt from VAT and excise taxes + + + Discussions between Comecon and EEC officials have been postponed until the end of November. A series of meetings had been scheduled for mid-October to find ways of cooperation. In the last three years there has been a stalemate over irreconcilable legal differences involving the question of who should negotiate with whom. These differences in effect go back to Moscow's refusal to recognize the Community as a legal entity.

Belgium: First Interim Government in 150 Years

Following the resignation of the Tindemans government this month, Belgium will hold early general elections by January, at the latest. In the interim, the affairs of the state will be conducted by a provisional administration under the leadership of Paul Vanden Boeynants, who was deputy premier and defense minister in the outgoing government. With the exception of Leo Tindemans, who declined the offer

Government *(contd.)*

to participate, the new cabinet is practically a carbon copy of the previous one. Vanden Boeynants is a member of the Social Christian Party's Francophone Walloon wing, whereas Tindemans belongs to the party's Flemish branch.

The decision for a caretaker administration - Belgium's first in its 150-year existence - came after only nine days and was prompted by the need for uninterrupted government action in such vital areas as the regional reform and the economy. Despite its political limitations, the Vanden Boeynants cabinet will, for instance, be called upon to act on the completed plans for the reorganization of the country's steel industry. This program is to go hand in hand with similar proposals mapped out by EC Commissioner Etienne Davignon for the whole of the Community steel sector, and thus it can suffer no delays.

In the realm of the proposed regional reform, it will be the main task of the interim government to prepare an act of Parliament authorizing the next Parliament to change the constitution. This complicated procedure is required under Belgian law to prevent too-frequent constitutional amendments. Additional complications are facing the caretaker administration in trying to prevent the current political crisis from endangering Belgium's part in the June 1979 elections to the European Parliament. The pertinent election law has to be passed by March, at the latest. The issue so far had been sidestepped because the apportioning of voting precincts around Brussels and other balloting procedures could be prejudicial to Belgium's proposed regional reform and thus are major points of political disagreement.

Netherlands: Tax Relief for Switch to Cooperatives?

Last year the Dutch government commissioned the Association of Workers' Cooperatives (ABC) to prepare a report on the situation of such cooperatives and proposals for improvements. Although this report is not due to be published until next month, it is already common knowledge in Holland that its most significant feature will pertain to recommendations for capital-gains tax relief for owners who sell off their businesses to their own work force. Such a tax concession would be particularly welcomed by those family enterprises that have succession problems.

It is reliably reported that a small but increasing number of Dutch company owners are exploring the possibility of converting their firms into the cooperative form, principally because of the potential tax advantages. While there is not yet a statutory provision for capital-gains tax waivers, the Dutch government already permitted one such tax-free conversion in 1976 when the Co-op Bouwbedrijf H. Moes BV came into being. However, the authorities stressed at the time that Moes was granted this relief in

Cooperatives *(contd.)*

"exceptional circumstances" and that the concession should not be regarded as setting a precedent.

In the meantime, the government may be reevaluating its position. The ABC *(Associatie van Bedrijven op Cooperatieve Grodslag)* believes that The Hague will be receptive to its tax waiver proposal, particularly in the present climate of more worker participation, both at board level and in proposed profit-sharing programs. Furthermore, the ABC says, the slack condition of the Dutch labor market tends to lend further force to this argument as does the fact that the Moes Cooperative has already proved that it can function viably.

Germany: Labor Offices Urged to Boost Performance

Persisting high unemployment has prompted the German government to prepare legal, technical and organizational details for improving the performance of its 150 national labor exchange offices. It is proposed that more job vacancies be actually canvassed and that the offices adopt more efficient work schedules for themselves. Also, courses are to be offered to unemployed women and juveniles, encouraging them to join government-sponsored training programs rather than wait for that "dream job" to come along. Finally, the labor offices would begin advertising vacancies in local, regional and national newspapers - something that has not been done so far because of legal obstacles.

Observers of the employment market believe that the planned action may have only a marginal impact. To them it reflects a certain hopelessness on the government's part of ever making a real dent in unemployment. The number of people out of jobs dropped to 860,000 by the end of September, but there is no guarantee that this will last: a year ago, unemployment also went down to slightly under 900,000, only to rise again above the one-million mark during the winter months, when construction slowed down.

Meanwhile, the government's Federal Labor Office (Bundesanstalt für Arbeit) has caused a stir with its Circular No. 230/78 in which the 150 local offices are instructed on how to apply federal unemployment compensation rules. (An unemployed person receives up to 60% of previous gross earnings for a maximum of one year - *Doing Business in Europe, Par. 23,456.*) The law specifies that an unemployed person may be made to accept another job, or lose his benefits, under "reasonable" circumstances. What is reasonable is now further spelled out in the circular. An individual out of a job for more than one year may be asked to accept employment even if it involves two hours' commuting time daily. He could also be asked to move to another place where the labor office had found a job for him. A relocation could be deemed reasonable even if he had school-age children or his wife had to give up her job.

Labor Offices *(contd.)*

The reason why the circular has caused a stir among unions and Social Democratic members of Parliament is that it touches on a phenomenon common in Europe - the reluctance to move, which also often means selling a home. On the other hand, government officials point out that there are some 250,000 job openings, of which a sizable percentage could be filled if unemployed people were willing to relocate.

Luxembourg: Agreement with Bonn on Banking Data

The Luxembourg government has periodically come under pressure from fellow EEC member states and other interested parties to reveal details of the activities of Luxembourg subsidiaries of foreign banks. In the Grand Duchy's point of view, the central issue in the debate has always been that of sovereignty. Thus, the Luxembourg Banking Commission has consistently resisted demands that it communicate such information to foreign authorities.

It is now reported, however, that a "considerable measure of agreement" has been reached between Luxembourg and Bonn on the extent to which West German bank subsidiaries in the Grand Duchy should report on their operations. The German authorities are understandably anxious to gain access to reliable data, since German banks have in recent years conducted the great majority of their international business transactions through their Luxembourg subsidiaries. In fact, the Germans represent the largest bloc by far in the Grand Duchy's foreign banking community, with some 20 institutions accounting for about 50% of all banking business transacted in Luxembourg.

Unofficial sources summarize the details of the Bonn-Luxembourg "agreement" as follows:

The German subsidiaries will henceforth submit to the German authorities the general part of their annual external auditor's report, which would offer essentially the same type of information that the German parent companies would give to the authorities. However, it is specifically provided, the sources said, that under no circumstances will any individual bank clients, irrespective of their size, be named in such reports.

France: Paris Considers Immigration Policy Reform

The French government is considering a reform of its immigration policy, with the aim of gradually reducing the country's large reservoir of foreign labor and thus opening more jobs for its own citizens. Official statistics at present count some 4 million resident aliens in France, of which 1.8 million are employed. National unemployment is now 1.2 million.

"At a time when the economic situation leaves a lot to be desired and many young Frenchmen face employment prob-

Immigration *(contd.)*

lems," said Premier Raymond Barre recently, "it is only normal for us to reconsider our immigration policy." Barre gave assurances that any modification of this policy would not offend the dignity of foreign workers and certainly not involve the kind of treatment they sometimes suffer "in other countries."

France actually has been pursuing a restrictive immigration policy over the past four years, trying to slow down the rate of immigration and, by offering certain incentives, encouraging the return of alien workers to their home countries. In 1974, the admittance of foreign workers, except those from EC countries, was completely suspended. A year later the authorities barred families of alien workers from coming to France; subsequently, this rule was changed to permit such immigration, provided the spouse did not take up employment.

The implementation of these measures brought almost instant results. After having totaled 120,000 and 153,000 in the years 1972 and '73, respectively, immigration of alien workers dropped to 64,000 in 1974, to 25,600 in 1975, and to 22,800 last year. The downward trend continued in the first six months of this year. Some observers said the effectiveness of the curbs was surprising, considering that France maintains bilateral agreements with countries such as Spain and Portugal, which put limits on such restrictions.

By contrast, the French have been less successful in persuading alien workers to return to their home countries. Beginning in June 1977, the government offered an FF 10,000 bonus to any unemployed alien willing to leave. This covered only a potential 100,000 individuals, so three months later the offer was extended to any foreign worker who had been employed in France for at least five years, which raised the potential to about one million. Also, foreigners who underwent vocational training or retraining in France have been encouraged to return to their home countries afterward. However, these measures have not had the intended effect, since they are not obligatory. Other countries, for instance, often impose immigration quotas (Switzerland) or prohibit the hiring of third-country nationals (Germany).

Within the framework of the proposed reforms, Paris wants to continue acting "without discrimination and brutality." Instead, the existing rules are to be applied more flexibly and effectively. Being considered is giving lump-sum compensation to aliens laid off by financially troubled businesses. This payment would be equal to unemployment compensation paid for up to one year (90% of previous pay) and thus would definitely be more than the FF 10,000 bonus normally offered. The government also wants to negotiate with the countries principally affected by a return of their workers (e.g., Algeria and Tunisia).

Britain: Officials Cite Importance of Monetary Policy

By tradition, the annual banquet of the Lord Mayor of London for City bankers gives the U.K. Chancellor of the Exchequer and the governor of the Bank of England the opportunity of expatiating on the government's financial strategy. On Oct. 19, both Denis Healey and Gordon Richardson stressed the importance of monetary policy in reducing the rate of inflation and the need to stabilize the external value of the pound. Healey said that "the present government is perhaps the first in Britain for very many years which has given monetary policy the importance it deserves." However, the Chancellor said he did not believe that it should rely on monetary targets alone to control inflation, since this would involve "a waste of human and material resources on a scale which no democratic government could lightly contemplate."

Richardson, the Bank of England chief, said that the importance of monetary stability for healthy economic development could not be overrated: "Monetary policy is, and must remain, central to the restraint and ultimate defeat of inflation." Since 1974 the annual growth of the money supply has remained close to 10%, and he said he did not consider it "wholly coincidental" that over that period inflation had fallen from over 20% to some 8%. Richardson emphasized that a continuing stability in the exchange rates would be an essential feature of the proposed European monetary system, and,whether or not Britain joined such a scheme, the government would be bound to follow policies that "not only underpin the domestic value of our currency but also the stability of its external value."

Healey had said earlier that depreciation could no longer be treated as a soft option or as an easy way of restoring price competitiveness because of the ensuing rise in labor costs. He stressed that any move toward a European currency system should involve greater compatibility of economic performance and closer coordination of policy. Britain's first responsibility as a potential member was "to fulfill our fundamental national interest," which required that such a currency system be durable.

Common Market Reports

EUROMARKET NEWS

Issue No. 512 *November 7, 1978*

IN THIS ISSUE

Community: EC Court Upholds Trademark Right

The European Court of Justice has held that the owner of a trademark registered in one member state is entitled under Treaty Article 36 to bar another party from marketing virtually the same product there even if he is selling the product in another member state under a different trademark. In its Oct. 10 judgment (Case No. 3/78), the Court turned back another attempt by the Dutch firm Centrafarm to erode trademark rights in favor of the free movement of goods. Earlier this year Centrafarm partially won a similar case before the EC Court involving repacking the Hoffmann-La Roche tranquilizer Valium under the original trademark (judgment of May 23, Case No. 102/77 - *Common Market Reports, Par. 8466*).

The latest case arose after Centrafarm bought the tranquilizer Oxazepan in Britain, where it is marketed by American Home Products Corp. (AHP) under the Serenid D trademark. Centrafarm repacked the drug and sold it in the Netherlands under the Seresta trademark, which AHP had registered in the three Benelux countries. AHP was already selling the tranquilizer under the Seresta trademark in the Benelux, but at a substantially higher price than in Britain.

In August 1977, AHP obtained an injunction from the Rotterdam district court prohibiting Centrafarm from in-

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Trademarks *(contd.)*

fringing on AHP's trademark rights. Centrafarm argued that AHP could not invoke Dutch (in fact, Benelux) trademark law because EEC law, especially Treaty Article 36, was overriding. Centrafarm charged that using two different trademarks for virtually identical products was a disguised way of partitioning the Common Market and retaining price differences in different member states. Centrafarm asserted that the essence of trademark rights is the protection of consumers. The latter would be misled if identical or very similar products were sold under two different trademarks.

At Centrafarm's request, the Dutch court asked the EC Court for a preliminary ruling on whether AHP's invoking Dutch law to prevent Centrafarm from marketing under the Seresta trademark was contrary to Community law. The Court of Justice said that it was not. It agreed with AHP's contention that the right to prevent repacking under the Seresta trademark is the very substance of trademark protection because that right is directly connected to the trademark's function of indicating a product's origin and is therefore guaranteed under Treaty Article 36. In line with its case law, however, the Court also ruled that opposition to repacking and renaming the product could represent a disguised restriction on interstate trade, prohibited by the second sentence of Article 36, if it is established that in adopting two different trademarks, the owner's intention was to partition the market artificially. Now the Dutch court has to decide whether AHP intended to do this when it registered Seresta in the Benelux.

EC-Greek Talks To Enter Final Phase Soon

The negotiations between the Community and Greece will soon enter the final round, and one of the most difficult topics on the agenda - farm commodities - will receive thorough treatment in light of Italian and French concern about the possibility of Greek citrus fruits and vegetables flooding the Common Market *(Common Market Reports, Par. 9809)*. The Commission has asked the Council of Ministers for a mandate to start talks with Greek officials on that point. It is now up to the Council to give the Commission the needed negotiating directives.

In view of substantial farm price differences, the Commission is recommending a five-year transitional period for bringing Greek prices up to the level of EEC prices. This is the same period that was recommended and provided for Denmark, Ireland, and the U.K. However, the Commission is also recommending a seven-year period of transition for Greek olive oil and animal husbandry prices.

So far the discussions have been going well. There are a few problems concerning the free movement of workers that must be settled. Institutional issues are also being discussed. The problem here is that any solution concerning majority voting should not be confined to Greece's en-

Greek Talks *(contd.)*

try but should also be acceptable to the other two newcomers, Spain and Portugal. Finally, a point yet to be tackled pertains to the budget and the newcomer's own resources; the Commission is expected soon to seek a negotiating mandate from the Council on this matter.

Commission vice-president Lorenzo Natali publicly predicted recently that the negotiations would be wound up by the end of the year. He also believes that the Accession Treaty will be signed by June 1979, and that Greece could become an EC member by Jan. 1, 1981. He figures that 18 months between signing the Accession Treaty and the date of entry will be needed for the treaty's ratification by the nine legislatures.

Germany: Compromise Sought on Tax Cut Bill

As expected, the Opposition-controlled upper house of Parliament has vetoed the German government's tax bill that earlier had received lower-house approval. It is now up to the conferees to find a compromise. This should be difficult, not only because of the issues involved but also because time is running short. Considering that the provisions on tax relief to individuals are to go into effect on Jan. 1, employers and tax offices would not have much time to familiarize themselves with the amendments and make the necessary organizational changes.

As it now stands, the measure would eliminate the sudden jump in the tax rate when an individual's annual income exceeds DM 16,000 (DM 32,000 for married couples). Individuals earning up to DM 16,000 pay a flat rate of 22%, but above that the rate starts at 30% and increases progressively up to the maximum of 56%. The proposed increase in individual exemptions would also bring some relief.

The government would recover nearly two-thirds of the revenue losses from the proposed relief for individuals by an increase in the value-added tax from the present 12% to 13% as of mid-1979 *(Doing Business in Europe, Par. 31,058)*. Important for businesses would be the proposed increase in the exemption applicable in computing the business profits tax; the conferees will have to decide how high the exemption (currently DM 24,000) would be.

Originally, the government's bill contained a definite commitment to abolish the payroll tax as of 1980. Because no solution has been found to compensate those communities that still rely on payroll tax revenue to meet their obligations, especially in the heavily industrialized Rhine-Ruhr areas, the lower-house version merely says that the tax will be eliminated as soon as an acceptable compromise is reached. This compromise may be found in this month's negotiations between federal and state officials over the redistribution of revenue.

Tax Cut
(contd.)

Aside from the purely fiscal implications for local governments, constitutional issues have entered the debate. Several lawyers are maintaining that Parliament would violate the Constitution if it denied local governments revenue without compensating them for it in some other way. This view is based on the doctrine that the Constitution provides for a careful balance in the distribution of revenue in order to secure the viability of state and local governments and their independence from the federal government. Abolishment of the payroll tax will require special legislation, which could be introduced as soon as a solution for compensation is found. The conferees set Nov. 9 as the deadline for finding a compromise.

The Opposition is demanding additional relief for businesses in yet another component of the business tax; it wants at least a substantial exemption in the business capital tax because the chances for repeal of this tax - its original demand - are considered nil *(Doing Business in Europe, Par. 23,385)*. The government is opposed to substantial relief because it cannot afford it.

Britain:
Lords Ruling
on Foreign
Currency Awards

In 1976 Britain's House of Lords (the equivalent of the U.S. Supreme Court in the judiciary realm) laid down that a plaintiff in an English court who was suing over a debt payable in Swiss currency, under a contract governed by Swiss law, was entitled to obtain judgment in Swiss francs rather than pounds sterling *(Miliangos v. George Frank (Textiles) Ltd.)*. Last month the Lords, in actions relating to foreign ships, extended the principle established in the previous case to damages awarded for civil wrongs (in this case, negligence) and for breach of contract. This decision is expected to have far-reaching implications.

Previously, courts had been bound by precedents from the 1920s which stated that damages would be assessed in sterling only, converted from the requisite foreign currency as of the date of the unlawful action. In the latest case, one of the judges, Lord Russell, held that the rule that a claim and an award in England could be made in sterling only was basically procedural in nature; thus, it would be wrong if the rule were retained in some instances and not in others.

The Lords decided to adopt the view of Lord Denning that "the plaintiff should be compensated for the expense or loss in the currency which most truly expresses his loss." They said a court should ask itself what currency would compensate, as far as possible, the injured party for the purpose of restitution and whether the parties could be deemed to have assumed this when the contract was made.

Lord Wilberforce said it would be impossible to devise any other simple rule that covers such diverse cases as

Currency *(contd.)*

those relating to the sale of goods, contracts of employment, and international carriage by sea or air. He said there was no doubt that, since English courts or arbitrators could make an award in the foreign currency in which the loss was sustained, a more just result would be obtained than if a sterling award were stipulated.

The two latest cases concerned a collision between two Greek ships in Shanghai in 1974 (the *Despita R* case) and a breach of warranty in regard to the seaworthiness of a ship *(Services Europe Atlantique Sud (Seas), Paris v. Stockholms Rederiaktiebolag Svea, Stockholm)*.

Italy: More Details Emerging on Fair-Rent Law

The elements of Italy's new fair-rent law *(equo canone)*, which took effect on July 31, are becoming a little clearer, although it can hardly be said that they are widely understood. In the last weeks, there has been a brisk trade in copies of the complete statutory text, and speedily produced explanatory treatises abound.

The law, the National Rent Act, acknowledges what some observers ironically consider "the slightly surprising concept" that landlords are entitled to at least some yield from rentals and that, to that end, they are guaranteed (or limited to) an annual return of 3.85% on something which, for lack of a better term, is called "factored construction cost." This includes building costs plus major improvements. However, all structures over 10 years old have been assigned a standard, fictional and much-inflated construction cost factor. In this way, Parliament has made allowances for both inflation and the disproportionate rise in building costs.

It is fair to say that where the fair-rent concept is concerned, it is all in the "factoring." This involves the application of a series of multiples (the factors or coefficients) to construction costs, which results in a number against which the 3.85% guarantee or limitation is applied. Some of the factors are clear-cut, such as the age of the building and the location (in terms of floors) of the rental units. Others are more subjective, such as the "class" (superior, normal, mediocre, etc.), and are at the discretion of the local authorities. Thus, one may expect a certain jockeying for positions by landlords.

In extreme cases, the law's application can bring widely disparate results. A penthouse with an actual construction cost of 80 million lire (about $100,000) located in a new, well-maintained, "superior" building can be legally rented for 11.53 million lire (about $14,400) annually. This is the result of multiplying 3.85% by "factored" construction costs of 300 million lire, which is about 425% more than actual cost. Conversely, a cold-water basement

Fair Rent *(contd.)*

flat with assigned construction costs of 8 million lire ($10,000) in a venerable structure located in a poor neighborhood of a low-population city *(arrezzo)* can be legally rented for no more than 57,000 lire ($71) per year. Observers believe that it is undoubtedly the government's intention to make it unprofitable to rent such housing.

The new law does not apply to public housing, nor has it force in small communities. All written leases must have a term of four years, although they can be canceled by mutual consent. Complex provisions are gradually bringing the old, rent-controlled tenancies into line with the new statute. All rents covered may be raised annually by an amount equal to the application of 75% of the rise in the cost-of-living index to the previous year's *equo canone* rent.

Foreigners are covered by the fair-rent provisions, whereas the old rent controls laws - in force for 45 years - excluded most transient aliens. (These are foreigners who either have not resided in Italy for the entire duration of the lease or were technically in the country for extended tourism.) Foreign tenancies probably will be a little less popular in the future.

France: Paris Steps Up Drive to Save Energy

Industry and consumers in France have been called upon to step up even further their efforts to conserve energy. Results so far have been "encouraging," the government said, but are inadequate to achieve the targets set for 1985. At the peak of the international oil crisis, in October 1974, Paris had cut the previously set 1985 consumption ceiling of 240 million tons (oil equivalent) by 45 million tons, or about 20%. Today, four years later, one-third of these savings have been achieved, with national energy consumption having dropped by 14 million tons annually.

To make sure that the program can be fulfilled all the way, the budget of the government agency in charge has been raised nearly fourfold - from FF 58 million in '78 to FF 207 million. Thus, with the inclusion of the FF 430 million in revenue from the fuel tax imposed two years ago, the agency will have some FF 640 million at its disposal in 1979.

The money is to be spent on supporting energy-saving investments and improvements in both industry and private households. Industry is being paid a FF 400 bonus per ton of fuel saved, and this incentive should produce annual energy savings of 1.5 billion tons (oil equivalent), the government estimates. The automobile manufacturers are being encouraged to put even more emphasis on fuel economy. Some FF 15 million have been spent for this purpose over the past three years, and it is intended to cut automotive fuel

Energy *(contd.)*

consumption by 20% by 1985. Finally, the government has affirmed that tax incentives will continue to be made available for energy-saving improvements in private homes.

Denmark: Unions Reject Employers' Call for Pay Cuts

In what was considered the opening shot being fired at the start of this season's collective bargaining talks, the Danish employers' federation last month came up with a wage proposal that the unions immediately labeled a "declaration of war." The recommendation was for a direct pay cut of about 3%, which, moreover, should be kept in effect at least until March 1, 1982. The employers insist on the necessity of actual pay reductions, saying that the Danish cost levels are still far too high for an appreciable reduction of unemployment (nearly 9%) and the payments deficit. If such pay cuts could be realized, the federation claimed, unemployment could be brought down by one-third and the annual payments gap (almost 10 billion kroner in '77) by one-half.

Judging by the statements of labor leaders in the past weeks and the strained relationship between them and the government, it seems unlikely that the unions will accept anything approaching a pay freeze, not to mention a direct reduction. So far, the demands have been for increases of about 10% which, together with other extra benefits asked for, would increase labor costs by up to 20%.

EURO COMPANY SCENE

MAN/ White Motor/ Wood Industries

Germany's largest machinery group, Maschinenfabrik Augsburg-Nürnberg AG (MAN) has in principle agreed to a joint venture deal with White Motor Corp., East Lake, Ohio, involving its commercial vehicles division. As part of the agreement, MAN plans to acquire a 12.6% stake in White via the purchase of 1.2 million newly issued common shares for a total of about $15 million. White would sell medium-heavy MAN trucks in the range between 9.1 and 11.9 tons on the U.S. markets. Also foreseen is the exchange of development and production know-how.

Last month MAN had also reached a basic agreement with Wood Industries, Inc., the printing machinery producer based in Middlesex, N.J., to merge the latter with MAN's own U.S. subsidiary. Pending the agreement of Wood shareholders, MAN would pay $8.7 million for more than 800,000 Wood shares, at a price of $10.625 each. Originally, MAN had offered only $8 per share.

GKN/ Fichtel & Sachs/ Commerzbank

Guest, Keen & Nettlefolds, Ltd. (GKN), the British engineering group, will sell its 24.98% equity in Germany's Fichtel & Sachs AG to the German Commerzbank. The decision followed GKN's failure to get special permission in Bonn

GKN *(contd.)*

for the proposed purchase of an additional 50.01% of F&S stock. Earlier this year, a Supreme Court ruling had upheld a Federal Cartel Office veto blocking the purchase on the grounds that it would intolerably strengthen F&S's dominant position on the automotive clutch market *(Doing Business in Europe, Par. 30,875).*

Commerzbank, one of Germany's leading private commercial banks, has made arrangements with the Sachs family to buy an additional 0.03% in F&S which, together with the 24.98% from GKN, would give it a blocking minority interest. Eventually, however, it is planned to make F&S stock available to the general public, even though Commerzbank probably will retain 5-10% for its own portfolio.

Polaroid

The Polaroid Corp., Cambridge, Mass., is preparing to build a plant in Ireland for the production of instant cameras and film. Billed by the Industrial Development Authority (IDA) as the largest single project in terms of job creation, the plant will employ more than 1,500 by 1983. To be located some 30 miles from Dublin on a 40-acre site, the facilities will require an estimated investment of about £50 million. No figures were given on the extent of the IDA's project assistance. The plant will export its output mainly to the EEC markets.

Leeds & Northrup

Also announced by the IDA last month were plans by the Pennsylvania-based Leeds & Northrup for the construction of a Dublin plant for the manufacture of recording and analysis instrumentation. Requiring an investment of about £1 million, the plant is to employ 130 within five years.

Carlton Industries/ Westinghouse

According to British reports, the U.K.'s Carlton Industries is negotiating for the possible takeover of the business and certain assets of the KW Battery division of Westinghouse Electric Corp. KW produces batteries for various industrial uses and for vehicles such as locomotives, electric lift trucks, and coal-mining equipment. The majority shareholder of Carlton is Hawker Siddeley, which acquired a 52% interest earlier this year.

Life of Georgia/ Nationale Nederlanden

A $300-million merger offer by Nationale Nederlanden NV, Holland's No. 1 insurance company, to the Life Insurance Co. of Georgia has been rejected by the latter's directors, who own a majority of the stock, according to New York reports. Nationale Nederlanden reportedly had offered $50 per share, which was nearly twice the price at which Georgia stock had been traded last month.

Common Market Reports

EUROMARKET NEWS

Issue No. 513 *Report No. 357, November 14, 1978*

IN THIS ISSUE

Community: EC Court Voids Discriminatory Sugar Rule

Two British isoglucose manufacturers have won a partial victory in their legal battle against discrimination with the European Court of Justice's ruling that Council Regulation No. 1111/77 was invalid to the extent that it imposed a levy on the production of isoglucose made from starch (judgment of Oct. 25, 1978; Case Nos. 103/77 and 145/77). A levy is also imposed on the production of sugar from sugar beets or cane, but producers of the latter are favored because the levy is imposed only on B-category sugar. (There are A, B and C categories, called "production quotas.") It was essentially this discriminatory treatment that prompted the Court to void Articles 8 and 9 of Council Regulation No. 1111/77 after receiving a request from a British court for a preliminary ruling on the measure.

It was the second time that the European Court of Justice pointed out to the European Commission and the Council of Ministers the limits of their role in formulating and legislating the common agricultural policy (CAP). In July 1977, the Court held that the Community's compulsory skimmed milk-powder purchase system was discriminatory and unnecessary (Case Nos. 114/76, 116/76, 119, and 120/76 - *Common Market Reports, Pars. 8448 - 8450*). Even though the Court last June declined to award damages to the companies

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Sugar Rule *(contd.)*

that had successfully attacked the milk powder regulation, the significance of the milk powder case and this latest ruling lies in the limits the Court is setting for the Commission and the Council in legislating CAP.

Isoglucose manufacturers were dragged into the common sugar market's regulatory system after the national farmers' associations and the sugar industry lobby, alarmed at the stiff competition from isoglucose, succeeded in getting the EC to impose the levy. This raised the price of isoglucose, which is being used more and more as a sweetener by the food and beverage industry. The revenue from the levy in effect assured sugar beet farmers a good return, even though there is a substantial sugar surplus in the Common Market.

In the Court's view, the levy system treated isoglucose as if it were also a surplus commodity, which it is not. The Court said that this discriminatory treatment is not compatible with the Treaty's principle of nondiscrimination, established for agricultural products in Treaty Article 40(3).

The two U.K. companies did not gain an invalidation of Council Regulation No. 1862/76, which canceled the production refund to isoglucose producers. The Court said that to deny isoglucose manufacturers the starch production refund they originally received was lawful because starch and isoglucose do not compete with each other and are not really comparable.

<u>EC Borrowing, Lending Plan Now Operational</u>

The Community is now prepared to go into additional debt of up to one billion units of account (roughly $1.3 billion) in order to promote investments within the Common Market. The Official Journal recently published the Council's decision empowering the Commission to borrow on the international capital market. The notice spells out details for the two institutions involved - the European Investment Bank (EIB) and the Commission - as well as for businesses that want to apply for loans.

The EIB would decide whether a business qualified for a loan for a particular investment. Projects to expand existing or create new energy sources, develop new industries, raise the productivity of existing plants, and improve a region's infrastructure would be given priority to the extent they contributed to the integration of the member states' economic policies. While the EIB would scrutinize loan applications, set conditions, grant the loan, and do all the administrative work, the Commission's role would be limited to saying whether a particular project would be worth supporting. Businesses may apply either to the EIB, the Commission, or their national government.

Commentators said that the decision bears the marks of

Lending Plan *(contd.)*

political haggling within the Council over the propriety of the Commission's plan, the role of the EC executive, and the institutional dispute between the Council and the European Parliament. At first the Council had been cool to the Commission's plan to improve the Community's financial resources through additional borrowing. Later this stand was reversed when it became clear that the nine governments would take a positive stand on the matter at the Brussels summit meeting last December. Still, the new financial instrument was expressly placed on an experimental basis: the arrangement will be reviewed within two years' time. Originally the Commission had hoped to play a much bigger role in granting credit. The Council, however, entrusted the EIB with the job (1) because it wants to keep an eye on lending (the finance ministers make up the EIB's board of governors) and (2) because of the EIB's proven expertise.

In Brief...

The Commission is expected to present to the Council soon proposals that would not only extend the Davignon steel plan into 1979 but would also tighten price and production controls and impose import quotas on non-EEC suppliers. The Commission had difficulties enforcing the rules when several Italian steel manufacturers exceeded production limits and sold below authorized prices + + + The Commission has announced that it will compel a number of household appliance manufacturers in the Common Market to provide warranties to buyers in all the member states. The announcement was made after the Commission issued a formal decision requiring Italy's Zanussi group to provide "European" warranties for its refrigerators, dishwashers, washing machines, and TV sets.

Belgium: New Elections Scheduled for Dec. 17

Dec. 17 has been scheduled by Belgium's interim government under caretaker Prime Minister Paul Vanden Boeynants as the date for the election of a new parliament. The date was proposed in the Premier's inaugural address following a vote of confidence for the administration; however, it was made contingent on Parliament's approval of urgent legislation relating to economic measures and the European Parliament elections next June.

The abrupt resignation of former Prime Minister Leo Tindemans on Oct. 11 and the reconstitution of his cabinet under Vanden Boeynants have been accepted relatively calmly in a country that has weathered upward of 30 government "crises" since the 1940s. A well-developed bureaucratic machine tends to keep the nation on even keel despite the political changes in government. Nevertheless, there are indications that the underlying issues precipitating the elections will be discussed with unusual intensity in the coming weeks.

The principal issue, of course, remains the language

Elections *(contd.)*

problem with its attendant emotional overtones. Senior politicians in Belgium now predict that there is a move away from recent plans to devolve powers to three autonomous regions (Flanders, Wallonia, and Brussels) and, instead, toward a division of the country into two parallel states within a federated Belgium. With a formal commitment to such a division being politically "dangerous," observers say, it is hard to predict at this moment what the ultimate shape of the next coalition government will be.

Although the language issue undoubtedly weighs most heavily on the minds of the electorate, the country's political leadership is also very much concerned about the deep-rooted economic problems, being aware that their resolution is more complex now than in the 1960s. The list of ailments is long: unemployment of 6.7% (still rising), declining heavy industry, stagnant output, waning investment intentions, and a currency that is dominated by the German mark and the exigencies of the European "snake." The GNP is rising at a mere 2% annually on current estimates, well below the rate at which an economic upturn can be achieved. The only positive aspect of the overall economic position is that inflation is being gradually brought under control. However, the current rate of below 4% has been achieved largely by a clampdown on public expenditure.

Netherlands: Confrontations Expected with Labor Unions

The center-right coalition government of Prime Minister Andries van Agt faces a very high hurdle in the coming weeks when the industrial partners will seek to arrive at a mutually acceptable national wage agreement. There is no question that the labor unions will make life difficult for the administration, observers say: not only are they openly resentful of Van Agt's rightist government generally, but they are also bitterly opposed to The Hague's three-year economic recovery program ("Bestek '81") which, they argue, has generated an extremely hostile climate in which to conduct negotiations.

The unions do go along with the government in viewing the reduction of unemployment as the major policy goal, and they do accept the need for wage restraint implicit in Bestek '81. In exchange for such restraint, however, they are demanding specific social reforms - not least the immediate and full implementation of the excess-profits tax or growth-sharing program instituted by the previous center-left government and somewhat watered down under the Van Agt administration *(Doing Business in Europe, Par. 31,035)*. Furthermore, the unions insist that, in exchange for wage restraint, they must have guarantees that they will be able to participate in all future corporate investment decisions in order to ensure the creation of new jobs.

Labor Unions *(contd.)*

The government's attitude regarding the latter demand is entirely negative. The official arguments are that (a) private enterprise should seek an optimal return on investment, irrespective of where the investment is located - that is, in the Netherlands or abroad - and (b) that new domestic investment will be profitable only if it is in technology- rather than labor-intensive sectors. If these points are conceded, union spokesmen say, then there must be a radical reduction in working hours. Further, they say, if the government imposes a standstill on incomes, then this should take the form of increasing the real incomes of the lower-paid, freezing incomes in the middle brackets, and reducing incomes in the higher brackets.

Britain: Outline Given of Plans for Next Session

In the Queen's Speech opening the U.K. Parliament on Nov. 1, the government outlined the various measures it intends to introduce during the current session and confirmed its determination to "continue to play a full and constructive part in the development and enlargement of the EEC."

Following further proposals in the White Paper on industrial democracy, legislation would be introduced to "ensure that employees and unions are able to participate in discussions on corporate strategy and to provide in due course for employee representation on company boards." Additional finance would be provided for the National Enterprise Board (NEB) and for the Scottish and Welsh development agencies. There would be improved arrangements for those on short-time work schedules, with the latter to be encouraged as an alternative to layoffs, after consultation with industry. A bill would be proposed to improve procedures in commercial arbitration, and the present company laws would be amended, "including strengthening the provisions governing the conduct of company directors."

No specific reference was made to the 5% guidelines on pay policy, although the government stated that its economic policies "will continue to be directed to overcoming the evils of inflation and unemployment, the most serious social problems facing the nation today, and to sustaining the growth of output, which is now under way." (In the ensuing debate, Prime Minister James Callaghan emphasized that "nothing said in the discussions we are having with many groups, or said by the leaders of the Opposition, can alter our view that the best figure is 5%.")

The present borrowing powers of the NEB are limited to £1 billion, and it was expected that this figure would be doubled as would be the allocations to the Scottish and Welsh development agencies of £300 million and £150 million, respectively.

The government is likely to act positively on the recommendations of the Donaldson Committee, which earlier this

Outline *(contd.)*

year had proposed certain amendments to the Arbitration Act 1950. The aim would be to limit or exclude the process whereby the disputants, or the arbitrator, can keep referring points of law to the court, thereby prolonging the proceedings and postponing the eventual settlement.

The arrangement to pay workers on short-time schedules up to 75% of their normal gross earnings, less tax, for each working day lost would be funded by employers and the government. So, the temporary employment subsidy probably will be terminated next year, as required by the European Commission.

Germany: Supreme Court to Decide on Lockout Issue

Germany's Supreme Labor Court will have an opportunity to give its views on some fine points of law involving the right of employers to lock out employees now that union lawyers have decided to challenge an appellate labor court ruling that was unfavorable to a woman whom they represented. The Stuttgart appellate labor court had upheld a lower court's decision denying the woman employee DM 940 in back pay she thought she was entitled to after her employer locked out all the employees of an automotive equipment plant.

The legal wrangle goes back to last spring's wage contract dispute in Baden-Württemberg's metalworking industry when some 40,000 workers walked off their jobs. The employers reacted jointly by locking out all of the industry's 200,000 employees. The plant where the woman was employed was not among those chosen by the unions as a target for strike action, but she was locked out as a result of her employer's solidarity action. Like her, some 35,000 employees brought actions in the lower courts. Although some of them won, the great majority of the 100-odd cases decided so far by the lower courts went in favor of the employers.

Germany's constitution does not grant employees the right to strike nor does it expressly entitle employers to lock out employees. However, the Supreme Court has granted both sides these respective rights as a last resort to advance their interests *(Doing Business in Europe, Par. 23,421)*. The lower courts have handed down their decisions on the basis of this case law. Union lawyers say that there should be a difference between an employer reacting to a walkout of his employees and a lockout imposed out of solidarity with companies directly affected by such a walkout.

Meanwhile, the government has openly rejected proposed legislation that would curb the lockout right. Union leaders and several Social Democratic leaders have demanded such legislation, arguing that management's right to lock out nonstriking as well as striking employees cannot be

Lockouts *(contd.)*

considered equal to the employee's right to strike. The government's rejection came on the occasion of the Supreme Labor Court's 25th anniversary.

France: Distribution of Free Shares to Workers

The French cabinet on Oct. 31 approved draft legislation providing for the free distribution of shares to the employees of listed stock corporations. The action had been forecast by President Giscard d'Estaing at a press conference last June and takes a step further similar, but more limited, plans originated by the De Gaulle and Pompidou administrations and involving the nationalized industries (for example, Renault). The new program would not go as far, however, as Giscard had indicated in June: instead of 5%, the companies affected would have to turn over only 3% of their share capital to the employees. Some 2-3 million French workers would be directly benefiting from the measure.

The plan encompasses features that, for the time being, should keep it from approaching something like "people's capitalism," as some commentators have referred to it. The maximum distribution per worker would be FF 5,000. Also, the value of distributions to the most-favored group of employees (upper *cadres*) could not be more than three times that given to the least-favored group, the blue-collar workers. Furthermore, shares would not be negotiable within a period of three to five years, though they would be immediately eligible for dividends and voting rights.

Beginning in 1980, the distribution requirement would extend only to companies that reported a profit in at least two of the three previous business years. Covered by the requirement would not only be enterprises listed at the Stock Exchange but also their nonlisted subsidiaries. It would be at the discretion of all other nonlisted companies to participate in the plan on a voluntary basis.

The enterprises involved would be fully compensated for the distribution of newly issued shares, namely, by way of tax credits granted over a period of 10 to 20 years that would draw the same interest as listed treasury certificates. According to preliminary estimates, this would burden the treasury to the tune of FF 3 billion, and the interest debt of about 10% annually would cost the taxpayer another FF 3 billion in the course of a decade. Labor Ministry experts estimated that some 850 enterprises would be affected and that the total distribution would come to FF 3.1 billion, or an average of FF 1,380 per worker.

Austria: Voters Block Activation of A-Power Plant

With an extremely narrow majority of 1.6 to 1.57 million votes (50.5% to 49.5%), the Austrian electorate has refused to give the government the mandate to activate the Zwentendorf nuclear-power plant. The referendum on Nov. 5 had

A-Power Plant *(contd.)*

been called by Chancellor Bruno Kreisky to avoid an uncertain outcome of a parliamentary vote over the same issue. As it turned out, this strategy misfired.

Kreisky himself interpreted the referendum result as a personal defeat and a vote of no-confidence. However, he referred no further to his hints of possible resignation if the Zwentendorf proposal were rejected. Expressing full confidence in Kreisky, his Socialist party said it had to share the blame for the decision to hold the referendum. Party experts blamed the outcome on the "no" votes and abstentions of many Conservative voters who, while being in favor of the nuclear power project as such, could not bring themselves to lend political support to the Socialist government. Nevertheless, Kreisky said he was convinced that it was right to hold the plebiscite, Austria's first. "If we had not done this," he said, "then the parliamentary elections next year (in October) would have been entirely dominated by the pros and cons of nuclear energy." Another reason for holding the plebiscite, in the opinion of political observers, was the Swedish example, where the controversy over nuclear energy had led to the fall of two successive governments.

In the wake of the referendum, spokesmen for all three parliamentary parties in Vienna agreed that the voters' verdict had stopped, at least for the foreseeable future, the efforts to develop nuclear-power energy sources in Austria. The question remains, however, of what would be done with the Zwentendorf facility, some 20 miles northeast of Vienna, which was completed last year at a cost of 8 billion schillings (about $530 million). It is considered the most protected plant in Europe in terms of safety features, even though experts claim that it is located in a potential earthquake zone.

Supporters of the Zwentendorf project warned that its abandonment will sooner or later lead to severe energy shortages and higher energy prices. Austria is already importing 65% of its energy requirements, and this should rise to more than 80% by the end of the 1980s unless additional domestic sources are developed.

Common Market Reports

EUROMARKET NEWS

Issue No. 514 *November 21, 1978*

IN THIS ISSUE

munity: No Action on 'Incompatible' Fiber Cartel

The European Commission stated on Nov. 8 that the fiber industry's cartel agreement was not compatible with the Treaty of Rome, yet it declined to start antitrust proceedings as required by Regulation No. 17 *(Common Market Reports, Par. 2401)*. Instead, the Commission decided to appeal to the 13 cartel members, which include Europe's nine major synthetic fiber manufacturers, for a reform and amendment of the agreement. Notified to the Commission last June, the agreement seeks to cope with the problems caused by excess capacities. It provides essentially for production quotas and commits the parties to exercise price discipline.

Observers believe that the Commission's latest move may have dulled its antitrust weaponry. Letters outlining the objections to the agreement had been ready for almost two months but were not sent to the parties.

Two months ago the Commission had decided to postpone the start of antitrust proceedings until Nov. 8, reasoning that by that time it would have an in-depth report on the industry's problems and possible solutions to the legal problems posed by the agreement. The fact is, observers say, that the legal issues had been clear to Commission lawyers and practitioners for quite some time. These experts expressed doubts about the agreement's compatibility

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Fiber Cartel *(contd.)*

with Treaty Article 85(1) from the very beginning, when Commissioner Etienne Davignon was discussing the first draft with executives of the companies involved. The doubts grew stronger after the experts started analyzing the filed agreement. They finally decided that the agreement could not be reconciled with Treaty Article 85(1) and also could not qualify for an exemption under Treaty Article 85(3). A major obstacle was the fact that consumers would not stand to gain from the agreement, a basic precondition for an exemption.

Many Brussels observers believe the latest step to be a face-saving operation brought on by the difficulties the Commission is having in extracting itself from a situation created largely by one of its members. They say that Commissioner Davignon, in charge of industrial policy, encouraged the 13 companies to come to an arrangement to forestall the consequences of excess capacities. Davignon also is said to have been instrumental in the preparation of the draft regulation on crisis cartels, which would have empowered the Commission to temporarily exempt crisis cartels from the cartel ban. The draft was shelved in late September after it became clear that neither Article 85(3) nor Article 87 could provide any basis for such a regulation.

Commission Opposes Major CAP Reforms

Commission farm experts are hurrying to finish a paper on EEC farm reforms that will be presented to the heads of the nine governments scheduled to meet in Brussels on Dec. 4-5. What has become known so far to Brussels sources confirms earlier impressions that the Commission is against major changes in the Community's much-criticized common agricultural policy (CAP). Instead, it reportedly favors changes in pricing.

The Commission apparently believes that the best way to curb huge food surpluses - such as of milk and milk products, fruits, and sugar - is to set prices sufficiently low to deter overproduction. Drastic measures such as the imposition of quotas on individual farmers are apparently out of the question, and so are additional premiums to compensate farmers for lowering their production.

This approach will be a disappointment to France and the U.K., both of which had called for sweeping changes in CAP. The French government's reaction has come as a surprise to many because it was generally understood that French farmers were benefiting the most from the current system. London, which had come out for cash limits on funds for some commodities, believes that CAP's share of total Community spending should be reduced to below its present 70% and that the policy should be made more responsive to the needs of poorer regions.

The British call for changes in CAP has been supported by two studies published this fall, though what has been

CAP Reforms *(contd.)*

suggested may not be exactly what London wants. The World Development Movement, an organization promoting the interests of the world's poor nations, claims that CAP operates at the expense of the poor, i.e., the less developed countries. It is argued that, for humanitarian reasons alone, CAP should be changed to lower barriers and to give third-world commodities a chance to compete with EEC farm products. It is alleged that the current system, which encourages almost total self-sufficiency in some products, leaves little room for non-EEC products to compete in the Common Market. The study says that healthy competition would benefit the consumer through reduced prices, although the Movement concedes that some way must be found to maintain European farm incomes.

The other paper calls for a less cumbersome and more flexible system in the interest of the Community's own members. The authors, two independent British experts, believe there should be an annual limit on EEC spending, and they also suggest that joint agricultural and finance councils be set up to determine farm produce prices in place of the months-long haggling by the Council of Ministers, which now sets prices for each harvest year.

ance: ions Voice Opposition to Shares Plan

The French labor unions are taking an extremely skeptical view of the government's proposal for free distribution of shares to the employees of listed stock corporations. As previously reported, draft legislation to this effect had been approved by the cabinet on Oct. 31. Labor spokesmen commented that the envisioned financial participation of workers in their companies could be no adequate substitute for true codetermination rights. In the eyes of the Communist CGT, share ownership by itself would be no means of facilitating a "more democratic" working environment, and the more moderate Force Ouvrière (FO) also said it would not contribute to an improved social climate. Most workers, the FO said, are not as interested in becoming shareholders as they are in being well paid and in spending or investing their savings as they see fit.

Commentators in France have pointed out that this apparent lack of enthusiasm over the government's proposal is supported by experiences in the past with similar financial participation plans in companies. Generally, they said, workers have tended to make only sparing use of opportunities to participate directly in "corporate expansion." A 1967 decree, for instance, made it obligatory for enterprises with more than 100 employees to contribute a certain portion of profits to a special employee fund. However, only 1% of the potential beneficiaries opted for the purchase of shares, while 55% decided to keep the accumulated capital in the fund, and 44% voted to put it into investment funds. Thus, workers in private industry did not emu-

Shares Plan *(contd.)*

late their counterparts in the public sector (for example, at Renault or in the nationalized banks or insurance companies) by acquiring partial ownership of their companies.

It has been predicted that a similar response will be given to the government's newest share distribution concept. The reasons for this reluctance, it has been surmised, could be multifold: the traditional investor's mentality in France that favors real property over securities, the government's "paternalistic" attitude in this matter, and the wary position taken by both industry and organized labor.

Under the new proposal, which would take effect in 1980, enterprises affected would be required to distribute 3% of newly issued share capital. The government would compensate them initially by way of tax credits.

Italy: Public-Sector Pay Talks; Farm Contracts

Against a background of strikes temporarily crippling hospitals, schools and universities, airports, and the RAI state broadcasting network, the Italian government this month negotiated around the clock toward a three-year pay agreement with the public sector which would set guidelines for such talks in private industry. Reports from Rome on Nov. 10 said that the Andreotti administration had reached a "temporary accord" with the public-sector union federation, compromising on pay increases that it earlier had refused to grant. At one point during the discussions, Treasury Minister Filippo Pandolfi reportedly was prepared to resign rather than consent to concessions that would exceed the budgetary limits previously set.

The government also was troubled by intense political disputes over the proposed reform of farm leasing contracts *(patti agrari)* which would do away with the last remnants of the medieval system of tithe farming *(mezzadria)*. Already passed by the Senate last summer, the bill subsequently was stalled in the Assembly by right-wing Christian Democrats who considered it unconstitutional and wanted to amend it to better protect existing property rights. The Communists and Socialists as well as the Andreotti supporters in the ruling Christian Democratic party are opposed to such amendments and insist that the law go through in its originally proposed form. However, observers did not rule out some kind of compromise.

The *mezzadria* system, still covering some 80,000 farm operations, particularly in such regions as the Toscana and Emilia, involves the leasing of farm buildings and equipment and the provision of supplies to small farmers. The lessors, who own only 4% of the land cultivated under this system, under prevailing contract arrangements are entitled to half of the proceeds from such operations. In practice, however, these returns amount in many cases to up to 60%

Farm Contracts *(contd.)*

and have given many "investors" comfortable farm incomes, often to the disadvantage of the actual farm operators. A reform of this system has been demanded by Italy's political left ever since World War II, and a first step was taken in 1964.

The new law would permit the early termination of *mezzadria* contracts (after four years) and would accord lessees unrestricted leasing rights under which the leasing charges would be subject to state controls. The new contracts would have a duration of 16 years, and it is here where the property owners fear a steady erosion of their revenues and, eventually, expropriation. In fact, the country's Constitutional Court has already indicated its objections to certain provisions of the bill that could legalize such expropriations.

Germany: Poor Nations May Cancel Credit Debts

Thirteen of the about 30 least developed countries (LDC) have asked to be relieved from interest and principal payments on credits they have received from Germany in the past. These nations, located in Central America, Africa, and Asia, are taking advantage of Bonn's recent offer to cancel their obligations to repay credits totaling DM 4.3 billion. The debts would be erased by converting the credits into outright grants.

Germany thus has become the seventh creditor country to follow a resolution on the matter adopted by the U.N. Conference on Trade and Development last spring in Nairobi. The other nations that made similar offers are the U.K., Canada, the Netherlands, Norway, Sweden, and Switzerland.

Government officials in Bonn have revealed some of the criteria that will be applied in considering the LDCs' requests: an annual per-capita income of less than DM 200, illiteracy of at least 80 percent of the population, and less than 10% of the country's GNP stemming from industrial production. Acceding to the requests (many more are expected as the Dec. 31 deadline approaches) will mean a loss to the treasury of DM 70-80 million annually for the next 30 years. The Sudan was the first country to receive a definite commitment from Bonn; an agreement was signed a few weeks ago.

German aid to some 90 developing countries totaled DM 13.3 billion last year. DM 3.2 billion was in the form of official development assistance, and DM 9.5 billion was from investments by private industry. Churches and other charitable organizations contributed an additional DM 500 million to various causes. Last year's aid total means that Germany contributed slightly over 1% of its GNP, an amount that the U.N. Assembly voted to be the minimum the industrialized nations should contribute to the third world.

Britain: CBI Clarifies Stand on Pay, Participation

Employee participation, taxation, productivity and employment, pay, and the need to win export markets - these were the main issues on which the second national conference of the Confederation of British Industry concentrated this year. Held at Brighton on Nov. 6 and 7, the meeting was attended by 1,200 delegates representing over 700 companies and industrial organizations.

In dealing with employee participation, the delegates indicated their opposition to the CBI board proposal of "acceptance of limited backup legislation to encourage below-board-level participation." Instead, they approved a voluntary code of practice to encourage industrial democracy.

The conference almost unanimously supported a pay target "compatible with a further reduction in the rate of inflation, provided it is not imposed as a rigid limit and leaves sufficient flexibility for companies to improve efficiency." Sir John Methven, the CBI's director-general since 1976, said that settlements must be "around the 5-percent mark" to lessen inflation. He emphasized, however, that the CBI was firmly opposed to an incomes policy involving price controls: "We will have no part at all in any government-TUC (Trades Union Congress) deal which requires employers and managers to pay penalties which would gravely damage business interests and in particular any measures involving screwing down prices."

In the debate on export marketing, one of the speakers described as "appalling" the 1977 deficit of £1.7 billion in Britain's trade balance with other EEC countries and the £1.2-billion shortfall for the first six months of 1978, which represents a 20% increase over the year before. The EEC was Britain's largest customer, he said, yet industry was not taking advantage of that fact. Another speaker, Sir Peter Parker, chairman of the British Railways board, said British companies must "sharpen priorities in research, design, quality, delivery, and after-sales service."

Belgium: Worries over Fall in Foreign Investments

Throughout the 1960s, foreign investment was a prime contributory factor in Belgium's economic growth. Roughly speaking, it accounted for one-third of total new investment and financed close to 80% of total new plant construction. The influx of foreign capital was such that, in the manufacturing sector, one job in three was "foreign." Foreign companies, moreover, accounted for about 25% of Belgian exports and represented an estimated 45% of industrial assets.

Belgium is thus unusually dependent on foreign capital, and any falloff in investment will, as a consequence, affect this country more than any of its EEC partners.

Investments
(contd.)

This is precisely what has been happening in the last years, according to a newly released study by the commercial services division of Banque Bruxelles Lambert. The study demonstrates how new foreign investment in Belgian manufacturing industry in the period 1969-77 has fallen by 86%, which, as the report also stresses, has not been compensated by an increase in foreign investment generally. Furthermore, a large number of investors have either pulled out or are threatening to do so. In 1975-76 alone, over 100 investors closed down their Belgian operations, some of which represented large-scale commitments. (Chevron and Control Data are the outstanding examples.)

The most pronounced change of all relates to U.S. investment in Belgium. In the 1960s, it accounted for some two-thirds of total foreign investment. By contrast, the U.S. share in 1977 had slumped to 28%, and a further decline is expected, according to a recent poll taken by the American Chamber of Commerce in Belgium. A flagging dollar, comparative stagnation of European markets generally, and growing mistrust of sociopolitical and political-economic postures were given as the prime reasons for the U.S. disengagement.

The United States is not alone, however, in questioning Belgium's attractiveness as an investment location. As the Banque Lambert study shows, others among Belgium's traditional investment partners are now viewing escalating payroll costs, high taxation, worsening labor relations, and "punitive" labor legislation as major disincentives.

One school of thought insists that Belgium can rekindle foreign investor interest by taking action on the currency front. Specifically, it is argued that the franc should be devalued now, this being an opportune moment prior to Belgian entry into the new European monetary system. Others maintain, however, that devaluation in such a trade-dependent economy would inevitably give rise to unacceptable inflationary pressures.

Switzerland:
Social Demos' Drive to Lift Bank Secrecy

Following long preparations, Switzerland's Social Democratic Party has completed and publicized a draft document on a proposed constitutional amendment that would virtually remove the country's coveted bank secrecy rules and strip banks of many powers they now have. To be made the subject of a national referendum, the highly controversial "bank initiative" is plainly directed against self-employed individuals and aliens who reside in Switzerland for other than political reasons.

Specifically, the proposal provides that all banks and financial institutions be required to give out information to domestic and foreign fiscal authorities. An exception to this rule would apply in the case of Swiss nationals who

Bank Secrecy *(contd.)*

are able to furnish evidence of employment (i.e., most citizens) and of aliens considered "politically persecuted" or victimized by "serious deficiencies of tax proceedings abroad." The decision in cases involving foreigners would be left to the discretion of the federal government.

(Commentators said that adoption of the rule concerning aliens would automatically create two classes of depositors. If, for instance, a foreign potentate escaped from his country to seek asylum in Switzerland, the Bern government would be placed in the unenviable position of having to decide whether he was a political refugee or not, they said.)

The Social Democrats furthermore are campaigning for "more transparency" in the banks' balance sheets. Thus, the banks would be required to submit consolidated annual statements containing all valuations leading to the formation and dissolution of reserves. Also publicized should be participations and holdings and the value of administered portfolios and fiduciary assets. Similar publicity requirements would apply to corporate board memberships and transferred shareholder voting rights. Finally, there should be legislation to regulate the financial ties between banks and business enterprises.

In its first reaction to the Social Democratic proposal, the Swiss bankers' association declared that it regarded the initiative as a "superfluous attack on the (Swiss) economic system." The proposal was "completely unnecessary" and would have "a dangerous effect" on the economy and employment. Other banking representatives were quoted as saying that the new rules, if adopted, would put holes in the bank secrecy system "like those in a Swiss cheese."

U.S.-Swiss Link Reported on Insider Deals

In related developments, the U.S. Securities and Exchange Commission reportedly has acknowledged having established a "useful" relationship with Swiss authorities in obtaining information about individuals thought to have profited from insider deals in securities. According to a report by the Financial Times earlier this month, this connection was revealed to Stanley Clinton Davis, the U.K. parliamentary undersecretary of state for companies, while he was on a visit in New York. "The SEC claims it has built up most useful connections with the Swiss authorities which, to some extent, reduce the problem," Davis was quoted as saying.

The FT report said the U.K. authorities in recent years had been forced to abandon probes into insider dealings after Swiss banks refused to reveal details about client accounts.

Common Market Reports

EUROMARKET NEWS

Issue No. 515 *Report No. 358, November 28, 1978*

IN THIS ISSUE

Community: Court Stresses EC's Role in Atom Sector

The European Court of Justice has ruled that the member states may not conclude an international convention to protect nuclear facilities without the Community's participation. The Court has thus reminded the states of their obligations assumed in the three treaties (Paris, Rome, and Euratom) and has underlined its determination to stop any attempt to erode the Community's powers in a highly sensitive field through the back door of international treaties (Opinion No. 1/78, Nov. 14, 1978).

Concerned about possible misuse of nuclear materials, the U.S. government this year submitted a draft convention to the U.N.'s International Atomic Energy Agency pertaining to the protection of nuclear materials and facilities and the transport of fissionable matters. The primary objective is to keep nuclear facilities and fissionable matters out of the hands of terrorists and other unauthorized persons. The draft proposes the establishment of extensive preventive controls for the international transport of nuclear materials and of safeguards for nuclear facilities and storage. Also included are provisions for penalties and rules on the extradition of offenders.

Several member-state governments thought that there was no reason to get the Community involved, since the topics of the proposal - protection of objects by police or

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Atom Sector *(contd.)*

the military, prosecution and extradition of accused persons - remained under the states' exclusive jurisdiction. The European Commission felt, however, that the Community had to be a party to the planned convention to the extent that it has a monopoly in supplying buyers - i.e., the governments - under the Euratom Treaty. To end the confusion, the Belgian government asked the Court of Justice for an opinion on the matter under Euratom Treaty Article 103(3), which corresponds to Article 228(2) of the Treaty of Rome and under which the Court has given several binding rulings, the last one on the proposed laying-up fund for Rhine vessels.

Now the Court has clarified the situation: neither the Community nor the member states alone may conclude the treaty; both sides must act together. The Court underlined Euratom's monopoly in the production of nuclear materials within the Community as well as on imports from third countries. At the same time, the Court also stressed the states' jurisdiction to prosecute indicted individuals or to extradite them. The Court rejected, above all, the view of Council attorneys that Euratom has no part in exercising elaborate controls but should confine itself to conformity controls. The attorneys were of the opinion that checks should be made only to verify that legitimate owners of nuclear materials do not use them for unauthorized purposes. The Court said that Euratom has the powers to avert all dangers arising from the use of nuclear matters.

An interesting point in the Court's opinion concerns the ownership of nuclear matters. According to the Court, Euratom always retains title to these matters and merely sells the right to use them. This concept has consequences for the prosecution of accused individuals inasmuch as national criminal statutes may have to be amended.

Commission Plea for New Sources of Revenue

The Commission's paper discussing the need for additional revenue to finance the Community budget in the coming decade has had the expected cool reception in most national capitals. The reactions ranged from "It's much too early to talk about it" to "No need for it." No formal proposal has been made nor is one expected during the next two years, but the Commission wants to start up the discussions in the Council and the national capitals, so that at least a decision could be made either way before the end of 1979. A change in the present system - which was laid down in a 1970 decision and accorded the Community the revenue from customs duties, agricultural levies, and up to 1% of the yield from value-added taxes - would have to be ratified by the national legislatures *(Common Market Reports, Par. 5012)*.

What prompted the Commission to submit its thoughts on the matter to the Council of Ministers and the European

Revenue *(contd.)*

Parliament is the fact that revenue from customs duties has been declining over the years and will continue to do so as a result of tariff cuts negotiated with the EEC's trading partners in GATT or granted unilaterally to many nations, mostly the developing countries. Yet, expenditures are growing every year, and the Commission believes that the EC's current resources will be inadequate to finance the budget after 1981. According to the Commission, today's resources would remain insufficient even if spending on the common agricultural policy (now nearly 70% of the budget) did not rise faster than it does at present, or if expenditures were curtailed (which is what the Commission will propose to the heads of government at their Dec. 4-5 meeting in Brussels). There would not be enough revenue to launch major new policies, let alone continue aid to the African, Caribbean and Pacific countries under the Lomé Convention or help the new member states.

The Commission says that increasing the share from VAT would be one good way of raising revenue. Other possibilities discussed are a share of national excise taxes, such as those on beverages and cigarettes, or the introduction of a new tax, such as one on energy consumption or fuel. However, any suggestion along these lines would encounter stiff resistance in the national capitals because virtually all member states are hard-pressed for additional revenue and therefore are not inclined to give up any more of what they have. Several member-state governments had toyed with the idea of an energy tax following the 1973 oil crisis, but the plans never materialized.

Germany: Bundestag Okay for Tax Cut Compromise

The German Parliament's conference committee has arrived at a compromise on the administration's tax cut bill that would bring additional benefits for both individual and corporate taxpayers *(Doing Business in Europe, Par. 31,058)*. Approved by the Bundestag on Nov. 17 and subsequently given the consent of the upper house on Nov. 24, the measure will result in substantial relief for all individual taxpayers in that it will eliminate highly criticized inequities in the tax rate structure. Instead of a sharp jump in the tax rates from 22% to 30.8% when annual taxable income passes the DM 16,000 mark (DM 32,000 for married couples filing jointly), the tax rate curve will rise gradually to the maximum of 56%. The basic exemption that each individual taxpayer may claim will be increased by DM 390 (DM 780 for couples) to DM 3,690 (DM 7,380). Both the change in the tax rate structure and the higher exemption will cost the treasury some DM 10 billion annually.

Though the Opposition did not succeed with its demand for reintroduction of the exemptions that breadwinners formerly could claim for each child (a system replaced in 1974 by the present cash payment system), it was successful on

Tax Cut
(contd.)

two points. First, the monthly cash amounts for the third and each additional child will be raised from DM 150 to DM 200 as of 1979, and the increased amount for the second child (DM 100 monthly instead of DM 80) will be paid out starting on July 1, 1979, instead of on Jan. 1, 1980, as had been planned. Furthermore, taxpayers will be able to claim DM 1,200 per child annually for care of children up to the age of 12, but the tax office will insist on receipts to substantiate the costs.

Because more revenue has been coming in lately than was expected, government leaders gave in on several points that will benefit businesses. Not only will the payroll tax be abolished as of 1980, but businesses will be able to claim an exemption of DM 36,000 instead of the present DM 24,000 when computing the business profits tax. The exemption that businesses can claim when filing their business capital tax return for 1981 will be doubled, from DM 60,000 to DM 120,000. A feature of German tax law that has long annoyed the business community - debts are considered to be part of capital - has been softened: business taxpayers with long-term debts will now be entitled to a DM 50,000 exemption. This change will help primarily small businesses. All in all, the tax cuts for the business community will amount to about DM 4 billion annually.

Cities and villages that will be forced to abolish the payroll tax will be compensated by getting a larger share of the income tax revenue: 15% instead of the current 14%. Another change in the revenue-sharing system will enable local governments to keep more of the proceeds of the business tax *(Doing Business in Europe, Par. 23,393)*.

The government will recover nearly two-thirds of the expected loss in revenue by an increase in the value-added tax rates. As of mid-1979, the normal rate will rise from the current 12% to 13%, and the lower rate payable on the purchase of food items, among other things, will go up from 5.5% to 6.5%.

France:
More Action
to Stimulate
Employment

Concurrent with the announcement of the latest unemployment figure - a record-shattering 1.34 million at the end of October - the French government this month approved a number of additional labor policy measures and sent them to Parliament. The publicity campaign accompanying the action convinced many observers that the new program was essentially meant to serve an alibi function and to detract from the fact that no effective solutions have yet been found to cope with the problem.

The proposed legislation lowers the maximum hours permitted in a workweek from 52 to 50 but does not cut the legal ceiling of a 48-hour weekly average over a period of 12 weeks. (The government said it was not prepared to preju-

Employment *(contd.)*

dice the negotiations of the industrial partners over the general subject of work-time reductions. Also, it stated, France would not act independently in this area but only in conjunction with its other EEC partners.)

Other parts of the draft legislation deal with granting social cost relief to small businesses that are training apprentices, introducing fixed working contracts for certain types of jobs, and tightening regulations for temporary employment agencies regarding social insurance contributions. The state would continue to give assistance to those unemployed individuals who are prepared to go into business by themselves. Job seekers who take on a position with a French firm abroad would be offered a bonus. (The cost is estimated at FF 20 million, and only 1,500 persons are expected to take up this offer.) Finally, the government wants to create 5,000 additional public-service jobs and find slots for some 1,000 *cadre* employees above the age of 50 who have been unemployed for at least one year. About FF 160 million has been set aside for this purpose.

The continuing need for measures to support the labor market and for other social welfare programs meanwhile has forced Paris to boost its previously budgeted deficit from FF 8.9 billion to 29.8 billion. Part of this shortfall is also caused by an overestimation of fiscal revenues, which run FF 10.7 billion below the original targets. Within the next month, the government plans to float another state bond issue to ensure the financing of the deficits. In this connection, it has pledged not to let money growth exceed the nominal increase in GNP so as to avoid any inflationary pressures.

Britain: Social Security Arrangement Urged with U.S.

The U.S. Internal Revenue Service has recently decided to enforce a regulation dating from 1954 whereby visiting foreign nationals (and their employers) are liable for the payment of U.S. social security and unemployment taxes in proportion to the actual time spent on business in the United States. Theoretically, this could even apply to one-day visits. The Federal Insurance Contributions Act states that such payments - equivalent to roughly 15% of gross salary - must be made by everyone working in the States, regardless of whether he or she is considered a resident for tax purposes. Until recently, however, the authorities have exercised discretion in this matter, apparently for lack of implementing regulations.

Last year plans were approved for formulating "totalization agreements" with overseas countries, which would mean that U.S. and foreign personnel would be covered under their respective national social security systems while working abroad. No such agreement has been reached as yet with Britain. Nevertheless, American businessmen and oth-

Social Security *(contd.)*

ers are entitled to National Health Service treatment while visiting in the U.K., and the Confederation of British Industry emphasized this point when recently protesting to the Inland Revenue that there was no corresponding charge imposed on the U.S. visitors.

Although few cases have arisen to date, the CBI has urged that the social security payments be brought within the scope of the new Anglo-American double-taxation treaty, on which agreement still has to be reached. However, in the United States such contributions are not regarded as income tax for fiscal purposes, and so there may be some difficulty in making provision for them in the treaty. An additional problem is that if the employer meets the employee's liability, then the latter may be liable to U.K. income tax on this amount, which would be deemed "a benefit in kind" taxable under Schedule D(i).

"It will not affect the way we look after our own in United States business," was the reaction of one U.K. company, the Imperial group, "but it will be an administrative inconvenience." The British business community was generally hoping that the CBI would be effective in securing the inclusion of social security payments in the eventual treaty.

DeLorean Plant to Cost U.K. Ŀ65 Million

In a written parliamentary reply on Nov. 15, Don Concannon, a U.K. minister of state for Northern Ireland, said that the British government is to contribute some Ŀ53 million, or 80% of the total cost of Ŀ65 million, for establishing a plant in West Belfast to produce the new DMC-12 sports car. The factory will employ 2,000, and so the investment for each new job created would be in excess of Ŀ26,000. This figure is being justified with the fact that the plant is to be located in an area of very high unemployment.

The founder of the company, John DeLorean, previously a group vice-president of General Motors, envisages annual sales of at least 20,000 cars, mostly on the American markets. The British government is to receive Ŀ185 for each of the first 90,000 units sold, and Ŀ45 subsequently. However, the Dept. of Commerce has made grants of nearly Ŀ18.75 million toward buildings, plant, and equipment and approximately half that amount for the first 1,500 workers. Also, loans of more than Ŀ6.5 million have been granted to cover construction costs; they are repayable at commercial rates. In addition, no rent is due for three years on a factory building belonging to the Department.

The Northern Ireland Development Agency will contribute Ŀ17.75 million by way of an equity stake in the company. The British government will appoint two directors to the board of DeLorean Motor Co. to safeguard the high level of investment which, observers said, is perhaps indicative of the difficulty the government has experienced in trying

Plant
(contd.)

to attract overseas companies to strife-torn Northern Ireland.

Denmark: Renewed Push by Unions for Profit Sharing

The demand by the Danish labor federation that its concept of "economic democracy" be made an essential component of future collective bargaining has been roundly rejected by the country's employers' federation and has caused mutual relations to break down, at least for the time being. "We are not talking to each other at the moment," one industry representative was quoted as saying.

The unions are pushing for rapid implementation of a general profit-sharing system supported by corporate contributions to a central employee fund. For the most part, the contributions would be in the form of shares, and the gradual accumulation of these shares would give workers growing codetermination rights within stock corporations.

Meanwhile, a commission appointed by the Labor Ministry has calculated the impact of various profit-sharing models on the companies affected and on the industrial balance of power in general. The results, according to the employers' federation, have demonstrated in each case "hazardous economic collectivism," which would lead to an investment stop and the loss of thousands of jobs.

The original labor proposal, presented five years ago, provided for the employers, including the public sector, to contribute to the central fund the equivalent of 5% of total payroll. One-third of the contributions would be in the form of shares and the remainder in other forms of "responsible" capital. There would be an initial transitional period of 10 years, with contributions rising by 0.5% each year until the full 5% level was reached. The government-appointed experts have calculated that, on the basis of this model, half of the corporate share capital in Denmark would be in the possession of the central employee fund after 27 years. In some labor-intensive sectors and companies, this limit would be reached much sooner. It was assumed in these calculations that the workers would participate on an equal basis and that they would be permitted to withdraw their share after a seven-year waiting period.

Other profit-sharing models, in which both payroll and profitability are used as criteria, invariably would accord the central fund a controlling function within 10 to 20 years. However, such concepts are unlikely to find a majority in the Danish parliament, particularly now that the governing Social Democrats have formed a coalition with the Liberals.

Faced with the political realities and unwilling to wait much longer, the Danish labor federation apparently hopes to bypass parliament by incorporating these demands

Profit Sharing *(contd.)*

into the collective bargaining process. As previously reported, the latest proposal is that stock corporations contribute 1% of annual payroll and 10% of after-tax profits to a central fund as of Jan. 1, 1980. For companies with more than 50 employees, two-thirds of this contribution would be in the form of shares.

Switzerland: Loophole Closed for Foreign Investors

Although under growing pressure by the domestic banking community for a removal of the ban on Swiss investments by nonresidents, the National Bank has now moved to close a loophole for such investments that had opened up recently because of a change in regulations. The circumvention of the ban worked with the following method, Zurich reports said:

Foreigners purchased from Swiss investment funds certain franc-denominated certificates, with at least 80% of the latter's proceeds being invested abroad to conform to Swiss regulations. The foreigners then sold the certificates and had the proceeds deposited in "personal investment accounts," which have been permissible since Oct. 1, 1978, for privileged "existing" foreign capital in Switzerland. They then drew on these deposits to purchase bona fide Swiss securities on a franc basis. (By contrast, it has not been allowed to use "new" foreign capital for such securities purchases since Feb. 28, 1978.)

The National Bank meanwhile has informed the commercial banks of the prohibition applying to such bypass transactions. Nevertheless, its authorities tend to share the general feeling in the country's banking community that the investment ban is no longer in keeping with the changed monetary climate. Since Oct. 1, the Swiss franc has not been floating freely, and Bern is intervening on behalf of the D-mark and dollar. However, political reasons appear to prevent the lifting of the ban at this time. Such a step probably will come only when the exchange rate of the franc has dropped far enough to remove the most immediate dangers to Swiss export competitiveness.

To help the exporters and the domestic tourism industry weather the impact of the overvalued franc, the National Bank recently introduced additional measures to prevent exchange rate losses in these sectors. Not eligible for the aids - which involve currency forward deals in dollars and D-marks - are business transactions already covered by export risk or currency risk guarantees.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Action to Cut Chances of Oil Spills in Sea

The Council of Ministers has taken several steps to make international shipping safer and to reduce the chances of maritime pollution caused by the breakup of oil tankers. The measures are designed to prevent accidents, especially in the North Sea and the English Channel, similar to the Amoco Cadiz disaster. (The damage claims filed by the affected French coastal communities against the ship's owners amount to around $400 million.)

One of the Council's actions, presented in the form of a recommendation, urges the member states to sign the 1978 International Convention on the Training, Certification, and Watchkeeping of Seafarers by April 1, 1979, and to ratify it by the end of 1980. This convention was drafted last summer in London under the sponsorship of the Inter-Governmental Maritime Consultative Organization (IMCO), and all member states except Luxembourg took part in the drafting.

As a second step, the Council passed a directive that obligates the member states to have available a sufficient number of qualified pilots who would board

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Oil Spills *(contd.)*

ships of any nationality and guide them through the English Channel and on certain North Sea routes. The deadline for compliance is Jan. 1, 1980. Norway and Sweden also have indicated their readiness to join the program.

Minimum standards for tankers entering and leaving Community ports are laid down in a third Council measure. All tankers, no matter of what nationality, with over 1,600 registered tons will as of 1980 be required to notify the national authorities when entering or leaving a port, and at the same time they will have to furnish information about the cargo and possible engine or hull defects. National officials will be permitted to board the incoming ships and, with a checklist similar to that used on airplanes, ascertain the condition of the ship and its equipment as well as safety devices and backup gear; they will also be checking on the number of crew members and their qualifications.

Meanwhile, the European Commission has sent a proposal to the Council that would harmonize national rules governing ship inspections carried out in Community ports and bring the rules up to the standards adopted by IMCO, especially safety standards and those concerning the discharge of oil. The IMCO standards are not binding at present, but the proposal would make them binding on the member states. Furthermore, the Commission is planning to submit to the Council some time next year another proposal that would establish rules on the frequency of ship inspections in Community ports and the criteria to be applied.

EEC, ASEAN to Enter into Discussions

The meeting between the foreign ministers of the EC and the Association of South East Asian Nations (ASEAN) on Nov. 20-21 produced one major result: the two sides agreed to preliminary discussions on the content of a cooperation agreement. The European Commission will soon open an office in Bangkok, Thailand, to organize practical cooperation for the entire ASEAN area. The meeting also demonstrated EEC recognition of ASEAN as a political entity and underlined the fact that any agreements would be made with the Association rather than its individual members (Malaysia, Thailand, Singapore, Indonesia, and the Philippines).

ASEAN was founded in 1967, but it did not make much progress in the area of economic cooperation until early 1977, when its members agreed to grant each other preferential treatment in tariff matters. This year tariff cuts ranging between 10% and 20% went into effect for some 800 products; the number of qualifying products is to be increased gradually. As a customs union, ASEAN reached an important point for purposes of trade negotiations (especially for GATT) and customs matters in that its territory is considered to be one area of origin for the members' main trading partners.

ASEAN *(contd.)*

At the November meeting, the foreign ministers of the five Asian nations inquired about the chances for an expanded export revenue stabilization system similar to that in effect for some 56 African, Caribbean and Pacific countries under the Lomé Convention *(Common Market Reports, Par. 4281)*. These chances are not good at the present time, but Council officials say that this may change because the Community is interested in the region as a supplier of important raw materials. Another consideration for helping the Association is the Community's interest in the region's political stability.

In Brief...

Bonn's failure to comply with the sixth Council VAT directive (legislation on the matter is still in committee) has prompted the Commission to start proceedings against Germany under Treaty Article 169 and to base Bonn's contribution to the EC budget again on GNP rather than 0.77% of VAT revenue. Belgium, Denmark, and the U.K. have complied with the directive; France, Ireland, Italy, Luxembourg, and the Netherlands have not notified the Commission that they will be unable to comply and thus have spared themselves proceedings under Article 169 + + + The French government's decision not to ask the National Assembly to ratify the 1976 Convention Against Chemical Pollution of the Rhine River has caused disappointment in Bonn and The Hague. The convention seeks to prevent continued pollution of the Rhine by France's government-owned Alsatian potassium mines' pumping tailings into underground caves; Bonn and Paris would bear most of the costs. Gaullists have come out against the draft, fearing permanent pollution of the groundwater, and observers say that Paris cannot ignore their opposition because of their role in the coalition government.

Germany: Codetermination Law to Be Tested in Court

The Federal Constitutional Court heard oral arguments at the end of November on four complaints challenging the constitutionality of the 1976 Codetermination Law, which entitles labor to half of the seats on the supervisory boards of large companies *(Doing Business in Europe, Pars. 30,863, 30,904)*.

Nine companies, the national business federation (BDI), 30 industry associations, and a private organization promoting and protecting ownership of securities lodged complaints with the country's highest court. They allege that the 1976 law violates the Constitution's clauses guaranteeing private ownership and freedom of association; the four cases have been joined. The federal government at first declined to join the proceedings and submit comments, but later it did so. The Bundestag took part from the beginning, and its lawyers argued that the law is constitutional. A decision is expected very early next year.

Codetermination *(contd.)*

The nine companies contend that Sections 7 and 27 of the 1976 law violate Article 14 of the Constitution, which guarantees property ownership and permits expropriation for limited purposes only, and then only against compensation. Section 7 provides for equal representation of labor on the supervisory boards of companies with more than 2,000 employees. The complainants say that Section 7 nevertheless permits inroads on private ownership because it does not preclude situations where the shareholders might be deprived of their rights flowing from stock ownership - namely, to determine corporate policies and to control management.

Section 27 concerns the elections of a board's chairman and his deputy. Although a candidate needs a two-thirds majority (and hence backing from some labor representatives) to be elected chairman, the law states that the shareholders' representatives alone may elect the chairman on the second ballot if the candidate fails to get two-thirds of the votes on the first ballot. The complainants say, however, that this would not always be the case; they can visualize situations where a labor representative might be elected chairman. This could happen if some shareholders' representatives favored the labor candidate because they themselves represented stock held by a union or an organization generally sympathetic to the labor cause

Also in question is the constitutionality of Sections 29 and 31, which pertain to the details of voting on resolutions by the supervisory board and to appointment and recall of managing board members. The complainants allege that a labor representative who has been elected supervisory board chairman might use his double vote to break ties to the detriment of the shareholders. They also allege that the law's system for appointment and recall of managing board members is so cumbersome and alien to practice that it might cripple the functioning of an enterprise. The complainants point out, for example, that the law proceeds from the assumption that all shareholders' representatives would always be present at the supervisory board meetings or, in their absence, would convey in writing their vote on a particular proposal. Practice has shown that this is not always the case, they say.

Britain: Green Paper on European Monetary System

The British government published on Nov. 24 a Green Paper (Cmnd. 7405) entitled "The European Monetary System" in which it examines the implications of U.K. entry into the proposed system. No decision was expected, however, before the Brussels meeting this week of the heads of the EC governments, and no total British commitment to full participation was foreseen in the immediate future. The Green Paper favors in principal a strategy for greater monetary stability, but it has reservations about the best methods

Green Paper *(contd.)*

to achieve this. "No currency intervention, however large the resources used for it, and no country, however powerful, can in the long run hold an exchange rate if the fundamentals are wrong."

The government has stipulated certain requisites for the system. It must be durable and effective, otherwise the stability of European currencies would be damaged. It should be "truly European" and should be capable of embracing all Community members, allowing for the divergencies in their economic situations and for the time needed to achieve major progress toward convergence. The system should impose obligations on its stronger members symmetrical with those falling on weaker countries. There need to be adequate support funds for any necessary interventions on the currency markets, and allowance should be made for realigning exchange rates within the system according to economic dictates. The system ought not to be detrimental to other currencies, including the dollar, or jeopardize the effectiveness of the International Monetary Fund. Finally, there should be net transfers of resources on the right scale to the less wealthy members to promote economic convergence.

The U.K. government does not favor a system that operates on the basis of a "grid parity," in which two currencies always reach their intervention margin simultaneously when the gap between them is 2.25%. In such a case, the government with the weaker currency then has to suffer a loss of reserves or adopt deflationary policies, while the country with the stronger currency is not under corresponding pressure to take expansionary action. Rather, the U.K. would prefer that each currency be allowed to fluctuate within an agreed margin of its reference rate against the "basket" of currencies making up the European currency unit, which would be substituted for 20% of existing reserve assets and which would act as the *numeraire* of the system.

The Green Paper ends with the statement that it would be extremely difficult to assess the effect of a higher exchange rate - if, indeed, it were higher at all - and says that the government cannot yet reach its own conclusions on whether it would be in the best interests of the U.K. to join the EMS finally agreed upon.

<u>France: Parliament Approves 15.2% Budget Rise</u>

With a vote of 276 to 201, the French National Assembly has approved the government's 1979 draft budget, which calls for expenditures of FF 459 billion - a rise of 15.2% over this year. The Opposition, including the Socialists and Communists, voted en bloc against the budget, arguing that it reflected a policy "of austerity for the workers and of prosperity for a few large groups." Also, Opposition

Budget Rise *(contd.)*

spokesmen said, it did not put enough emphasis on solving the "central question of unemployment." The Gaullists, who are part of the government majority, said they supported the budget "without much enthusiasm."

Based on projected revenues of FF 446 billion, the '79 budget provides for a deficit of FF 13 billion. In addition, there will be a shortfall of nearly FF 2 billion resulting from "operations of a temporary nature," so that the total deficit should come to about FF 15 billion. Some commentators wondered, however, whether the Barre administration would be able to keep the deficit within the limits proposed. They referred to this year's shortfall, which originally had been put at only FF 8 billion but subsequently soared to FF 30 billion as the result of three supplementary budgets in support of economic activity and employment.

In its revenue projections, Paris anticipated a real-term economic growth rate of between 3.7% and 3.9%, which compares to an OECD prediction of 3.5%. The government said that the proposed rise in public spending of 15.2% was comfortably exceeding a predicted rate of 12.9% in nominal GNP growth, so that France would be fulfilling its commitment for the stimulation of the domestic economy that was given at the world economic summit last summer.

To partially cover the deficits, Paris again is turning to the taxpayers, even though Premier Raymond Barre is adhering to his "Blois Plan" pledge not to raise income, value-added and corporate taxes until the end of next year. Instead, however, the government is tapping other revenue sources: tobacco and alcohol taxes will be increased (FF 1.2 billion), and gasoline prices are going up, too (FF 5 billion). Further, there will be increases in various public fees (e.g., for car registrations, hunting licenses, resident permits for aliens), which would improve the revenue situation by another FF 200 million or so. On the expenditure side, the most apparent change is the allocation of FF 31.1 billion toward the support of the labor market. This is 48% more than this year and indicates that Paris does not count on an appreciable reduction in unemployment in 1979.

Shutdown of Steel Complex Idles 6,300

A series of "rotating" strikes was given as the official reason for the shutdown on Nov. 22 of France's most modern steel complex, Solmer, at Fos-sur-Mer. The move resulted in "technical unemployment" for some 6,300 employees, or 90% of the work force. Sporadic strike action had begun on Nov. 6 with management's announcement that a falloff in orders was forcing the company to schedule short shifts. The unions refused to accept this reason, arguing that Solmer's situation was far better than that of most other steelmakers. They said the shutdown was apparently imposed to de-

Shutdown *(contd.)*

tract the workers from their demands for a fifth shift and the introduction of the 35-hour week.

The huge steel complex at the Rhone delta in southern France went on stream in 1974. With an output of 2.8 million tons last year, it was operating at 80% of capacity. Employing 7,100, the company is owned in equal parts by Usinor and Sollac, a Sacilor subsidiary. Germany's Thyssen recently divested itself of a 5% equity.

Belgium: Government Adopts Steel Rescue Plan

A BF 60-million, seven-year rescue plan for the ailing national steel sector was approved on Nov. 24 in a Belgian cabinet meeting in which Etienne Davignon, the EC's industry commissioner, also participated. Davignon, who is in charge of a program for the restructuring of the Community steel industries, emphasized the urgency of the Belgian measures.

The interim government, which runs the affairs of state until the early general elections on Dec. 17, said its plan allowed the private owners to retain responsibility in the companies involved and that the state was not partaking actively in management. On the other hand, the government had an obligation to exercise control over the public funds to be injected into the steel sector.

In practical terms, the state will be represented on a parity basis on the administrative boards. It will seek financial participation of 60:40 vis-à-vis the "stable" private shareholders - that is, the major financial groups. Thus, it would become the majority shareholder. This would be particularly true for Cockerill, the country's No. 1 steelmaker, but also for companies located in the Charleroi Triangle. State participation would be much lower (20-30%) in the more modern Sidmar and Clabec steel groups. The public financial holdings will be split equally between the National Investment Corp. (SNI) and its respective regional counterparts (SRI).

The Belgian labor federations have tentatively sanctioned the plan despite the fact that it could mean the loss of up to 15,000 jobs - one-third of the steel sector's current labor force. A final decision is to be made at the end of January, after the unions will have had a chance to study reemployment programs now being initiated by the government.

Italy: Cabinet Shift; 'Consortial Companies' Bill

Carlo Donat-Cattin, the Italian minister of industry, resigned his post on Nov. 23 after weeks of argument within the government over the choice of his successor. Following his election as deputy chairman of the Christian Democratic Party (DC), Donat-Cattin wanted to turn over his portfolio to a man of his own choice from within the DC. Instead, Cabinet Shift *(contd.)*

the appointment went to Romani Prodi, 39, a professor of economics and industrial policy at the University of Bologna. Prodi is the first political independent to join the cabinet. It was reported in Rome that Prime Minister Giulio Andreotti had wanted to use the opportunity to make additional cabinet changes but that this was blocked by the other parties.

In other developments, the Italian Senate has spelled out in draft legislation the conditions under which domestic banks may undertake direct industrial participations as part of the financial revitalization of companies. It is taken for granted that the law would be applied in the reorganization programs for various chemical groups, among them Liquigas, SIR, and the synthetic-fiber divisions of Montedison and Snia Viscosa. The bill provides for a new legal business form, namely, the "consortial" company on a share basis *(societa consortile per azioni)*, which would be activated to rescue heavily indebted enterprises. Consortial companies, in which the lender banks could participate, could be established only within three years of the law's enactment and could have a maximal life of only five years.

Switzerland: No Progress for Federal Finance Reform

The Swiss government's efforts toward a revision of the federal finance structure, which would include the introduction of value-added tax, are still being stalled. A revenue concept proposing such new tax sources as a 5% levy on fiduciary deposits and a freeway tax for tourists has found no acceptance in either chamber of Parliament. Also, no final decision has been made yet on whether there will be a 7% or 8% standard rate of VAT (the latter would replace the existing cumulative turnover tax - *Doing Business in Europe, Par. 31,023*). The government is now cautiously advocating a 7% rate, even though it likes to point out that VAT rates in other countries are well above the 10% rate.

While the introduction of VAT would definitely aid the Swiss exporters, Bern still faces the problem of making it palatable to the voters, who again will have the final word in a referendum. The problem apparently is how to find adequate compensation for low-income groups, who would be most affected by the impact of VAT on retail purchases.

Common Market Reports

EUROMARKET NEWS

Issue No. 517 *Report No. 359, December 13, 1978*

IN THIS ISSUE

Community: Jan. 1 Start for Monetary System

Six of the nine heads of government who attended the EEC summit meeting in Brussels on Dec. 4-5 decided that the European monetary system (EMS) is to become a reality on Jan. 1. The United Kingdom said it would take part only if the EEC's agricultural price support system were gradually dismantled, an idea the other states firmly rejected. Some observers believe that London fears the EMS's intervention device would bring too great a risk of inflation. The fact is, all of the system's members are taking that risk, but they nevertheless believe that the plan is worth a try if currency stability is the result. Ireland and Italy want to postpone a decision until their parliaments have been consulted. The EMS's initial members would be Belgium, Denmark, France, Germany, Luxembourg, and the Netherlands. Austria, Switzerland, Sweden, and "snake" member Norway have expressed interest in joining.

The heart of the monetary system is the European currency unit, or ECU, which would largely correspond to the existing European unit of account (EUA). One ECU would express the value of a member's currency in relation to that of the other members. All debts and credits among the members would be expressed in ECUs, which would also be used

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Monetary System *(contd.)*

to balance accounts among the central banks and the not-yet-established European Monetary Fund, tentatively scheduled to come into being in two years. Until that time, a member's reserves put at the system's disposal would remain that country's property. For a start, the member countries would make available to the system 20% of their gold and dollar reserves, and they would receive ECUs in return. These reserves would total roughly 25 billion ECUs.

The members' currencies would be held stable in relation to each other by an intervention system. Each currency would be fixed at a particular rate but could fluctuate 2.25% above or below that figure. However, it was agreed that precautionary action be taken as soon as a rate comes within 25% of the intervention point. In such a case, it is expected that the country involved observe four basic rules: (1) proceed with "diversified" intervention, (2) enact internal economic measures, (3) consider a change in the lead rate, or (4) initiate other policy steps. If no such actions are taken, all EEC central banks would have to be informed of the reasons. If necessary, consultations would then take place within the Council of Ministers.

Delay for Social Security Equality Rule

On Nov. 27 the Council reached agreement on the directive for the progressive implementation of the principle of equality in social security matters. Formal adoption is expected within a few weeks. The measure is the third in this field, following the equal-pay directive and that on equal treatment for men and women in respect of access to employment, vocational training, working conditions, and promotions *(Common Market Reports, Par. 3910.123)*.

The objective of the latest directive is to gradually eliminate national provisions that discriminate against men and women as far as access to social security, contributions, and benefits is concerned. Whether this objective will be attained depends on the extent to which the member states invoke the rights granted under the directive. For example, they could exclude equal treatment of women with respect to retirement age and old-age pension benefits. The mandatory retirement age for women is usually lower than that for men, and therefore the pensions are accordingly lower. In many states, retired men are entitled to additional benefits for their wives, but women are not entitled to corresponding benefits for their husbands. Under the directive, the states could retain this form of discrimination. Furthermore, they could also retain rules that favor women, such as pension credit for time off to raise a family.

When the Commission proposed the measure to the Council in December 1976, it was aware of the political and budgetary implications that such a directive would have. That is why it called for gradual application of the equal-

Equality *(contd.)*

treatment principle. The original proposal also would have allowed the states to retain discriminatory rules for two years following adoption. However, the discussions in the Council's working group revealed heavy resistance, primarily for budgetary reasons. Several member states made adoption of the measure dependent on the statutory option to retain certain discriminatory rules.

Commission officials are not entirely happy with the measure's final form, but they say that it may have one advantage: the implications for new member states would not be so great when they assume the commitments to bring their social legislation up to par with Community rules.

In Brief...

The Commission has proposed a general directive to the Council that would harmonize technical standards for construction materials and thus stimulate intra-EEC trade. Standards for building materials differ widely in the Community or, in some cases, do not exist at all. Once the Council has given its approval to the framework directive, the Commission would submit specific proposals on individual products + + + Commission lawyers no longer rule out substantial changes in the products liability draft directive. The draft has been criticized by most governments as well as by all national business associations. Objections from the U.K. and Italy have been so strong that their consent to the measure depends on major changes; both governments believe that the proposal is too far ahead of statutory rules and case law.

Britain: Government Plans Sanctions Against Ford

The nine-week strike of 57,000 manual workers at 23 plants of Ford U.K. has ended in a settlement that is in breach of the government's pay guideline of 5% and will thus lead to certain official sanctions on Ford's British operations. During the stoppage, the company lost production of 117,000 vehicles valued at £450 million, though actual damage will be markedly less because of savings on wages and maintenance.

The final agreement involved an 11.5% increase in basic wages and holiday pay, along with an "attendance allowance" of about 6%, which will not be payable if workers are persistently late or are involved in official or unofficial strikes. During the past year, Ford had lost about £100 million because of unofficial disputes, and its chairman, Sir Terence Beckett, said that if the supplementary payments were successful in stopping only 44% of these walkouts, they would cover all excess costs of the settlement over and above the 5% government guideline. (Ford has made no concessions, however, in regard to union demands for a 35-hour workweek.)

In reaction to the settlement, Chancellor of the Ex-

Ford
(contd.)

chequer Denis Healey said account would be taken of the breach in placing future contracts and in granting discretionary financial assistance, such as development loans, temporary employment subsidies, and export credits. In addition, purchases under some existing contracts may be stopped in cases where such contracts do not oblige the government to continue purchases year by year.

At present, Ford sales to the public sector total some £100 million. Government departments have been asked not to place future contracts with Ford, unless there is no alternative supplier and the product is essential. However, no such request has been made to local authorities. In fact, the Conservative-controlled Greater London Council has decided to increase its purchases from Ford. Also not affected will be arrangements already agreed to, such as the new engine plant at Bridgend in South Wales involving government assistance of £148 million.

Prime Minister James Callaghan, in justifying the sanctions, said there was an overriding national interest: "We are not ready to see the big fish get away with it, while we catch only the tiddlers." Healey said that to allow a breach of this size "to pass without action would have been a betrayal of the confidence of half a million people who have already settled within the guidelines..."

Sir Terence Beckett, Ford's chairman, termed the government action "arbitrary" and said "it is astonishing to have sanctions imposed on one of the country's major economic winners when less successful companies are supported with public money." Ford has given an undertaking not to seek price increases above 5% at present, and it believes that the settlement will not prove inflationary. Observers believe that the latest developments might lead Ford to review its U.K. investment.

The Confederation of British Industry said it was totally opposed in principle to the use of sanctions by the government to enforce its pay policy. "It is particularly unfair and unjust," said director-general Sir John Methven, "to penalize companies which have suffered long-ranging strikes in support of that policy and against totally unreasonable claims."

Germany:
Steel Strike
Unnecessary,
Economists Say

The German steelworkers' strike has been termed unnecessary and unwarranted by independent economists. It is the steel industry's first labor dispute in 50 years, and the walkout of some 37,000 steelworkers in eight mills - the main suppliers of the country's prospering auto industry - came when union demands and management offers could not be reconciled. The employers reacted to the walkout by locking out some 29,000 workers.

Steel Strike *(contd.)*

Initially, union negotiators had demanded a 5% wage increase and, more important not only for the steel industry but also for the entire economy, a 35-hour workweek. Forty hours is now common for the steel industry. After even union economists figured out that the immediate introduction of a 35-hour workweek would be tantamount to a 12.5% wage boost on top of the 5% pay increase that was demanded, the labor leadership relented and merely asked for a firm commitment from management to cut weekly working hours in stages, leaving the time element to be settled in the negotiations.

Steel industry negotiators had originally offered to raise wages by 3% and to grant an additional two days' vacation. Later on in the four-month talks they offered four vacation days on top of the 26 days provided by law and the expired union contracts. Since neither side was prepared to make further concessions, the rank and file voted overwhelmingly for the walkout.

Independent economists believe that the union leadership is on shaky ground. Although steel production during the third quarter of 1979 was up 15% over 1977 levels, the industry is far from being in the healthy position it enjoyed in the early 1970s. The European Commission initiated its crisis plan for the Community's steel industry last year because steel production in the Community as a whole is declining. Critics say that union leaders have painted a rosy picture for the membership, when in fact they know better because most of them are members of the supervisory boards of one or more steel companies and thus have an inside view. (The first codetermination law of 1951, giving labor half of a steel or mining company's supervisory board seats, has been credited for the peaceful labor situation in the steel industry - *Doing Business in Europe, Par. 23,441*). However, the leadership is under pressure, the critics go on to say, from both left-leaning union economists and the rank and file, which has become disenchanted with the modest demands made in recent years.

France: Government Defeat on VAT Harmonization

For the first time in the current legislative session, the French government on Nov. 30 suffered a defeat in the National Assembly with the rejection of a bill that would have adapted national law to the EEC's sixth directive on value-added tax harmonization. The directive will enable the European Community to finance its budget partially from a share of member-state VAT revenue *(Common Market Reports, Par. 5012)*. The bill was voted down as 134 members of the 155-member Gaullist faction joined the Socialists and Communists in charging that Parliament had not been sufficiently consulted on the matter. The motion against the draft legislation was sponsored by Jean Foyer, a Gaullist and former justice minister. Foyer, who is the chairman of

Defeat
(contd.)

the Assembly's legal committee, said the defeat of the bill was necessary to prevent the introduction of similar "devious practices" in the future.

The damage done to the government by the outcome of the vote was more political than practical in nature. The Barre administration can still incorporate the bill into its general budget law. Nevertheless, the Assembly action was interpreted as a strong warning to the government that it cannot ignore the strong forces concerned about a loss of French sovereignty under the European Community umbrella.

Strike Leaders Ordered to Pay Compensation

In what commentators described as a possible precedent-setting decision for France, a Rouen court has ordered six strike leaders to pay compensation to 24 colleagues who did not participate in an illegal walkout. Paris reports, in commenting on the decision, said the management of a packaging company, Sodipan, had refused to pay wages for work hours lost because of the unauthorized wildcat strike. Two dozen workers who had not taken part in the action filed suit against the instigators of the strike, seeking compensation for lost pay. The court ruled that the six defendants, all of them members of the Communist CGT union, must pay FF 20,000 to their colleagues.

CGT spokesmen protested the Rouen decision, saying that it calls the right to strike into question. They sa[id] the ruling would be appealed. Commentators noted that an affirmation of the decision by a higher court would undoubtedly have far-reaching consequences for the French labor scene and would be regarded as a grave challenge by the country's trade unions.

Italy: VAT Evasion of 'Monstrous Proportions'

The evasion of value-added tax in Italy has reached "fairly monstrous proportions," according to a spokesman of the Senate finance committee, which is currently examining the problem with a view toward reducing the extent of evasion. The results of the study are to be submitted in the spring of next year.

The assessment of the finance committee is being shared by the country's association of tax consultants, which has submitted to the Senate committee the findings of its own examination of the phenomenon. This probe showed that only 132,786 VAT returns were filed last year by Italy's 1.41 million self-employed craftsmen and by 5.6 million individuals engaged in crafts as a sideline. More than half of those who did file VAT statements reported annual sales of less than 2 million lire. By comparison, 348,000 of 400,000 self-employed professionals registered their VAT obligations last year.

On the basis of data collected so far, the Senate fi-

Evasion *(contd.)*

nance committee estimates that some 20,000 billion lire in taxable sales turnover annually is being concealed from the fiscal authorities. This corresponds to 12% of gross social product. Given an average VAT rate of 15%, the tax revenue thus lost adds up to about 3,000 billion lire, the committee says.

Other figures compiled by the tax consultants' association are even more dramatic. Despite tightened controls, it reported, there are still some 4 million individuals with taxable income in Italy who have never filed an income tax return. This amounts to an evasion of approximately 8,000 billion lire, so that the total tax revenues not collected come to 11,000 billion lire, or about one-third of this year's public deficit.

Some Easing of Currency Controls

The lira's steady performance during the most recent dollar crisis has encouraged the Italian authorities to move toward a distinct relaxation of the currency control system, which previously had been handled in a very restrictive fashion. Whereas the issuance of Bank of Italy permits for the "export" of currency used to be an extremely slow-moving bureaucratic process, such approvals have become relatively easy to acquire during the past month or so. Furthermore, the Ministry of Foreign Trade has considerably raised the overall ceilings on short-term export credits to 5,000 billion lire (or $6 billion) on a rollover basis, and for medium-term credits to 3,500 billion lire ($4.2 billion).

As a result of the prevailing mood of confidence, external currency transactions generally have become easier to carry out - from opening a foreign exchange account to repatriating profits from Italian investments. Cash, however, does remain a problem. Anyone leaving Italy, regardless of citizenship, needs a permit to cross the border with more than 100,000 lire ($120) in currency of any kind. If a visitor enters with a significant amount of cash, which he intends to take back upon departure, Italian law still requires a declaration to border authorities on Form Mod. V2. Otherwise, proof of entry with the cash will be required in order to obtain the requisite permit.

EURO COMPANY SCENE

General Motors

General Motors Corp. has announced plans to build a plant for the production of automotive batteries in France. To be located at Sarreguemimes (Lorraine), it will be the first in Europe to produce completely redesigned, maintenance-free batteries. GM will not only equip its own cars with the batteries but also plans to sell them to other European automobile makers. The plant is to be completed in early 1981 and will probably employ 600.

GM/ Renault/ Mack

According to Paris reports, General Motors and France's Renault are considering a joint venture for the production of six-cylinder, 150-200hp engines for trucks. The same reports said that Mack Trucks Inc.'s international division was very close to an agreement to sell Renault medium-sized trucks through its North American distribution network.

Renault/ Bendix/ Renix

In related developments, Renault and the United States' Bendix Corp. have established a joint subsidiary, Renix Electronique, which is to produce electronic car components in a plant near Toulouse. An investment of FF 80 million is foreseen, and the plant eventually is to employ 450. Renault holds a controlling 51% stake in Renix.

Monsanto

Monsanto Europe SA, Brussels, a subsidiary of Monsanto Corp., will establish an agricultural research center in Belgium and plans to invest some BF 100 million for that purpose.

Mannesmann/ Tally

Mannesmann AG, the German engineering concern, has made an agreed cash offer of $33 million for the 2.35 million outstanding shares of Tally Corp., Kent, Wash. Mannesmann already holds 31% of the Tally equity. The latest offer amounts to $14 per share. The fast-growing U.S. firm is a manufacturer of peripheral data-processing equipment and reported a 1977 turnover of $40 million.

Morgan Guaranty

Morgan Guaranty Trust Co. has announced plans for a London-based unit to underwrite and trade Eurobonds. Subject to required regulatory approvals, the bank said, a company to be called Morgan Guaranty Ltd. will be formed as a subsidiary of Morgan Guaranty International Finance Corporation, which is an "Edge Act" company wholly owned by the bank. Besides its underwriting and trading activity, Morgan Guaranty Ltd. will assist clients in the private placement of debt securities. Application has been made for Federal Reserve Board approval and for required authorization from the Bank of England and the U.K. Department of Trade. Plans call for the new company to have initial capital of $10 million.

State of Louisiana

The State of Louisiana Office of Commerce & Industry has announced the opening of two European offices, in Paris and Frankfurt, for the promotion of industrial investment and trade. Appointed as director was Donald C. Burdon (Paris) and as deputy director Carl Koch (Frankfurt).

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Setback for Accession Talks with Greece

Negotiations between the European Community and the Athens government over the terms of Greece's accession suffered a temporary setback early this month when the Greeks rejected some of the proposed entry terms, describing them as "disappointing and unacceptable." Foreign Minister Georges Rallis said his government would draft a memorandum on the Greek position, which should help clarify the situation prior to the next round of talks.

It was reported from Brussels that the Council of Ministers' latest offer to Greece was "considerably less generous" than that advanced by the European Commission a few weeks ago. At that time, the Commission proposed that there be a five-year transition period for bringing two-thirds of Greek farm product exports up to the level of EEC prices and a seven-year period for the remaining one-third, which would include olive oil, fats, meat, and dairy products *(Common Market Reports, Par. 9809)*. Because of stiff resistance by some member states, the Council decided that the seven years of transition be extended to eight and that the latter products category be enlarged to include wine and certain fresh and processed fruits and vegetables.

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Setback *(contd.)*

The Brussels reports said that the Council's latest proposal means that nearly two-thirds of Greece's agricultural exports would come under the eight-year waiting period, which would be another step away from Athens' demand that all of its farm products be made eligible for the shorter five-year transition period.

The negotiations were further complicated by differences of opinion over when to allow Greek workers free movement throughout the Community. Here, too, the EEC has advocated an eight-year transition period, whereas the Greek government has insisted on free movement from the moment of accession. It was reported that the Germans in particular were concerned that a generous arrangement for Greece could possibly set a precedent for Spain when that country begins to discuss accession terms with Brussels. The Schmidt administration believes that the current domestic unemployment situation cannot tolerate an increase in Germany's foreign labor population. (On the other hand, there are legal experts within the German government who concede that Bonn's push for a transition period of 15-20 years could be unreasonable and who warn of possible action by the European Court of Justice.)

On the positive side, EEC and Greek negotiators last month agreed on the new voting representations in the Council and other EC bodies: Greece would have five votes, like Belgium and the Netherlands. Following Greek accession, the qualified Council majority for action on Commission proposals would be 45 votes; six of the 10 member states would constitute a direct majority. Also completed, for all practical purposes, are discussions in three major areas: accession to the Coal and Steel Community, membership in Euratom, and capital transactions.

In Brief...

The Commission and the European Investment Bank (EIB) on Nov. 27 signed the formal convention that clears the way for a lending facility of up to 1 billion units of account that is to be used to raise the level of investment in the EEC. The Commission will now be in a position to spell out to the Council the criteria it proposes to apply to projects that are to be partially funded through the facility + + + In its formal opinion on Spain's membership application issued on Nov. 29, the Commission recommended that, prior to accession, Madrid should support Community efforts to restructure the textiles and steel industries, while the EEC would help in promoting industrial reorganization in Spain. The Commission also advocated a relatively long transition period for extending the common agricultural policy to Spanish farm products. This would serve to prevent undue disruption of the Community's farm markets and avoid hardships for agricultural exporters in France and Italy. The Commission apparently has not yet decided just how long the transition period should be.

Netherlands: Public Sector Puts Pressure on Government

Following the breakdown late last month of tripartite talks over a national wage agreement for the private sector, Holland's public-sector employees also vented their dissatisfaction with the government's incomes policy proposals contained in the three-year economic blueprint "Bestek '81." On Dec. 6, more than 6,000 of them staged a series of selective walkouts and worked "according to rule." The strikes and demonstrations had been called by the unions that represent about 1.1 million organized workers in the public sector and civil service.

The disagreements that led to the collapse of the central wage talks were more concerned with the government's proposed social benefits cuts rather than pay policy as such. In the Netherlands, the legal minimum wage, social benefits, and civil service remuneration are being adjusted semiannually to collective wage increases in the private sector. The government is now trying to shave 0.5% off this adjustment each time over the next three years, beginning on Jan. 1. (Most recently, however, the Social Affairs Minister indicated that he might be satisfied with a 0.3% reduction.)

The adjustment mechanism has become a budgetary problem for The Hague. For instance, in the last six-month period, the bonuses previously paid separately to construction workers were made an integral part of pay, which had the effect of raising the official wage scale without actually resulting in earnings improvements. Still, this caused a "technical" rise in the wage index, which would give government employees and social welfare recipients an "unearned" boost in benefits of 1.6% and would cost The Hague an extra 1 billion guilders or so. According to data issued by the Statistical Office, the upward adjustment normally due on Jan. 1 would be 2.3%. Without the revised pay system for construction workers, it would be 1.7%, while the government-proposed general reduction would bring it down to only 1.2%.

Another unresolved issue in the abortive talks was the reduction in work time demanded by the unions. The government had reluctantly agreed to a moderate cut in daytime work, provided this would not result in extra costs. Mainly because of internal disagreements, the unions were not ready to take firm positions on this, except to insist that the most viable industry sectors assume part of the costs.

Most observers in Holland have come to the conclusion that neither employers nor unions are too unhappy with the failure of the central bargaining talks, since the present situation leaves them free to make individual deals on a sector-by-sector basis. The government, on the other hand, cannot look forward to any separate arrangements that would pose a threat to its economic austerity plans.

Some Progress for European Options Mart

The fledgling Amsterdam-based European Options Exchange announced last month that it intends to list French stocks, though only three at the beginning. The announcement came soon after the Bank of France had given formal permission for French residents to trade options in foreign shares on markets outside of France. Previously, such trading was precluded by French foreign exchange control legislation. (However, French residents are still not permitted to trade French share options on foreign markets - for instance, in Amsterdam or Chicago.)

EOE spokesmen said they were also encouraged by the fact that negotiations are continuing with West German monetary and banking authorities in an attempt to create favorable conditions for German banks to deal on the Exchange. Hong Kong also has expressed a definite interest in the EOE's activities, not least perhaps because several EOE members have offices in the crown colony.

The EOE managing director has noted, however, that the Exchange continues to face opposition from members of French, German and U.K. stock exchanges, partly because they fear that the EOE will erode the market in the underlying shares. This, said Dr. Bert Scholten, is highly improbable: clearing takes place in the country where the stock is quoted, and stocks will not be handled in Amsterdam unless a client specifically requests delivery there, he said.

Meanwhile, the EOE's general director, Tjerk Westerterp, confirmed that the Exchange will sustain operational losses of some 5 million guilders in its first two to three years of operation. To recoup these losses and initial establishment costs (estimated at about 12 million guilders) it will be necessary for turnover to increase significantly from present figures, which peak at 3,000 contracts traded daily. It is calculated that the break-even point for the Exchange (as opposed to the profits/losses of member firms) will come at about 7,000 contracts daily. A major step toward achieving this total should come in the first quarter of 1979 with the introduction of "put" alongside the present "call" trading facility, i.e., conferring the right to sell as well as buy shares.

At last count, the EOE had 15 market makers (11 of which are active traders), 70 public order members, 37 floor brokers, and 11 clearing members.

France: Tax Protocol Delay Worries Americans

Because of a delay in the U.S. Senate ratification of the recently signed French-U.S. tax protocol, it is possible that the incomes of some Americans residing in France will be temporarily subject to taxation by both countries, according to Paris reports quoting U.S. tax experts in France. The protocol, amending the 1967 French-U.S. double

Tax Protocol *(contd.)*

taxation treaty, was signed in Washington last month but cannot take effect until it is ratified by both governments.

The protocol so far is not on the 1979 agenda of the U.S. Senate, whereas the French parliament was expected to ratify it before the end of this year. This step would repeal as of Jan. 1 Article 164(1) of the French tax code, which in the past has protected U.S. residents in France from double taxation *(Doing Business in Europe, Par. 30,921)*. To avoid complications, U.S. diplomats, business representatives, and lawyers have urged the French government to postpone the repeal until the U.S. Senate ratifies the protocol. There were no indications, however, that Paris was willing to do so.

Layoff Plans, Closures Cloud Labor Picture

The news of numerous plant closures and mass dismissals all over France has led to fears that the postwar unemployment record just established (1.34 million in October) may again have been broken. Headlines were made early this month by the confirmation of the Lorraine steel group Sacilor that it would soon begin to lay off 8,500 workers. At the same time, France's other major steel producer, Usinor-Châtillon, was rumored to have plans for a 25% reduction of its work force until 1980, which would affect 12,000 employees.

Earlier, the Acières de Paris et d'Outreau steelworks of Boulogne, in which the U.S. Steel Corp. holds a 27% equity, announced that it would have to dismiss half of its 3,000 workers. Over the past three years, the company has run up mounting losses, which in 1977 totaled FF 103 million on sales of FF 538 million and in the first nine months of this year FF 92 million on sales of FF 450 million. For some reason, Paris reports said, the firm was "overlooked" in the reorganization plan set up for the French steel industry last September.

Outside the steel sector, the name of Manufrance - a leading manufacturer of sewing machines, bicycles, and hunting weapons, among other products - was added to the list of troubled companies. Management of Manufrance (St. Etienne) said last month it would have to let go 1,300 of its 2,600 employees after having suffered severe financial problems for years. Recent monthly losses of FF 10 million would result in bankruptcy by February, management reported in November. A rigorous rescue plan, although endorsed by the unions, has been rejected by the Communist-governed city administration, which is the principal shareholder. There is a chance, however, that the Paris government - which in past years extended credits totaling FF 8 million - will again step in to save jobs.

Meanwhile, employers and trade unions in France are still arguing over the best means of adjusting the coun-

Layoffs
(contd.)

try's unemployment insurance system to the present situation on the labor market. Currently, unemployment compensation varies between 35% and 90% of last previous pay during three to 12 months, depending on the age of the recipient and the cause of his unemployment. Employers and unions share the view that this wide compensation spread has to be contracted, but they have not been able to agree on a new scale of benefits.

Italy:
Rome Decides on Immediate Joining of EMS

In a step that surprised both the Italian public and the European Community partners, the Rome government on Dec. 12 said that Italy will participate from the start in the new European monetary system (EMS). In making the announcement before the National Assembly, Prime Minister Giulio Andreotti described the cabinet decision as "coherent" in terms of its importance to the domestic economy.

Nevertheless, political observers everywhere wondered what caused the change of mind, after Italy a week earlier had said it would postpone its decision on joining the EMS. It was speculated that Andreotti's stalling in Brussels had been a tactical move to give opposing factions at home enough time to reflect on the consequences of staying out of the system. Also, Andreotti apparently calculated that none of the political forces in Rome was really prepared to foresake the Community financial aid that would be available to Italy as an EMS member.

The government's "forward escape," as one commentator described it, could well result in another government crisis, however, since the Communists and Socialists had openly declared their opposition to joining unless the Community was ready to make much greater concessions in the transfer of financial resources to Italy.

Failure of Bill for Industrial 'Commissioners'

The National Assembly's inability to come to a decision within the prescribed 60-day period has forced the Italian government to scrap a decree that would have provided for the appointment of "super commissioners" to help stave off bankruptcy for Italy's crisis-ridden industrial groups. The proposed decree had been approved by the cabinet on Oct. 5, but no agreement could be reached in parliamentary committee within the deadline prescribed by law. Worked out by ex-industry minister Carlo Donat-Cattin, who resigned last month, the decree was designed to give special commissioners extensive powers in turning around stricken industrial concerns and safeguarding employment there.

The failure of the draft legislation was interpreted as a defeat for Andreotti's own party, the Democrazia Cristiana, as well as for the Communists, who had been the most fervent proponents of the proposed measure. On the other hand, it was a clear victory for the Republicans, who

Commissioners *(contd.)*

had torpedoed the bill by introducing some 200 amendments in committee. The Communists are now accusing the government of not having exercised its powers of appointing the commissioners immediately after cabinet approval of the decree. This would have "bought time" and helped such groups as Liquigas-Liquichimica and SIR-Rumianca, which have been forced to close plants and release thousands of workers after depleting state funds available to them.

It was not immediately clear in Rome what the government would do now to aid the affected companies. Romano Proddi, Donat-Cattin's successor in the Industry Ministry, said he would prepare new draft legislation for a reform of certain company and bankruptcy law provisions and submit it to the cabinet in the very near future.

Britain: Government Issues Study on Strikes

The U.K. Dept. of Employment has published in its monthly gazette a detailed report on a major study of industrial stoppages in Britain from 1966 onward, but concentrating on a seven-year period up to 1973 ("Strikes in Britain," by C.T.B. Smith and four coauthors, HMSO London, December 1978). The study is confined to actual stoppages and does not include other types of industrial action, such as "working to rule." In addition, strikes involving less than 10 employees, or lasting for less than one day, are not included unless the total number of workdays lost exceeded 100. Lockouts are treated as strikes, but there is no information on the extent to which workers were idled by strikes at other plants. An analysis is provided of the industrial and geographical distribution of strikes, occupations, and the proportion of unions primarily involved.

Between 1966 and '73, the number of strikes in the U.K. averaged over 2,600 annually and resulted in the loss of some 9 million working days. International Labor Office figures on strikes in the mining, manufacturing, construction and transport industries indicate that between 1966-75, an annual average 775 workdays per 1,000 employees were lost. Between 1966-70, this figure was 404 days, rising steeply to 1,146 between 1971-75. In comparison, during the 1966-75 period the United States lost an average 1,319 workdays, Canada 1,849, and Italy 1,766. For Germany, the average was only 52 days. The British record was slightly better than that of Ireland (927 workdays lost).

Less than 5% of all strikes were official, but these comprised over 408 of all workdays lost. There were considerable differences between various industries in the proportion of officially endorsed strikes: over 36% in banking, finance, and insurance, and one-tenth of 1% in mining and quarrying. There was a concentration of strike action in five particular industries - coal mining, docks, shipbuilding, iron and steel, and motor vehicle manufactur-

Strikes *(contd.)*

ing. These accounted for one-fourth of strikes and one-third of all workdays lost, although covering only about 60% of employees in those sectors.

Between 1966-73, those participating in strikes were "overwhelmingly" manual workers, and an average 85% of stoppages concerned them alone. Although there are 495 registered unions in Britain, members of six large unions (unidentified in the survey), comprising 50% of union membership, were involved in 80% of all strikes, while only 3% of strikes did not involve any union members.

OTHER NEWS

Norway

The Norwegian and Swedish governments and the management of Sweden's Volvo automobile group on Dec. 8 finally signed the Volvo agreement in Oslo. Also signed were commodity exchange contracts involving Norwegian oil and Swedish wood. According to an agreement first announced last May, the Norwegian government and private banks will take a 40% stake in the newly formed Volvo Svenskt Norskt AB. The total Norwegian investment would amount to some 1.2 billion kroner. The parliaments of both countries still have to sanction the deal, which in Norway's case is not absolutely certain because of serious political opposition.

Spain

Nearly 88% of those who participated in the Dec. 6 vote approved of Spain's new constitution, which is to guarantee the country's commitment to democracy on the basis of a parliamentary monarchy. However, only 58% of eligible voters went to the polls, and in the Basque territories the "no" votes totaled 24% and abstentions, 53%.

Portugal

The new 14-man Portuguese cabinet, headed by Premier Carlos Mota Minto, has approved a 1979 budget draft providing for a deficit of more than 90 billion escudos. This includes a shortfall of about 20 billion escudos projected for the state enterprises. The government plans to draw up short-term and medium-term economic development programs that would give more support to private businesses than in the past.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: New Drive Against EEC Trade Barriers

The European Commission has vowed to intensify its drive against new barriers to intra-Community trade that member-state governments have been erecting in order to shield national industries against competition. Over the past two years the Commission has received roughly 400 complaints about such protective measures from manufacturers, industry associations, consumer organizations, members of the European Parliament, and various member-state governments. The number of complaints has been rising as the performance of many industries has been declining and governments are trying to avoid layoffs. Commission officials say that the true extent of the practices may never be revealed.

Considerations of safety, the environment, and consumer protection are usually used as a pretext for devising obstacles to intra-EEC trade. But there are others, such as the demand for additional documents that exporters must present to customs. Technical standards have increasingly been used by major exporting countries such as Germany, France, and the U.K. as an excuse for barring imports.

According to the Commission, all member states are to a certain extent guilty of violating the free-trade princi-

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Trade Barriers *(contd.)*

ple. In many instances in the past the Commission has convinced the states to abandon protective measures; in other instances it has had to take them to the Court of Justice. The EC tribunal has ruled that the requirement of licenses and documents of origin is incompatible with free trade, and so is the imposition of fees on imported products, since these have the effect of quantitative restrictions, which are also barred by the Treaty of Rome.

Early next year the Commission will invite officials of the nine governments to Brussels to talk about ways of eliminating various protectionist barriers. A major topic will be industrial standards. Every year Germany introduces some 1,500 new standards, and France and the U.K. introduce about 1,000 and 1,800, respectively. While establishment of such standards does not violate the letter of the Treaty, Commission lawyers say, it does violate the Treaty's spirit when standards are given as the reason for denying import of a product from another state. For example, a metal lathe that does not meet German standards may not be approved by the agency that tests products for safety and thus would be denied importation. On the other hand, if it were approved with reservations but the insurance premium for it were higher than for a comparable German product, it would still be the standard that acts as an import barrier. Germany has so far rejected approaches from other national governments, but in January Bonn will either reveal its position to the Commission or face having the issue settled by the Court of Justice.

Legal Row over EC's 1979 Budget?

The political tug-of-war between the European Parliament and the Council of Ministers over the Communities' $18-billion budget for 1979 may be heading toward a confrontation at the European Court of Justice. This course of action seemed imminent to many Brussels observers when the Parliament on Dec. 14 adopted the budget against the Council's veto. Only the day before, the Council had expressly stated that it considered the proceedings not yet closed. EP president Emilio Colombo, however, considered the budget to be formally adopted after the EP overwhelmingly voted for it. He based his view on Treaty Article 203(6), which says that the EP may act within 15 days on the modifications the Council makes to its amendments and adopt the budget accordingly. If it does not act within this period, the budget is considered adopted *(Common Market Reports, Par. 5021)*.

Council attorneys disagree with this interpretation and actually would welcome legal clarification by the EC Court. They reportedly saw the conflict coming when the Council on Nov. 20 failed to reject with the necessary majority the EP's action that raised expenditures for the Regional Fund by 500 million UA to 1.1 billion UA. Italy and the U.K. supported the EP's stand. The Council then took

Budget *(contd.)*

the position that the EP could not lawfully adopt the final budget so long as it had not come to an agreement with the Council about the necessary expansion of the budget beyond the 11.4% boost scheduled for '79.

In recent weeks the Council had sought to avoid the conflict by suggesting to the EP a smaller increase for the Regional Fund. It believed it could not meet the EP's demands because it felt it was bound by the Brussels Dec. 5 summit, which rejected substantial additional finance for the fund, a move that originally had prompted Italy and Ireland to postpone their decision about joining the European monetary system.

Several Parliament members maintain that the Council could not sue the EP but only the Commission, which would spend the increased funds. They say that if the Council wanted to prevent the Commission from spending the money, it would have to bring suit before the EC tribunal. In this situation, the Commission could ask for a legal opinion from the Court. Should the Commission decline to spend the additional funds, EP members say they would introduce a motion of censure against the EC executive.

In Brief...

Architects and veterinarians are next in line to be granted the right of establishment and the freedom to provide services in the various states. Adoption of the architects' directives is expected shortly; German architects have either a university education or a technical school degree, and not all of the states have wanted to extend recognition to the latter. Passage of the directives on veterinarians has been held up by the question of how many drugs, especially hormones and penicillin, a vet may carry with him when he makes his rounds to farms. Several member states want to curb the use of penicillin to stimulate growth of livestock.

France: Higher Social Contributions as of Jan. 1

The French cabinet this month moved to do something about the mounting deficits of the old-age pension and health insurance funds by raising contribution rates for both employees and employers. The action was bitterly criticized by the unions, employers, and the political opposition. The Communist CGT labor federation called for "national countermeasures," and the Patronat employers' federation said the government had broken its promise not to raise the tax burden for a two-year period.

The insurance funds are running combined estimated deficits of FF 6-7 billion this year and FF 12 billion in '79. Through the higher contributions, which take effect on Jan. 1, they will improve their revenues by about FF 15 billion next year and by 18 billion in 1980. Employees will have to account for roughly two-thirds of the increase

Contributions *(contd.)*

(particularly those in the high-income brackets) and the employers for the remainder. However, the latter so far have had to bear 78% of the total burden - a fact the government evidently noted in its decision.

Specifically, contributions to the old-age pension system will be lifted by 1.75 points to 12.9% of the pay assessment ceiling, which was also raised from FF 4,000 to 4,470 per month. Of this, employees will have to contribute 1.25 points and the employers, 0.50. The extra revenues should add up to FF 8.7 and 9.45 billion in 1979 and '80, respectively.

Employee contributions to the health insurance system will be raised indirectly in that the pay assessment ceiling will be gradually abolished. Thus, an employee will continue to contribute 4.5% of gross pay, but only 1.5 points will be within the new pay assessment ceiling of FF 4,470, which will affect *cadre* employees most of all. (As of 1980, the assessment ceiling will be eliminated entirely.) The employers' share also remains at 13.45%, but the contribution outside the assessment ceiling will rise to 4.5 points. The new measures will improve pension insurance revenue by FF 4.8 and 6.4 billion, respectively, in the next two years.

In addition, the government intends to impose a mandatory health insurance contribution of 1% on basic pensions and of 2% on supplemental pensions, which would strengthen revenues by some FF 1.2 billion annually. There will be a number of smaller augmentary measures to lower costs in the hospital administration sector and to slow drug consumption. Finally, the alcohol tax is to be raised by 10% (plus FF 640 million in revenues).

Earlier, the National Assembly had passed legislation making it possible to spread the 40-hour workweek over four days with 10 hours each, provided this meets with the approval of the works council. The law is designed to help companies that want to experiment with the four-day workweek.

Germany: Bonn Averts Crisis over Nuclear Issue

Bonn's coalition government averted a major crisis this month when six Free Democrats in Parliament decided to abstain rather than vote against an administration-sponsored resolution calling for the establishment of an expert commission to look once more into the risks of developing fast-breeder technology. The resolution implicitly shows determination to go on with further development of fast breeders as a source of energy for the 1990s. (The vote resulted in the defeat of an Opposition resolution asking the federal government to instruct the state government of North Rhine-Westphalia to issue a building permit for the third stage of the Kalkar fast-breeder project.)

Nuclear Issue *(contd.)*

Only the threat of four Free Democratic ministers to resign from the coalition cabinet convinced the six MPs to pull back, although the latter were merely adhering to a party convention resolution passed last October that called for a halt in further construction until the commission's findings were available. This would have meant a delay of 36 months for the multi-billion-mark project, which is being financed not only by Bonn but also by the Belgian and Dutch governments.

Government officials concede that the resolution was introduced into the Bundestag for political rather than legal reasons: the administration does not want to give the impression that it is ignoring public opinion on a hotly debated issue. The legal situation was clarified recently by the Federal Constitutional Court. A farmer near Kalkar went to court with his protest against the planned expansion, and the administrative appellate court at Münster eventually asked the country's highest court whether the government had the statutory power under Section 7 of the Atomic Energy Law to make decisions of such magnitude. The Constitutional Court ruled that the government does have the power, and it emphasized that the public's interests are sufficiently guaranteed under the law. The court admitted, however, that under the present state of technology there remains an "area of uncertainty" as to the overall risks involved.

Denmark: Deadlock Broken in Collective Wage Talks

The stalemate that had governed the Danish collective bargaining talks for the past few weeks appeared to have been broken in mid-December when the LO labor federation agreed to drop its demand to make the issue of industrial democracy an integral part of the discussions. From the very start of the talks in the fall, the employers had been adamant in refusing to negotiate this topic, saying that it would constitute an unacceptable change in the country's economic system. The unions had tried to push a proposal whereby stock corporations would have been required to contribute 1% of annual payroll and 10% of after-tax profits to a central employee fund as of 1980. For companies with more than 50 employees, two-thirds of this contribution would be in the form of shares.

The labor federation withdrew from its stated position after it became clear that it could expect no real support from the Social Democratic Party (SDP), the senior partner in the government coalition with the Liberals. Thomas Nielsen, the outspoken boss of the LO, had again lashed out at this partnership with the Liberals at a recent SDP congress, publicly expressing his hope that the government would soon fall. However, the congress fully backed the party and its chairman, Prime Minister Anker Jörgensen, who had been urged by Nielsen to resign.

Wage Talks *(contd.)*

It was expected in Copenhagen that the industrial partners would now be able to resume their talks over the renewal of collective contracts, which expire on March 1. The breaking of the deadlock does not mean, however, that both sides have in any way moved closer to reconciling their drastically different demands, which government officials have termed "unrealistic." The LO is asking for pay increases, work-time cuts, and vacation extensions that, according to the employers, would raise labor costs by a combined 30-35%. Industry, on the other hand, wants a three-year contract providing for actual reductions in pay. This, the LO maintains, would lower real-term wages by about 20%.

In other developments, the Folketing on Dec. 15 approved the 1979 budget, which projects a gross deficit of 39 billion kroner. (The budget covers the calendar year for the first time; so far the fiscal years extended from April to the end of March.) As part of the budget plan, the government sought approval for borrowing up to 7 billion kroner abroad next year, the largest authorization ever requested. It is also intended to borrow up to 25 billion kroner on the domestic market, so that the total public borrowing requirement - inclusive of redemptions of existing debts - will run to about 39 billion kroner.

Belgium: Elections Fail to Bring Major Shift

As had been anticipated in many quarters, Belgium's early parliamentary elections held on Dec. 17 failed to bring about significant political shifts, yet changed power structures enough to possibly make it harder to form a new government. Overall, the parties previously joined in a six-party government coalition had to accept losses. However, the voting pattern was very differentiated and could be analyzed only on a regional rather than a national basis. The electorate participated reluctantly in the balloting (Belgian law makes voting mandatory), and many voters, by invalidating their ballots, expressed their frustration over having to go to the polls again after only 20 months. The share of those who did so rose from 5% to 10% compared to the previous election.

The elections produced one distinct loser: the Flemish Volksunie, which had campaigned from a radical-federalist platform, lost six of its previous 20 seats in the 212-seat Assembly. As a member of the outgoing coalition government, the party had participated in working out the plans for the Belgian state reform, and many voters evidently thought that it had made too many concessions to the francophone factions. The most gains were reported by the Flemish Liberals, who added five mandates to their previous 17. Under the leadership of ex-finance minister Willy de Clercq, they had campaigned as an opposition party for more tax relief. Apparently, this issue was accorded more weight by the voters than the state reform.

Elections *(contd.)*

Belgium's largest party, the Social Christians, won an additional seat, for a total of 57. This did not meet its own expectations of winning the absolute majority in Flanders, where its share of the vote stagnated at about 44%. Thus, it was described by all other political groups as the "moral loser" of the election. Nevertheless, the party of Leo Tindemans, the ex-prime minister, can hardly be ignored when it comes to forming the next Belgian government.

Britain: Government to Push Microelectronics

At a Dec. 6 meeting of the National Economic Development Council, U.K. Prime Minister James Callaghan pledged the government's overall commitment to Britain taking full advantage of the "revolutionary" developments in microelectronics. He said that these aroused "a mixture of fear and excitement" because there would inevitably be some crucial job losses, balanced by the creation of new employment and various social benefits. Secretary of Industry Eric Varley said the government would be investing a sum similar to that spent by France and considerably more than Germany in order to boost microelectronics development. However, a report by the NEDC states that Britain now lags behind competing countries such as France, Germany, and the USA, and Varley emphasized the need for a speedy effort. Accordingly, the U.K. government is to spend some £400 million over the next three years, such as on a £50-million investment by the National Enterprise Board in a new subsidiary company to be concerned with integrated metal oxide semiconductors.

A joint memorandum by the Departments of Industry, Employment and Education indicated the government's principal aims, including the setting up of "production capability for the very high volume of technically advanced products of the future which will have major overseas and home markets." Also encouraged will be inward investment by the established multinational companies, either on their own or in collaboration with U.K.-owned companies. Further, the government intends to provide user companies with special microelectronic products and with the essential research, development, design and test services. These will be centered on U.K.-owned companies or multinationals that are prepared to be "committed to the U.K. user industries." Finally, an infrastructure industry would supply specialized production equipment, technology, and computer-aided design and test facilities, both for domestic and foreign markets.

The government's present £100-million program is intended to make some 50,000 key decision-makers in the next three years more aware of the potential of microelectronics and to train an extra 3,000 programmers and systems analysts by next fall. The £15-million microprocessor aid program initiated last July is being increased to £55 mil-

Electronics *(contd.)*

lion, and the public sector is to be "in the lead in applying microelectronics wherever it is possible and economically desirable."

Trade union leaders have cautiously welcomed the government's efforts, but the main problem is seen in the willingness of both unions and management to accept major changes and a possible rise in unemployment. However, as the Central Policy Review Staff noted, technological change has always been a major source of economic growth and rising real incomes, and this should be equally true of microelectronics.

Austria: OECD Survey Optimistic on Economic Growth

According to the OECD's latest annual report on Austria, the next year should bring a "moderate pickup of economic growth, with some further easing of labor market pressure." The stimulative measures enacted by the government, essentially in the form of low-cost credits to industry, should help promote investment activity. The Paris-based organization anticipates a 3.5% rise in private consumption next year and, accordingly, a faster growth of the GNP than last year. It is also optimistic that the rate of inflation can be brought down even further, given a moderation in wage demand and an improvement of the employment picture. If Austria's exporters can succeed in consolidating the foreign markets they won in 1978, the OECD said, then the 1979 deficit in the payments balance could be lower than those of the two previous years. (Organization for Economic Cooperation and Development, OECD Economic Surveys, Austria, December 12, 1978.)

OTHER NEWS

Sweden

As of July 1, 1979, there will be a total ban in Sweden on consumer advertising for alcoholic spirits, wine, and "strong" kinds of beer. Only trade magazines are exempted from the ban. (However, according to Swedish law, the prohibition cannot be applied to foreign newspapers and periodicals sold in Sweden.) The new law also stipulates that any tobacco advertising include a health warning to consumers.

Switzerland

The Swiss parliament on Dec. 15 adopted the government's financial reform package, which is to improve federal revenue by some SF 1.4 billion annually. It again foresees the introduction of value-added tax, which was rejected by the voters last June and will now once more come before the electorate in a national referendum next year.

Common Market Reports

EUROMARKET NEWS

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

Community: Monetary System Took Spotlight in 1978

The most outstanding Community event in 1978 was the decision to enact the European monetary system (EMS) this year in order to bring more stability to the member countries' currencies. It was intended that the system would go into effect on January 1, 1979, but France announced on December 30 that it would block the start of EMS until the member states adopted a new farm subsidies agreement.

The efforts that went into the preparations for the EMS kept the Commission so occupied during the second half of the year that there was little time for anything else. The Commission fell behind in proposing major pieces of legislation that it had planned to submit. (Another reason for the slowdown was the implementation of a new policy, whereby each measure must pass the test of whether it is really needed for the functioning of the Common Market.) Among the measures proposed were rules on misleading advertising, back pay for workers when the employer goes bankrupt, and the eighth draft directive on company law to establish uniform standards for certified public accountants entrusted with checking and certifying a corporation's annual financial statements.

The past year was the Commission's busiest ever in dealing with member states that erect new barriers to in-

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Community *(contd.)*

tra-Community trade in order to protect faltering domestic industries. On the other hand, the EC executive took an active role in shielding certain Common Market-based industries against competition from third countries. It succeeded, for instance, in tightening the price and import control system for steel products. However, its attempt to cure the Community's ailing fiber industry was considered by most observers to be ill-fated from the start.

In the area of external relations, the Community enhanced its standing as a political and economic entity with a five-year trade accord with Red China. The discussions about Greece's entry into the EC came close to being wound up by the end of the year, and the Commission issued a largely favorable opinion on Spain's application to join. A big disappointment in '78 was the failure to formulate common policies on fishing and energy; the U.K. is given most of the blame for lack of agreement on both.

The Council of Ministers was not idle last year: of most interest to businesses was its adoption of the third and fourth company law coordination directives, which deal with safeguards for creditors and shareholders and the content of corporations' financial statements. Approval of the coinsurance directive means that the member states must lift existing barriers against insurers from other states; insurance companies from different member states will be able to coinsure operations involving all types of risks except automobile liability. The waste control directive compels the member states to enact legislation ensuring that the disposal of toxic and dangerous waste does not endanger public health or the environment. Several measures passed toward the end of the year are designed to make international shipping safer and to reduce the chances of maritime pollution caused by mishaps at sea.

Trademark owners throughout the Community were relieved by the Court of Justice ruling last May that enables the owner of a trademark registered in two states to bar the import of his product into the other state if it has been repacked by an unauthorized person (Case No. 102/77). In an October decision the Court ruled that the principle of trademark rights overrides that of free movement (Case No. 3/78). Another interesting judgment last year was a ruling to the effect that the Community is not liable for damage caused by its institutions in the field of economic policy making, even if the EC tribunal has declared that the statutory basis for acts arising from a particular policy is illegal (Case Nos. 83 and 94/76; 4, 15, and 40/77). The Court thus clarified the legal consequences of a 1977 judgment in which it declared illegal a milk powder regulation that had required producers and importers of vegetable feedstuffs to buy certain quantities of milk powder.

Belgium: Ranked as a 'Poor Little Rich Country'

Belgium's electorate went to the polls in the final days of 1978 to resolve, ostensibly, the perennial crisis that besets the country - the linguistic divide separating the Flemish-speaking population from francophone Walloons. Although parliamentarians stressed this issue in the preelection weeks, other and potentially more crucial issues were also debated.

Belgium continues to rank among the world's richest nations, yet its economy is in such dire straits that the country is counted alongside Italy and Ireland as one of the Community's problem areas. Three principal trouble spots can be identified: unemployment, public expenditure, and the weakness of the Belgian franc. Also, despite the fact that Belgium has brought down inflation to a level (3.7% or so) comparable to that of Holland and Germany, it has been able to do so only at the expense of distressing unemployment, virtual industrial stagnation, and a weakened currency.

At year-end, Belgium's unemployment rate was put at 6.7%, the second-highest in the EEC. Nor were there any immediate prospects that this rate can be reduced: the twin industrial base of steelmaking and textile manufacturing has been rapidly eroded, and the "recovery" in the automotive, chemical and petrochemical sectors has yet to be confirmed as lasting. There is widespread recognition that extensive restructuring and reinvestment programs are desirable, but such programs are prohibitively expensive in view of prevalent high interest rates and self-imposed deflationary policies.

There is thus an understandable reluctance on the part of Belgian industry to commit itself to major new investment. In the course of 1978, the government attempted to accelerate an extensive, BF 205-billion public works program, but there were strong doubts about its effectiveness.

Britain: Satisfaction over Economic Progress

In the British assessments of the year past, satisfaction with the relative economic progress achieved in '78 definitely appears to outweigh the disappointment of those who would have liked the U.K. to play a more positive part in the European concert - for instance, by joining the European monetary system after all. Prime Minister James Callaghan, upon returning from the EMS negotiations in Brussels early last month, lent emphasis to these domestic priorities when he said: "In the end, it will be the success of our own efforts in restraining inflation, keeping down prices, maintaining the stability of sterling, and remaining competitive, that will ensure the long-term well-being of our people."

Callaghan could point to some achievements last year. The rate of inflation has leveled out at around 8%, com-

Britain
(contd.)

pared with at least 25% a few years ago, and it is predicted that this figure will remain virtually unchanged in '79. The pound has been fairly strong throughout the year, particularly against the dollar. Financial experts believe that here, too, the trend is likely to continue in view of attractive interest rates and salutary trade accounts. They also envision a substantial surplus in the '79 payments balance. (In November, there was a deficit of £72 million in Britain's foreign trade balance, compared with a surplus of £209 million in October.) In December, the Bank of England referred to a growth rate of more than 3% in Britain's economy last year and said this rate could be sustained in '79, provided inflation remains about the same. As of mid-November, the number of unemployed had fallen to 1.34 million, or 5.6% of the work force. It was the third successive month of reduction, so that unemployment now is almost 100,000 less than the postwar peak of September 1977.

The Labour government sustained a serious defeat at the end of the year, however, when the House of Commons rejected the administration's sanctions policy in support of the 5% pay guidelines. Such sanctions had been planned against Ford U.K., for instance, after the company had announced pay settlements far above the 5% margin. The Commons defeat on Dec. 13 may now make the guidelines inoperable. Some 220 firms will no longer be blacklisted in connection with government contracts, and Callaghan was to have urgent talks with the Trades Union Congress and the Confederation of British Industry to try to reach a consensus on wage increases.

Denmark: Austerity Management by Coalition

The most noteworthy event in Danish politics last year was the emergence of Denmark's version of a "historic compromise" à la Italy. It came about in the summer when the right-center Liberals (Venstre) joined the governing Social Democrats in an uneasy coalition, which brought together two parties that had always regarded themselves as the natural opposites in Denmark's political life. Prime Minister Anker Jörgensen defended the step with the need for a parliamentary base broad enough to support unpopular, but necessary economic austerity policies. In doing so, however, he risked an open confrontation with the labor unions, which regard the new alliance with intense suspicion.

The government is now indeed exposed to severe strain as it tries to work toward a reasonable settlement in the current collective bargaining talks, the outcome of which should determine both the success of the economic programs and the viability of the coalition itself. The unions last month reluctantly abandoned their demand to make the profit sharing issue an integral part of the negotiations. This broke a deadlock but still leaves the wage issue unsettled.

Denmark *(contd.)*

In view of Denmark's high payments deficits and unemployment, the employers are asking for a three-year contract providing for real-term pay reductions.

France: Government Sticking to Policy Guns

Record unemployment, persisting inflation, stagnant production, and the steel crisis were economic issues that made headlines in France toward the end of the year. Yet there were no visible signs of panic on the government's part or anything that would signal a relaxation of official austerity policies. The Giscard d'Estaing administration can indeed afford to stick to its guns: the national elections last March not only strengthened the government but also left the leftist Opposition divided and the trade unions weakened. Premier Raymond Barre thus was given the mandate to continue on his stabilization course built on restrictive monetary, budgetary and credit policies.

Those who had expected instant results from these policies were in for a disappointment last year, and even the government itself certainly would have preferred to see more substantial economic progress. In fact, foreign trade was about the only major area in which such progress was made: for the first 10 months of '78, statistics showed a seasonally adjusted surplus of FF 2.6 billion as compared with a FF 10.8-billion shortfall the year before. Exporters were also cheered by the signing last month of a long-term trade and cooperation agreement with Red China, which is to have a volume of FF 60 billion until 1985.

Elsewhere, though, the economic news was not so bright. The inflation rate continued to hover too close to the 10% mark, at 9.3% in October. This was an improvement of only 0.2 points over a 12-month period, even though the government has been according the fight against inflation top priority. Little encouragement was offered by the postwar unemployment record of 1.34 million (October) and by last month's announcement that the steel sector will have to phase out 21,000 jobs this year and next.

On the other hand, there were finally indications that the dismal investment picture would brighten in '79. A November survey of the National Institute of Statistics (INSEE) showed that private investment should rise by 7% in real terms compared with only 1% (estimated) in '78.

Germany: Economy Shows Definite Upturn in 1978

Although the German economy's recovery from the shock of the 1973 oil crisis and the subsequent recession was, like that of most other industrialized countries, very slow, there was a definite upturn in 1978, especially in the second half. This improvement was evident largely in increased production and more domestic and foreign orders. Part of industry's optimism could be traced to Chancellor

Germany *(contd.)*

Schmidt's success in keeping under control the left wing of his Social Democratic Party, with its demands for nationalization of some industries and for major investment controls. Also of help here was the DM 14-billion tax package, including the abolishment of the payroll tax. Another substantial trade surplus confirmed the upward trend and the ability of export industries to overcome the drawbacks of continued monetary instability and a stronger D-mark; estimates place the 1978 surplus near DM 34 million, as against DM 31 million in '77. On top of this, the government was able to push inflation under the 3% mark.

Unemployment dropped only by roughly 60,000 below the 1977 level of around 950,000. This relatively high number plus the fact that the percentage of jobless has remained fairly constant over the past few years have been especially disappointing to Bonn. The labor market itself shows a lopsided picture: some sectors are on overtime and could produce more if they had the people, and yet there are 300,000 men aged 40 to 50 who have been unable to find jobs, partly because they are unqualified and partly because they are in vocations that are no longer in demand. Nearly 400,000 of the 890,000 jobless are women seeking part-time work.

Two major strikes - in Baden-Württemberg's metalworking industry in the spring and in North Rhine-Westphalia's steel industry at present - have borne out the view of many observers that the often-praised German "social contract" cannot be taken for granted. This goes in particular for the current walkout, in which the gradual introduction of the 35-hour workweek has been made the principal issue.

Germany was the host country for two important international meetings in '78. The chiefs of the nine EC member states met in Bremen on July 6-7, mainly to draw up the blueprint for a European monetary system, and the leaders of the West's seven biggest industrialized nations came together in Bonn on July 16-17 to agree to boost their respective national economies by an additional 1% of GNP at least.

Ireland: Best Economic Growth Rate in Community

The joining of the European monetary system has been, of late, the main economic issue in the Republic, and the full implications of a break with sterling (the British and Irish currencies had been linked for over 150 years) are only now being appreciated. The U.K. still accounts for 47% of all Irish exports, and it is highly probable that exchange controls would have to be imposed should the Irish pound appreciate against sterling. However, it is Ireland's membership in the EEC, its other major trading partner, that is given credit for the country's present prosperity. "If we don't join," said Michael Killeen, managing di-

Ireland
(contd.)

rector of the Industrial Development Authority, "we've accepted that our standard of living will be lower than in the rest of Europe for a long time."

At 6.5%, Ireland's economy is expanding faster than that of the other EEC countries, and the boom in foreign manufacturing investment is continuing. However, problems remain. The amount of public sector borrowing, at 13% of GNP, is the largest of any EEC country and twice that of Britain. Some 9% of the working population is unemployed, and the rate of inflation currently stands at around 8%.

Italy:
Joining of EMS Viewed as Big Step Ahead

Prime Minister Giulio Andreotti's surprise announcement on Dec. 12 that Italy would be joining the European monetary system after all set off what most observers agreed was the most important parliamentary debate in years. The fact that the government prevailed in Parliament (although with less than a majority of those voting) was viewed as another example of Andreotti's political artistry and, perhaps, of his statesmanship. The prime minister had always stated that he favored Italian membership in the EMS, but it now is apparent that he was also determined to secure significant concessions from his EEC partners in the form of a wider fluctuation "swing" for the lira, a review of the Community's agricultural subsidy system, and more aid for Italy's underdeveloped regions.

It was on this dramatic note that Italy closed out another year of political and economic frustration, even though the atmosphere of crisis was far more subdued than in previous years. The most progress was achieved on the monetary front, where the lira stabilized to a degree that permitted the authorities to ease somewhat the strict currency controls. Also, Rome was anticipating a payments balance surplus of 3,000 to 3,500 billion lire for 1978. Not so positive was the performance in regard to inflation, where Italy's 12%-plus rate was well above the EC average. Worse, unemployment rose again slightly during the year, to reach 1.509 million in September.

In its preview for 1979, the government was attaching some hopes to a new program of heavy public investment, which it would like to see as a "locomotive" for private industry. In the '79 draft budget, capital-account expenditure was scheduled to rise from 13,800 to 18,800 billion lire and current expenditure from 49,800 to 74,300 billion lire, leaving an overall deficit of 38,600 billion. The combination of more public and private activity, it was predicted in Rome, should lead to a 4% growth rate for GNP, about double the 1978 figure. Official predictions were for capital investment to expand by 12.4% this year as compared to an estimated 1.8% decline in '78. Particular emphasis was to be given to new investments in the Mezzogiorno, the underdeveloped southern regions.

Luxembourg: No Marked Economic Improvement

In the light of economic developments in the main trading partner countries, no marked improvement in Luxembourg's economic position was anticipated for '78. Official forecasts were for a 2.5% growth rate, and there was some indication that consumer price increases would be around 4% as compared with 6.7% in '77. To some extent, the generally stagnant economy can be attributed to the monetary links with Belgium. In Luxembourg's case, however, the preeminent importance of the iron and steel industry weighs more heavily: this sector is affected by high wage levels, inadequate productivity, and a very low level of rationalization investment. The restructuring program for the 1978-83 period is designed to revitalize the industry; at the same time, however, it will have the effect of drastically curtailing employment opportunities.

Netherlands: Economic Progress Based on 'Blueprint'

At year-end, there were sporadic indications that the Dutch economy might be poised for recovery in certain sectors. Overall, however, the picture is a gloomy one. Uncommonly high wage costs and an extremely strong guilder have created huge problems for exports. The labor market is depressed, and there is no indication that new jobs are being created; instead, further cutbacks and layoffs can be expected. The payments position is worrisome: a predicted surplus of 3-4 billion guilders for 1978 has been transmuted into a probable deficit, for the first time since 1971. Public expenditure is running at excessively high levels, and industrial profits - and along with them, new investment intentions - are waning.

To the government and others, the solution to many of these problems in the near future and medium term hinges on The Hague's economic survival program known as "Blueprint '81." The Dutch acknowledge that a continuation of their unquestionable economic prosperity into the 1980s depends on a comprehensive program of development and cannot be built on stop-go performances in the various key sectors of the economy. In order to check unemployment and generate new jobs, the government recognizes that profitability must be restored to the private sector. Accordingly, the "Blueprint" calls for a reduction in unemployment from 200,000 to 150,000 by '81 and a reduction of inflation to a mere 2-3% in the same year. The principal means by which this is to be achieved will be extensive public-expenditure cutbacks and holding public spending parallel to the real growth in national income. Central to this concept will be, of course, a viable and binding agreement between the unions and the government on wages and wage increases.