Common Market Reports

EUROMARKET NEWS

Issue No. 541 *Report No. 371, May 30, 1979*

IN THIS ISSUE

Community: Basic Consensus on Insolvency Measure

The Council of Ministers has agreed on the substance of the insolvency draft directive, and formal adoption is expected within a few weeks. The measure would harmonize the member-state laws to guarantee satisfaction of employee pay claims in the case of employer bankruptcy. All member states except Ireland already have legislation on the matter, so only Dublin would have to establish a guarantee fund to pay unsettled claims; it would have three years to set up the fund.

The proposal as it stands now falls considerably short of what the European Commission actually wanted when it presented its plan to the Council in April 1978. It had two main objectives in mind: (1) establishment of insolvency funds in all of the states and (2) harmonization of rules on what an employee should get if his employer goes bankrupt. Not only back-pay rules were sought to be harmonized but also the rules on other benefits, such as vacation pay, bonuses, premiums, and severance pay, where the national differences are still considerable.

Most member states were opposed to harmonizing national pay and benefits rules. In France and Germany the benefits paid to former employees are generous, but in the U.K., Ireland, and Denmark they are considerably less so.

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

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Insolvency *(contd.)*

Harmonization would have meant either bringing the Community standards up to the German and French levels or Germany and France having to cut back on their legislative framework. (The Commission's original proposal had contained the main features of the German law - *Doing Business in Europe, Par. 30,691.)* The Council's working group chose neither of the two; hence, the measure will leave it up to the member states to legislate rules on pay and compensation.

Some critics maintain that the directive can hardly be called a harmonization measure if it requires only one member state to bring its provisions in line with the Community directive. Commission lawyers say, however, that the measure has broader connotations affecting all member states in that it limits what the states might do in amending their existing rules. For example, a member state could not change its existing law to make employees contribute to the back-pay claims fund that employers are supposed to finance. However, the member states would be free to put the burden on the taxpayers' shoulders.

Company Law Draft Returned to EP Unit

In its last session the outgoing European Parliament failed to reach a consensus on one of the most controversial pieces of proposed Community legislation - the fifth company law coordination draft directive. This proposal concerns the management organs of stock corporations (managing board and supervisory board) and labor's participation in the corporate decision-making process. The Commission submitted the measure to the Council in 1972 *(Common Market Reports, Par. 1401)*, and the EP's legal committee has been considering it ever since. The lack of a quorum on the EP's last day in session on May 10 prevented the full house from voting on the legal committee's report on the proposal and an accompanying resolution. The measure, one of the few left over for the first directly elected Parliament to deal with, was sent back to committee. In any case, a largely Conservative majority of EP members was determined to block a vote by the full house and prevent the Council from taking up the measure. Without a formal opinion from the EP, the Council may not proceed with its deliberations.

EP members opposed to the measure were not prepared to go along with several of the legal committee's recommendations that went partly beyond the scope of labor's codetermination rights in the German coal mining and steel industries *(Doing Business in Europe, Pars. 23,222A, 23,441)*. There was not as much opposition to the recommendation that a corporation should have both a managing board and a supervisory board (the Commission's proposal also calls for two bodies). Most of the criticism was directed against the committee's suggestions involving the composition of the two boards and the scope of the measure. The legal committee wants an employee director on the managing board who could be neither elected nor recalled against the will of

Company Law *(contd.)*

the labor representatives on the supervisory board. Several EP members thought that management's efficiency would be prejudiced by the appointment of employee directors. Some members of Parliament also objected to a supervisory board of which one-third each would be made up of shareholder and of labor representatives, while the final one-third would be jointly chosen by shareholder and labor representatives. This recommendation is generally in line with what the Commission proposed in its amended European Company Draft Statute and what it suggested in its 1975 Green Paper on employee participation and company structure *(Common Market Reports, Pars. 9745, 9785)*. Still, there was widespread apprehension among the Christian Democrats and other Conservative groups in the EP that the proposed composition of the supervisory board could possibly tip the balance in management's decision-making process in favor of labor. The Conservatives maintained that an attempt was being made to give labor a greater say in corporate affairs via Community legislation that would have no chance in the national legislatures.

The legal committee also recommended that the scope of the measure be extended. Instead of applying the measure to stock corporations with at least 500 employees, the committee suggested a threshold figure of 250 employees or annual sales of at least 1.5 million units of account as the governing criteria. The committee believes that the lower figure is more appropriate because rationalization and automation, especially in capital-intensive corporations with high annual sales, has reduced the number of employees in many firms. Some EP members objected to the more stringent criteria recommended by the legal committee, saying that the measure would then cover several thousand more small stock corporations which otherwise would be exempt under the Commission's original proposal.

Italy: Unions Complain About 'Hidden' Income Tax

In connection with the current collective pay negotiations involving leading sectors of Italian industry, the labor unions have voiced complaints about the effects on wage earners of an "undeclared" (i.e., hidden) income tax increase of 25-35% during the past three years. They charge that this rise resulted from the aggregate 31.2% rate of inflation in 1976-78, combined with the fact that 1975 was the last year in which the graduated income tax rates were adjusted.

The unions reject the position repeatedly advanced by both the government and employers that actually no spending power had been lost during that three-year period because wages had risen at a rate almost identical to that of prices. They have produced figures showing that earnings have been eroded by the effect of graduated tax rates on inflated wages. For example, a worker who earned the equivalent

Income Tax *(contd.)*

of $7,200 in 1976 paid a tax of $766, or 10.63% of his income, while in 1978 (presuming he "stayed even" in real terms) he earned $9,446 and paid $1,278 in taxes - at a higher rate of 13.53%. Had the tax rates been adjusted to conform to inflation, it is argued, then the worker's 1978 income tax would have been only $1,004. Thus, in this hypothetical case, the worker lost $274 in 1978, and his taxes rose by 27.3% in real terms since 1976, without any such increase having been declared or legislated.

Mathematically, the percentage of tax increase is considerably greater in lower-paid categories, the unions say, although the percentage of "lost" income is between 2.3% and 3% at all (1976) levels between $3,000 and $25,000. (The greatest loss is at the $14,000 level.) Still, the unions contend that the working man is being "nibbled to death," that every percentage point of income made by low-wage earners must be fiercely protected, and that the graduated rates should be altered.

A final argument for such an alteration is seen in the "disadvantaged" position held by wage earners as opposed to businesses or self-employed individuals. Whereas the former have no choice but to pay taxes (81% of Italy's income taxes are raised through employee withholding), the latter often avail themselves of various avenues of evasion and avoidance.

In the meantime, Italy is again well in the lead as the West European country with the highest price expansion rate. Last month the inflation rate rose to 14.6% in annual terms, after 13.5% in March, 12.8% in February, and 11.9% last December. The general cost-of-living index, on which the automatic adjustment of wages is based, stood at 148.5 points in April (1976 = 100), largely because of the higher cost of services, foodstuffs, and energy.

Britain: Accountants' Final Draft of Ethics Code

The U.K.'s Institute of Chartered Accountants and the Association of Certified Accountants have produced a final version of a revised "paper of independence," which in effect amounts to a code of ethics. It specifically provides that, under the voluntary rules imposed under the code, any reorganization of members' affairs must take place by Jan. 1, 1980.

The document starts off by stating that professional independence is a concept fundamental to the accounting profession. It is deemed undesirable that an accountancy practice should derive too great a part of its income from one client or a group of connected clients. Thus, a practice should endeavor to ensure that recurring fees paid by such clients not exceed 15% of its gross fees (although it is conceded that this may not be feasible in the case of a practice that is new or "running itself down"). Objectivi-

Ethics Code *(contd.)*

ty to any assignment must not be endangered as a result of personal relationships, the paper says, and a problem could arise where the same partner or senior staff member works for a number of years on the same audit, or where anyone in the practice has an interest in a joint venture with a client.

Financial involvement with a client may also affect objectivity - as, for example, a shareholding in a company upon which a practice is retained to report: "A practice must ensure it does not have as an audit client a company in which a partner, the spouse or minor child of such partner is the beneficial holder of shares," and no shareholder member of staff should be employed in the audit. If shares are involuntarily acquired, by inheritance or in a takeover, they should be disposed of "at the earliest practicable date." If a partner or his spouse is a trustee of a trust holding in excess of 10% of the issued share capital of a public company, then that practice should not carry out the company audit.

The paper further states that a practice should not make a loan to a client, guarantee a client's borrowings, accept a loan from a client, or have borrowings guaranteed by a client. The same provisos apply generally to partners and their families, who likewise should not accept goods or services from a client "save on terms no more favorable than those available to the generality of the employees of the client." The paper adds that acceptance of undue hospitality poses a similar threat. Furthermore, care must be taken not to perform executive functions or to make executive decisions for audit clients. "These are the duties of management." A practice should not participate in preparing the accounting records of a public company audit client "save in exceptional circumstances," nor should it report on a company if a partner or employee of that practice is an officer or employee of the company, "even if the law of the country in which the company is registered would so permit."

Ireland: Tripartite Plan on Pay Boosts, Job Creation

The "national understanding on economic and social development" recently concluded by the Irish government, the Irish Congress of Trade Unions (ICTU), and the Federated Union of Employers provides for a substantially larger rate of wage increments than was specified in the national wage agreements of February 1977 and March '78. An overall increase of some 15% over the next 15 months has been agreed upon - 9% in the first nine-month phase (generally from June 1) and 6% in the subsequent six months. In addition, the government has promised to PAYE (pay-as-you-earn) taxpayers a rebate totaling £35 million in December, provided its finances are reasonably in line with its expectations.

Job Creation *(contd.)*

In the understanding, it is emphasized that the "central objective" of economic and social policy must continue to be the creation of more employment, with a target of full employment within five years. Dublin attaches "overriding importance" to the achievement of an annual average increase of 25,000 workers in the next three years. Accordingly, there will be a special employment program for 1980 to which industry and employer organizations will contribute 50% of the necessary financing through a 0.5% surcharge on social security contributions. This is expected to yield up to £10 million and would "underwrite a shortfall of 5,000 jobs."

The ICTU is to prepare codes of principle to resolve inter-union disputes to determine trade union representation in industry, and all three groups in the tripartite plan intend to cooperate in ensuring that industrial development in Ireland is not hampered by skilled-labor shortages. They also want to give greater attention to scientific and technological education. All parties agree that industrial relations are best improved on a voluntary basis, without resort to legislative or other sanctions. Finally, an extension of greater worker "involvement" (participation) is advocated.

The government further is to establish a National Enterprise Agency, which would "engage directly in manufacturing, service and trading activities, either by itself or in partnership with other organizations in the public or private sector." To be operated on a commercial basis, this agency would ensure that "commercially oriented research and development is efficiently applied to the economy."

Germany: Government Plans More Energy Savings

Although the German government has been assuring the public that it has no plans to impose gasoline or heating oil rationing, it has nevertheless taken several steps that would empower Bonn to do just that. It will shortly propose extending for an indefinite period the current energy supply securement law, passed in 1973, that allows the government to impose, among other things, gas rationing, speed limits, and even driving bans.

In order to make consumers even more energy conscious, the Schmidt administration also will soon propose amendments to the energy conservation law, which is primarily aimed at energy savings in households *(Doing Business in Europe, Pars. 30,851, 30,881)*. Landlords would be required to install separate meters so that heating bills could reflect exactly what the individual tenant had used. Another amendment would, as of 1980, make it mandatory for appliance manufacturers to indicate on each appliance just how much energy it consumes.

More Rights in Buying on Credit

The Bonn government has proposed to Parliament amendments to the Civil Code that would considerably improve the position of a consumer who buys on credit. While the 1974 Installment Contract Law is confined to regulating the contracts in which the seller also provides the credit, a new Section 607a of the Civil Code would cover those contracts where the seller and creditor are not the same person - in other words, when the seller arranges through his bank for the buyer's credit.

The new provision would allow the buyer to reduce or withhold payments to the bank whenever the seller failed to live up to his commitments assumed under the sales contract. For example, if a television set bought on credit did not operate properly and the seller failed to repair or exchange it for another set, the buyer could stop making payments to the bank. If the seller took no remedial action at all, the buyer could even demand his money back from the bank; a precondition for this step, however, would be that the sales and credit contracts represent "an economic unit." This would be the case if the bank or other financial institution regularly does business with the seller or if they have collaborated in an individual case.

In the past the courts have occasionally helped the consumer by allowing him to take direct action against the bank, but this was usually the case only after it had become obvious that the seller was no longer in a position to fulfill his part of the contract (after bankruptcy, for instance). Current law provides that the buyer must continue his payments to the bank even if the seller has failed to fulfill his part of the bargain; the buyer cannot apply pressure on the seller by withholding payment to the bank. An amendment to allow the buyer to demand a refund from the bank would provide a broader base for case law because the bank would become severally liable.

Switzerland: VAT Rejected Again; Curbs on A-Power

With a resounding two-thirds majority, the Swiss voters on May 19-20 rejected once more a federal government proposal calling for, among other things, the introduction of value-added tax to take the place of the existing cumulative turnover tax. In June 1977, a similar proposal had also been defeated *(Doing Business in Europe, Par. 30,951)*. The electorate did endorse a modified nuclear energy law, which will give the federal government more controls and require parliamentary approval for the future construction and operation of A-power plants and nuclear waste disposal facilities. Observers said there was no question that the Harrisburg, Pa., incident had contributed to the smooth passage of this legislation.

The defeated fiscal proposals were for the introduction of a standard VAT rate of 8% (and reduced rates of 5%

VAT *(contd.)*

and 3%) and of a reformed federal income tax, which would have provided some relief on incomes of up to SF 150,000 annually. In fact, about 40% of 2.4 million taxpayers would have been freed entirely of this tax. On the other hand, the additional revenue from VAT would have come to some SF 1.3 billion annually by 1981 - an amount the federal government had counted on to return its budget to equilibrium. The vote against the entire fiscal package was 939,800 to 497,000, and there was a clear majority against the proposal in every canton.

Finance Minister Georges-André Chevallaz, expressing his disappointment over this result, warned that Bern would now be forced to heavily restrict federal spending. Observers said the government will have to ask cantonal and local authorities to find ways of financing services and projects that in the past depended on federal financial assistance.

EURO COMPANY SCENE

FMC

The United States' FMC Corp. is planning to build a new multimillion-dollar chemicals plant near Huelva, Spain. With an annual capacity of 6,000 metric tons, the facility will produce chloro-isocyanurate used in dry bleaches, sanitizing agents, detergents, etc. The size of the investment was not revealed.

ITT (U.K.)

International Telephone & Telegraph Corp. has confirmed that it intends to join its industrial participations in Britain in a single holding company, ITT (United Kingdom). The new holding would operate two major subsidiaries - Standard Telephones & Cables (STC) and ITT Industries. STC would continue its activities in telecommunications, business communications, and electrical and electronic components, whereas ITT Industries would control all other ITT activities in Britain, including consumer electronics, household appliances, cosmetics, and hotel operations.

Allianz

Germany's Allianz insurance group has announced plans to acquire 98.2% of the share capital of North American Life & Casualty Co. (NALAC), Minneapolis, from Mutual Life Insurance Co. of New York (MONY). NALAC reported a premium income last year of $73 million, of which 72% came from life insurance policyholders.

Common Market Reports

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IN THIS ISSUE

Community: Corporate Tax Measure Stalled by Outgoing EP

Ignoring appeals from the European Commission, the outgoing European Parliament has declined to give an opinion on the draft directive concerning the harmonization of corporate taxation and dividend withholding tax rules. Instead it has asked the EC executive for a much broader approach in harmonizing the national corporate tax systems, including an alignment of rules governing the tax base of corporate profits and full harmonization of tax rate provisions. This demand was made in an interim report and an attached resolution adopted by the full house on May 7. The newly elected EP thus will be faced with an important piece of legislation, and Luxembourg sources indicate that the future Parliament will probably set up a special committee to examine the proposal at an early date.

The harmonization measure, submitted to the Council of Ministers in August 1975, was the first step in the gradual alignment of the member states' corporate tax systems, and its major objective is to facilitate the free movement of capital *(Common Market Reports, Pars. 3218, 9764)*. Continued coexistence of the various corporate tax structures would maintain distortions in capital movement in the Community. In Germany, for example, shareholders are fully credited with the corporation tax imposed on dividends when

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Corporate Tax *(contd.)*

filing their individual income tax returns. In the Netherlands, shareholders are not entitled to any relief; therefore their dividends are taxed twice. To the extent that tax rules have any influence on the choice of investment, full relief from corporate income tax would offer a strong inducement to invest in a country with such a provision and could influence a company in deciding where to set up a subsidiary or permanent establishment.

Against this background, the Commission proposal would bring some uniformity to the member states' corporate tax systems in that it would lay down general rules for taxation of corporate income and profits distributed as dividends. No attempt is being made at this time to harmonize the national rules controlling the establishment of the tax base, but the Commission has proposed a partial credit system, which would make it easier to obtain the consent of those states that currently give shareholders no credit whatsoever for the corporate tax carried by dividends they received. The national corporate tax rates could vary from 45% to 55%, leaving full harmonization (a uniform tax rate) to be taken up at a later date. There would also be a common withholding tax on dividends (25%).

Actually, the Parliament's call for harmonization of corporate tax rules and tax credits is shared by the Commission. However, the latter feels that a proposal that attempts to align everything would have little chance of adoption by the Council at this point. Because of the highly technical problems and the political implications of the proposal, the EP had difficulties in December 1977 winding up its deliberations with a final opinion. At that time, the favorable report of the EP's budgetary committee was rejected by a majority of the full house for various reasons. The measure was then sent to the economic and monetary committee, which found it impossible to draw up a final report.

Energy Talks With OPEC Start This Month

The Commission will begin a dialogue with the OPEC nations late this month to explain more clearly the negative effects of steep crude-oil price increases on both the Common Market and the world economy as a whole. Guido Brunner, Commission member in charge of energy, research, and education, says it is necessary to tell the OPEC governments that, for example, a 10% rise in oil prices would push inflation up by two percentage points in Europe, which in turn would backfire on the OPEC countries. The forthcoming discussions are to be part of the broader cooperation efforts with developing countries that the Commission recently proposed to the Council of Ministers. The EC executive envisages as a first step the drawing up of a list of energy resources and joint R&D programs, to be followed by industrial cooperation and work on projects to which the Community would contribute financially. The major goal would be to increase the availability of energy.

OPEC Talks *(contd.)*

In Brunner's opinion, the Member States with strong currencies, such as Germany, Belgium, and Holland, never really felt the effects of the OPEC countries' steep price increases after 1973 (since then oil prices have risen by over 400%) because of the U.S. dollar's decline and a corresponding rise in their currencies.

At present, 60% of the Community's energy needs must be satisfied through imports. The Council supports the Commission's goal of lowering that dependence to 50% by 1985. Yet Commission and member-state experts predict that energy needs will double by the year 2000; they say this increase is necessary to ensure a reasonable measure of economic growth. Brunner believes that this challenge can be met only by conserving energy everywhere, finding new resources such as solar and geothermal energy, and using more traditional resources, especially coal and domestic oil. The Community cannot get by without nuclear energy, which now meets 12% of the Community's electrical energy needs; by the late '80s, this figure is expected to be 18%.

In Brief...

The one-year negotiations between the EC and 57 African, Caribbean, and Pacific (ACP) countries over a new Lomé Convention (Lomé II) were broken off on May 26 after seemingly irreconcilable differences arose over financial questions. Lomé I expires in March 1980. The Community's financial obligations were a major topic of the talks. The EC offered 6 billion units of account for the new development fund, 3 billion UA more than the volume of Lomé I; the ACP countries demanded 10 billion UA. No date for resumption of the talks has been scheduled + + + Officials of the member states and the Greek administration have signed the accession treaty and amendments to the three treaties (Coal and Steel, EEC, and Euratom) that will make Greece the 10th member of the European Communities. This last formal step, taken on May 28 in Athens, clears the way for ratification by the member states' legislatures and the Greek parliament. Greece is scheduled to join the EC on January 1, 1981 + + + The Commission is putting the finishing touches on a Green Paper on civil aviation that it plans to send to the Council toward the end of this month. Although the Commission has long given up its hope for a common air transport policy, it nevertheless wants to improve the operating conditions of national airlines. The ultimate goal is to bring some measure of commercial freedom to lines providing scheduled services and thus attain more equity in competition. All member-state governments exercise a heavy hand, if not complete control, over scheduled services, routes, timetables, and fares, and virtually all major airlines in the Community are government-owned and receive considerable subsidies. Any proposals that the EC executive might make would depend on the discussions that follow publication of the Green Paper.

Germany: Commission Urges Curbs on Banks' Powers

The Gessler Commission, the German government's special body entrusted with making recommendations on how to restrict the commercial banks' power over industrial companies, has come up with a wide range of proposals. Bonn will consider the suggestions and then decide whether to propose legislation.

The commission opposes tampering with the universal banking system in any way and is also against the slightest increase in government control, such as delegating government officials to the banks' supervisory boards. Among the major recommendations is that a bank's equity interest in a company should be restricted to a 25%-plus-one-share holding. (By contrast, Economics Minister Otto Lambsdorff had suggested a 15% ceiling on such holdings, while the Monopolies Commission had proposed only 5%.) The 25%-plus-one holding would allow the banks to take advantage of German stock corporation law, especially the provisions on block resolutions aimed at amending the articles of incorporation, increase of capital, and mergers. The commission would allow an exception from the 25%-plus-one ceiling whenever a bank buys additional stock for the purpose of reorganizing a company in financial difficulties. Another suggestion is that a bank should be allowed to buy shares above the ceiling as collateral for loans.

The commission was divided on a number of aspects. In fact, on one point - the transitional period that banks should have to divest themselves of stock - it made two different recommendations: a majority's proposal was for 10 years and a minority's for eight years. Also, a majority is opposed to the taxation of gains from the sale of stock, whereas a minority says that such capital gains should be taxed, though at reduced rates.

Also tackled by the commission was the banks' practice of exercising proxy voting rights at shareholders' meetings. A majority favors retention of the current system under which bank officials vote according to the shareholders' instructions. Nevertheless, it recommends that a bank not only ask for individual authorization from each shareholder for each meeting but also obtain specific instructions on agenda topics such as proposed mergers and amendments to the articles of incorporation. A minority, however, favors abolishing long-term authorization for the exercise of proxy votes. Another recommendation is that companies disclose in their annual reports the professional commitments of members on the supervisory boards.

Italy: Strike Truce; Ruling on Confiscations

The current 14-day strike truce agreed to by Italy's three major union federations can be considered no more than a brief interruption of the strained labor relations weighing on the country's economy. The unions had scheduled the truce beginning on May 28 in deference to last Sunday's na-

Strike Truce *(contd.)*

tional elections as well as to the European Parliament elections on June 10. The action postponed a general strike that had been called after what the unions considered an unsatisfactory compromise involving pay increases for some 2 million public servants, i.e., the majority of public and civil service employees. The general strike, now probably to be staged later this month, would be in protest of "uneven and unfair" increments for the various public service sectors, such as government administrations, schools and universities, and the armed forces. It also would be a demonstration against Rome's inability to come up with an overall reform of the public-sector pay system.

In the absence of such a reform, the government was forced to achieve separate, retroactive (covering the years 1976-78) agreements with the various unions and associations of public service employees and civil servants. A special contract, for instance, covers the 7,000 civil servants at the upper ministerial level who have not received a pay raise since 1972 and will now receive a 40% increase. For budgetary reasons, Rome did not accept, however, the unions' demands for putting civil servants on an equal footing with industrial employees by offering them quarterly inflation adjustments instead of the present semiannual adjustments. It is taken for granted that this controversial issue will resurface in the very near future when the new government will be faced with the task of concluding collective agreements for the years 1979-81.

In the meantime, there has been a breakdown of the collective talks involving some 300,000 workers of the state-controlled metalworking and machinery sector. The union federation representing the metal workers immediately scheduled strikes, demonstrations, and plant occupations prior and subsequent to the election truce period, while the Labor Ministry was trying to persuade the negotiators to return to the bargaining table.

In other news, the Court of Cassation in Rome has ruled that rental housing is not a commodity and therefore cannot be confiscated. The appellate court thus overturned an order issued last month by a Rome magistrate that had led to the seizure by city authorities of 530 vacant apartments. It was alleged that large property companies had "hoarded" the flats in a speculative and illegal manner. The appellate court's ruling is considered significant inasmuch as the authorities in both Rome and Messina (Sicily) have already offered seized apartment units for rental.

Denmark: Pros and Cons of Early Retirement

Since the beginning of this year, all employees in Denmark may retire early at age 60, instead of waiting until age 67 to become eligible for their old-age pension. The new system already has become a "surprising success," according to

Retirement *(contd.)*

a recent statement by Prime Minister Anker Jörgensen: some 30,000 people so far have taken advantage of it, a number that corresponds to more than 1% of the working population. About half of the 30,000 had been out of a job at the time of their premature retirement.

The government has been hoping that the new program will not only help to bring down the unemployment figures but also open up jobs for younger people. However, these expectations are being met only partially: employers are not automatically hiring young people for jobs left vacant by retirees, and in many cases they are not filling the vacancies at all.

Individuals who avail themselves of the early-retirement option receive 90% of their last previous earnings for a period of two and a half years, up to a maximum of 75,000 kroner annually. In the following two years, they draw up to 60,000 kroner annually and, thereafter, up to about 45,000 kroner until they reach the age of 67. At that time, every retired individual receives the same basic old-age pension from the state. It amounts to about 47,000 kroner annually for married couples and to 25,000 kroner for single persons, possibly supplemented by rent allowances and other benefits.

In principle, the costs of the early-retirement program are being borne by the employers and employees. The former pay about 340 kroner per worker annually; the latter, 185 kroner. Since these contributions cover barely half of the gross costs, the difference has to be made up by the government (which, however, saves unemployment compensation for those early retirees who had been without jobs).

Britain: U.S. Investors Keep Coming to Ulster

A U.K. government survey of foreign investment in Northern Ireland, published last March, showed that 31 U.S. companies are currently operating there. This was before Hyster, a major U.S. manufacturer of mechanical handling equipment, announced that it will build a £30-million factory at Craigavon, near the Belfast docks. To start up in 1981, the plant will eventually employ 600. Since it will be located in an area with relatively low unemployment, the project will qualify only for a 40% grant toward capital and other initial costs. However, additional training grants and a subsidy from the Commerce and Industry Dept. will bring up the government's total contribution to some £15 million, or £25,000 for each new job created. According to Hyster, of Portland, Ore., many other possible locations were considered, including the Irish Republic, but Northern Ireland was finally selected because of its closeness to the Continent, the availability of trained labor and, not least, "the strong industrial tradition." William Kilkenny, the company chairman, said he did not feel the political situation would

Ulster *(contd.)*

pose any problems: "The troubles stop at the factory door."

Roy Mason, the Northern Ireland Secretary of the Labour government that left office last month, said that Hyster was the seventh major U.S. company to announce an investment project in Ulster since the beginning of 1978, bringing the total American investment there to £550 million at current prices. U.S. companies already present account for 17,500 jobs, or some 13% of the Ulster workforce in manufacturing industry. The seven new companies, with an estimated investment of some £120 million, should provide 4,100 additional jobs. Still, with over 60,000 unemployed, or about 11% of the total labor force, Northern Ireland would depend on further large foreign investments, and the keen rivalry with Scotland and the Irish Republic should increase.

Sweden: Controls on Foreign Firms, Investments?

Domestic business and industry associations have reacted with concern and sharp criticism to proposals that the establishment and activities of foreign companies in Sweden be subjected to official approval and control. The initiative for such measures is coming mainly from the trade unions and the Social Democrats, but there is also support from within the incumbent government (represented by the Liberals) and the Center party. Labor proponents have, in fact, drawn up a first proposal as an orientation aid for Parliament.

According to the labor-sponsored document, the activities of all foreign subsidiaries and branches - new and existing - would require the explicit approval of the government, which could also impose conditions on such activities. For instance, Stockholm might want to have guarantees concerning a company's employment policy, the nature and extent of its research and development programs, the introduction of officially favored production methods, and the strict implementation of investment programs. The government would be able to enforce its policy by way of fines and, in some cases, by forcing the foreign owners to sell the majority share of a company to Swedish investors. As a last resort, the government could cancel the license that permits a foreign firm to operate in Sweden.

Although the issue is far from having reached the legislative stage, it nevertheless is already stirring strong emotions at home and abroad. The associations representing Swedish industry, employers, chambers of commerce, wholesalers, and family enterprises issued a joint statement in which they warned of "discrimination" against foreign enterprises that could have "worrisome consequences." Other commentators spoke of "dangerous chauvinism." The Danish industrial association appealed to Trade Minister Arne Christiansen to send a protest to his Swedish colleague. It said that there was not the slightest evidence that foreign businesses had a negative influence in Sweden.

Controls *(contd.)*

The opponents of the Swedish plan generally concur that the proposed controls would most probably result in a further decline of industrial investments in that country, which in the past few years has been a major factor in the economic recession. The regulations would be certain to run into international retaliation against both Swedish investments abroad and Swedish exports. Particularly the European Community, it has been pointed out, tends to react sensitively to situations in which a third country tries to favor its own industry by way of measures that could distort competition. The EEC in the long run would be in a stronger position, because its members account for nearly 50% of Sweden's foreign trade. Similarly, Swedish investments abroad are four times higher than foreign investments in Sweden and thus also would be more exposed to international countermeasures.

Finland: Formation of Center-Left Government

Nearly 10 weeks after the March general elections, it finally has been possible to form a new Finnish government. The four-party Center-Left coalition is headed by Mauno Koivisto, previously the central bank governor, who reportedly enjoys more popular support than his predecessor, Kalevi Sorsa. Koivisto was previously prime minister (1968-70) and also served as finance minister. A member of the Social Democrats, he has been responsible for the central bank's firm stability course, aimed at reducing inflation and returning the payments balance to equilibrium.

The new cabinet is made up of representatives of the Social Democrats, the Center (farmers' party), the Communists, and the Swedish People's Party. Its policy program lacks many details that the partners still have to work out among themselves. In the area of taxation, for instance, there is agreement only on a "more equitable distribution" of taxes, with more relief for large families. Not reflected in the government's policy statement is the Conservatives' demand for tax relief for businesses and the phase-out of the turnover tax in favor of the value-added tax. However, these are topics with which the Koivisto administration will probably have to deal soon.

Common Market Reports

EUROMARKET NEWS

Issue No. 543 *Report No. 372, June 14, 1979*

IN THIS ISSUE

Community: States Transfer Quota Powers to Commission

The Council of Ministers significantly expanded the rules governing the Community's commercial policy toward third countries when it recently adopted amendments to Regulations 1439/74 and 109/70. The extensive changes took effect on June 2, but the full impact will not be felt until Jan. 2, 1982, when the 18-month transitional period expires (Official Journal No. L131, May 29, 1979).

Through the amendments the Member States have, in effect, transferred to the European Commission the power to introduce quotas on imports of third-country products not yet liberalized at Community level. Until now the Commission has had the sole authority to impose quantitative restrictions on some 85% of the Community's 1,000-or-so tariff positions included in the list of liberalized products. For the remaining 15% of the products - including sensitive items such as shoes, cars, and ball bearings - various Member States retained national restrictions. They were entitled to introduce new quotas or cut back existing ones as they saw fit, provided they first consulted the Commission and the other Member States. This will change under the amendments: the Member States may continue until 1981, as they have in the past, to take unilateral steps against

This issue is in two parts, consisting of 136 pages. This is Part I.

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Quota Powers *(contd.)*

third-country imports, but thereafter the Commission alone will establish the quotas *(Common Market Reports, Pars. 3816.04, 3816.25, 3816.27, 3816.29, 3816.31)*.

Changes that will be felt immediately, i.e., as of June 2, slightly strengthen the Commission's role in imposing safeguard measures against imports that threaten to disrupt markets of individual products. Under previous rules the Commission could introduce such measures on its own for a maximum period of six weeks, but without the Council's approval a measure would lapse. Now the Commission is empowered to introduce safeguards for individual products for an unlimited time unless a measure is challenged by a Member State. If the Council failed to approve the measure after a state had challenged it, the safeguard would lapse automatically after three months.

Council Asks for Studies on Work Sharing

Although the Council has so far failed to act on the Commission's plan to ban overtime and introduce work sharing as a way of combating unemployment in the Community, Council officials are optimistic that the debate which the Commission's ideas has generated in the national capitals will eventually materialize in some form of Community legislation. The Council, though divided on the matter, is not basically opposed to the concept, but it wants to have the Commission prepare in-depth studies on the facts and economic implications of an overtime ban and work sharing before it makes decision one way or the other.

Commission economists, supported by many Member State experts, predict that unemployment in the Common Market will rise from the present 6.5 million to 15 million by 1985. This prediction is based on a Commission projection that puts the Nine's working population at 115 million in the mid-'80s, an increase of around 10 million in one decade. Since the chances of putting the additional millions into employment through higher growth from corresponding investments are nil under the present circumstances, Commission economists and union leaders in all the Member States except the U.K. and Ireland believe that sharing existing work would be the second-best way of reducing joblessness. The EC executive believes that a ban on overtime is the only way to achieve work sharing.

At the moment there is a wide range of opinion on work sharing through an overtime ban. Belgium is firmly behind the plan because it is committed to introducing a 36-hour workweek by 1981. France and the Netherlands are not enthusiastic about the concept but at least support it. Italy, Luxembourg, and Ireland have taken a wait-and-see attitude. Denmark, the U.K., and Germany are opposed to the idea, although Chancellor Helmut Schmidt recently said that he considers the union leadership's demand for a 35-hour workweek to be reasonable. (Getting away from the 40-hour workweek

Work Sharing *(contd.)*

in Germany was a hot issue in the 1978-79 wage contract talks and walkouts.)

On the matter of in-depth studies about the impact of work sharing on production costs, Commission officials say it is difficult to come up with hard facts because of uncertain union attitudes on a cardinal point: would the rank-and-file go along with wage cuts if working hours are reduced, or would they insist on full compensation? The researchers must come up with a rough estimate of what an expanded labor force will cost European industries and what the effect will be in terms of unit costs. They must also project how work sharing would affect the competitive standing of European products on the world markets.

Meanwhile, several Member State governments have asked their economists to do more research on work sharing and prepare some calculations of their own about the economic consequences.

Germany: Bonn Parties Split Over Noise Limits

Bonn's government coalition parties are struggling to reconcile wide differences of opinion over how to cope with traffic noise. Actually these differences cut across all the political parties represented in the Bundestag, which is considering a government-sponsored bill that would establish clear statutory obligations for all levels of government to take practical steps whenever noise from automobiles exceeds certain specified limits *(Doing Business in Europe, Par. 31,006)*. Experience has already shown that a great deal can be done to divert noise by erecting earth mounds and sound barriers along roads and highways through populated areas, while new roads do not necessarily have to be built through residential neighborhoods, but around them. As is often the case with environmental legislation, successful execution is a matter of money. Furthermore, the backers of the government bill this time are facing opposition from the environmental protectionists in their own parties.

Enactment of the bill would mean that if noise limits in strictly residential areas exceed 65 decibels during the day and 55 decibels at night, the government would have to take corrective steps. Administration officials believe that state and local governments could manage the expected additional financial burden of DM 300 million annually. However, state and local government officials place the actual costs near DM 800 million, a figure that would raise budget deficits further. The environmentalists among the Social Democrats and Free Democrats in the Bundestag call for lowering of the proposed limits by five decibels. If they had their way, the approximate costs for the federal, state and local levels of government would be even higher - DM 2 billion a year.

Noise Limits *(contd.)*

Finance Minister Hans Matthöfer is now trying to bring the opponents together with a compromise of his own. He suggests approval of the proposed decibel standards, to be applied to existing roads and highways. However, planners should design new roads in a way that would keep traffic noise from exceeding the lower limits that the environmentalists are advocating. Moreover, Matthöfer recommends that the automakers be given a deadline, sometime in the 1980s, to come up with models that are quieter than the present makes. Matthöfer believes that compelling the manufacturers to design quieter cars, although expensive for the buyer, should be given preference over further damaging the environment by lining existing and future roads with concrete and earth walls.

France: OK for Third Job Creation Program

With no visible turnaround in the unemployment situation despite the summer season, the French government has been forced to allocate funds for yet another job creation program. The "third national pact" approved by the cabinet on May 30 will run for three years, as opposed to the two previous one-year programs. In an official statement, the Barre administration explained that the longer duration will help to make industry's employment policies more predictable. Observers commented, however, that the program's longer time span in a way amounts to a government admission that short-term solutions for the labor market are in sight.

Incorporating to a large degree the proposals of the CNPF employers' federation, the latest plan seeks to promote in particular the hiring of young people up to the age of 26 as well as vocational training. At an annual cost of FF 3.5 billion, the program seeks to find employment for some 450,000 people, either through permanent jobs or vocational training slots.

The substance of the third pact does not differ too much from that of its predecessors, except for certain qualitative refinements. There is no change in the procedure of the state taking over 50% of the social insurance costs for up to one year in the case of newly hired individuals under the age of 26. However, this arrangement will now be extended to all businesses, regardless of size. Special aids are set aside for very small businesses with less than 10 employees and for craftsmen who hire employees for the first time. The aids consist partly of rebates on social insurance contributions and partly of bonuses. Still another improvement concerns vocational training pay: trainees hired for a period of four months are entitled to nine-tenths of the legal minimum wage, with the state contributing 70% of that amount. Finally, the program makes special provision for mothers who live alone with their children (50% of social contributions) and for people above the age of 45 who have been unemployed for at least one year (hiring bonus of

Job Creation *(contd.)*

FF 8,000). The government said it is hoped that these incentives, to be financed from regular budget funds, would lead to the employment of nearly 1 million youths by the end of 1981.

The immediate goal of the program would be to ease the impact on the labor market of the many thousands of school-leavers this year and to prevent unemployment from rising still further. At the end of April, the official jobless count stood at 1.34 million.

Of the two previous employment promotion plans, the first implemented in 1977 was the most ambitious: at a cost of FF 7 billion, it succeeded in creating some 570,000 new jobs. For last year's program, the figures were FF 2.5 billion and 270,000, respectively.

Assembly Votes for More Curbs on Immigrants

The French National Assembly on May 29 approved highly controversial draft legislation imposing further controls on immigration. The government-sponsored bill previously had undergone major changes in committee and was then further diluted in the Assembly debate. It is now going to the Senate. Even in its weakened form, the draft law was denounced by both the Socialist-Communist opposition in Parliament and the trade unions as being far too severe and possibly even unconstitutional. In fact, the Socialists announced they would take the issue to the constitutional court.

Interior Minister Christian Bonnet said the proposed law was not designed to expel aliens legally residing in France but would merely empower the government to repatriate those aliens who are illegal residents. In its present form, the bill has been stripped of a provision that would have required aliens to show proof of financial support upon entry. Also stricken was a clause that would have permitted deportation if the authorities did not renew an alien's residence permit. Furthermore, the authorities would not be able to take into temporary custody aliens scheduled for deportation but only those who are barred from entering the country. The bill still contains a controversial provision, however, that denies entry to aliens who might disturb the public order. This proposed rule has been sharply attacked as allowing the authorities too much discretion.

France has an immigrant population of about 4 million, and 10% of all workers are aliens.

Italy: Communists Suffer Setbacks in Elections

In the early parliamentary elections of June 3-4, Italy's voters dealt a severe blow to the Communists' hope of eventually becoming a government party. For the first time in postwar history, Enrico Berlinguer's PCI suffered a loss, slipping from 34.4% (1976) to 30.4%. The Communists wound up with only 201 Assembly mandates - 27 less than before.

Elections *(contd.)*

None of the major political parties, however, was able to claim victory in the elections. The incumbent Christian Democrats, under acting Prime Minister Giulio Andreotti, basically held their position, losing only 0.4% of the vote in comparison with the 1976 results. The country's largest party had to give up one seat in the Assembly (now 262) but gained three in the Senate (138). Spokesmen of the Democrazia Cristiana (DC) professed satisfaction with the outcome, saying that it constituted a vote of confidence in the party's politics, particularly concerning the DC's opposition to a direct Communist participation in government.

The actual winners of the balloting were the small parties of the political center - Social Democrats, Republicans, and Liberals - which have participated in coalitions with the Christian Democrats in the past. However, their gains could be too insignificant to make it possible for them to join another coalition with the DC. The best showing, relatively, was made by the environmentalist Radicals, who could claim 3.4% of the vote. Other ultra-leftists, on the other hand, disappeared almost completely from the political scene.

Industry Body Submits Draft of Cartel Law

Just prior to the national elections, on May 3, the Italian industrial federation, Confindustria, surprised the public with the draft of a cartel law that would provide controls on "the correct functioning of the market" and seek to prevent "the abuse of economic power." Formulated under the stewardship of Confindustria chairman Guido Carli, ex-governor of the central bank, the document represents the first initiative after one and a half decades toward substantial competition legislation in Italy.

The draft is part of the federation's preparatory work for an "enterprise statute," which would seek to provide a counterweight to the workers statute of 1970, which safeguards job security and inflation-adjusted wages. The law would entrust a monopoly commission - to be appointed by the state president - to monitor companies' market attitudes and to prevent cartels that impede free competition. The commission would have considerable powers of inspection. Mergers would be subject to the commission's approval once the combined market shares of the companies involved exceeded certain, as yet undefined limits.

The Confindustria document, described as a preliminary paper, makes it clear that industry's demand for "more market and less (market) power" is directed primarily against the monopolistic trends shown by the state-controlled industry groups, such as the IRI, ENI, and EFIM. Thus, the draft provides, for instance, that the same auditing and reporting rules, which are to be tightened generally, would apply to both private and public enterprises.

The federation is concerned that the state groups can

Cartel Law *(contd.)*

maintain and expand their powerful position only because they are able to "unload" their huge losses on the taxpayers. Also, these groups enjoy credit and investment privileges that are unavailable to the private sector. In fact, the state banks and financing institutions are primarily engaged in funding the deficit-ridden state industries. The small and medium-sized private businesses, on the other hand - which are the backbone of the free-market economy - are suffering from a pronounced credit squeeze.

Netherlands: Foreign Assets Rule Eased; Discount Rate

The Dutch central bank has softened what is known as its "5-million-guilder law," which in the past had fixed at this amount the ceiling up to which commercial domestic banks could finance themselves abroad. In the future, banks will be permitted a minimum margin of 20 million guilders in foreign liabilities, regardless of their foreign assets. Specifically, a bank may maintain a margin of 10% on the first 500 million guilders of gross foreign assets (inclusive of export finance bills), 5% on the next 500-million segment, and 1% above 1 billion guilders.

The new regulations fall within the scope of the recently introduced banking supervision legislation and supersede a gentlemen's agreement dating back to 1964. The central bank said the previous system had become too inflexible in that it often forced banks to maintain considerable reserves in order to meet sudden fluctuations in their net foreign positions.

In other developments, the central bank as of May 31 lifted its discount rate from 6.5% to 7% and the Lombard rate from 7% to 7.5%, explaining this as a needed adjustment to the higher money market rates. The bank's action came a few hours after the Belgian central bank also raised its discount rate (see below).

Belgium: Discount Rate Boost to Aid Weak Franc

For the second time within four weeks the Belgian national bank has raised the discount rate by one full point, from 7% to 8% as of May 30, in order to combat the continuing weakness of the Belgian franc in the European monetary system (EMS). The previous increase, to 7%, took place on May 3.

Contrary to original expectations, the Belgian currency has turned out to be the weakest link in the EMS since the latter's inauguration last March. Currencies like the Irish pound, the Italian lira, and the Danish krone actually have consistently outperformed the Belgian franc, pushing it close to the prescribed intervention levels. Only two weeks after the EMS start, on March 13, the national bank had been forced to commit part of its European currency unit (ECU) reserves to support the franc. Consequently, its ECU reserves dropped from 70.8 to 62.4 billion (until the end of

Discount Rate *(contd.)*

May) as a result of these intervention measures. Evidently the bank saw a strong need to boost the discount rate a second time, even though this might impair the success of the current state bond issue, which is being offered at 9%.

The main reason for the weak condition of the franc is seen in the deterioration of Belgium's state budget, which is causing the government to turn to the foreign capital markets to finance the current deficits. Most recently, Euroloans totaling BF 14 billion and denominated in D-marks and Swiss francs have augmented a previous BF 12-billion credit from the Bank for International Settlements.

EURO COMPANY SCENE

Bastogi/ Diamond Shamrock

Italy's most important private financial holding, Bastogi-Irbs of Rome, is planning to acquire a U.S. minority shareholder with Cleveland-based Diamond Shamrock, through the latter's subsidiary, Chemical Investment and Trade Corp. (Chemintrade). It is intended to raise Bastogi's capital by up to 100 billion lire, in which Diamond probably would take a share of about 30%. This would give the U.S. group an overall holding of about 8-10%.

Unilever/ Lipton/ Lawry's Foods

The Anglo-Dutch Unilever group, through its New Jersey subsidiary Thomas J. Lipton, Inc., will take over Lawry's Foods, Inc., a Los Angeles manufacturer of specialty foods, particularly seasonings and spices. The deal agreed on with the Frank family, majority shareholders of Lawry's, provides for a purchase price of $66 million. Lawry's reported 1978 sales of $70 million and net earnings of $3.4 million.

MAN/ White Motor

According to a statement issued be Germany's Maschinenfabrik Augsburg-Nürnberg AG (MAN), negotiations with the United States' White Motor Corp. over MAN's taking a majority ownership in White have broken down. The German engineering company originally had planned to purchase up to 9.6 million common shares at $8 each, for a total price of $76.8 million. Both companies said that the "synergetic effects" of such a cooperation would have been far less than originally thought. MAN was to have supplied its diesel engines for White's line of heavy-duty trucks and wanted to develop with the U.S. company a new commercial vehicle program.

United California

According to Brussels reports, the Brussels branch of United California Bank (Western Bancorp.) is to be closed. Management was quoted as saying that it accumulated losses of about $2 million over the past three years. The bank's international clients in Belgium are to be serviced from United's London and Frankfurt branches.

Common Market Reports

EUROMARKET NEWS

Issue No. 544 *June 19, 1979*

IN THIS ISSUE

Community: Voter Turnout in EP Elections Varies Widely

The center-right element of the political spectrum will be the strongest force in the first directly elected European Parliament. Christian Democrats and Conservatives will muster 169 seats in the 410-seat assembly, while the Socialists, still the largest single political faction, will occupy 109 seats *(Common Market Reports, Pars. 4306.08, 10,131)*.

A total of 178 million voters were eligible to go to the polls, but the turnout in the nine countries ranged from a disappointing 31% in the U.K. to an encouraging 85% in Italy. In both Belgium and Luxembourg some 75% of the people eligible to vote went to the polling stations, but in those two countries voting is virtually mandatory. In France and Germany, voter participation amounted to 60% and 65%, respectively. Some 57% of the Dutch and 55% of the Irish voters cast their ballots, and in Denmark over 47% of the voters turned out. Most observers agree that a higher overall turnout would have considerably enhanced the EP's standing, but others attach less significance to this because it was the very first occasion to directly elect members of the EP.

Observers have many explanations for the varying response in the individual Member States. For instance, in the U.K., national elections had been held only a few weeks before. The Labour Party is split into pro- and anti-Common

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Voter Turnout *(contd.)*

Market factions, and this was the reason that many of its supporters did not bother to go to the polls. However, the Conservatives' landslide victory (62 seats to Labour's 14, out of a total of 81) is attributed more to the electoral system than the constituents' lack of support for Labour. Observers also point out that neither the Conservatives nor Labour really explained what the election was about and that much more has to be done to spread understanding of the EP's role alongside the other Community institutions.

Although the EP has only limited powers under the Treaty of Rome, there are nevertheless many ways in which it can make these powers felt. Parliament does not have the right to initiate legislation on its own, but once the Commission has proposed a measure, the EP must give its views on the matter. Even though Parliament's opinion is not binding, the Commission seldom ignores the EP's recommendations, especially when consumer affairs are involved *(Common Market Reports, Par. 4302.03)*. Observers say that this is an area that candidates in all states except Italy failed to explain. Italian candidates, including those on the Communist ticket, concentrated on genuinely European issues such as the Community's regional and farm policies, and many of them even went so far as to explain the complicated institutional role of the EP. Their endeavors were rewarded by a relatively high turnout of voters, despite the fact that the voters had gone to the polls only six days before for the national elections.

Third-Country Issue Slows Harmonization

In its drive to create a genuine common market for trade, the Council of Ministers has so far adopted a total of 115 directives to remove technical barriers and thus ease market conditions for numerous products, among them measuring instruments, foodstuffs, tools, and automotive parts. The Permanent Representatives currently are debating about 20 proposals, such as those on safety glass for motor vehicles, automobile type-approval, and prepackaged products. Another 20 draft directives, including several automotive measures, are being discussed by the Council's working groups. In addition, the Commission has adopted 14 measures of its own under Council-granted authority in order to bring existing Community standards in line with technological developments.

As impressive as the legislative record may be, there is still a great deal of work to be done. In recent years the Council has been adopting fewer and fewer directives, and Brussels observers attribute this slowdown to several causes. Almost half of the 20 draft directives now being discussed are being blocked by the Permanent Representatives or a working group because it has not been decided how third-country products should be treated. At present it is up to each state to decide whether it wants to recognize standards and other aspects of a product from outside the

Harmonization *(contd.)*

Common Market or whether it wants to insist on modifications before allowing importation.

Type-approval of motor vehicles as provided in a pending measure would do away with the still-existing barriers to intra-Community car trade: once an automobile met the standards specified in EEC directives, it could be freely sold throughout the Common Market. However, agreement on this measure would also have implications for the Community's commercial policy toward third countries. Community officials are optimistic that the recently signed GATT agreement and its various codes, including that on technical standards, will spur negotiations between the Community and its major trading partners, including the United States and Japan.

Brussels observers point out that the Commission has been working against many odds ever since it started its drive to lower barriers to interstate trade. The EC executive's early goal was total harmonization, which would have meant that every product had to conform to uniform standards throughout the Community. Meanwhile, however, it has had to lower its sights. Emphasis now lies on optional harmonization: products that are not exported to other Member States do not have to follow EC standards, but items that are exported must conform. Individual Member States have often missed the deadline for compliance with a directive, and there have been a few cases where a state simply refused to take the necessary legislative steps, which meant that the Commission had to initiate legal action.

Of major concern to the Commission have been industrial standards that in effect turn out to be trade obstacles. Every year Germany introduces more than 1,000 new product standards, and so does France. These standards, often linked to safety rules, can make importation into the particular state difficult if not impossible. The Commission recently criticized Germany once again on the point but took no official steps to stop it. A high standard is an indirect way of keeping products away from the German market, according to the Commission, and this violates the spirit if not the letter of the EEC Treaty. Ratification of the GATT agreement, with its codes on technical standards, might bring some movement to the discussions and perhaps even a satisfactory solution.

Germany: Bonn Moves to Borrow Less in Fiscal 1980

The German coalition government has for the first time made a modest move to cut borrowing to finance its budget. In the proposed budget for fiscal 1980 it seeks to limit borrowing to DM 28 billion, and it hopes to adhere to this policy in the coming years. Initially, the Schmidt administration had planned not to reduce borrowing before 1982.

There are several reasons for the policy change. The

Borrowing *(contd.)*

Bundestag's budget committee last year unanimously voted to cut DM 4 billion from the DM 35.5 billion that the government planned to borrow. There was also a unanimous lower-house resolution calling on the administration to make a serious attempt to reduce public borrowing. Finally, there has been considerable criticism from the Opposition, business leaders, and the government's own council of economic advisers about the extent and implication of heavy borrowing by all levels of government, but especially so by the federal government.

In recent years the government often approached the limit that the German constitution imposes on borrowing, thereby possibly exposing itself to legal action by the Opposition. Under the constitution, the volume of borrowing may not exceed the total investment expenditures scheduled in the budget; exceptions are permissible only to avoid economic disturbances. Borrowing less than DM 30 billion, which used to be the critical point that brought the Opposition into the picture, will protect the government against legal action.

Since 1974, when the effects of the oil crisis began to be felt, administration leaders justified heavy borrowing (it doubled from 1973 to 1975) as the only way to halt the recession and to return the economy to a modestly expansive course. This policy was supported by independent economists and even found some favorable comments from several Opposition leaders. In the meantime, however, the economy not only has stabilized but reflects a slight upward trend. The critics say there is no longer any need to retain the level of heavy borrowing of recent years.

West Germany still ranks in the middle among industrialized nations in terms of borrowing and accumulated public debts (Belgium has the highest debt, Switzerland the lowest). Nevertheless, it is being argued that continued heavy borrowing (approaching the point where interest payments will exceed payments on the principal) would place an unreasonable burden on the next generation. This argument is heavily supported by predictions that, if the current low birth rate continues, the country's present population of 61 million will drop to around 50 million by the year 2000. Opposition leaders have vowed to make the federal government's borrowing policy an issue in next year's national elections.

Britain: Draft on Current-Cost Accounting

The Accounting Standards Committee, comprised of the various U.K. and Irish bodies of accountants, has produced an exposure draft on a current-cost accounting standard. The document (E.D. 24) has evolved from the 1977 interim recommendation, known as the "Hyde guidelines," and aims at a "practicable and workable standard which will be a move forward in the evolution of the subject." It is proposed that the new

Accounting *(contd.)*

standard be effective for accounting periods beginning on or after Jan. 1, 1980, but this date would be reviewed pending the evaluation of comments received by the end of October.

The standard would apply only to companies listed on the stock exchange and to entities with an annual turnover of at least £5 million. It is envisaged, however, that insurance, property investment, and trading companies as well as investment and unit trusts be excluded from compliance on the grounds that "the current-cost accounting method does not appear to be wholly appropriate to them." Other exceptions would be wholly-owned subsidiaries of companies registered in the U.K. and Ireland and entities such as pension funds and trade unions, "whose long-term financial objective is other than to achieve an operating profit." In all, about 5,500 companies would come within the scope of the proposed standard. The threshold of £5 million in turnover coincides with the definition of larger companies in the EEC's fourth directive on company law *(Common Market Reports, Par. 1391)*.

Annual financial statements would include, in addition to "historical" cost accounts, a current-cost balance sheet (which would be in a summarized form) and explanatory notes, together with a current-cost profit and loss account. The latter would show the current-cost operating profit derived after making depreciation, cost of sales, and monetary working capital adjustments as well as the current-cost shareholders' profit derived after making a gearing adjustment. In the current-cost balance sheet, fixed assets and stock would generally be included at their value to the business, which normally would be net current replacement cost.

The draft emphasizes that the current-cost accounts do not encompass assets that are not covered by the historical cost system. Also, while it allows for the impact of specific price changes on the net operating assets and thus the operating capability of a business, it does not measure the effect of changes in the general value of money or translate the figures into currency of purchasing power at a specific date. "Because of this, it is not a system of accounting for general inflation." However, it does allow for the effect of price changes in the accounts of a particular period and thus gives a more realistic measure of effects.

France: No Change in Tax Credits on Dividends

The French government has no intention at this time to follow the German model of raising the tax credit on dividend distributions from 50% to 100%. Economics Minister René Monory said that such an increase would cost the treasury an additional FF 2.5 billion annually. The proposal had come from a committee that has been studying ways of improving the capital resources of French companies. With this aim in mind, Monory last year had sponsored legislation enabling

Tax Credits *(contd.)*

small investors to deduct up to FF 5,000 in new share purchases from their taxable 1978 income; however, this law had cost the government only FF 250 million.

A spokesman for the French stockbrokers' association meanwhile has publicly voiced doubts on the desirability of small investors engaging themselves in the stock market. He said the high risks of such engagements are in no way offset by the possible gains for the average shareholder. The risks should be borne only by persons "with significant means." The association official suggested that, instead of putting their money into specific companies, small investors should opt for the investment funds, which was done by 75% of those who took advantage of the Monory Law in '78.

According to government statistics issued earlier this year, the investment funds accounted for a significant part of the 45% appreciation of French stock prices in 1978. During that year, capital increases through the domestic stock market totaled FF 3.7 billion, compared with only FF 700 million in '77.

Denmark: Payments Crisis Puts Coalition to the Test

Arguments about how to deal with the country's rapidly mounting payments deficit are putting a considerable strain on Denmark's social-liberal coalition government. In August the administration will have to submit the 1980 budget to Parliament, but the two parties are still far apart on the basic policy to be followed. The Liberals, led by Henning Christophersen, deputy premier and foreign minister, insist on forceful measures to reduce Denmark's crushing foreign debts. Prime Minister Anker Jörgensen and his Social Democrats fear that this would automatically worsen unemployment and create serious problems with the unions.

The political implications for both partners are obvious. Last fall Jörgensen had persuaded the opposition Liberals to join his government, arguing that it would be easier for a majority administration to solve the country's economic problems. A specific goal had been to bring down the 1978 payments gap of 7.7 billion kroner to about 6.5 billion this year. However, rising oil prices and other factors have demolished these hopes: the latest estimates of both the government and the economic advisory council place the deficit this year at 10.6 billion kroner. Denmark's net foreign debt has now accrued to some 60 billion kroner - which corresponds to nearly one-fifth of GNP - and the interest burden alone comes to 5.5 billion kroner. "The situation in Denmark is much more serious than in those countries with whom we usually compare ourselves," said the advisory council in its latest report.

Nevertheless, the maneuverability of the government is severely restricted. Last March Parliament passed an obligatory two-year pay contract for about two-thirds of the na-

Crisis *(contd.)*

tional labor force, which will result in wage cost increases of at least 10% annually. This should weaken the competitiveness of Danish exporters, who have staked their hopes on the improved business climate abroad. There is not much room in the fiscal and credit sector either: with a value-added tax rate of 20.25%, Denmark already leads the EEC countries, and the interest rate levels also are among the highest in Europe.

A more restrictive incomes and fiscal policy appears to be the only solution to the overall problem, according to the employers, and National Bank president Erik Hoffmeyer also favors budget cuts and tax increases. The economic advisory council, moreover, has urged the government to consider a devaluation of the krone in the area of 10%. This, it said, should at least help to stabilize the payments deficit at its current level, without endangering employment.

Switzerland: OECD Urges More Active Budget Policy

In its latest annual survey on Switzerland, the Organization for Economic Cooperation and Development has urged the Swiss government to pursue a more active budget and fiscal policy in order to boost domestic demand. An unchanged policy stance would again contribute to relatively slow economic growth this year (1.2% in 1978) and thus prevent a Swiss contribution to the much-needed stimulation of international economic activity.

The OECD experts propose that Bern should be willing to accept higher budgetary deficits and commit more funds to public investments without having to fear inflationary effects. The government should continue to promote capital exports and make an effort to raise Swiss development aid. This aid now totals less than 0.2% of GNP - " a regrettable situation in a country where per capita income is one of the highest in the world." The combined measures would contribute to reducing the extremely high Swiss payments surplus, which is "an obstacle to better payments equilibrium within the OECD area. Also, it has drawbacks for the Swiss economy itself, in that it sustains a continuing appreciation of the currency, which makes Swiss products less competitive internationally and creates a difficult situation for certain traditional sectors of activity."

Generally, however, the survey gives Switzerland the highest marks, particularly in the area of prices and employment: "On these two fronts, the results achieved are the best (by far) of any OECD country." The OECD also acknowledges the government's problems in trying to pursue a more active fiscal policy, stating that "it seems that public opinion in Switzerland does not fully appreciate such a policy." This evidently is in reference to the voters' renewed rejection of the value-added tax and the finance reform. (OECD Economic Surveys, Switzerland, June 8, 1979.)

Portugal: Mota Pinto Government Steps Down

In anticipation of a parliamentary vote of no-confidence and numerous budget amendments, the Portuguese non-party government under Prime Minister Mota Pinto tendered its resignation on June 7. State president Antonio Ramelho Eanes asked the Pinto cabinet to continue in a caretaker capacity; he did not immediately dissolve Parliament.

A second, revised draft of the budget for the current fiscal year actually had been passed by the assembly as a whole. However, in the subsequent debate, the program was "mutilated," as one government official termed it, by about 70 amendments, some of them substantial. For instance, a proposed special levy on year-end bonuses of all employees was voted down, and various subsidies to local governments were added. As a result, the budgeted deficit would have more than doubled to 15.2 billion escudos - a figure incompatible with the guidelines previously agreed on with the International Monetary Fund. As a consequence, Economics and Finance Minister Manuel Jacinto Nunes chose to step down, and the resignation of the entire cabinet came shortly thereafter.

EURO COMPANY SCENE

General Motors

General Motors Corp. plans to enlarge its European production capacities by about one-fourth by investing some $2 billion in its most ambitious foreign expansion program ever. The largest part of the investment will be spent on two new plants in Spain - an assembly plant at Saragossa and a parts plant in Puerto Real/Cádiz. At the same time, an engine plant with an annual capacity of 300,000 units and 1,500 employees is to be built in Vienna, Austria. Furthermore, GM intends to expand capacities at its existing plants in Europe. The new facilities, for which construction is to begin early next year, are expected to be operational in 1982 and will then employ more than 12,000. At present, GM has a total European workforce of 130,000 in 21 plants in Germany, Britain, France, Belgium, Ireland, Portugal, and in a partially-owned plant in Yugoslavia. The company's market share in Europe has been put at about 10%.

As of 1983, the Spanish plants will annually turn out 270,000 units of a completely new passenger car model, of which 190,000 are to be exported. This project alone will require an investment of approximately $1.5 billion and will make Spain one of Europe's leading automobile producers. In the province of Cádiz, GM's commitment is expected to create some 1,500 new jobs and in Saragossa, 9,000.

Common Market Reports

EUROMARKET NEWS

Issue No. 545 *Report No. 373, June 28, 1979*

IN THIS ISSUE

Community: Energy Studies Put Emphasis on Coal, A-Power

The European Commission recently released three papers outlining what the Community's energy strategy should be for the next decade. The analyses came out just in time for the June 22 meeting of the nine heads of government in Strasbourg and the economic summit on June 28 in Tokyo, where government leaders of France, Germany, Italy, and the U.K. are meeting with their colleagues from Japan, Canada, and the United States. One of the main topics of the latter meeting was to be energy.

The Commission's studies confirm that the Community will have to rely more on coal and nuclear energy in order to keep current crude-oil imports at the present level (470 million tons annually). The Commission recommends building coal-fueled power stations whenever the construction of new A-power plants meets heavy resistance by the population (as it has on occasion, especially following the Harrisburg accident). This would mean the expenditure of $50 billion annually by the nine Member States to open up new coal mines, expand existing mines, and construct several hundred nuclear power stations. The suggested investments would not only ease the energy squeeze but would also create millions of new jobs that are needed for the next decade.

The Commission once again stresses the need to intensi-

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Energy *(contd.)*

fy research on coal liquefaction, with the objective of lowering the cost of producing gasoline from coal. At present, a gallon of gasoline derived from coal costs about twice as much as gas refined from oil. Still, the Commission hopes that by 1982 the production of coal-base gasoline will reach a volume that could have an effect on the price policies of oil-exporting countries even if such gasoline could not be offered at competitive prices.

Pointing to the Community's overall energy savings (some 7% in 1978 over the previous year), the Commission says that much more must be done in all Member States. The EC still has no common energy policy, and each state is doing generally what it thinks is not only fitting but also politically feasible. In Germany, for example, the government offers tax benefits and grants to homeowners to offset the cost of better insulation. (Households consume about 40% of the nation's energy, especially oil for heating.) So far Bonn has refused to decree speed limits on the autobahns (state and country highways have a laxly enforced 62 mph limit) because it does not believe that the fuel savings would be substantial. By contrast, the governments of most of the neighboring countries have imposed speed limits.

The Council has already accepted one of the Commission's suggestions, contained in a draft regulation, which would provide for measures to monitor price and supply developments on the oil market. It has agreed in principle that all oil purchases over a yet-to-be-determined volume be registered. The Commission had also suggested that all major crude oil purchases exceeding certain maximum prices also be registered. The concept now proposed would offer a compromise between Paris' demand to fix maximum prices for oil and Bonn's opposition to anything that would further upset the fragile balance of the oil market still governed by the free enterprise system. The Council was clearly against the Commission's idea calling for the introduction of oil distribution quotas on a voluntary basis that could serve as a model for other industrialized nations in the event that oil supplies shrink even further.

No Import Curbs on Japanese Products

At its June 12 meeting in Luxembourg the Council of Ministers rejected the Commission's recommendation to impose import restrictions on Japanese products. In 1978, the EEC's deficit in trade with Japan was $6.4 billion, $800 million more than in 1977. According to the Commission, that deficit could reach a record $8 billion this year.

The Council turned down the Commission's recommendation largely because of German opposition. Bonn maintains that the Japanese government has set the signals for opening the domestic market to EEC products by enacting tariff cuts before it formally agreed to do so and by easing administrative barriers to imports. However, it will take some time

Curbs *(contd.)*

before the effects of increased Community exports to Japan will be noticed.

Relations between the Common Market and Japan took a turn for the worse in recent months, especially after the press got wind of a confidential Commission paper indicating that Japan is able to flood the world markets with lower-priced products because of low domestic labor costs and a "workaholics" mentality. Until recently the Member State governments and the Commission largely confined themselves to general verbal admonitions in meeting the Japanese export offensive. Now, however, British, French, and Italian government leaders are demanding protective measures. Even within the Commission the sentiment has been gradually shifting from a hands-off attitude to consideration of some selective curbs on Japanese products, although Commissioner Wilhelm Haferkamp, responsible for trade relations, has remained adamant because of the implications that import restrictions would have on free world trade.

At a recent symposium in Brussels, Haferkamp pointed out that among the reasons for Japan's success are high quality standards which often exceed those of products manufactured in the Common Market. The Commissioner believes that these high standards are largely responsible for the fact that the Japanese manufacturers account for more than 50% of the worldwide sales of motorcycles, tape recorders, radios, and pocket calculators. Haferkamp went on to say that some 10,000 Japanese businessmen study and work in the European markets, while only about 1,000 Europeans do the same in Japan. He conceded, however, that in contrast to the Common Market, with its unrestricted right of establishment, freedom to invest, and strong import trade, Japan has been maintaining a "closed market" and has done little to open it.

In Brief...

The Commission's drive to lower barriers in intra-Community trade of construction materials by approximating the respective Member States' provisions has reached a dead end. A subcommittee of the Economic and Social Committee, which still has to give its formal opinion on the Commission's proposals, unanimously rejected the measures. In the first proposal, a framework directive, the Commission wanted the power from the Council under Treaty Article 155 to adopt specific implementing directives. A second proposal was to have established a priority list of construction products that would be covered by the approximation procedure. Council officials say that the subcommittee's decision generally reflects the sentiment of the nine national governments, so that the chance for approval of the two measures is considered nil + + + Australia and the Commission have reached an agreement that would provide Australian exporters of agricultural commodities, especially beef and cheese, with improved marketing opportunities in the Common Market. In re-

In Brief *(contd.)*

turn, Australia would offer a number of concessions, mostly on industrial products. Though its economic impact may be modest, the agreement has political significance in that it could improve Australian-Community relations, which had been soured earlier by EC restrictions on Australian goods. The agreement still must be approved by the Council and the Australian parliament.

Germany: Bonn Moves to End Bias in Employment

It would be illegal for German employers to discriminate against either men or women on the job if a bill submitted by the Schmidt administration to Parliament becomes law. There would have to be equal treatment in hiring, working conditions, advancement, and firing. Most importantly, however, the proposed law would require equal pay for equal work. The measure would also shift the burden of proof to the employer: in a suit brought by an employee who feels he or she has been the object of discrimination, the employer would have to justify to the court the reasons for his position. The employee would merely have to present enough facts to the court to make credible his or her claim that the discrimination was based on sex. An employer failing to justify the different treatment would be liable for payment of damages.

The measure represents Bonn's belated move to comply with two EC Council directives on equal pay and access to and advancement in employment *(Common Market Reports, Pars. 3910.123, 3941)*. Germany's default caused the European Commission to start proceedings against it under Treaty Article 169. The fact that the measure before the Bundestag also contains an express provision on equal pay means that the Commission has won the argument that special legislation is necessary to comply with the Council's equal-pay directive. The Schmidt administration had taken the position that the equal treatment clause contained in Article 3 of the Constitution would suffice to guarantee that women performing the same work as men are not paid less. A series of suits brought by individuals as well as groups of women against their employers has disproved the claim of government officials that there is no large-scale discrimination. In all instances the lower courts sided with the plaintiffs, although several decisions are being appealed.

There had been considerable arguing among the two government coalition parties about shifting the burden of proof to the employer; German law, like that of other countries, requires the plaintiff to present the facts in support of his action. The Free Democrats justified the departure from the statutory principle by saying that, in any case, an employee is in an economically weak position, and it would be difficult, if not impossible, to obtain evidence from the employer's personnel department.

France: Another Try to Cut Number of Foreigners

Hard on the heels of new legislation seeking to curb immigration into the country, the French government has drafted another bill that would make it more difficult for certain groups of foreigners to renew their residence and work permits. Under the latest proposals approved earlier this month by the cabinet, aliens admitted to France would be issued their work and residence permits for a three-year period. Thereafter, the authorities would be in a position not to renew the permits, taking into account local labor conditions (unemployment) or the alien's nationality. In areas of high unemployment, the chances for renewal would probably be minimal. (Originally, the government had considered issuing one-year permits only, but this ran into stiff opposition by the political Left and the labor unions.) Also, aliens unable to find a job within six months would not be granted a renewal of their permits.

Paris reports quoted a Labor Ministry official as saying that up to 200,000 foreigners could be affected by the proposed law, whereas others said that the new rules would touch no more than 40,000 people, mostly workers from Morocco, Tunisia, Yugoslavia, and Turkey. Special bilateral arrangements apply to Algerians and people from Black Africa, while EEC citizens are not affected in any case.

Reports said that the Barre administration is purposely introducing its tougher immigration and work-and-residence rules in two separate steps because it wants to avoid too much political reaction by the Left, the churches, and foreign governments. Last month, the Assembly passed highly controversial draft legislation imposing further controls on immigration. Essentially, that legislation would permit the authorities to repatriate illegal aliens and to bar those aliens who cannot show proof of financial support or might be considered a threat to the public order.

Meanwhile, the statistics for the month of May reflect yet another boost in French unemployment - of 2.7% to 1.376 million, a historic high. Thus, the unemployment curve rose for the sixth consecutive month, showing a 21.3% increase within a one-year period. The government conceded that the rise in the jobless rate was higher than would normally be expected at this time of year but pointed out that its third job creation program is scheduled to take effect next month.

Quiet Revision of Economic Growth Data

The French government, which tends to go into each year with enthusiastic economic growth estimates, has now quietly revised its projections for 1979, following a disappointing half-year period. The growth rate of GNP has been scaled down from 3.7% to 3.4%, which comes very close to last year's actual result of 3.3% and could thus not be considered a real improvement. The anticipated expansion rate of private consumption has been reduced from 3.8% to 3.4%, after

Growth Data *(contd.)*

several months of stagnation. But the most drastic revision, and one that tends to sting France's economic planners the most, concerns investments, which at one time were predicted to expand by 3.8% and are now accorded a figure of 2%, at best. (Last year investments rose by only 0.7%, however.)

The government's experts are blaming two main factors for the deviation. They say that last fall, when the first projections were made, no one could predict the steep price increases for oil and raw materials imports this year. The oil bill alone will cost France an additional FF 20 billion in 1979. Secondly, the economic growth problems are not bypassing the neighboring countries, which are important trade partners, so that France can hardly count on repeating last year's foreign trade surplus. Still, Paris is clinging to its original estimate of a 6% rise in exports, while slightly reducing the import figure from 7% to 6.5%. More importantly, the previously projected inflation rate of 7.9% now appears unsupportable and thus has been upped to 9.5%. However, Economics Minister René Monory admits that the country would be doing well to stay below the 10% mark. (Last year's result was 9.7%.)

Faced with these persisting growth problems, the government seems resigned to the fact of once again having to abandon the once "sacred" principle of balanced budgets. After a deficit of FF 34.3 billion last year, the experts are forecasting a shortfall of at least FF 40 billion in '79. The government, in fact, has just announced a new state bond issue of FF 4 billion, which has a maturity of 15 years and carries a coupon of 10%.

Britain: Budget Features Lower Income Tax, Higher VAT

The U.K. Chancellor of the Exchequer, Sir Geoffrey Howe, introduced on June 12 what he described as an "opportunity Budget." He said that the shift from taxes on income to taxes on spending would "widen choice, improve incentives and, above all, enlarge opportunities." The Budget also would seek to reduce the role of government: "Government will spend less and borrow less, and this will lay the foundations for controlling inflation."

The Budget provides for income tax cuts of £3.5 billion in the current fiscal year, with substantial reductions in the higher rates of tax on earned and unearned income. The base rate of 33% has come down to 30%, with increased personal allowances, but the top rate has been sliced from 83% to 60% (levied on income taxable above £25,000). The threshold for tax above the basic rate, at 40%, is now £10,000 instead of £8,000, and between £10,000 and £25,000 the percentage increase is not as steep as before. The starting point for the investment income surcharge is now £5,000, and a single rate of 15% applies. This means that

Budget *(contd.)*

the maximum tax payable with respect to unearned income has been lowered to 75%, from the previous 98%.

Corporate tax remains unchanged for larger enterprises, but the "small companies" rate of 42% now starts at £60,000 and is gradually raised to 52% at the £100,000 level. Advance corporation tax has also been reduced from 33/67ths to 30/70ths.

Value-added tax has been raised to a unified rate of 15%, replacing differential rates of 8% and 12%. It was estimated that this will lead to an annual increase of 3.5% in the retail price index.

Controls on dividends will not be renewed after July 31: "If industry is to flourish, it needs not only adequate profits but also a vigorous capital market to provide funds for investment and expansion." Also, development land tax on real estate sales after June 11, 1979, will be charged at a unified 60% rate, as compared with the previous twin rates of 66.66% and 80%. Disposals under £50,000 are now exempt.

The Chancellor has promised to review the operation of capital gains tax, which at present is "oppressive, harmful to business, and a real deterrent to initiative and enterprise." However, petroleum revenue tax has been raised from 45% to 60% for chargeable periods ending after Dec. 31, 1978, and the allowance to companies before tax is payable has been cut from 175% to 135% of field development costs.

The government has imposed cuts of £1.5 billion in public expenditure this year, including cuts of £210 million in support of industry. It has envisaged a reduction in the public sector borrowing requirement to £8.25 billion in the current financial year (4.5% of GNP) as compared with £9.25 billion in the previous year.

Opposition leader and ex-prime minister James Callaghan described the Budget as "unfair in the distribution of rewards, unjust in the additional burdens it lays down, inflationary in its effects on costs, and (it) is a reckless gamble with our economic future." Other observers predicted a "winter of even greater discontent" marked by widespread union hostility and a possible inflation rate of more than 17%.

Belgium: Discount Rate; Finance Crisis for Brussels

With yet another increase by one full point to 9%, effective June 14, the Belgian discount rate has again reached the "crisis level" it held at the end of 1977. In supporting the Belgian franc over the last few years, the National Bank has never exceeded this mark, even though at times it imposed rates up to 12% and 13% on certain portions of its rediscount and Lombard quotas. The latest discount rate boost came after the two previous increases of 1% each on May 3 and 30 had failed to ease the pressures on the Belgian currency. Since the implementation of the European monetary

Discount Rate *(contd.)*

system last March, the National Bank has been forced to spend nearly BF 30 billion in intervening on behalf of the franc.

In related developments, the Finance Ministry raised another short-term loan (in the equivalent of BF 3.8 billion) at the Bank of International Settlements, which boosted Belgium's foreign indebtedness to about BF 30 billion since last October. Reports said that the financial difficulties of the public sector have become so aggravated that Greater Brussels is facing bankruptcy unless the state steps in to help. In late May, the reports said, there were not enough funds to pay 2,400 municipal employees because the city administration allegedly had already spent anticipated revenues for this year and next. Finance Minister Gaston Geens has been put in charge of arranging for emergency funding for Greater Brussels, reportedly in an initial amount of nearly BF 1 billion.

EURO COMPANY SCENE

Alusuisse/ Maremont

Schweizerische Aluminium AG (Alusuisse), ranked the sixth-largest aluminum producer in the world, has signed an agreement in principle to take over Maremont Corp., the Chicago automotive components company. It would pay $42 cash per share, which would value the transaction at $168 million (about 4 million shares). The management of both companies stressed that the deal was still subject to the approval of the respective boards and shareholders. With sales of $338 million last year and net profits of $14.1 million, Maremont is a major U.S. producer of shock absorbers and exhaust systems. Alusuisse's turnover in 1978 amounted to SF 4.94 billion and net profits to SF 94.1 million.

Rhone-Poulenc/ Anken

The French chemical and pharmaceutical group Rhone-Poulenc SA, Paris, has purchased on the open market 89% of the shares of the United States' Anken Industries, a manufacturer of graphic materials. It is intended to integrate the firm into Rhone-Poulenc, Inc., the existing U.S. subsidiary, which would then have a turnover of $200 million and net profits of $6-7 million this year. The French group said that it has so far spent $23 million on the Anken acquisition - funds that came from the proceeds gained from the sale of Rhone-Poulenc's 40% stake in Polychrome, the U.S. printing equipment manufacturer, to Japan's Dai Nippon.

Common Market Reports

EUROMARKET NEWS

Issue No. 546 *July 3, 1979*

IN THIS ISSUE

Community: Joint Approach in Controlling New Chemicals

The Council of Ministers has reached agreement on several pieces of important environmental legislation. Formal adoption is expected within a few weeks. Amendments to the 1967 directive on approximating Member State laws relating to classification, packaging, and labeling of dangerous substances would be especially important for the European chemical industry because the marketing and control of new chemical substances would occur under harmonized national conditions. Also, the Member States' compliance with the measure would provide the basis for the Community's unified position in the current negotiations with the United States Environmental Protection Agency over the implications of the Toxic Substances Control Act (TOSCA) *(Common Market Reports, Pars. 3451, 10,034)*.

Approximately 30,000 chemicals are now being sold in the Community, and more than a thousand new ones reach the market each year, which means a potential risk to man and environment. Under the draft directive and subsequent legislation by the Member States (France would be the only state to amend existing similar legislation and Bonn's recent proposal reflects the EEC draft directive), a chemicals manufacturer would have to carry out a study prior to marketing a new substance to assess its ecological hazards.

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New Chemicals *(contd.)*

He would be required to file with the appropriate national authorities (a) a report containing all the information necessary to evaluate foreseeable direct or indirect risks with respect to the various uses envisaged, (b) a statement concerning the unfavorable effects of a substance, (c) proposals for any measures relating to the condition of use that are intended to limit the unfavorable effects, and (d) classification and labeling of the substance in accordance with the directive. It is estimated that the costs for testing each new chemical might be as much as $30,000.

After having examined the manufacturer's papers, the national authorities could ask for further information and could demand verification tests. They would also have the power to make spot checks and, most important, could take appropriate measures relating to use while awaiting Community action, which could be taken by either the Commission or the Council.

Further Steps in Reducing Water Pollution

In related developments, the Council has reached agreement on the groundwater draft directive. The goal is to prevent further pollution of rivers and lakes. The directive further seeks to reduce and possibly even eliminate existing pollution by banning the discharge of particularly dangerous substances such as mercury and cadmium and their compounds (the so-called "black list") and by laying down rules for the discharge of less dangerous metals such as lead, arsenic and thalium ("grey list"). It would not matter how the substances get into the groundwater because the directive would cover both direct and indirect pollution.

The measure represents a detailed follow-up to the 1976 directive on pollution by certain dangerous substances discharged into rivers, lakes, and coastal waters *(Common Market Reports, Par. 3315.18)*. Adoption of that directive became possible only after a compromise was found between the emission control standard approach favored by eight Member States and the water quality objective method favored by the U.K. It was agreed at the time that the Council would lay down emission control standards and quality objectives.

Emission standards would be mandatory unless a Member State could prove to the Commission on the basis of an agreed monitoring procedure that the quality objectives were being met and maintained. The groundwater draft directive carries over that compromise in that it stipulates the conditions under which a Member State may be exempt from the emission control standards containing a ban on a particular substance. The Member States would have two years to comply with the directive, and they would have to keep a list of all instances in which they authorize a manufacturer to discharge substances and under what conditions.

The Council also agreed on an implementing measure to a 1975 directive that established standards to be met in all

Pollution *(contd.)*

Member States with respect to the quality of water intended for human consumption, especially drinking water and water used in food preparation. The implementing draft directive lays down the reference methods for measuring water quality, the frequency of sample taking, and the methods of analysis *(Common Market Reports, Pars. 3315.21, 9766)*.

In Brief...

Ignoring appeals from the European Commission, the Council has decided to raise prices of farm produce by an average 1.5% for the 1979-80 marketing year. This price increase would apply to all commodities except milk. The Commission had proposed a price freeze for most commodities and suggested raising the "coresponsibility levy" for milk as a way of letting farmers share the financial burden of milk overproduction, including the cost of storing excess butter and milk powder. The Council said that the 0.5% levy (roughly $0.01 for each liter of milk) was enough for the time being but left open the option to raise it at a later date + + + The Council has formally adopted the directive on price labeling of foodstuffs. The aim of the measure is to make it compulsory to mark and display unit prices, thus making price comparison easier for the consumer.

Denmark: Tax Increases, Spending Cuts in Crisis Plan

After a political tug-of-war over essential details, the Social Democrat and Liberal partners in the Danish coalition government on June 19 finally agreed on an economic crisis package providing for stiff energy taxes, budgetary savings, and other measures. Parliament was recalled from its summer recess and expected to approve the package this week. The program is designed to neutralize purchasing power by some 4.6 billion kroner annually, which is equivalent to 1.5% of GNP.

The impact of the measures will hit motorists the hardest: they will have to pay an additional levy of 0.60 kroner per liter of gasoline, which brings up the liter price to 3.75 kroner (corresponding to about $2.85 per gallon). In addition, they will have to endure one "car-free" day per week, although they can choose that day themselves. The driving ban, affecting all vehicles below 3.5 tons, will take effect on Aug. 1 and will be controlled through decals affixed to windshields.

A new levy of 0.28 kroner per liter will also be imposed on heating fuels, so that here, too, prices will climb by one-fifth. A similar surcharge will affect electric power consumption by private households (0.60 kroner per kwh). Businesses and public transportation are being spared the fuel and energy tax increases.

Cigarette smoking in the future will be far more expensive in Denmark than anywhere else in Western Europe: an additional tax of 0.12 kroner per cigarette will boost the

Crisis Plan *(contd.)*

price per pack to 16.50 kroner, or the equivalent of $3.16. Finally, the tax on charter travel will be raised from 50 to 125 kroner per person and trip.

In addition to the 4.6 billion kroner estimated to be gained from these taxes, the Copenhagen government intends to limit next year's public-sector budgets by nearly 6.5 billion kroner, which would reduce purchasing power by some 3% of GNP that year. Still, as some observers were quick to point out, the total program should merely help to avert the worst for Denmark's payments balance. Instead of a previously forecast deficit of up to 11 billion kroner, the shortfall this year is now predicted to come to 9-10 billion kroner and in 1980 to 8-9 billion (1979 = 7.7 billion). In fact, the question of where the 2.5 billion kroner in national budgetary savings will actually come from still remains to be cleared up by the coalition partners. The same is true of the 4 billion kroner in savings to be produced by the local and regional governments.

In related news, the Danish central bank on June 15 raised the discount rate from 8% to 9%, reflecting similar previous adjustments in other West European countries.

Germany: Farmers to Lose Part of Their Tax Privilege

Bonn's coalition parties have resolved their differences over the extent to which German farmers should lose their very favorable income tax privilege. Agreement was reached only after Chancellor Helmut Schmidt intervened in the months-long dispute between Agriculture Minister Josef Ertl, a Free Democrat and a farmer himself, and Finance Minister Hans Matthöfer, a Social Democrat. In light of next year's national elections, the two parties agreed that their bill would not contain the strong tax bite originally intended. The measure is expected to raise some DM 300 million in additional revenue annually; total elimination of the income tax privilege would have produced DM 2 billion more each year. In order not to lose farmers' votes, leaders of both parties are even contemplating other ways of compensating farmers, most likely by increasing subsidies for items such as diesel fuel.

Under the present system, roughly 600,000 of Germany's 850,000 farmers pay no income tax at all. Only about 50,000 farmers have to keep books and pay income tax as comparable businesses do. An estimated 60,000 farmers are also required to keep accounts but fail to do so and do not mind being assessed on the basis of the tax offices' estimates. About 140,000 farmers are exempt from the bookkeeping rerequirement: their incomes are also estimated, but according to statutory average amounts, also called lump-sum assessments. In practice this means that only a quarter of them pay income tax, and even then they do not owe the government very much because, under the lump-sum assessment approach,

Farmers' Tax *(contd.)*

incomes are subject to taxation of up to a maximum of 24%.

According to the bill, Section 13a of the Income Tax Law, which empowers the tax offices to assess farmers by estimating their incomes, would be amended so that 50-70% of farmers' incomes would be subject to income tax instead of the present 24% maximum. This percentage would depend on the farm's size. Farmers with farm land having an economic value of up to DM 25,000 (about 50 acres) and incomes up to DM 28,000 would continue to be assessed by the tax offices on a lump-sum basis, but according to stricter criteria. Farmers with larger farms and incomes between DM 28,000 and DM 36,000 would be required to keep simple accounts (retaining receipts on income and expenses would do) and would be assessed accordingly. Farmers with farm land having an economic value over DM 40,000 and earning DM 36,000 annually or more would be required to keep regular accounts. In order to cushion the impact, a farmer whose income is not assessed under the lump-sum practice would be entitled to a reduction of his tax liability up to a maximum of DM 2,000. The proposal would also increase a farmer's individual exemption to DM 2,000 for single taxpayers and DM 4,000 for couples (DM 1,200 and 2,400, respectively, at present).

[illegible]tain: [illegible]lic Reacts Negatively to Budget Impact

A recent Gallup poll has shown that the British public takes a more disapproving view of last month's Budget by the new Conservative government than it did of budgets submitted at any time during the past 20 years. Principally responsible for this attitude are the substantial rise in value-added tax and the prospects of accelerated rates of inflation and unemployment. The Secretary of Employment said he believes unemployment is likely to go up over the next year or so: "We are busy importing other people's unemployment in (the form of) cars, consumer durables and manufactured goods which the British ought to be making for themselves."

The Chancellor of the Exchequer, Sir Geoffrey Howe, has now forecast that the rate of inflation will be 17.5% by the end of this year, but will fall to 13.5% by the third quarter of 1980. Union leaders, however, have put the figure at 20% and are likely to base their wage claims accordingly. But observers said that probable dampeners on excessive wage demands should be the government's commitment to bring the growth of money supply within the target range of 7-11% (ideally 9%) for the next ten months, coupled with high interest rates in line with raising the minimum lending rate to 14%.

The Chancellor sees in the present strength of the pound "an appropriate time to start dismantling our controls on outward capital flows," which are the most restrictive of any major industrial country. Initially, the emphasis will be on direct investment overseas. Official exchange (for-

Budget Impact *(contd.)*

eign currency purchased at the market rate) will be freely available for such purposes to the extent of £5 million per project annually. The "two-thirds rule," whereby one-third of profits could be reinvested, while two-thirds had to be repatriated, will be abolished. Any additional overseas borrowing beyond the £5-million limit will be repayable with official exchange over a five-year period. As a result, most direct overseas investments can now be funded at the official rate. This greater freedom will not, as was sometimes feared, threaten jobs, the Chancellor said, but instead strengthen the U.K.'s position in the world export markets. He also commented that additional investments abroad will stand Britain in good stead when the overseas earnings from North Sea oil begin to decline.

London banks may now finance trade between third countries in sterling, and the business travel allowance has been increased to £5,000, or £200 per day. The requirement to maintain 115% cover for overseas portfolios financed by foreign currency borrowing will be abolished, and official exchange will be available to meet interest payments on these borrowings. The Chancellor hoped to "take further steps in the progressive dismantling of controls" sometime in the future but that this would be influenced by the speed with which Britain could solve its economic problems.

France: Program to Cut Oil Imports, Save Energy

The French cabinet on June 20 approved an ambitious, 27-point energy savings program with which Paris hopes to realize the OECD and EEC goals to reduce oil consumption by 5% this year. It is planned to conserve 3 million tons (oil equivalent) through measures affecting nearly everyone. The import of oil is to be gradually reduced from 107.5 million tons this year to 100 million tons in 1985. France's oil bill has been going up by 19% during the first five months of this year and is now expected to total FF 70 billion in 1979 as compared with the previous estimate of FF 58 billion. Because of these oil price pressures, the French trade balance for the month of May for the first time in '79 showed a deficit (FF 1.2 billion, seasonally adjusted).

Most directly affected by the savings program will be private households, which will be entitled to only 90% of last year's heating fuel deliveries. In private homes and public buildings, temperatures are to be kept at 19° C, which is 1° C below normally accepted room temperatures. This measure alone is intended to save about 1.2 million tons of oil.

Another 600,000 tons are proposed to be saved through the stricter enforcement of speed limits. For commercial vehicles, these limits are being lowered: trucks above 10 tons may drive no faster than 90 kilometers an hour on freeways and 80 kmh on secondary roads. (In view of the upcom-

Energy *(contd.)*

ing vacation season, the government apparently was not prepared to propose still tougher restrictions, such as lower speed limits for passenger cars, driving bans, or gasoline rationing.) The domestic automobile manufacturers - Peugeot, Citroen, and Renault - have agreed to develop within 18 months prototypes that use 25% less fuel than present models. Thus, the average fuel consumption of French-made cars would drop from 8.5 liters per 100 kilometers to 7.3 liters. This development effort is being financially supported by the government, which also plans to promote the expansion of public transit systems on the fringes of the major cities.

Industry's contribution to the national energy conservation drive is to total 1.2 million tons of oil equivalent annually. The state will help by providing financial assistance toward energy-saving investments and the expanded use of coal. It will also continue paying a FF 400 bonus for each ton of oil equivalent saved.

Italy: Energy Plan Emphasizes Use of Coal Fuel

The mounting threat of energy shortages has compelled Italy, too, to work out a savings program, even though a new government has yet to be installed. Acting Industry Minister Franco Nicolazzi has mapped out a plan putting emphasis on converting a number of electric power plants to the use of coal rather than oil. In this way, it is hoped to raise the savings of liquid fuels to 3.5 million tons annually in this sector alone.

Speed limits of 120 kilometers an hour on the *autostrade* and of 80 kmh for trucks are expected to result in savings of 200,000 tons of gasoline and 110,000 tons of diesel fuel. In leaving Italian territory, foreign trucks and truck trailers may carry in their tanks no more than 200 liters and passenger cars no more than 30 liters of diesel fuel.

The extension of official summer time from April 1 to the end of October should save an additional 90,000 tons of heating fuels, the planners hope. Fifteen to 30% in savings could come from extending school vacations at Christmastime and introducing changed work schedules in public administrations and schools. Other measures include the proposed reactivation of defunct hydroelectric power plants, boosted imports of electricity from neighboring countries, and the abolition of reduced power rates for the employees of the state utility company.

To the millions of foreign motorists visiting Italy this year, the most painful part of the energy saving campaign should be the abolition of tourist *benzina coupones*, which in the past allowed visitors from abroad to buy gasoline at sharply reduced rates. Last year, foreign tourists bought 159 million gallons at the (Italian) bargain price of

Energy Plan *(contd.)*

$1.61 per gallon (less if calculated at today's exchange rates).

When the abolition of the coupons was first proposed, the Italian Automobile Club and the National Tourist Office, two influential semiofficial institutions, came out strongly against such a move. They argued it would ruin the country's tourism industry, claiming that 75% of all foreign visitors drive into Italy. Proponents of the abolition pointed out, however, that the tourist/driver figures are substantially inflated by Swiss and French shoppers who usually return the same day. They added that the recent abolition of foreign-plate discounts for *autostrade* tolls has had little or no effect on tourism to date. Finally, they said that in a country where everyone is being admonished to drive less, it makes no sense to encourage visitors to travel in their cars.

Netherlands: Worries About Rising Deficit; Union Protests

Lower fiscal revenues than anticipated (especially from corporate taxes) and higher expenditures caused by unemployment and state aids to ailing enterprises are threatening to drive up the Dutch budget deficit. Finance Minister Frans Andriessen said another 1.3 billion guilders would have to be added to the previously projected deficit of 12.8 billion unless The Hague succeeds in stopping planned expenditures of 750 million guilders and speeding up tax collections of 550 million. Andriessen said the government is not, however, planning any tax increases at this time, staking its hopes on a continued economic recovery.

In the meantime, The Hague has run into angry union protests as a result of its "July 1 package." As of that date, social security benefits and public-sector wages were again to remain 0.2-0.7% below the increases normally dictated by the rise in the cost of living. A similar cut had been made last Jan. 1. Also, it was planned to end the automatic adjustments of salaries above 55,000 guilders. The government furthermore intended to reduce the income adjustments of "trend followers," i.e., employees of social welfare institutions such as hospitals, retirement homes, or kindergartens who are not civil servants but receive comparable wages.

The Socialist-Catholic FNV union federation in particular has objected to these measures as hurting especially low-income groups and interfering with collective bargaining contracts already negotiated. On June 19, smaller demonstrations and work stoppages were staged throughout the Netherlands, and an estimated 50,000 strikers marched through Utrecht.

Common Market Reports

EUROMARKET NEWS

Issue No. 547 *Report No. 374, July 11, 1979*

IN THIS ISSUE

Community: 'Open' Outcome of Lomé II Negotiations

Eleven months after negotiations for a Lomé II convention began, the representatives of the EEC and 57 African, Caribbean and Pacific (ACP) nations have announced an "open" conclusion of the talks. The term implies that agreement in principle has been reached but that the document could not be signed because a dozen of the ACP negotiating teams insisted on consulting with their governments before committing themselves, saying they could not support the compromise achieved by the majority. Some observers believed that this could be part of a strategy to wring further concessions from the Community. Nevertheless, it was hoped that the final Lomé II text would be signed within this month, so that the new convention could take effect on March 1, 1980, upon expiration of Lomé I.

The total finance volume under Lomé II has been given as 5.6 billion European currency units, of which 4.54 billion ECU would be accounted for by the EC development funds per se (including Stabex and a support mechanism for minerals) and 685 million ECU by European Investment Bank credits. The total under Lomé I had been 3.46 billion ECU. Nearly three-fourths of the new total would probably represent outright aid, while the remainder would be in the form of low-interest loans. In the last round of talks in Brussels in late June, the Community insisted that this would be the final offer.

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

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Lomé II *(contd.)*

Brussels reports said that the schedule of agricultural products covered by Stabex is to be expanded from 34 to 44. Under the Stabex system, the EEC offsets earnings lost by ACP exporters as a result of declining world market prices or production losses. The list of 19 basic products would be expanded to include such items as cotton seed, pepper, rubber, and shrimp. The stabilization procedure would take effect whenever a country's export dependence on a single product (vis-à-vis total exports) or revenue losses exceeded 6.5% (previously 7.5%). For the least developed countries (LDCs), this ceiling would be lowered to 2% (2.5%). Also, better access to the Common Market would be granted for such products as tomatoes, carrots, onions, asparagus, beef, and rum.

A stabilization mechanism for minerals would apply whenever the export dependence threshold rose by an average 15% (10% for LDCs) and whenever production capacities or exports to the EC dropped by 10%. These special guarantees would cover alumina, bauxite, cobalt, copper, manganese, phosphates, tin and, eventually, iron ore.

To foster mutual understanding and consultation and to improve the flow of information, it was agreed to schedule regular meetings at various levels. In addition, it was proposed to establish centers for industrial development and agricultural-technical cooperation.

At the end of the Brussels meeting, it was not yet clear whether the Community would insist on the inclusion of a human rights clause in the preamble to the convention. Such a clause had been demanded by Britain and the Netherlands in particular. The ACP states said they would merely accept a reference to the UNO Convention, arguing that Lomé II represents no more than an economic pact.

Farm Price Deal Angers Commission

It is a relatively rare occasion for the European Commission to voice an outright complaint about any action taken by the Council of Ministers. But last month's farm price compromise produced such a complaint - in fact, an outright denouncement. The 1979-80 price boost of an average 1.5%, with which the Council ignored the Commission's plea for a price freeze, will have most serious consequences, the EC executive warned, because it will burden the Community budget with an additional 1.35 billion currency units (ECU). The Commission is now forced to submit a supplemental budget for the current year and an amended 1980 budget draft in time for the Council's July 23 session in Brussels.

"The Commission deplores that the Council did not take sufficient action in the dairy sector, and no action at all in the sugar sector, in order to stop the increase in already alarming structural surpluses," said a statement issued after the Commission's meeting on June 27. Finn Olav

Farm Prices *(contd.)*

Gundelach, commissioner for agriculture, had recommended that farm prices be frozen, milk production be subjected to a stiffer tax, and subsidies paid for the export of surplus sugar be reduced. Last year, half of the EC's agricultural budget - which represents about three-fourths of the overall budget - was spent on maintaining the dairy surplus (3.4 billion units of account) and the sugar surplus (908 million).

Brussels reports said that, of the 1.35 billion ECU in extra costs to be incurred by the Community as a result of the Council decision, more than half (880 million ECU) is accounted for by lost revenue from the "coresponsibility" milk tax, which the Commission had wanted to be raised in order to curb overproduction. That the Council accepted a freeze of the milk price at all was the result of British insistence, but only after London had given up its call for a general farm price freeze.

Gundelach did not try to conceal the fact that he was surprised and stunned by the turnabout of the U.K. negotiators, on whom he had counted for a firm support of the Commission's position. However, U.K. Farm Minister Peter Walker - unlike his predecessor John Silkin - did not threaten a British veto of any decision that would fall short of a full price freeze in 1979-80. His acceptance of the 1.5% increase apparently was eased by the agreement on another 5% devaluation of the "green pound" (the last one had been granted last March). Since this devaluation effectively raises the incomes of Britain's farmers, Walker was hardly in a position to insist that the incomes of the other Community farmers be frozen.

Commentators said that there were two other major political reasons for Britain's role in the farm price talks. First, the new Conservative government under Margaret Thatcher was committed to a conciliatory attitude toward the EC, at least during the inaugural phase of its administration. Secondly, a veto of any price increase would have resulted in a postponement of the talks at least until September and would have clouded the Community climate just prior to the Tokyo economic summit.

In Brief...

Comecon, the East Bloc's economic organization, wants to revive cooperation talks with the Community, which have been deadlocked since late 1978. Nikolai Faddeev, Comecon secretary-general, has proposed to Wilhelm Haferkamp, external affairs commissioner, that the two sides meet in Moscow later this month. Brussels reports said that the Commission was in no hurry to respond, since the Comecon letter failed to touch on points raised by the EEC last December + + + The probable economic effects of the future accession of Greece, Spain, and Portugal on the other Mediterranean countries is the subject of a special report

In Brief *(contd.)*

approved last month by the Commission. Brussels reports said that the EC executive will propose to the Council that the Community negotiate a new trade pact with the Mediterranean countries, to supersede the one dating from 1972. With the exception of the agricultural and, perhaps, textile sectors, the Commission foresees no particular disruptions in the future trade patterns involving the Mediterranean + + + To give the U.K.'s newly elected government a chance to work out its own position on the matter of a common fishing policy, the Council voted on June 25 to extend the existing interim rules by another four months, to the end of October. Agreement on such a policy had been held up by the previous Labour government, and earlier this year a Commission suit was filed in the European Court against the U.K., accusing the latter of discriminatory actions in granting herring quotas.

Britain: Opposition to U.S. Tax Pact Amendments

The U.S.-U.K. Convention for the "Avoidance of Double Taxation and the Prevention of Fiscal Evasion" has yet to be implemented, although it was signed on Dec. 31, 1975. However, Britain's 1979 Finance Bill contains certain provisions of an enabling nature that will become operative when the treaty is finally approved in the House of Commons.

The Bill specifically authorizes the proposals for the withdrawal of some reliefs from U.K. taxation that were previously available to U.S. residents under the existing convention. The reliefs would generally cease to apply from April 1975 but would remain available during a transitional period up to April 1976 if this was more beneficial to the taxpayer. The Bill removes any doubt as to whether Section 497 of the Income & Corporation Taxes Act 1970, which provides for such reliefs to be authorized by an order in Council, could apply retrospectively, in that reliefs could be withdrawn before the respective order was passed.

The treaty was approved by the U.S. Senate Foreign Relations Committee in 1978, with the exception of Clause 9(4) relating to relief from imposition of the unitary taxation system in certain U.S. states, i.e., California, Oregon, and Alaska. The system provides that a multinational company be proportionately taxed on its worldwide income and not just on local profits. In the ensuing renegotiations, the clause was dropped, and the revised treaty text has now been endorsed by the Senate Committee and will shortly be put before the House of Representatives for final approval. It will then be the turn of the British parliament.

In the U.K., there has been widespread dissatisfaction over the removal of Clause 9(4). The vice-chairman of the Conservative Industry Committee, Michael Grylls, together

Tax Pact *(contd.)*

with other MPs, has tabled a motion in the Commons that "a vital feature of any relationship between the U.S. and U.K. regarding relief for double taxation should be a clear understanding prohibiting use of the worldwide combined reporting system (unitary tax) in assessing the tax of corporations doing business in both countries." The motion urges the government "to do its utmost to ensure that any contrary arrangement be rectified, so as to avoid a harmful international precedent and serious consequences for both U.K. and U.S. companies with overseas interests."

In addition, a group of some 40 major British companies - including BAT Industries, EMI, Glaxo, and Reckitt & Colman - is putting pressure on the government not to approve the treaty as it now stands, otherwise "unitary taxation will have been given the cloak of respectability, and there is no doubt that it will be taken as an example to be followed by other nations. There are indications that this is already the case." The Confederation of British Industry likewise is opposed to the ratification of the treaty in its present form. Grylls, in fact, has described the issue as a "potential time bomb ticking away under British investments in the United States."

Italy: Proposal for Relaxation of Currency Curbs

The Italian Currency Exchange Office (UIC) has proposed to the Treasury Ministry that the government relax some of the foreign exchange controls that had been successively imposed in 1976, during the peak of the country's balance of payments crisis. The controls had the purpose of seeking to protect Italy's dwindling currency reserves. In the meantime, however, the recovery of the payments balance has also rebuilt the currency reserves, to an estimated total of $30 billion as of July 1.

The UIC proposes that Italian residents traveling abroad be allowed to carry with them up to 1.5 million lire instead of 750,000 at present. Travelers also should be permitted to take along and bring back up to 300,000 lire in Italian bank notes, three times as much as the current quota. The mandatory period for the repatriation of foreign exchange revenue from exports should be extended from 120 to 180 days, and the legal life of foreign exchange accounts should be lengthened from 15 to 60 days. The UIC further recommends that Italy-based banks be again permitted to extend lire-denominated credit lines to foreign correspondent banks and that procedures be eased for the payment of import bills.

Financial commentators said that the proposals have a good chance of approval, since the UIC is closely (though not technically) associated with the central bank, which had advocated such measures in its annual report last month.

Germany: Mandatory Tests Sought for New Chemicals

The German government has proposed legislation that would require manufacturers to test new chemicals for their compatibility with man and environment and to register them prior to putting them on the market. Importers of new chemicals would have the same obligations. Scheduled to take effect in 1982, the measure largely reflects the contents of Community rules approved by the Council of Ministers on June 19. It would empower Bonn to issue regulations concerning the manufacture, storage, marketing, and usage of chemicals. Specifically, the authorities would be empowered to restrict the use of products that are considered dangerous. They could also restrict the sales volume of a particular substance and even put an absolute ban on the sale of a new chemical.

About 300 new chemicals are marketed in Germany each year. Under the bill, a manufacturer would have to register each new chemical and at the same time present a report on the results of tests, which would have to concentrate on whether the new substance is toxic or carcinogenic and whether it might damage human embryos or genes. Additional tests would be required to determine any negative effects on the environment. Although the manufacturers' obligations would pertain only to new chemicals, the government is seeking statutory authorization to demand testing of chemicals already on the market if there were reason to believe that they endangered human health or the environment.

The extent of testing would largely depend on the quantity of the manufactured or imported substance. Toxic substances produced or imported in very small quantities or used only in laboratories would be subject to base tests only if it could be assumed that they represented a hazard. Tests would be mandatory for all substances produced or imported in quantities over 100 tons a year, and tests would have to be even more extensive for substances produced or imported in quantities over 1,000 tons.

The chemical industry estimates that the overall cost of testing would be about DM 40 million annually. This would correspond to about 0.6% of the industry's annual research and development expenditure. The federal government's costs would also be substantial because some 500 toxicologists, chemists, and other specialists as well as administrative staff would be needed to verify the manufacturers' test results. Government officials estimate these costs at some DM 30 million annually.

France: Inflation Rate Will Outstrip 10% Target

The French government is reluctantly accepting the fact that its goal of holding price expansion to 10% or less this year cannot be realized. Consumer prices rose by 0.9% in April, 1% in May, and 1.1% in June, mainly because of the higher cost of oil imports but also because of other

Inflation *(contd.)*

factors. Last month alone, price and rate increases went into effect for natural gas, gasoline, heating fuels, and telephones. Electric power rates had been boosted by 7.5% in May. The Paris public transport system is raising its tariffs by 20-22%.

An unpredictable factor in future price development is seen in the official removal of the freeze on housing rents, which took effect on July 1. Increases of up to 6.5-12% and 10%, respectively, are authorized for older apartment units and social housing, but no one can predict what the market will have in store for all other kinds of rental housing. The estimates here are for average increases of 16%. Although the landlords' association has pledged that its members would practice moderation in raising rents, the authorities nevertheless have warned that they would investigate abuses. They have also cautioned that heating costs in the coming winter could be 30-50% higher than last year.

Car Importers Protest Boost of Surcharge

Importers and owners of foreign cars in France have reacted with shock and consternation to a measure in the government's recently announced energy savings program that dramatically boosts the special tax on certain automobile categories. The importers complain that the tax is punitive and discriminatory, and they are reportedly considering a plea to the European Commission on the basis that the levy constitutes an illegal obstacle to intra-Community trade.

The assessment base for the standard French automobile tax is "tax horsepower," which is derived from a formula taking into account actual horsepower, piston displacement, and transmission type. The "magic number" is 17 tax horsepower: above that limit, passenger cars are not only assessed the standard tax of FF 1,200 a year but also a FF 600 surcharge, payable for two years. Under the provisions of the new energy savings program, however, the surcharge will jump to no less than FF 3,800 annually, payable for five years. Thus, the surcharge is being increased sixfold, while the total tax burden nearly triples to FF 5,000 (about $1,170).

The interesting part of this system is that the special tax is not levied on any of the domestic makes: even the most powerful French passenger cars on the road do not exceed 16 fiscal horsepower. Instead, the full brunt of the levy is borne by the owners of foreign-made automobiles in the higher-priced and luxury categories, particularly of British, German and U.S. origin. Affected are, for instance, all British-made Jaguars, Daimlers, Morgans, Bentleys, and Rolls-Royces, plus 65% of the Rovers.

The French association of automobile importers, which has filed a protest with the government, says that even

Car Surcharge *(contd.)*

though the number of cars affected is very small (4,085 of 1.9 million newly registered cars in 1978), the levy definitely discriminates against foreign car manufacturers and exporters and domestic importers. The association dismisses as ridiculous and unsupportable the official claim that the increased tax will help to save energy. If that were the true intention, its spokesmen say, the limit should have been applied at a much lower horsepower-tax level.

EURO COMPANY SCENE

Vredestein/ Goodrich

The Dutch tire and rubber company Vredestein is now 100% owned by the Dutch state, which paid a symbolic price of 1 guilder for the remaining 49% of the share capital that had still been held by B.F. Goodrich, the previous owner. Majority control had been passed to the Dutch government three years ago, for 18.5 million guilders. It is intended to split Vredestein into two separate and legally independent entities, one of which is to produce tires and the other, various rubber products. According to government estimates, an investment volume of some 170 million will be required to modernize and expand production facilities in the next three years. For 1978, after a long history of financial problems, Vredestein had still reported losses of 6 million guilders, on sales of 400 million.

Thorn/ Systron-Donner

Thorn Electrical Industries Ltd., the U.K.'s leading producer of household appliances, has expanded its engagement in the U.S. market for measuring and control equipment by acquiring California-based Systron-Donner for a reported $27 million. The American firm reported sales of $53 million for the last nine months ending in April. In 1978 and early this year, Thorn had already purchased three smaller U.S. companies - Power Hydraulics, James G. Biddle, and Modutec.

Allianz/ Fidelity Union

Germany's leading insurance group, Allianz, has announced plans to take over Fidelity Union Life Insurance Co., Dallas, for about $370 million. Only recently, Allianz was also in the news with its $138-million bid for a 98% interest in North American Life & Casualty Co. of Minneapolis, which is held by Mutual of New York. The Fidelity board has recommended the merger to the shareholders. The German group, based in Munich, reported invested assets of $17.1 billion last year. In the United States, it has been represented by a holding, Allianz of America, Inc., New York, and a small property insurance firm in Los Angeles.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Court Annuls Commission Fine Against Hugin

The European Court of Justice has invalidated a European Commission decision of Dec. 8, 1977, imposing a 50,000 UA fine on the Swedish Hugin corporation and its British subsidiary for abusing their market-dominating position by refusing to sell spare parts for Hugin cash registers to Liptons Ltd., a small British company specializing in servicing and repairing cash registers *(Common Market Reports, Par. 10,007)*. Although the Court agreed with the Commission that Hugin has a dominant position within the meaning of Treaty Article 86, it did not agree that Hugin's refusal to sell spare parts to London-based Liptons affected trade between Member States (judgment of May 31, 1979; Case No. 22/78).

Hugin Kassaregister AB, owned by Sweden's Federation of Consumers, has a market share of about 12% in the Common Market and of about 13% in the U.K. Liptons Cash Registers Ltd. is a small company that services, repairs, reconditions, sells and rents cash registers of various makes. In 1969 Liptons was appointed the main agent to sell Hugin registers in Great Britain, but this agreement was terminated in 1972 when Hugin's own organization took over service and maintenance. Liptons managed to obtain spare parts from the newly established Hugin subsidiary in the U.K., but after October 1972 all of Hugin's subsidiaries and dealers

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Fine Annulled *(contd.)*

refused to sell to Liptons. The London firm approached the Commission, which ordered Hugin to stop the infringement. It also imposed the fine and asked management to come up with proposals on the resumption of sales to Liptons within one month. There was to be a 1,000 UA fine for each day of noncompliance beyond the one-month deadline.

An important issue in the case was whether the spare parts constituted a relevant market, separate from that of new Hugin cash registers. The Commission thought that the supply of spare parts needed by independent firms in order to service and maintain Hugin equipment was a separate market. The Court agreed that this could be regarded as a relevant market. However, it saw the main element of that market in the rendering of repair and maintenance services and not so much in the sale of spare parts, which are of relatively insignificant value.

In its decision the Commission had said that Liptons was prevented from expanding its business within a substantial part of the Common Market and was unable to buy spare parts from Hugin subsidiaries in other Member States. Hugin's conduct, it said, had an appreciable effect on the structure of competition within the EEC. However, the European Court found nothing to support the Commission's contention that Liptons would ever attempt to expand its business beyond the U.K. In fact, it was of the opinion that maintenance, repair, and renting of cash registers remains a profitable operation only so long as it is confined to a geographical area surrounding a company's seat. Thus, the intra-Community trade criterion was not fulfilled from this angle.

The Court also held that intra-Community trade in Hugin spare parts would not have developed if the Swedish parent company had not prohibited its subsidiaries in the various Member States from selling to Liptons. In the view of the Court, the spare parts could not constitute a commodity of commercial interest in trade between Member States, and Liptons would not gain any economic advantage by buying from a Hugin subsidiary; instead, it would be logical to approach the parent company in Stockholm. Liptons' attempt to buy spare parts in other Member States could not be regarded as a normal pattern of trade between Member States, the Court concluded.

French Court to Test Public Supply Rules

A case currently pending before a French court could have Community-wide repercussions, and Commission lawyers are not the only ones who are curious about how the administrative court at Rennes will decide. Renault Vehicules Industriels (RVI), the truck-manufacturing subsidiary of the government-owned automobile maker, has brought suit against the city of Brest to compel it to cancel a FF 12-million contract with Germany's Karl Kässbohrer Fahrzeugwerke GmbH,

Supply Rules *(contd.)*

Ulm, for the delivery of 25 buses. RVI contends that the award to a foreign company would bring irreparable damage to its own reputation and would also aggravate its economic difficulties. It maintains that a contract award to RVI would have secured the jobs of 1,000 employees for eight days.

The case is of general interest to all concerned with the development of Community law because compliance with a Council directive is at stake. As required by Council directive 77/62 *(Common Market Reports, Par. 323.05)*, Brest's city administration published a contract notice in the Official Journal. Five firms responded, including Kässbohrer and RVI, with the latter's bid being FF 1.76 million, or 14%, above the German company's offer. Since Kässbohrer's bid was the most favorable, the city council awarded the contract to the German firm, as Community law required it to do.

Commission attorneys point out that Brest's city administration was required to consider all tenders on a purely economic, technical and nondiscriminatory basis. Other motives, such as balance-of-payments considerations or the desire to support or build up a particular domestic industry, may not enter the award-granting process. If the case is settled in the French courts in accordance with the Council directive, there will be no need for the Commission to bring action under Treaty Article 169, the Commission attorneys added.

In the past the Commission has shown some reluctance to take legal action against Member State governments that still tolerate disguised discrimination against foreign EC bidders by local governments or other public bodies. It always tries first to persuade a Member State to have these practices changed. So far the Commission has brought suit only once, and that was because the violation of earlier Community rules was so flagrant. (Italy had failed to repeal discriminatory legislation against foreign contractors - Case No. 10/76.) Another consideration has been the fact that the deadline for compliance with Council directive 77/62 was mid-1978.

Britain: Companies Bill Introduced in House of Lords

The U.K.'s new Companies Bill has been introduced in the House of Lords, its object being to implement the EEC's second directive on company law of Dec. 13, 1976 (No. 77/91 - *Common Market Reports, Par. 1371)*. It principally provides a fresh classification of companies and is concerned with their registration and reregistration. The Bill provides new definitions of public and private companies and states that no new company may be formed as one limited by guarantee. Previously, under the 1948 Companies Act, a public company had to have seven members (shareholders), but now

Companies Bill *(contd.)*

the least possible number has been reduced to two. In addition, the authorized minimum share capital of a public company is to be £50,000, or whatever sum specified by the Secretary of State. No less than one quarter of the nominal value of each issued share, together with the whole of any premium on such shares, must have been received by the company.

The name of a public company is now to end with the words "public limited company." There is to be a 15-month transitional period for existing public companies to be registered in the new form. If this is not done, a petition may be presented by the Secretary of State for the existing company to be wound up, and the officers of the company can be fined for their default. There are provisions for a private company to be reregistered as a public company, so long as it meets the requirements as to net assets and issued share capital.

Criticism has been voiced that legislation has been deferred on insider share dealings, loans to directors, the duties and conduct of directors, and added safeguards for minority shareholders. However, the Minister of State for Industry, Lord Trenchard, stressed that the measures have not been dropped. Instead, he said, "several of the more important proposals are being reexamined" in the light of two pending cases in which the directors of a property company and an investment company are being investigated for possible misappropriation of funds. Consultations were taking place with the City and other interested parties, and appropriate measures would be included in a "substantial" companies bill next year.

Dividend Curbs to Expire at End of Month

Some clarification has been provided of the Chancellor of the Exchequer's recent announcement that U.K. dividend controls will not be renewed after the expiration of current legislation on July 31. Up to that date, a company may not declare or pay an ordinary dividend of more than 10% above that declared in the previous year without obtaining the prior consent of the Treasury. However, the whole of the permissible dividend may be paid as an interim dividend before July 31, and a further final dividend may be paid subsequently. A company is free to forecast or announce whatever dividend it wishes, provided that such dividend is actually declared and paid after the end of this month.

Observers believe that overall dividend growth in the U.K. will be some 20% this year. However, the figure is likely to be much higher for many firms, particularly the major oil companies. Nevertheless, the 10% permissible increase has been regarded as a norm, and some companies may well decide to declare a lower dividend this year and to increase reserves. An interesting development in this context has been the announcement by Hawker Siddeley, the

Dividends *(contd.)*

aerospace group, that it intends to pay an extra interim dividend retroactively for 1978. This would raise Hawker's total 1978 dividend distribution by 30% over that declared in 1977 and would appear to indicate that after July 31 a company may pay an additional dividend for any previous year. Commentators said that the implications of this have yet to be fully considered.

Germany: Energy Program to Emphasize Self-Restraint

Lower speed limits, driving bans, and fuel rationing are not among the energy-saving measures currently considered by the German government, according to Chancellor Helmut Schmidt. Addressing the Bundestag in the parliamentary energy debate on July 4, Schmidt said his administration will instead put the stress on voluntary energy conservation. The discipline and self-restraint so far shown by both private and industrial consumers have contributed to the fact that Germany, at least for the time being, is not suffering any energy shortages, Schmidt noted.

The Chancellor did outline a number of steps with which Bonn hopes to soften the impact of oil price increases on the German economy. (It is estimated that the Federal Republic will have to spend DM 1.6 billion more on crude-oil imports in the second half of this year than in the first.) The government intends to aid the development of new energy-saving technologies, encourage the utilization of more domestic and imported coal, and promote liquefaction and gasification of coal. Schmidt called on the German automobile manufacturers to develop cars that use less fuel and said they could play a leading role in gaining special know-how in this field.

Although they may be spared fuel rationing and lower speed limits, motorists in Germany could be faced with drastically higher fuel prices. The government is proposing to incorporate the automobile tax into the mineral oil tax, which would automatically boost gasoline prices and thus encourage more prudent driving habits. This type of taxation would be considered the most equitable, nonetheless, because it would be directly related to individual fuel consumption. Another consideration is to phase out the mileage allowance *(Kilometerpauschale)* of DM 0.36 per kilometer now granted to employees using their cars to commute between their homes and jobs. Instead, Bonn may want to introduce a "distance allowance" *(Entfernungspauschale)* that would be available to commuters using either cars or public transportation. Finance Minister Hans Matthöfer has doubts, however, about the costs of such an arrangement.

It was further announced that Bonn and the state governments will discuss ways of accelerating the construction of coal-fueled power plants. It is proposed to end completely the use of oil by conventional power plants (on-

Energy Plan *(contd.)*

ly 9% of German power stations still burn oil). Excess electricity produced by industry is to be channeled into the public power systems. The talks with the state governments also are to cover the possible expansion of the joint program aiding energy-saving investments by homeowners; the existing plan runs until 1983.

The government's decision for "as little control as possible" - favored in particular by Schmidt and Economics Minister Count Otto Lambsdorff - had been preceded by intensive cabinet discussions of a far more restrictive energy conservation plan proposed by Research Minister Volker Hauff. The latter had advocated such measures as autobahn speed limits, a special tax on cars with high fuel consumption, permits for the installation of oil-fueled heating systems in homes, and a ban on heated private swimming pools.

Italy: Unions Set Port Embargo Against Fiat

The power struggle between labor unions and employers over a new three-year collective contract for Italy's metalworking and engineering industry reached a climax early this month with a union embargo action against Fiat, the country's No. 1 private employer. The unions called on dockworkers not to unload Fiat cars assembled abroad if the same models are also produced in domestic plants. Labor spokesmen said the embargo was to fight Fiat's attempt to compensate for strike-caused production losses in Italy. It was alleged that within two weeks the company had shipped in 10,000 units from its assembly plants in Spain and Brazil. In at least one instance, Fiat evaded the embargo by redirecting a shipload of cars made in Spain to the French port of Marseille; the automobiles were then trucked into Italy. The unions reacted by appealing to dockworkers in France and elsewhere to block these imports.

The center of the escalating conflict is located at Mirafiori, Fiat's main plant in Turin, which employs some 60,000. Pickets there have been controlling the gates since July 3, preventing key personnel and supplies from entering and assembled cars from being shipped. Production also has been severely disrupted by stop-and-go strikes. The Fiat management has reacted by locking out 10,000 workers.

The bargaining dispute, which affects some 1.5 million employees nationwide, is now going into its seventh month. Two major issues that remain unsettled are wage increases (the demand is for an extra 30,000 lire per month on top of automatic inflation adjustments) and a shorter workweek (36 or 38 hours instead of 40). The employers maintain that the wage demands are intolerable and clearly in conflict with Rome's avowed goal of zero growth for real-term incomes during the next three years. They are willing to

Embargo *(contd.)*

grant five extra holidays per year in exchange for greater flexibility in overtime and production scheduling.

The new collective contract would be expected to set guidelines for similar agreements in other key sectors employing about 9 million workers. Because of these implications, the employers are under pressure to defend their bargaining position. The unions, on the other hand, are being pushed by the rank and file to win a settlement before the August vacations. The threat of a further escalation of the conflict has the Andreotti caretaker government conducting round-the-clock talks with the opposing factions. Acting Labor Minister Vicenzo Scotti, the official mediator, has been trying to come up with various compromise formulas - so far to no avail.

Andreotti Unable to Form New Government

The lack of a clear majority for any political party in Italy's June 3-4 national elections is now causing the predicted problems in the efforts to form a new government. Acting Prime Minister Giulio Andreotti was forced to return his assignment on July 6, when the Socialists informed him that they would not be part of another administration under his leadership. The Communists have even refused to participate in the talks.

President Sandro Pertini meanwhile has asked Bettino Craxi, the leader of the Socialists, to take on the task of forming a new government. Should he succeed, it would be the first time since the end of World War II that the Christian Democrats do not hold the premiership. The Socialists are the third-largest parliamentary party after the *Democrazia Cristiana* and the Communists.

Belgium: Government Gives Up on 36-Hour Week

Following widespread criticism at home and abroad, the Belgian government has disbanded the idea of a 36-hour workweek by 1981 as a way of combating unemployment. The concept had been part of the economic policy package presented by the Martens administration upon taking office last March and was to have included a pay freeze and the employers' commitment to expand work forces by 2%. However, the government did caution at the time that its plans depended on the outcome of negotiations with industry and labor.

In the meantime, these tripartite discussions are under way, which in itself is considered a success because such consultations had not been held for the past three years. After the initial round, it became clear that the original concept would have little chance of realization. Instead, the three sides came up with a loosely worded agreement, the details of which are to be filled in at the end of the summer period, in September.

Brussels reports said that it would be endeavored, on a strictly voluntary basis, to shorten the workweek to 38

36-Hour Week *(contd.)*

hours until the end of next year. Businesses that provide new jobs after implementing this reduction would be rewarded with state bonuses for a five-year period. There has been no agreement on the size of these aids, but the Labor Minister proposed that they should equal the average unemployment compensation, which would amount to some BF 1 million per job spread over the five years. This incentive system should result in about 100,000 new jobs, the government hopes.

Other topics to be taken up in September include incomes policy, more flexible worktime arrangements (part-time, gliding work hours), social insurance, and taxation. It is considered to limit pay increases to half of the average increments of the previous two years. This would not, however, touch upon the automatic inflation adjustments.

The government's decision not to push for the introduction of the 36-hour week has been greeted with undisguised relief by the Belgian business community. The employers' associations had warned time and again what a retarding effect such a major worktime cut would have on productivity and industry's international competitiveness. Critics also said it was not advisable for Belgium to take the lead in such a sensitive matter without first consulting its European Community partners.

In other news, the Belgian National Bank has again demonstrated its determination to defend the parity of the franc within the European monetary system by reintroducing its split discount rate - "plafonds A and B" - for refinancing transactions. The plafonds B rate, applied to speculative transactions exceeding the normal business volume, was raised by two points to 11%. The A rate remained at 9%. At the same time, the Bank boosted its Lombard rate to 11%, also by two points. The changes took effect on June 29.

Netherlands: Weakness of Guilder Forces Discount Boost

The renewed boost of the Dutch discount rate by half a point to 7.5% (July 6) had been anticipated by the banking community following the general interest rate increases on the money and capital markets. At the same time, the central bank action served to quiet speculation over a possible guilder devaluation. The Dutch discount rate has now reached its highest level since October 1974, despite the fact that inflation has been brought down to 4% in annual terms. The present weakness of the guilder within the European monetary system is linked to Holland's budget and payments problems. The budget deficit has reached 6.5% of the national income, and the first-quarter payments shortfall totaled 1.5 billion guilders (1978 = 400 million).

Common Market Reports

EUROMARKET NEWS

Issue No. 549 *Report No. 375, July 25, 1979*

IN THIS ISSUE

Community: Proposal to Align Insurance Contract Rules

The European Commission has proposed a draft directive to the Council of Ministers that calls for the harmonization of indemnity insurance contract rules. The Member States' insurance contract laws differ widely, and the measure would compel the nine countries to align the most significant ones in order to accord the insured the same level of protection no matter where he lives in the Common Market. Alignment would also put national insurance companies on an equal competitive footing. To this end the measure would complement another proposal pending before the Council that would coordinate the Member States' rules governing the operations of indemnity insurance companies and at the same time would allow more freedom to offer insurance across national frontiers. Further, under the pending proposal the insurer and the insured would be practically free to choose the national law that would govern their insurance contract *(Common Market Reports, Pars. 9803, 9959)*.

This latest draft directive would harmonize only the rules governing the essentials of an insurance contract, such as the formation of a contract, the insured party's obligation to disclose the facts, change of risk, premium payments, contract cancellation, and the rights of third parties. Most important for the insured would be his obligation to describe the risk at the time the contract is con-

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Contract Rules *(contd.)*

cluded and to inform the insurance company about any changes in the type and extent of the risk. If he negligently fails to do so, the company's liability in the event of a loss would extend not to the entire damage but only to the amount of the risk originally agreed upon. Where the insured party deliberately misled the insurer about the true nature of the risk, the company would be released from all liability and would merely have to return the premiums paid.

The draft directive, a first step toward aligning national insurance contract laws, is narrower in scope than the Commission's preliminary draft, which also included rules on suretyship contracts; the Commission is already working on a separate proposal on suretyship that is expected to be submitted to the Council at a later date.

Plan to Raise $2 Billion Loan For Energy

Although the suggestion of Commissioner Guido Brunner that the Community should borrow about $2 billion for the construction of several plants to make gasoline from coal startled even high-ranking officials in the EC executive, Brussels observers tend to agree that the full Commission will back the proposal. This could mean that the Council, which must give its consent, may take up the proposal at a meeting in late September or early October that will be devoted entirely to energy issues.

According to Brunner's plan the loan would be raised in successive stages on the capital market of several Member States, and it is hoped that it would attract OPEC petrodollars that are piling up as a result of the increases in crude-oil prices. Although some of the money would be used to support research and development of new energy sources, most of it would be made available to construct plants in Germany's Ruhr and Saar districts and in the U.K. to produce gasoline. However, since domestic coal is so expensive that synthetically produced gasoline from West European coal would not be competitive in the near future, Brunner recommends for the initial phase the use of imported coal, which would bring the price for a liter of regular to DM 1.40. In the Community the price for a liter of regular gas produced from crude oil presently ranges from DM 1 to DM 1.18.

Critics of Brunner's plan say that the $2-billion loan would not be more than a drop in the bucket. Officials in Bonn say that much larger investments are needed in order to make production of coal-based gasoline a half-way competitive operation and to produce enough to make a real dent in the dependence on crude-oil imports. Cost estimates for these investments throughout the Community range from $20-30 billion. Several Brussels observers fear that, if the Commission approves Brunner's plan, there would be considerable haggling in the Council about which project

Energy *(contd.)*

should be supported. Remembering the three-year-long dispute before a decision was made on the location of the Community's JET project, they also expect long discussions in the Council on this matter.

In Brief

The Greek Parliament has approved legislation that would make Greece the tenth member of the European Communities on Jan. 1, 1981. Greece is the first country to ratify the accession treaty and amendments to the EEC, Coal and Steel, and Euratom treaties. The governments of the nine Member States have prepared or are working on legislation that would call for ratification by their national parliaments of the treaties signed in Athens last May 28. . . The Commission has asked the Council of Ministers for a mandate to negotiate a commercial and cooperation agreement between the EEC and the ASEAN countries (Indonesia, Malaysia, Singapore, Thailand, and the Philippines). Approval of the request is expected in September, and the Commission hopes to wind up negotiations before the end of this year. . . The Commission's hopes for a long-term dialogue with OPEC governments (both had agreed to informal contacts to exchange information on oil market developments and the West European economies) were dashed when OPEC representatives cancelled a meeting scheduled for this month. No explanation was given for the breakoff, but some Brussels observers believe the cause can be found in a newspaper interview given by Commissioner Guido Brunner, who accused the OPEC countries of economic brinkmanship and of deliberately holding crude-oil production below demand.

France: Tax Evasion Continues to Be Costly Factor

In its annual report just issued, the French Government's Taxation Council has confirmed what has been suspected by many people: tax evasion and avoidance continue to be a widespread and even growing practice in France, with every fifth taxpayer cheating on his income tax return. Established in 1971 by the Pompidou administration as an advisory body, the Council reports that, on the average, declared incomes are 17.4% lower than actual incomes, which alone means an annual loss of FF 8 billion for the treasury. At 10.3%, the evasion quota is lowest among wage and salary earners, but it rises to above 50% for industry and trade and can reach more than 80% with self-employed individuals.

The Council points out that the numerous exemptions and allowances built into the French tax system (87 in all) represent a total of FF 60-70 billion in potential fiscal revenue. It is suggested that the government take a close look at many "anachronistic" tax privileges as a way of improving its revenue position.

Another possible reform effort could be directed at examining the status of various taxpayer categories, with a

Tax Evasion *(contd.)*

view toward eliminating gross inequities and inconsistencies. At present, direct taxes are levied, at least theoretically, on 77-96% of taxpayers in the professions and on 75% of wage and salary earners but on only 27% of farm households. The Council says it might be worthwhile to investigate whether this considerable gap is actually due to low farm incomes or whether it reflects certain privileges.

On an overall basis, the number of French households subject to direct taxation rose from 10.5 million to 14.3 million from 1970 through '77. In 1965, the report says, only 45% of all households paid direct taxes, a figure that meanwhile has been boosted to at least 60% (1977) as the result of the general growth in real-term incomes. By the same token, the share of indirect taxes in France declined from 37.5% to 31.6% within the 1965-77 period, but this percentage is still considered exceedingly high when compared to that of other industrialized countries. Income tax now accounts for 18.4% of the total, up from 15.9% in '65. An overproportional rise is shown by social insurance contributions, whose share has increased from 34.1% to 40.2% during the same period. The share of miscellaneous taxes and levies, on the other hand, has fallen from 12.4% to 9.8%.

As in virtually all West European countries, the overall tax burden in France has continued to inch up over the years: taxable incomes rose by an annual average of 8% in the years 1972-76, but fiscal revenue climbed by 10%.

Germany: Move to Rescue VAT Law Amendments

In order to rescue amendments to the Turnover Tax Law (UStG), the government has called on the conference committee to make a second try at resolving the dispute between Parliament's lower house and upper house, the latter controlled by the Opposition. It had been expected that the upper house would approve the amendments to the Turnover Tax Law that the Bundestag had passed, but to the surprise of most observers it did not, and it also rejected a compromise offered by the conferees. The measure largely represents West Germany's belated move to bring national turnover tax law provisions in line with the EEC Council's Sixth VAT Directive. It now appears that the Commission will take Germany before the European Court of Justice for failure to comply with Community law on time. The EC executive has given Bonn August 17 as a final deadline, and, since Parliament will not meet again before September, it seems unlikely that this deadline can be met *(Doing Business in Europe, Par. 31,104)*.

The dispute did not arise from the substance of the proposed measure but came rather from the political and constitutional sphere. Although the Bundestag accepted most of the Bundesrat's suggestions concerning substantive issues of law, it could not bring itself to agree on the

VAT Law *(contd.)*

Bundesrat's recommendation that the measure should apply within the territory of the former Reich-- in other words, within the boundaries that Germany had in 1937. In the government's view, shared by most legal experts, this suggestion ignores reality: it would mean that the territory east of the Oder-Neisse rivers that has been occupied by Poland for 34 years would be treated as part of the former Germany that no longer exists. Officials say that the government cannot relent on the issue because, in its 1974 treaty with Poland, Germany expressly recognized the East German-Polish border along the Oder-Neisse rivers as Poland's permanent western border. Furthermore, acceptance of the Opposition's argument would also create more problems for Bonn with East Germany.

Opposition leaders contend that the measure would be unconstitutional if their suggestion were ignored because the Constitution makes reunification a top priority objective for the government and Parliament.

Originally the conference committee wanted to treat the territory beyond the Oder-Neisse rivers as foreign and that of East Germany as neither domestic nor foreign territory, but this compromise formula did not go far enough to meet the Bundesrat's demands. Now the conferees will try to find a solution during the current summer recess. An agreement would be submitted to both houses after the summer recess.

Britain: Working Papers On Closed Shop Plan Presented

As promised in the Conservative party manifesto, the Department of Employment has issued three consultative working papers on projected new industrial relations legislation, which is designed to modernize British trade union practice. The proposals are aimed at ensuring that a "closed shop" situation is introduced only with the wholehearted consent of the work force, and yet at the same time granting a genuine right of conscientious objection to joining a trade union, not solely on religious grounds. Other features would include providing trade unions with public funds to cover the cost of secret postal ballots for elections to union office, matters concerning union rules, the calling and ending of strikes, and also limiting the practice of secondary picketing, an increasingly frequent practice whereby strikers picket outside premises not directly involved in a dispute.

The Secretary for Employment, Mr. James Prior, has emphasized that the working papers are negotiable and "provide the basis of full and detailed consultation" over the next two or three months before final decisions are taken. He said the government had decided not to make secondary picketing a criminal offense because, in drawing up its proposals, "the government has been mindful of the need n

Closed Shop *(contd.)*

to create sources of conflict gratuitously and not to place an impossible burden on the police," since they already have powers to limit the number of pickets on any one site and deal with obstruction, threatening behavior, and breaches of the peace. This means that the responsibility for legal redress will not be up to the government but rather the employer, who would have to initiate action when he thought that picketing was unlawful and damaging his firm's operations.

At present, when a closed shop agreement is introduced, there is no protection for nonunion workers already employed and their approval is not sought. It is proposed that an agreement for a closed shop should be drawn up only if the overwhelming majority of the employees involved voted for it by secret ballot. Workers employed at the time the agreement takes effect who have deeply held personal convictions against a closed shop would be entitled to compensation if dismissed for failing to join the union. It is worth noting that as yet there is no intention to implement the controversial measure of union contributions to strikers' pay.

The government's proposals have met with united opposition from trade union leaders, and the general secretary of the Trades Union Congress, Mr. Len Murray, said that projected changes were "a major challenge to the existing rights of workers and their unions." They would seriously undermine the long-standing rights of workers to engage in picketing in the course of pursuing legitimate disputes, Murray said, and they generally gave no assurance that the government had learned the lessons of the 1971 Industrial Relations Act, "which did so much to cause unnecessary difficulties" *(Doing Business in Europe, Par. 23,925)*. However, the director general of the Confederation of British Industry, Sir John Methven, said the government was putting forward only "a moderate trimming of excess power" by employing civil law. He said there was overwhelming hostility to what he described as the "mailed fist" of union power, and the unions' attitude of maximum resistance to the changes would lead only to added confrontation. He emphasized that employers would not hesitate to invoke the law in cases of secondary picketing since previous legal uncertainties would be removed.

Switzerland: Oil Price Shock Upsets Stability

The news that Switzerland's rate of inflation jumped from less than 1% at the beginning of this year to 4.1% in June has shocked many of those who consider that country one of the last strongholds of price stability in the world. Statistically, the Swiss cost-of-living increase is now actually higher than that of neighboring Germany, where the inflation rate still hovers below 4%.

Stability *(contd.)*

Normally such a development could herald serious implications for the Swiss monetary and payments picture, but government authorities in Bern hasten to point out the special nature of the current price pressures. The fact that the consumer price index soared by 1.1% in the month of June alone, they say, is solely due to the higher costs of oil imports. The index of heating and electric lighting costs was 23% higher in June than last year at that time, and heating fuel prices alone were 122% higher. The authorities explain that Switzerland, much more so than Germany, is dependent on the Rotterdam free port for most of its oil supplies and therefore far more exposed to the exorbitant prices that have prevailed there lately. These facts of life are now being drastically demonstrated to Swiss motorists (and visiting foreign tourists), who have to pay up to FF 1.15 per liter of gasoline.

Without the crushing effects of the oil price rises, the Bern statisticians have calculated, the retail price index in June would have been only 0.8% higher than a year ago, which would reflect a kind of price stability unmatched anywhere in the western world.

There is no question, however, that inflationary pressures in Switzerland are now emerging from more than just one corner, thus threatening economic performance in the second half of this year and in 1980. One of the factors involved here is the automatic wage indexation granted to employees in the public service and to those of the country's larger private enterprises. The federal government recently gave the green light for an adjustment for the public service, and this is likely to be followed by similar actions by cantonal and local governments and the rail and postal authorities. Eventually the private sector may be unable to deny compensatory pay increases to its own employees, even though many Swiss enterprises are having a hard time staying afloat financially.

As a way out of the dilemma, some experts have proposed that the government take oil prices out of the basket of items that make up the cost-of-living index. This would hold down inflation in statistical terms and would thus minimize the quota of the forthcoming wage indexation round. However, public opinion in general seems to oppose this argument on the ground that this would be a "trick" to cheat wage earners and benefit the government and private industry. Wage indexation, in fact, is widely seen as an important element of labor peace in Switzerland.

Liechtenstein: Trustees' Role Now Defined By Law

Parliament has approved amendments to existing legislation that would tighten the professional standards of attorneys, consultants, trustees, accountants, and tax advisers. With these raised standards the government hopes to better con-

Trustees *(contd.)*

trol or prevent abuses that have occurred in the past in connection with the operations of so-called mailbox and holding companies domiciled in the principality. (A bill that would tighten corporation rules is still pending before the legislature.)

The amendments bring changes for all members of the liberal professions but most important for those who assume the role of a trustee. For the first time the law gives a statutory definition of this profession and describes the rights and duties that trustees have and assume as estate managers, financial advisers, accountants, and tax advisers. It also lays down the conditions under which an individual could act as a trustee and run a mailbox or holding company.

Any individual wanting to act as a trustee will need permission from the government, and so will any person wanting to establish himself as an accountant or patent attorney. An applicant will have to prove that he has fulfilled the educational requirements specified in the law and will also have to pass an examination. Not only individuals but also legal persons may qualify for obtaining permission to act as a trustee so long as the majority of the corporation's stock is owned by either Liechtenstein nationals or a Liechtenstein bank and provided that the managers meet the professional standards established for trustees, accountants, or attorneys.

Finland: Export Earnings Deposit Law Is Approved

Parliament has passed a law that empowers the government to make businesses deposit up to 50% of their export earnings whenever prices for a particular product or range of products rise to such a degree that the stable development of the economy could be disturbed. The earnings must be deposited with the central bank for a maximum of 18 months at 5% interest and must be returned to the depositors in no more than three years.

Paper, cardboard, and cellulose make up roughly 40% of Finland's exports, and the government has been at a loss about how to influence the price fluctuations of these products on the international raw materials markets. The revenue derived from the deposits would enable the government to possibly intervene if the prices fall sharply.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Alignment of Customs Laws Progresses

The Common Market has made further headway in alignment of national customs legislation. Although considerable progress has been achieved in the development of a genuine customs union, there are still a number of shortcomings, among them differences and inconsistencies in customs legislation *(Common Market Reports, Pars. 302.15, 313.21)*. Two measures adopted last month by the Council of Ministers seek to harmonize the Member States' statutory and administrative concepts of customs debts and the repayment of duties. Adoption of a regulation on the postclearance collection of customs duties is expected in the fall. All three measures have in common that they not only affect the importer's and exporter's competitive standing but also have an impact on the amount of customs duty collected, all of which accrues to the Community as part of its own revenue.

The customs debt directive defines the conditions that give rise to liability for customs duties and levies and defines the debtor's obligations (Official Journal No. L179, July 17, 1979). At present these conditions still vary somewhat, especially that on the time at which a customs debt is incurred. Under the directive the Member States are committed to amend their national laws, regulations, and administrative practices by no later than Jan. 1, 1982. Compliance with this directive will eliminate existing dis-

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Customs Laws *(contd.)*

tortions of competition that businesses established in the various Member States have experienced when importing goods from or exporting to third countries.

The Council regulation on the repayment or remission of import or export duties seeks to eliminate distortive treatment among Common-Market-based importers of third-country products; the measure also defines the instances in which the Member States may correct entries made to record the revenue (Official Journal No. L175, July 12, 1979). After July 1, 1980, the conditions for repayment of duties imposed by improper calculation or some other error by customs officials will be the same throughout the Community. The conditions for remission, which is the reduction or waiver of duty that has been assessed but not yet paid, will also be uniform. Customs will have three months to return the money; the Member States may extend this period only in exceptional situations. The regulation also sets forth common rules applicable to situations where goods are imported from third countries, cleared, and later refused by the importer because they are defective or do not meet contract terms. The duty will be repaid when the goods are reexported or destroyed. In this case repayment must occur no later than 12 months from the day the duty was collected.

The proposal still pending, a draft regulation, would lay down the conditions for postclearance collection of duties, which would arise when the importer has not paid enough duty because of an error on customs' part. The draft regulation would limit customs' possible scope of action by establishing a statute of limitations for collection. Adoption of the measure has been delayed by the Commission's threat to sue the Council on grounds that the present version would give the Member States some power to legislate details that they no longer have under Community legislation establishing the EC's own financial resources *(Common Market Reports, Par. 5012)*. However, there is no quarrel over the fact that any amount collected in this manner belongs to the Community.

In Brief

The new European Parliament's first week of sessions was largely marred by dragged-out discussions over details such as proposed amendments to the rules of procedure that are necessary to account for the enlarged body (410 members, compared to 198 in the former Parliament). Among the first decisions on substantive matters was the EP's vote to postpone until September a debate on an interim report on the harmonization of national corporate laws. In this report the former Parliament's economic and monetary committee criticized the Commission's proposal to align the Member States' corporate tax systems *(Common Market Reports, Pars. 3218, 9764)*. The full house then declined to give a formal opinion on the measure. . . Chinese and European Commission officials have initialled a five-year textile trade agree-

Brief *(contd.)*

ment between Red China and the EEC that would ease access of Chinese products to the Common Market. If the Council approves the agreement, China's textile exports to the EEC would double from the present 20,000 tons a year to 40,000 tons annually by 1985. Peking agreed to limit its exports of 14 products, among them cotton yarn, cotton fabrics, and T-shirts. . . The European Court of Justice has rejected appeals brought by BMW's Belgian subsidiary and a number of its dealers against the Commission's Dec. 23, 1977, decision that imposed fines ranging from 1,500 to 150,000 EUA on the subsidiary and 47 dealers for violating Treaty Article 85(1) by agreeing to prevent the reexport of new BMW cars *(Common Market Reports, Par. 10,008)*.

Britain: Competition Bill to Slow Price Rises

The government has submitted a bill to Parliament that is designed to promote competition as a way of slowing price rises in the future. The measure would abolish the disliked Price Commission, which critics accuse of not knowing whether it should fight inflation or strengthen competition. To replace the Price Commission the government proposes to extend greatly the powers of the Monopolies and Mergers Commission and the Office of Fair Trading (OFT) to investigate and to act against restrictions on competition that are not in the public interest.

Rather than establish a list of restrictive practices (the approach followed in German and U.S. legislation), the government chose a broad definition of competition practices that are not in the public interest: any course of conduct that has or is intended or likely to have the effect of restricting, distorting, or preventing competition in the U.K. A course of conduct agreed on in an accord that is registered under the Restrictive Trade Practices Act would be exempt *(Doing Business in Europe, Par. 24,021A)*.

In contrast to present law, which confines the Price Commission to merely commenting on a business's anticompetitive behavior, the bill would enable the Monopolies Commission to recommend any appropriate action to stop that behavior and would empower the government to put those recommendations into effect. A business found guilty of competition behavior that is not in the public interest could, for instance, be ordered to lower prices, change its marketing practices that discriminate against particular customers, or reduce its excessive advertising expenditures.

The bill would entrust the OFT's Director-General of Fair Trading with the task of investigating whether there is prima facie evidence that a company or a group of companies engages in anticompetitive practices. If evidence is found, the director-general would have to publish what he discovered and say whether it would be appropriate for the Monopolies Commission to launch a full-fledged investiga-

Competition *(contd.)*

tion to establish whether the practice is not in the public interest. It would be for the Commission to recommend any possible action. The Secretary of State could veto such an investigation within 14 days after its launching.

Observers expect that if the bill becomes law, the OFT will start investigating those practices that the Price Commission has been publicizing over the past two years as well as those described in the former Labour Government's green paper on restrictive practices. These include such things as forcing retailers to buy a manufacturer's entire range of products instead of just the items they want. The bill would also entitle the Secretary of State to direct the Monopolies Commission to investigate nationalized industries and other public bodies as to their efficiency, costs, services to consumers, and possible abuse of their monopoly powers. Under current law the Monopolies Commission's powers in this direction are limited *(Doing Business in Europe, Par. 24,007F)*.

France: Employees Will Pay More for Social Security

The business community has complained for years about inequities in the nation's social security system, but recently Paris not only conceded there was substance to the criticism - it reacted: it has raised the contributions to the old-age pension system, and against the unions' protests decreed that employees should bear a larger share of the crease than employers. However, critics say that this move is a cosmetic facelift at a time when radical surgery may be the only way of curing the deficit-ridden system and at the same time bringing some equity to it.

In virtually all other European countries, employees and employers contribute equally to the mandatory health insurance and old-age pension systems. In France employers pay roughly 75% of the contributions to the health insurance funds and two-thirds to the old-age pension funds. Last year's overall revenue of the health and old-age pension funds amounted to FF 111 billion, of which FF 82 billion was paid by employers' contributions; FF 22 billion came from employees and the remaining FF 7 billion from the government.

French industry executives have not only criticized the insurance system but once even approached the European Commission in Brussels for remedial action; they charged that because of the inequities French employers are operating under conditions unequal to those of their counterparts in the rest of Western Europe. The Commission declined to take action.

The deficits that the health insurance and old-age pension funds have been experiencing for many years have been aggravated by sharply rising expenditures to pay for increased doctors' and hospital bills. Until now the govern-

Social Security *(contd.)*

ment declined to revamp the system mainly for political reasons; instead it preferred to make up for the deficits by channeling taxpayers' money to the funds and confining itself to some marginal improvements, such as trying to keep a lid on rising hospital costs. Legislation enacted last July 1 compels recipients of social security to contribute 1% of their pensions to the health insurance funds; before that all doctors' and hospital bills were paid for entirely by the system.

Germany: Windfall Tax On Oil, Gas Is Raised

The former 10% well tax for domestically produced crude oil and natural gas went up to 15% as of July 1 and will go up to 17% on Jan. 1, 1980. This follows from an agreement, rather than tax legislation, reached in July between the state government of Lower Saxony, which represented the few states in Germany with oil and gas deposits, and officers of the national crude-oil and natural gas producers' association. The agreement has ended speculation about a possible plan by the federal government to propose a national excise tax payable by those producers.

The purpose of the well tax is to skim off some of the so-called windfall profits that companies exploiting domestic oil and gas resources make due to the fact that exploitation costs in Germany are rising much slower than the prices demanded by the OPEC countries. The higher well tax will help eliminate distortion of competition since several oil companies do not have any oil rigs operating in Germany and thus rely entirely on imports.

The recently concluded agreement contains a clause committing both sides to return to the negotiating table whenever the OPEC countries raise their prices or the value of the U.S. dollar rises or falls sharply, which automatically affects the price of crude-oil imports; falling prices would necessitate talks about possibly cutting the well tax.

Lower Saxony produces only 4% of the nation's crude-oil needs (some 6.5 million tons, compared with the 110 million tons imported), but it produced 40% of the country's natural gas supplies in 1978. The increase in the well tax rate will bring the state DM 75 million more revenue in 1979 and DM 220 million more in 1980; in 1978, Lower Saxony's total well tax revenue amounted to DM 300 million.

Netherlands: Unions Oppose Government's Wage Plan

The government's plan to reduce unemployment by keeping wage demands down and thus leave management with more profits to invest may never materialize because of growing opposition from the unions and also from Parliament; the concept calls for a reduction of the number of unemployed to 175,000 by 1982 (currently some 220,000 people are out of

Wage Plan *(contd.)*

jobs). Union leaders have growing doubts that leaving employers with more money would produce new jobs. They would prefer instead that the government take a direct hand by imposing wage curbs, and they would even agree to a general wage cut for all employees so long as the government gets the money and uses it to create new jobs. Even if the government were to accept the union leaders' suggestions, observers doubt that Parliament would go along with the idea.

The Social and Economic Council, which advises the administration on economics and related issues, does not think that the government's plan would bring back full employment. The advisers say that not only would management need more profits, but the government would have to reduce public spending and use the money to really help industry. Believing that natural gas exports will sharply decline in the coming years and that additional energy will have to be imported and at much higher prices, the government experts think the economy is going to take a turn for the worse. More imports of raw materials are also expected to further reduce the already dwindling surplus in Holland's balance of payments. Dutch companies are going to be faced with the prospect of having to replace obsolete machinery and equipment, the experts point out, and yet many of the firms either lack the money or cannot meet the conditions of borrowing on the capital market. Helping businesses would [illegible] the right approach, but the government's own financial r[illegible] sources are too few to offer the needed relief, the advisers say.

Switzerland: Environmental Bill Due After Summer Recess

After summer vacation the government is expected to submit a bill to Parliament that would give the executive branch powers to protect man and his environment that go far beyond those it has under existing legislation *(Doing Business in Europe, Par. 29,542)*. If the law is adopted and manages to leap the plebiscite hurdle, the government could establish standards for air pollution, noise abatement controls, and waste disposal through subsequent regulations.

The government could impose a recurrent levy on polluters. An important instrument for protecting the environment would be the obligation of management to evaluate the environmental consequences of a new plant or new process *(Umweltverträglichkeitsprüfung)*. This obligation would be incumbent also upon a government agency with respect to any new road or dam project. The government wants the people responsible for planning to devote sufficient thought to the possible consequences that a project would have for the environment and also to calculate the necessary steps to avoid or mitigate the consequences. Management or the government itself would have to draw up a report on the compatibility of the project with the environment; a copy of the report would have to be attached to the request for a li-

Environment *(contd.)*

cense that every new industrial plant must have before it can start up *(Doing Business in Europe, Par. 29,544C)*.

According to the bill, environmental protection offices would be established by the federal government and the 26 cantonal administrations. They would have a say in the licensing process and would make sure that the applicant does not underrate the environmental consequences of the project. The public's involvement would be assured in that compatibility reports and reviews would be open to public inspection. Industry executives, however, remain skeptical that the proposed safeguards against unauthorized disclosure of business secrets are sufficient.

Preparation of the measure, which was to go to Parliament in the fall of 1975, took much longer than expected because it was necessary to balance the flood of suggestions from environmental groups, industry, and the cantonal governments. Virtually all cantonal administrations criticized that the first draft failed to give due consideration to the country's federal structure by downgrading the cantons to mere enforcement agencies of the federal government. The revised measure would give cantonal authorities a much greater say without jeopardizing the law's application.

Poland: Foreigners Could Invest in New Businesses

Although the government decided in February to allow nonresidents to become founders and shareholders in newly established companies, the text of the official decree became available only recently. The decree permits domestic state-owned companies and cooperatives to establish limited liability companies with individual and corporate nonresidents; the corporate domicile would be Poland. A company's purpose must be the manufacture of products for the domestic market as well as for export; companies that render services would not fall in the scope of the decree. Establishment is limited to 15 years, but in exceptional cases an extension might be allowed. Observers see in this rule a way for the government to get out of a venture if it does not live up to expectations.

There are several conditions for the formation and operation of a limited liability company. The Polish entity must retain control of at least 51% of the company's stock. All shares must be registered, and no individual shares may be transferred to another person without the shareholders' consent; the articles of incorporation must grant the Polish shareholder the preemptive right to buy the foreign shareholders' stock.

Establishment of a new company is subject to government approval. The initiative for the joint venture must come from the management of an existing Polish corporation or the chairman of the national association of cooperatives if a cooperative is seeking a foreign partner. Management

Foreigners *(contd.)*

must file a request with the government and present the details about the foreign investor and the purpose of the future company, and it must also give the reasons for the venture. In order to make the proposition attractive for foreign investors, the decree makes allowance for free repatriation of profits and also return of the investment if the company is dissolved.

In allowing foreigners to participate in the establishment of new companies, Warsaw was largely motivated by the same reasons that prompted first Yugoslavia and then Hungary and Romania to open their borders to foreign investors. Poland's industry needs Western capital and know-how, and the government hopes that the new ventures will export most of their products and thus bring in the hard currency needed to buy raw materials and foodstuffs abroad. Observers say the government is particularly counting on investors from the United States because of the strong ties between Poles and Polish-Americans.

Turkey: Joint Ventures With Foreign Traders Sought

The government is encouraging domestic businesses to enter into partnerships with foreign trading companies in order to benefit from their marketing techniques. In the same vein Ankara is also urging Turkish companies to set up trading offices abroad. Both moves are designed to stimulate exports of Turkish products and thus replenish the central bank's nearly empty foreign exchange coffers, which have been drained in recent years as a result of a weakening economy, caused primarily by the long political unrest.

Turkey has a long tradition of being unfriendly to foreign investors, and no change, such as legislation that would allow foreign investments in the country, is expected. Executives of many Turkish companies believe that increased exports may be the only way to prevent the economy from slipping into a recession. At present approximately 60% of the country's exports are made up of agricultural commodities, especially cotton, tobacco, and sultanas. Despite the shortage of foreign exchange, the government is now allowing manufacturers to use up to 50% of their export proceeds to pay for imports.

Common Market Reports

EUROMARKET NEWS

Issue No. 551 *Report No. 376, August 7, 1979*

IN THIS ISSUE

Community: Paris Seeks Modification Of Euratom Pact

France is seeking significant modifications of a key chapter of the Euratom Treaty that would strip the Community of the monopoly it exercises over the supply of nuclear fuels. Paris also wants the Euratom Supply Agency, which exercises the monopoly, to be stripped of its exclusive right to conclude all contracts for fissionable materials. The government suggests that the right to buy nuclear fuels and to enter into contracts for supplies from outside the Community should fall back to the individual Member States instead.

France wants a change because it believes that the relevant provisions of the Euratom Treaty are far too restrictive and, moreover, are no longer in keeping with the present situation. In support of its demands, Paris says that the new nuclear fuel enrichment facilities developed by some Euratom members, including France, have completely changed the conditions on which the original treaty was based. Another argument advanced is that the treaty, which is basically designed to create a free market in nuclear fuel supplies and prevent discrimination among members, does not take into consideration the dangers of proliferation. Observers in Brussels, however, contend this is just a pretext and that in fact the French Government fears the country would lose its greatly cherished independence in the field of nuclear policy.

This issue is in two parts, consisting of 88 pages. This is Part I.

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Euratom *(contd.)*

Paris is basing its demand for modification on Treaty Article 76(1), which empowers the Council of Ministers to amend Chapter VI, whose provisions deal with nuclear fuel supplies; either a Member State or the Commission may take the initiative. According to Article 76(2), the Council may confirm the provisions of Chapter VI seven years after the treaty comes into force, and if there is no confirmation new provisions may be adopted. Last November the European Court of Justice rejected this interpretation and ruled that the treaty must be fully enforced. Still, the French Government contends that the Court's opinion in no way affects a Member State's right to ask for amendments under Article 76(1). France believes that the treaty is becoming a threat to its independent military nuclear force (although military sectors are exempt under the treaty) and its atomic reactor industry.

Until the Court of Justice's opinion, the Euratom Supply Agency never really made full use of the powers granted it under the treaty, and the Commission and the states appeared content to ignore some of the provisions. On the basis of the Court's opinion, the Commission vetoed a uranium supply contract in February that the U.K. had negotiated with Australia, declaring that the Euratom Treaty prohibits individual Member States from entering into contracts of their own and that only the Commission may do that on behalf of Euratom. In mid-July the Commission reversed itself and consented to the agreement. Observers have interpreted this to mean that the French Government's demands for modifications of the treaty are not entirely unfounded.

Most Member States, but especially Belgium, Denmark, and Germany, are reportedly apprehensive, their main fear being that France is seeking a treaty revision in an attempt to guarantee its own nuclear industry an unassailable dominance over the European nuclear industry. They fear that France might use its political weight as a nuclear power and its scientific accomplishments in using uranium for peaceful purposes, especially in reprocessing spent nuclear fuel rods, to force amendments on them at terms they might oppose. (France claims to have the fewest failures in operating nuclear power plants.) These states are basically against any modification of any treaty because they believe that eventually the other two treaties might also be changed.

EEC Rules Benefit Vacationers

The 30 million Western Europeans who this year are vacationing outside their home country but still within the Common Market need not worry about doctors' and hospital bills in case they become ill or have an accident. Under Community regulations, workers, pensioners, and their dependents are entitled to medical care, medicine, and hospital treatment as if they were nationals of the Member State

Vacationers *(contd.)*

they are visiting. There is one formal condition: an individual must prove that he or she is covered by the national health insurance system of the home state. Before leaving home the vacationer is advised to obtain a copy of Form E 111 from the local health insurance office. Presentation of that form to the doctor or hospital certifies that the individual is entitled to health insurance benefits. The form is not required, however, in the U.K., nor is it needed by British nationals staying in Denmark or Ireland. These countries have nationalized health services, and everybody is treated without charge if he needs medical attention.

Under EEC regulations, doctors' and hospital bills are paid for by the health insurance fund at the place where the nonnational and his dependents are staying, but payment is made under the conditions applicable in that country. Generally speaking, in Denmark, Germany, Ireland, Italy, the Netherlands, and the U.K., medical care is given free by doctors recognized by the national health insurance system. Medicine is provided free of cost in the Netherlands and Ireland. In the other states, insured persons are required to pay a small fee when buying drugs on prescription. In Belgium, France, and Luxembourg the EEC national normally pays all or part of the medical costs and is then reimbursed by the health insurance system of the country where he is vacationing, just as nationals there are required to advance the costs of doctors' and hospital bills.

In Brief

The European Commission has submitted proposals to the Council of Ministers for implementation of the Community's generalized preference system for 1980 for processed agricultural commodities and manufactured and semimanufactured goods that originate in the developing countries. The total value of trade offered by the Community is estimated to be around 9.5 billion EUA; the '79 figure was 7.5 billion EUA. . . The Council's decision last June to raise prices of farm produce on the average by 1.5% threatens to upset the Commission's EC draft budget for 1980. According to the Commission, the price hike will amount to an additional 1.3 billion EUA in expenditures and will raise slated expenses by 14.3%. The EC executive believes that this hike will force the Community to raise its original claim of 0.75% of VAT revenue to 0.88% (it is entitled to 1% of the VAT assessment base.) For 1981, the Commission predicts that 1% will not be enough and additional revenue will be needed. . . The Commission has submitted a draft directive to the Council that is aimed at preventing severe accidents on the job. If adopted by the Council, the measure would mean that manufacturers and processors would have to inform employees about potential dangers of operating a machine or using a dangerous substance, and they also would be compelled to take preventive measures.

Germany: Chances for Income Tax Cuts Improving

All of the major political parties are either demanding or at least contemplating income tax cuts for those who have become victims of the progressive tax rate structure: the government gets 22% of DM 16,000 annual taxable income (DM 32,000 for married persons), and this percentage rises progressively to 48% if a taxpayer's annual taxable income amounts to DM 48,000 (DM 96,000). The Opposition has been advocating reductions in income tax since last year, even before the tax cuts for 1979 took effect *(Doing Business in Europe, Par. 31,071)*. At their party convention last spring the Free Democrats, partners in the coalition government, made the same demand, and the governing Social Democrats are no longer ruling out a tax cut, although until recently even Chancellor Helmut Schmidt wanted no discussions within the party about possible tax relief measures. Now Finance Minister Hans Matthöfer has declared publicly that he could conceive of income tax cuts for 1981 under certain conditions.

Although some critics say the government's turnabout must be seen in light of next year's elections, there are others within the administration who say that the Opposition and the Free Democrats have a point in pressing for tax cuts. The Opposition says that the injustice is evident and must be corrected: last year incomes rose only 5.5% on the average but revenue derived from the wage and income tax jumped by nearly 10% simply because of the progressive tax rate structure. This year's actual revenue is expected to exceed estimates by about 9%, which would bring in DM 115 billion instead of the earlier projected DM 104 billion. Should next year's wage contracts provide for income hikes around 6.5%, a figure the government is hoping for, income tax revenue will rise by an estimated 12% to almost DM 129 billion.

Finance Minister Matthöfer would go along with a tax cut provided three factors are present: 1) revenue from income tax must rise disproportionately high, which is generally assumed so long as there is no major worldwide crisis; 2) a tax cut must not cause the government to go deeper into debt; and 3) if the economy is in good shape, the Treasury could manage without the billions left to the taxpayers, and, if the economy is slowing down, an income boost for millions of consumers would offer a stimulus to get it going again.

Britain: London Relaxes Exchange Control Rules

The government has lived up to its promise and largely dismantled exchange controls that have restricted the freedom of choice in financing investments abroad. The relaxation also represents a further substantial move on the U.K.'s part to meet the obligations assumed upon accession to the EEC Treaty with respect to free movement of capital.

Exchange *(contd.)*

Official exchange became available on July 18 without limit for all direct investments abroad, and foreign currency borrowing taken at any time to finance such investments will be eligible for repayment with official exchange. In the budget, an annual allocation of £5 million of official exchange per project was introduced, a figure that was expected to cover some 90% of all cases, but now there is complete freedom for British companies to choose how to finance direct investments abroad or overseas operations.

Applications to make such investments outside the U.K. still must be made to the Bank of England, but this is now a mere formality. This means that companies no longer have to rely on back-to-back loans, where a loan by one party is secured by the loan of another, or reciprocal leasing arrangements. This will be of particular benefit to real estate companies because they will be able to repay borrowings of foreign currency at the official rate of exchange. This will make transactions much less complicated and vulnerable to currency fluctuations.

Official exchange is now available to U.K. investors to purchase most securities denominated and payable solely in the currencies of other EEC countries. Official exchange has not previously been available to purchase foreign currency securities, and, except for those specified, any investment will still have to be financed with investment currency, paying the premium, or with foreign currency borrowings. Purchases of unit and investment trusts in EEC currencies are excluded from the concession. This was done not only because U.K. institutions would be at an unfair disadvantage, but also to prevent U.K. investors from directing money through EEC channels to purchase U.S. shares and so evade paying the dollar premium. However, official exchange will be available for investment in foreign currency securities issued by international organizations of which the U.K. is a member, including those issued by EEC institutions, the European Investment Bank, and the World Bank.

Belgium: Road Levy Plan Startles EEC Partners

The government's plan to make drivers pay a special one-time levy that would be collected when a domestic or foreign car or truck uses the country's divided highways is bound to have repercussions for Belgium's partners in the EEC. No details have been announced about how much the levy would be and how it would be collected, except that the reason for proposing it is to help reduce the BF 100 billion budget deficit expected for 1980. The plan would take effect on Jan. 1, 1980.

Since the Community still lacks a full-fledged common transport policy that would bar this sort of individual Member State action, there is no doubt that Belgium has the

Road Levy *(contd.)*

right to impose the levy. It will have to consult its Common Market partners, as required under Community rules, but observers doubt that the other Member States, especially Germany and the U.K., will be able to convince Belgium to forgo the plan, which would have a detrimental effect on interstate commercial road haulage.

Belgium, along with the other states, complained when Austria introduced a road transit tax on trucks on July 1, 1978, because of the repercussions it would have for international trucking. (Austria's neighbors retaliated by imposing similar taxes on Austrian trucks.) Although Austria's road tax is collected every time a domestic or foreign truck uses a road or highway and thus can be quite costly (25 groschen per kilometer and ton for loaded vehicles above 5 tons) in comparison to the one-time levy Belgium is planning, Vienna's reason for introducing the levy was to make foreign truck operators using the north-south and east-west transit highways contribute to their construction and maintenance costs. Belgium's highways are used heavily by British trucks transporting goods across the English Channel as well as by North German truckers shipping goods to and from France and Spain.

Brussels observers fear that the Belgian example might encourage other Member States to follow suit, particularly since the chances for coming to an arrangement within the EEC that would preclude national road tax rules are not good at the moment (harmonization of road vehicle taxes would be the first step). Germany has been opposing any national move because of the detrimental impact it would have on the Common Market, although Bonn has good reason, observers say, to introduce such a tax: between 1960 and 1973, international truck traffic through Germany increased eleven-fold, while in the same period the volume of national truck traffic only tripled.

Italy: Wage Contracts Help Restore Labor Peace

The recent wage contract between unions and employers of 1.5 million workers in Italy's metalworking and engineering industry has had the expected pace-setting effect on similar agreements in other key sectors of industry employing roughly 9 million people. The metalworkers' contract provides for substantial wage increases over the next three years on top of automatic inflation adjustments; it also provides for the reduction of the 40-hour workweek to 36 hours. Though costly to employers, the latter agreements have largely restored peace in labor-management relations that had been disturbed by months-long strife.

Despite criticism from independent economists who termed the new wage contract in the metalworking industry detrimental to industry's competitive standing, management of the labor-intensive textile industries and union leaders

Wage Contracts *(contd.)*

representing some 1.4 million employees reached an agreement providing on the average an extra 20,000 lire per month. This agreement too includes a cut in the workweek from 40 to 36 hours so long as the market situation allows it; it is estimated that nearly three-quarters of the textile industry's workers, most of whom are women, will benefit from the shorter workweek.

All of the 1.2 million employees working in the construction industry will receive an additional 25,000 lire per month under their new contract. Construction workers will have a 35-hour week during the months when severe weather curtails building. Some 35,000 employees working for the government-owned chemical plants will be getting an average 20,000-lire monthly raise and will be working 37 hours and 20 minutes weekly instead of the previous 40 hours. The 150,000 persons employed by the social security system and other public bodies like the National Energy Committee will be earning between 60,000-85,000 lire more each month.

These new agreements still leave unsettled the current negotiations involving some 1.3 million employees, among them 360,000 working in the privately-owned chemicals industry, some 250,000 in the woodworking industry, and about 120,000 people working in paper mills.

Netherlands: Drug Maker Is Successful On Appeal

Holland's highest court for commercial disputes has invalidated the government's July 1977 decision ordering the Dutch subsidiary of Hoffmann-La Roche, the Swiss drug manufacturer, to reduce by 25% and 35%, respectively, the prices of its Valium and Librium tranquilizers imported into Holland. After two appeals by the company failed in the lower courts, the Business Appeals Court held that the government had no right to issue such a price reduction order. The high court found fault with several aspects of the government's order, and its decision is expected to have long-term implications for government policies aimed at keeping drug prices down. As it happened, the court's decision was handed down one week after a two-year price curb expired on July 15.

It was the first time that the government made a price reduction order against a company on grounds that it had abused its dominant position *(Doing Business in Europe, Par. 27,005)*. In its order it said that the tranquilizer market was marked by the absence of any price competition and that La Roche, because of its market share, ownership of patents and trademarks, and small volume of parallel imports, had a dominant position on the market. The government thought that La Roche abused that position by charging high prices on the Dutch market that could not be justified and therefore were contrary to the public interest. It ar-

Drug Maker *(contd.)*

rived at this conclusion by comparing prices of the two drugs in the Netherlands and the U.K.

La Roche argued before the high court that it did not have a dominant position and, at any rate, did not abuse it. The high court found no abuse in La Roche's behavior; it also took exception to the government's comparing Dutch and British prices of the two drugs.

Switzerland: Banks Not Abusing Powers, Report Says

The Cartel Commission has little negative to say about the way the country's large banks have been using their money and power over the past decade. In its recently published report, the first since 1968, the commission merely admonishes the three largest banks--Bankverein, Bankgesellschaft, and the Kreditanstalt--to cut down somewhat on their activities and leave more maneuvering room for the smaller financial institutions, especially in the area of small credit business.

This generally favorable view is quite contrary to attempts by several left-wing parties and other groups that, complaining about the banks' excessive powers, have been rallying support for a plebiscite aimed at curbing the banks' influence. Observers, however, have strong doubts that a majority of the electorate would support such a move.

According to the commission's report, the three major banks were able to broaden their position during the past decade thanks to expanded activities abroad. Those three banks plus the Volksbank-Gruppe and Bank Leu account for three-quarters of all Swiss banks' foreign activities, which include lending and borrowing, underwriting bonds and obligations, and mortgaging property abroad. As to the banks' activities in the nonbanking sector, the commission concluded that no Swiss bank holds more than 20% of the stock when it has an equity interest in a corporation.

In related matters, amendments went into effect on Aug. 1 that give the central bank permanent powers to intervene on the money market. These amendments empower the central bank to lower the banks' minimum reserve requirements, control issuance of securities, and impose curbs on the inflow of foreign capital. Previously the *Nationalbank* had to be authorized recurrently by Parliament and the electorate, and it also had to enter into agreements with the country's commercial banks; this practice proved cumbersome and was also less effective because of the time it consumed.

Common Market Reports

EUROMARKET NEWS

Issue No. 552 *August 14, 1979*

IN THIS ISSUE

Community: Fines on Car Reexport Ban Are Upheld

The European Court of Justice has rejected appeals by BMW's Belgian subsidiary, members of the Belgian BMW Dealers Advisory Committee, and 39 BMW dealers in Belgium against a European Commission decision fining them for violating Treaty Article 85(1) (judgment of July 12, 1979, joined cases Nos. 32 & 36-82/78). BMW Belgium N.V. and the dealers had concluded an agreement to block the reexportation of the German-made cars and thus prevent German importers and buyers from taking advantage of the price differences between cars sold in other states and those sold in Germany. By its judgment the Court has assured independent importers that they will continue to be able to take advantage of substantial price differences.

Two independent German dealers operating on the so-called gray market by importing new cars from Belgium and France complained to the European Commission when BMW Belgium changed its marketing policy in late 1975. Until that time the prices of new BMWs were considerably lower in Belgium than those prevailing in the other Member States, which led to an increase in the number of cars reexported to those states, especially Germany and the Netherlands. After a considerable amount of correspondence between BMW Belgium and the manufacturer's headquarters in Munich, the former sent its dealers a circular inviting them to

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Reexport Ban *(contd.)*

conclude an agreement aimed at discontinuing reexports of new BMW models. Forty-seven of the 90 dealers signed the agreement, which took effect on Sept. 29, 1975. It was rescinded as of Feb. 20, 1976, after the management of the Bayerische Motoren Werke in Munich told BMW Belgium that reexport prohibitions can never be a part of the selective distribution system that the EC Commission authorized for BMW *(Common Market Reports, Par. 2061.83)*.

In December 1977 the Commission imposed fines reflecting the gravity of the violations: BMW Belgium drew the heaviest fine, 150,000 units of account, because it instigated the new policy. The eight dealers that had formed the Belgian BMW Dealers Advisory Committee and had sent out a separate circular with the advice, "No more sales outside Belgium," received fines ranging between 1,500 and 2,000 UA. The remaining 39 dealers were fined 1,000 UA each *(Common Market Reports, Par. 10,008)*.

In denying the appeals the Court of Justice reiterated its stand taken in previous rulings: reexport bans are in principle incompatible with the Common Market. It also rejected the dealers' arguments that they had not been aware of the incriminating content of the circular and that they had entered the agreement under pressure from BMW Belgium. The Court sided here with the Commission's argument that the dealers displayed negligence at the very least, while BMW Belgium and the members of the dealers advisory committee had knowingly and intentionally violated the provisions of Article 85(1). *(Common Market Reports, Par. 10,148)*.

Community: Refined Dumping Rules Took Effect Aug. 6

The Community will be better able to combat dumping practices now that the amendments to existing rules have taken effect. Council Regulation No. 1681/79, the new measure, clarifies several concepts set forth in the basic regulation, No. 459/68 (Official Journal, 1979 No. L 196/1). The amendments, which also reflect the experience gained in applying the 1968 measure, became necessary following the European Court of Justice's judgment of March 29, 1979 (Case Nos. 113/77, 118-121/77). In that ruling the Court voided Council Regulation No. 1778/77, which it said did not measure up to the rules of Regulation No. 459/68. (Reg. No. 1778/77 formalized the European Commission's antidumping procedures instituted against several importers and manufacturers of Japanese ball bearings and roller bearings.) The Court also found there was no statute that would have allowed the EEC to keep the provisional antidumping duty that the Commission had collected; these latest amendments contain the statutory basis for retaining that duty.

The new rules do not change the basic concept contained in Article 2 of Regulation No. 459/68 that empowers the EEC to impose a duty on products that are dumped in the Common Market and which cause, or threaten to cause, mate-

Dumping Rules *(contd.)*

rial injury to an established Community industry *(Common Market Reports, Pars. 3821, 3821B)*. There are, however, substantial refinements in the concepts of normal value, constructed value (to be used when other methods of price determination fail), export prices, dumping margin, and injury; these changes proved necessary to cope with dumping by state-trading countries, especially from the East bloc. Important for parties charged with dumping are the new rules that offer some legal security and establish due process; the Court of Justice had demanded these changes in its judgment. According to the amendments, the parties must be given access to information used against them, and they may ask for the essential facts and considerations that might prompt the Commission to recommend definitive measures.

The Commission is presently engaged in roughly 20 antidumping proceedings involving a variety of products. Last year's total was 25 and involved mostly steel and steel products. The steel market had become especially vulnerable to dumping because of the unsteady price situation in the EEC due to overcapacity, but now the situation is somewhat calmer.

In Brief

The Commission has proposed amendments to the first capital liberalization directive of 1960 (amended once in 1962). The changes would introduce the measures that are necessary to abolish existing exchange restrictions on the free movement of investment fund certificates. A proposal calling for the coordination of national rules governing the operation of investment funds is being discussed by the Council's working group, and the Commission believes it would be desirable to adopt both measures simultaneously. . . Monetary experts in Brussels expect that the next meeting of the European Council, to be held at the end of November in Dublin, will review the existing parity grid that forms the basis of the European monetary system and possibly even make some adjustments. The British Government has postponed until then its decision about bringing the pound into the EMS.

Denmark: Overtime Ban To Reduce Jobless Rate?

The government is hoping that its plan to ban overtime in industry will ease the unemployment situation. Overtime in various branches of Danish industry has been averaging around 100 million hours each year, and the government theorizes that if management is forced to hire additional staff to do the job, the number of jobless workers will decline.

A legislative proposal is expected after the summer recess that would empower the executive to impose an overtime ban. If the latest plan materializes, it will be the third measure to cut down the comparatively high number of

Overtime Ban *(contd.)*

unemployed (148,000, or 7%). A program designed to provide jobs for the long-term unemployed has been in operation since last October. It committed local governments to provide 12,000 jobs by Jan. 1, 1979. This commitment has not been fully met by all cities, towns, and villages, but government officials say it nevertheless made an appreciable dent in the unemployment situation. Since the beginning of 1979, some 37,000 employees have taken advantage of a new statute that allows them to retire at the age of 60 instead of 66, the previous mandatory retirement age, without any major loss in benefits. This number corresponds to 1.2% of the 2.1 million in employment.

Industry leaders have criticized the government for considering an overtime ban in the first place, aside from the difficulties of putting it into effect. They say that some industries cannot do without overtime because the volume of work fluctuates. Overtime is expressly provided for in labor-management contracts in several industries, the critics point out, so a ban could actually be imposed only in a limited number of branches. Spokesmen of the national employers' organization contend that the ban would not solve what is called the paradox problem: despite high unemployment there is a shortage of qualified labor. Most of those unemployed do not have the needed vocational or professional qualifications that would entitle them to find new jobs. The employers' organization urges the government to motivate the unemployed to retrain to learn new skills. They should be encouraged to relocate, industry leaders say, although with the high unemployment benefits there is little incentive to move to another place to take up a job.

Germany: Bank Secrecy Guaranteed in Tax Matters

Worried taxpayers have been assured that there will be no change in the tax offices' current practice with respect to the banking secret. This follows from a draft decree that the government has proposed to replace the present measure, enacted in 1949. Bonn's stepped-up drive against tax evaders made many believe that the government was out to erode the statutory banking secret. As it turns out, the changes will be editorial in nature, and banking officials raised no objections to the changes at a hearing on the matter at the German Finance Ministry on Aug. 3.

Current practice bars tax offices from approaching banks and other financial institutions periodically and in ad-hoc situations to find out whether the taxpayer maintains an account, how much is in it, and how much interest it yields. A taxpayer is not obliged to disclose where he maintains an account unless he claims deductions that can be substantiated only by information from his bank. Up till now the government has not interfered in the taxpayer-bank relationship, and the proposed decree would stick to that policy. It would be presumed that the data supplied

Bank Secrecy *(contd.)*

by the taxpayer are complete and accurate and there is no need to check with his bank about whether details on the tax return are correct. Only if the tax authorities have reason to suspect tax evasion may they compel the particular bank or other financial institution to disclose the relevant information, and then only when all other attempts, especially querying the taxpayer, fail to establish his taxable income.

Germany: No Move Against Oil Companies' Gasoline Prices

The Federal Cartel Office's decision to refrain from opening formal proceedings against the major oil companies Esso, BP, Texaco, and Shell for alleged abuse of their market-dominating positions by raising the price of gasoline by an average of DM 0.05 per liter was a correct one, according to antitrust experts. (One liter of regular gas now costs about DM 1.03, and super costs DM 1.07.) Discussions among officials of the Cartel Office and executives of the four oil companies did not produce the kind of information that the officials were looking for in order to build a solid case against the oil multis. The general public believes that the oil companies were not justified in raising prices, not only because OPEC's recent crude-oil price increase is not going to show up in the companies' books until September but also because gasoline prices at Rotterdam harbor, Europe's major oil port and refining center, have been declining slightly.

Antitrust lawyers believe that the Cartel Office would have had a hard time proving that the oil companies in raising prices had in fact abused their market-dominating position, assuming each one had such a position *(Doing Business in Europe, Par. 23,509)*. They say the companies' behavior would have been abusive if their gasoline prices had been substantially higher than those that would have developed under substantial competition. Proving this, the experts say, is a difficult task because the Cartel Office must undertake detailed comparative price and cost studies, a job the FCO has shied away from in the past. Observers doubt that the amendments to the Cartel Law which have been proposed would ease the Cartel Office's work in this respect because the proposed additional criteria aim in a different direction--stiffer sanctions, for example--and would not control a company's pricing policy *(Doing Business in Europe, Par. 31,039)*.

Britain: Regional Aid To Be Reduced By One-Third

The U.K. Secretary for Industry, Sir Keith Joseph, has announced the government's intention to reduce regional aid to industry by £233 million within three years, or over one-third of the total regional support grants of £609 million for new plant and machinery and factory buildings. The assisted areas, which at present account for more than 40% of the working population, will cover only some 25% by

Regional Aid *(contd.)*

1982. The government will preserve the current three-tier structure of assisted areas - special development, development, and intermediate - although many of these areas will be gradually downgraded or abolished. Resources are to be concentrated on those parts of the country "with the most intractable problems of employment," which means that a few areas will be upgraded. Generally, aid will be concentrated on areas of northeast and northwest England, Wales, and central Scotland, while southern England is likely to be particularly affected by the downgrading.

Previously, new plant and machinery and new buildings and works benefited from grants of 22% in the special development areas and 20% in the development areas. The 22% rate will be maintained, whereas the latter rate will be reduced to 15% as of Aug. 1, 1980. The 20% grant available for new buildings in intermediate areas will be abolished as of the same date.

A number of special and regular development areas will be classified nonassisted by Aug. 1, 1982, subject to a special review before such downgrading takes final effect. A number of intermediate areas will also become nonassisted after a similar interval. The minimum levels for grants are to be increased from £100 for plant and machinery and £1,000 for buildings to £500 and £5,000, respectively, for expenditure defrayed after July 17, 1979. Assistance under Section 8 of the 1972 Industry Act will be provided more selectively but will continue to enable "internationally mobile projects to locate in the U.K."

Sir Keith Joseph has claimed that the measures will not increase unemployment, saying that "there is no evidence whatsoever that, in net terms, taking the country as a whole, there is any change in jobs." He said the transitional arrangements would bite only relatively slowly and that while 5,000 or 6,000 jobs might be lost, the government's tax reductions would "probably" create a comparable number of new jobs. The unions take a different view. Terence Duffy, president of the Engineering Union, said that "it appears for the first time we have a government creating unemployment." David Basnett, secretary of the General and Municipal Workers Union, thought that the measures opened up appalling prospects which would not fail to have a depressing effect on industry.

The Confederation of British Industry indicated its members are not entirely happy with the severity of the aid cuts. A CBI spokesman said there were dangers in reducing aid in times of recession before a reasonable level of profitability was achieved. The Confederation would watch very carefully, he said, to see what happened to company profits and cash flow over the next two to three years to ensure that regional trade and industry were not at a disadvantage.

Italy: Installation Of Three-Party Government

Italy's longest government crisis in some 30 years ended, at least temporarily, on Aug. 5 with the swearing in of a new three-party coalition administration led by Prime Minister Francesco Cossiga. A Christian Democrat and ex-interior minister, Cossiga succeeded in assembling his team after only two days of negotiations. Four other politicians previously assigned to the task of forming a new government had to abandon their efforts. The installation of Italy's 40th administration since the end of World War II came more than two months after the June 3-4 early elections. Parliament had been dissolved on April 2 after the Communists withdrew their support for the Andreotti government last January.

Cossiga's 24-member cabinet includes 16 Christian Democrats, four Social Democrats, two Liberals, and two non-affiliated ministers. It is not backed by an absolute parliamentary majority, but Cossiga can count on a relative majority because the Socialists and Republicans have pledged to abstain from voting against the government. This arrangement is considered to be a political compromise designed to let the administration carry on the affairs of state, while Christian Democrats, Communists, and Socialists continue to negotiate over a political program that could be supported by an absolute majority.

Commentators have pointed out that Cossiga was able to claim the premiership only because the political scene in Rome has been marked by exhaustion and because no one wanted to carry the crisis into the *Ferragosto*, the peak summer season. They stress that the new government's appointment signals no change in the current confused situation: "Cossiga will bravely administrate the country in the next few months, but any major decisions will have to be made by the parties."

The new prime minister is a respected figure in Italian politics. As interior minister he organized the aid programs for the victims of the 1976 Friuli earthquake, and he also was responsible for carrying through the 1976 early elections at a time when the political climate was very explosive. He resigned following the 1978 kidnapping and murder of Aldo Moro.

The Italian business community generally has been reassured by the fact that some of the key portfolios in the Cossiga cabinet remain with experienced men. They include Filippo Pandolfi (treasury), Antonio Bisaglia (economic affairs), Gaetano Stammati (foreign trade), Beniamino Andreatta (budget), and Giovanni Marcora (agriculture), all Christian Democrats. The finance ministry was given to Francesco Reviglio, an independent "technocrat." Not represented in the cabinet are ex-premier Giulio Andreotti and Arnaldo Forlani, the former foreign minister.

Belgium: Oil Companies Agree to New Price Contract

The Belgian government and the country's oil companies have negotiated an agreement covering price and delivery terms of oil products for the next five years. A similar contract had been concluded in July 1974 following a veritable "oil war" between the two factions, with the oil companies then strongly campaigning against mandatorily imposed price ceilings. The new pact nevertheless includes most of the terms of the expired agreement. Again, the oil companies did not succeed with their demands for a return to a completely free market, but the labor unions also had to compromise on their demands for even tighter controls.

As did the previous contract, the new agreement provides that the base costs for oil products in Belgium be calculated on the official crude-oil prices of five oil exporting countries (Saudi Arabia, Kuwait, Nigeria, Iran, and Iraq) plus refining, transport, insurance, and distribution costs. The Belgian market price may exceed these base costs by 10% in either direction, in accordance with international price quotations. These quotations are determined by the prices prevailing at Rotterdam (70%), Genoa (15%), and West Germany (15%). Previously, the Rotterdam prices accounted for 85%. The German prices are included for the first time, with the government hoping to have added another element of price stability that way.

In the past, Belgian oil products prices remained blocked whenever the international quotations deviated by more than 10% from the calculated base costs. While this assured the oil companies of better earnings margins during periods of lower prices, it threatened profitability during high-price periods. As a result, the oil companies in the recent past often hinted that they might be forced to "neglect" the Belgian market. To avoid this conflict, the new contract contains a crisis clause, which permits upward adjustments of 5% and 10%, respectively, whenever the free-market quotations exceed the calculated Belgian base costs by 30% and 50%. In return, the oil companies have promised not to discriminate against the Belgian market. This assurance also covers independent dealers, who are guaranteed a fixed margin of BF 0.42 per liter. Furthermore, the agreement contains a number of rules aimed at improving trade and price statistics.

Economics Minister Willy Claes said the contract does not constitute a "magic formula," but he believes that it will help to counteract the frequency of domestic oil price fluctuations and will give certain supply guarantees.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Council Okays Third Chamber for EC Court

The Council of Ministers has approved amendments to the Rules of Procedure that will enable the European Court of Justice to establish a third chamber to hear cases in addition to the existing two. It is hoped that this will help the Court to cope with a work load that grew from 158 cases in 1977 to 268 cases last year. In the past, the full Court has heard most cases and has entrusted the two chambers only with cases of an essentially technical nature, such as tariff classifications, or with matters for which there is already an established body of case law, such as minor social security matters *(Common Market Reports, Pars. 4605, 4606, 4845)*. The amendments empower the Court to assign to each chamber a specific category of cases. The full bench will, as a rule, hear only those cases that carry legal connotations beyond the individual case.

There will be, however, restrictions on the Court's liberty to assign individual cases to a particular chamber. When a national court requests a preliminary ruling from the Court of Justice on the interpretation of Community law, especially Treaty provisions, the full Court will have to hear the case. The same applies whenever a Member State or a Community institution is party to an action either as

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EC Court *(contd.)*

plaintiff or defendant and requests a trial by the full Court. Giving a Member State or institution this right is a safeguard against the violation of fundamental judicial principles. Suits involving an individual Member State always carry strong political connotations, and the solution found should guarantee due process whenever a case is assigned to a chamber and that chamber is alleged to be favorably disposed toward a particular Member State.

The amendments fall considerably short of what Court President Hans Kutscher had demanded in mid-1978, when he asked for three additional justices and four more advocates general. Last October the Council decided that the Court could handle the growing case load without more judges, though it did agree that the bench would have to be enlarged before Greece, Spain, and Portugal become members of the Community. Nevertheless, the Council this fall will consider the Court's request for more advocates general since the third chamber will be able to function fully only if it has at least one or two more AGs *(Common Market Reports, Pars. 4607, 4608)*. If the Council approves two additional AGs, each of the three chambers would have two.

After the summer recess the Council's working group will take up another proposal providing for the establishment of a lower tribunal to handle litigation between Community employees and the various EC institutions. So far these disputes have been heard by one of the two existing chambers. Establishment of the lower tribunal would free the Court for other tasks because it would be confronted with such disputes only when a decision of the lower tribunal was appealed. The Council had not been able to take up the proposed measure earlier because the European Parliament had delayed in giving its opinion. However, the way was cleared for Council action after the outgoing Parliament, in one of its last actions, voted favorably on the proposal.

U.K. for Lower Contributions to EC Budget

The British government wants to see to it that the EC budget problem remains on the agenda of all important Council meetings for the rest of this year. London has been pressuring the Commission and the other Member States to reduce Britain's contributions to the budget. On the basis of the Commission's current estimates, the U.K. would have to pay for £2.2 billion of the Community's 1980 budget. Some £1.3 billion would flow back to Britain in the form of subsidies for price support of agricultural commodities and other kinds of aid, such as money from the EEC's Regional Development Fund to contribute toward the cost of new investments in the country's underdeveloped regions.

Neither Commission officials nor Brussels observers doubt the accuracy of the British government's charge that Community expenditures in the U.K. are far below the aver-

EC Budget *(contd.)*

age in other Member States, where the equivalent of £25-35 per capita is spent as opposed to Britain's £10. This comparatively low figure is primarily due to the fact that Britain has not been able to draw on the roughly £200 million available under the three major EEC funds (agriculture, regional, and social) because it has failed to come up with programs or planned investments that would qualify for financial support from the Community.

The size of Britain's contribution to the EC budget and the scale of interest rate subsidies that would be guaranteed if the U.K. joined the European monetary system will be two dominant issues when the finance ministers meet in Brussels on Sept. 10. London has been insisting that the imbalance in contributions to the budget is a major obstacle to greater convergence among the national economies. Although Commission officials accept London's claim that Britain and Italy (and not Germany, as has often been asserted) are the largest net contributors, they disagree that the lack of greater alignment among the Member States' economies is due to the imbalance in contributions. The EC executive now realizes, however, the significance of the Community's channeling funds back to the individual states; previously it thought that the sums involved were too small to have any significant effect.

Brief...

The Commission is now publishing a weekly oil bulletin giving the latest data on price developments affecting oil and oil products in the Community. The purpose of the bulletin is to contribute to greater transparency of the Community's oil market, and its contents may indicate the kind of information the Commission might be releasing to the public once the Council regulation introducing registration of crude-oil and petroleum product purchases takes effect. Approved by the Council on July 24, the draft regulation would require businesses in the Common Market that import crude oil from Member States or third countries to inform the authorities of the importing state about the details of the imports. According to the July 30 oil bulletin, the pre-tax prices of major imports such as heating oil and gasoline have increased by 49% since the end of 1978 + + + Next month the Commission is expected to present a draft directive aimed at coordinating national credit insurance provisions. The major aim would be to eliminate difficulties stemming from the fact that German law requires insurance carriers to specialize in insuring risks. Germany had been granted a four-year exemption from the 1973 Council directive on direct insurance that did away with the compulsory specialization requirements; the exemption has now expired + + + Strong opposition from national unions and employer organizations has prompted the Commission to abandon for the time being its plans to propose harmonization of national rules governing night work.

France: Continuing Rise in Foreign Investments

While there has been an appreciable slowdown in U.S. investment activity in France in the most recent years up to 1977, this gap has been more than filled by other foreign investors. According to the latest statistics, the gross inflow of foreign investments in '77 (including investment credits) reached a total of FF 11.7 billion. This was 74% higher than in 1973, the year when the first world energy crisis broke out. French investments by American enterprises in 1976-77 came to FF 1.58 billion, or 16% of the total, which compared to 17% in the 1973-75 period and even 24% in 1971-72. However, the United States in 1977 still led all other foreign investors, followed by the Netherlands (FF 1.36 billion), Belgium-Luxembourg (0.89), Britain (0.80), and West Germany (0.78).

Even though the newest statistics do not go beyond '77, they are nevertheless considered encouraging because that particular year was marked by restrictive official investment policies and the possibility of a victory of the political Left in the March 1978 elections, which would have produced less than a favorable investment climate in France. The figures for the 1973-77 period clearly reflect, however, the economic fluctuations and policy changes during those years. The outbreak of the energy crisis in 1973 prompted Paris to impose strict curbs on the inflow of foreign capital that year and to loosen them again in '74 because of payments balance considerations. In 1975, when the payments situation had recovered, selective controls were reimposed. All these actions had a decided effect on the annual fluctuations of the foreign investment inflow - plus 42% in 1973, plus 59% in '74, minus 14% in '75, plus 9% in '76, and plus 17% in '77.

More than 92% of foreign investment in France originates in the western industrial countries and about one-half in the European Community. The status of U.S. investors may be somewhat underrepresented, it was pointed out, because the official statistics do not include French investments effected by U.S. enterprises domiciled outside the United States (for instance, in the EEC countries).

Most of the investments from abroad are channeled into industry (42% in 1976; 37.7% in '77), led by the chemicals and metalworking sectors. The services sector accounts for nearly 30% of the total volume, and, within that sector, trade dominates with some 67%. The greatest increase has been scored by real estate transactions, mostly purchases. These account now for nearly 30% - a figure noted with concern by many political factions.

During the 1973-77 reporting period, France nearly doubled its own investments abroad, from FF 5.48 billion to 10.51 billion. The main targets were the OECD countries, which accounted for almost two-thirds of all investments.

Businesses Urged to Boost Investments

Renewed price pressures and anticipations of a cooler economic climate this fall have caused the French government to issue yet another urgent appeal to the country's enterprises to step up investments. Observers said the Barre administration feels somewhat let down by the failure of the business community to respond to various official measures designed to strengthen companies' financial resources. In an article published in *Le Figaro*, the Paris newspaper, Economics Minister René Monory listed among these measures the restoration of price freedom for industry, facilitating corporate capital increases via the stock market, and providing convenient investment credits. Stressing that these actions afforded ideal opportunities for investors, Monory pointed out that "in all comparable countries, businesses have strongly invested in the past few months. It is high time for the French entrepreneurs to go on the initiative this fall, otherwise they will experience considerable disappointments in two to three years."

With the latest oil price increases having virtually annihilated the official target of a 3.5% economic growth rate this year, the government badly needs a revival of private investment activity in order to stimulate growth and employment. However, Monory assured the business community that the administration would not return to "dirigistic" measures. "We have not removed price controls in order to introduce wage controls," he said. At most, he insisted, Paris would seek to "stabilize" wages. With this statement, Monory evidently referred to the announcement made by Prime Minister Raymond Barre early last month that the inflation-indexed pay adjustments in the future would be considered the upper rather than the lower limits of tolerable wage increases. This pronouncement was not to the liking of the labor unions, which protested that Barre was trying to prepare the ground for a general pay freeze.

Italy: New Government to Update Pandolfi Plan

The newly installed Italian government won its first parliamentary vote of confidence on Aug. 12 as expected, but there was no question that even its own leaders regard it as an administration with a severely limited mandate and weak political potential. Prime Minister Francesco Cossiga indirectly affirmed this role in his inaugural address as he sketched a very skimpy outline of his government's program. In the economic realm, for instance, Cossiga could offer hardly any information on specific measures needed to regain economic stability, combat unemployment and accelerating inflation, and stimulate investment activity.

The most tangible element of economic policy so far consists of the so-called Pandolfi Plan sponsored by ex-treasury minister Filippo Pandolfi but never implemented because of the seven-month political crisis. Aimed at re-

Pandolfi Plan *(contd.)*

vitalizing the economy and the state finances, the three-year Plan will now have to be heavily modified and amended to take account of changed circumstances. In its original form, it had been predicated on an average annual growth rate of 4-4.5% and, for 1980, an inflation rate of below 10%. In the meantime, it is more likely that inflation will reach 17-18% this year and that the gross national product will rise by no more than 3% next year.

Cossiga said that his government intends to assign high priority to fiscal policy. In view of the fact that Rome has been unable to slow the expansion of the budget deficits, the administration will have to proceed very cautiously with tax relief measures. It was indicated that instead of lowering tax rates, as has been demanded by the labor unions, the government would propose to raise tax-free allowances. This step presumably would be in exchange for the unions' cooperation in the areas of industrial productivity and labor costs. Most controversial in this respect is Cossiga's proposal to separate the oil and raw materials cost increases from the general cost-of-living index so as to prevent even steeper rises in the automatic wage adjustments *(scala mobile)*.

The government has set Jan. 1, 1980, as the final deadline for presenting the overhauled Pandolfi Plan to Parliament. Thus, the new *piano triennale* would commence a year later than was intended in the original version.

Germany: Seat Belt Ruling Affects Pay Claims

The Appellate Labor Court in Berlin held recently that an employee is not entitled to full pay during his convalescence if his seat belt was not fastened at the time of the traffic accident that caused his injuries. He must be satisfied with the lower health insurance benefits, which usually amount to 75% of the individual's gross pay, or 85% if he has dependents. Previously, all employees unable to work because of illness or injury have had an unconditional claim against their employer for continued payment of gross wages or salary for a period of six weeks. All an employee had to do was to present the employer with a doctor's certificate testifying to his unfitness to work *(Doing Business in Europe, Par. 23,454)*.

Union leaders and health insurance officials have criticized the ruling and are now hoping that a similar case will come before the Supreme Labor Court. In the Berlin case, the appellate court refused to grant leave of appeal. Union lawyers anticipate, however, that a case involving denial of wages because the seat belt was not fastened will not be long in coming. If full wages or salary were again denied, they would hope that the country's highest labor court could clarify the issue.

Seat Belts *(contd.)*

Although the Berlin appellate court's decision made headlines all over the country, the fact is that the Supreme Civil Court already broke ground on the issue in June. It ruled that anyone who is not buckled up when involved in an accident, regardless of who is at fault, must assume responsibility for those injuries that he would not have suffered had he fastened his seat belt.

Drivers in Germany are required to fasten their seat belts, but there is no penalty for noncompliance. As a result, only about 60 out of 100 drivers buckle up. Although the number of traffic accidents in Germany has gone up over the past two decades, largely as a result of higher vehicle density, the number of people killed in road accidents has dropped from 18,000 to 14,000 annually. This decrease has been traced to both more discipline on the part of motorists and the fact that more and more drivers and passengers are fastening their seat belts.

Britain: Insurers See No Need for U.S. Convention

The British Insurance Association, whose members represent some 95% of Britain's worldwide insurance market, has indicated its continued opposition to the proposed U.K.-U.S. convention for the reciprocal recognition and enforcement of judgments in civil matters, despite some improvements in the recent third consultative paper. The association said there was still no indication of any need for such a convention, which would be inimical to British interests. If it were necessary to accommodate the U.S. with regard to the latter's concern about European judgments, "this could be dealt with as a specific issue."

As a result of the European Convention of Sept. 27, 1968, relating to jurisdiction and enforcement of civil and commercial judgments, and the U.K.'s expected accession, the BIA acknowledges that some convention is required. However, this would not be for the reciprocal enforcement of judgments but rather to ensure in the U.K. the nonrecognition of European judgments against U.S. domiciliaries where such judgments would be categorized as "exorbitant" under Article 3(2) of the European Convention. Therefore, the U.S. would have a considerable commercial interest in arranging a convention with the U.K., as Article 59 permits. Such a convention could be introduced, restricted to this particular aspect within the provisions of Art. 18.

The BIA believes that the proposed convention would not offer any benefit either to British industry or commerce or the individual citizen or, indeed, the U.K. insurance industry. "We have found that the U.S. courts claim jurisdiction often on grounds unrecognized by our own courts, that U.S. courts apply liability rules which are much more hostile to the defendant than are our own rules, and that U.S. courts and juries work to a level of damages

Convention *(contd.)*

far in excess of the level applied here." Because of long-arm statutes in many states, American courts tend to extend their jurisdiction more widely than British courts in comparable circumstances. In the U.S., much more latitude is allowed in the field of products liability, and a manufacturer may be sued even though the product has been outside his control for many years. The contingent fee system, by which a substantial proportion of an award goes to the plaintiff's lawyer, is unknown in the U.K. Furthermore, in contrast with the U.S., a very small percentage of awards is determined by juries.

The proposed convention, says the BIA, would promote "forum shopping," encouraging plaintiffs to go to the U.S. courts. Consequently, British courts, which otherwise would have jurisdiction, would "find themselves enforcing decisions they might not, and probably would not, have given." Since the U.S. population is four times greater, the BIA says, "sheer weight of numbers is an important factor in considering reciprocity," together with the greater incidence of litigation in the U.S. The association notes that under U.K. policies, premiums are charged at up to 20 times the British rate for a U.S. extension.

Luxembourg: Coalition Plans More Double-Taxation Pacts

The new Christian-Liberal coalition government in Luxembourg intends to review the tax relief measures enacted during previous parliamentary session to safeguard the Grand Duchy's status as a major international finance market. However, no specific fiscal moves are being considered at this time, according to Prime Minister Pierre Werner. Of more immediate concern are the cabinet's plans to have Luxembourg enter into additional double taxation treaties. Possible partners could be Switzerland, some Scandinavian countries, and other nations in Western Europe and elsewhere which maintain sizable financial markets.

At his inauguration last month, Werner described the fight against the economic crisis and unemployment as his government's most important task. Without going into detail, he said that new industrial investment would be aided by tax and other benefits. For instance, special depreciation rules would apply to environmental protection investments, and there would be periodic reassessments of industrial assets for fiscal purposes. A special effort would be made to attract foreign investors.

As the result of the June elections, Werner's Social Christians formed a coalition with one of the two previous government parties, the Liberals. The latter's chairman, Gaston Thorn, had succeeded Werner as prime minister after the 1974 elections; he now serves as deputy premier and also heads the foreign, economics and justice ministries.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: New Financial Instrument Ready for Use

Ireland and Italy will be the first two countries to qualify for side benefits available to members of the European monetary system. They are entitled to interest subsidies for loans obtained from the European Investment Bank and the European Commission to finance industrial investments and infrastructure projects. This follows from two measures enacted by the Council of Ministers in early August (Official Journal No. L 200, Aug. 8, 1979; pages 1 and 18).

When the nine heads of government decided last December to establish the European monetary system, they also agreed that the less prosperous Member States should be helped financially both as a reward for joining the EMS and to build up their economic potential. To this end the European Council called on the Council of Ministers and the Commission to create a new financial instrument and make available to these countries loans of up to 1 billion European units of account each year over a five-year period *(Common Market Reports, Pars. 10,095, 10,117)*. Enactment was delayed by several months of haggling in the Council's working group over procedural details and the fact that Greece had to be consulted on the matter as a future Member State.

Under the measures, Ireland and Italy will qualify for a 3% interest subsidy on loans granted by the EIB and on loans granted by the Commission under the Community's new

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Instrument *(contd.)*

borrowing and lending instrument, which came into effect in October 1978. This instrument empowers the Commission to borrow up to 1 billion EUA to lend to Member States investing in projects that contribute to Community priority objectives with regard to energy, industry, and infrastructure.

In practical terms, the Community may lend to both Ireland and Italy a maximum of 1 billion EUA each year from 1979 through '83 and subsidize interest rates. Not every project or program would qualify, considering the volume of credit available under the new financial facilities. To ensure consistent Community action and to make the choice of qualifying projects and investments easier, both the Irish and Italian governments will have to draw up programs in collaboration with the Commission showing the types of projects and investments they think should benefit. Once this is done, an Irish manufacturer or an Italian regional authority could apply either to the EIB or the Commission, depending on the facility used. A favorable opinion on the planned investment would still be needed from the national government, however, although the Commission has the final say about whether a project is eligible for a subsidized loan. In making this decision, the Commission is bound by four criteria: (1) the planned investment must be consistent with Community rules applicable in the relevant sector; (2) it must conform to the EEC competition rules; (3) the loans applied for must be used to finance infrastructure projects and programs; and (4) the investment must contribute to resolving structural problems besetting individual industries and to reducing unemployment.

Safeguard Rift Poses Threat to GATT Pact

Commission officials fear an unsuccessful conclusion to the current GATT negotiations if a number of the developing countries make true their threat not to sign the agreement because of disputes over a safeguard clause. The ground for these fears lies in the Community's rigid position in the talks held in Geneva between Commission and Member State officials and representatives of the developing countries.

Britain and France are continuing to press hard for a selective safeguard clause to be written into the new world trade agreement, which calls for tariff cuts and other measures to ease international trade. The clause sought by the Community would enable a country whose markets are threatened by low-priced imports from another country to cut off or reduce such imports from that country alone. The developing countries strongly resist such a selective clause, which in their opinion would undermine an otherwise solid foundation built by the negotiators over the past five years. They would go along with such a clause only if its application were controlled by a GATT committee.

GATT Pact *(contd.)*

France has refused to accept such an institutionalized control mechanism.

Articles XII and XIX of the General Agreement on Tariffs and Trade allow a country to impose import restrictions in case of grave payments difficulties and whenever low-priced products are imported in quantities that cause or threaten to cause serious injury to domestic manufacturers of identical or similar competing products; however, any restriction must apply to products from all and not one particular member of GATT. This universal approach is designed to ensure nondiscriminatory treatment, a major GATT principle, which has lessened the temptations to use the GATT safeguard clauses against particular products from one country. This is why Article XIX protecting individual industries was invoked only 95 times in the last 20 years, most recently in 1978 against canned Korean mushrooms.

In Brief...

The new Iranian government and the Commission have agreed to resume negotiations for a new EEC-Iran trade agreement. The talks had been interrupted in the fall of 1978, when Shah Reza Pahlevi was still in power. Reopened early this month in Brussels and to continue in October in Tehran, they are expected to focus again on the unsolved issues that prevented a renewal of the 1963 agreement, which expired at the end of 1973. The Shah regime had insisted on preferential treatment of some Iranian exports to the EEC. This was a demand the Community could not fulfill - not only because of GATT and pressures from Washington but also because of the EEC's efforts to limit such treatment to the EFTA, ACP (African, Caribbean and Pacific) and Mediterranean countries + + + The Council's working group has completed its discussions on the sixth company law coordination draft directive dealing with the content, checking and distribution of prospectuses to be published when securities are admitted to official stock exchange listing *(Common Market Reports, Par. 1405)*. It has written into the measure additional provisions that concern primarily the content of prospectuses in special situations - for example, when admission of bonds or convertible bonds is sought. A report on the issues still outstanding will be sent to the Permanent Representatives after the summer recess.

France: 'Textile War' With Italy Over Knitwear

Following the celebrated "wine war" between France and Italy a few years ago, the two countries are now engaged in a "textile war," which is already involving the European Commission and may yet be carried to the European Court of Justice. France is seen as the aggressor in this new conflict after its government earlier this month issued a ministerial decree requiring a "technical visa" for knitwear imports (mainly sweaters) from OECD countries. There was

Textile War *(contd.)*

no question that the measure was primarily directed against Italy, whose knitwear exports to France totaled 180 billion lire in 1978 and rose to 100 billion lire in the first six months of this year.

Although some officials in Paris claimed that the action, said to be of a temporary nature, was mainly taken to closely monitor knitwear imports and that all applications for import licenses would be granted, others reportedly complained of "disloyal competition" by Italian manufacturers, who allegedly produce knitwear on the black market and at abnormally low costs. The president of the Italian textile industry federation, Guido Artom, said that while it was true that such black market operations existed, they were relatively few in number and produced mainly for the domestic market. Generally, Artom said, wages in the Italian textile industry were higher than those paid in France. More modern equipment was the prime reason for superior Italian competitiveness in this sector, he said.

According to Brussels reports, the European Commission had not been officially notified of the French measure, but it had information for some time that such a step might be forthcoming. At its last meeting prior to the summer recess, the reports said, the Commission had empowered acting Commissioner Etienne Davignon to take appropriate action if Paris were actually to impose the import licenses. The EC executive plans to launch proceedings against France on the basis of Article 169 of the Rome Treaty. It is argued that the import license requirement violates the provisions of Treaty Article 30 *(Common Market Reports, Par. 321)*, which prohibits quantitative trade restrictions between Member States and any similar measures. The Brussels reports said that the Commission would spell out its position in a letter to the French government and invite the latter's comments before possibly taking the matter before the Court of Justice.

The Rome government also planned to file a complaint with the EC Commission, and the Italian textile industry federation has urged the Foreign Trade Ministry to take retaliatory action against French exporters.

Discontent Said to Aid Cause of Leftists

Political observers in France say that there is rising public support for the parties of the Left in reaction to the Barre government's increasingly unpopular economic policies. This climate of discontent, they say, is also influenced by gloomy statistical data, which cast a large question mark on the success of Premier Raymond Barre's austerity program. Marking the third anniversary of this program observers say that the government has little cause for celebration: unemployment in July rose by another 0.8% to pass the 1.4-million mark (which was 14.6% higher than last year at this time), and the inflation rate was again in ex-

Discontent (contd.)

cess of 10%. In early September, when most Frenchmen return from their vacations, they will also be faced with the effects on their pocketbooks of numerous price and tariff boosts imposed by Paris (gasoline, public fares, rents, etc.).

The Communist Party and the Communist-controlled CGT labor federation have been the first to take advantage of this rising mood of disenchantment. They have organized and announced a series of strikes and protests as an overture to a "hot autumn." Things started off last week with a three-day strike aimed at the national railways. During the first week of September, party and union agitators plan to hold rallies at factory gates. The Communists argue that the recent round of price increases has the effect of "robbing the workers," and the CGT has issued figures allegedly proving that the combined price increases amount to the equivalent of one month's pay when spread over the whole year. The Communists' principal demands are for a uniform pay increase of FF 200 monthly for everyone, a one-time "school allowance" of FF 600 per child, the reimposition of the price freeze, and the taxation of large fortunes.

There has been intense speculation lately on the possibility of a revival of the Communist-Socialist "Left Alliance" that had broken up prior to the March 1978 elections. The Socialists, under Francois Mitterand, have proposed a meeting of the Leftist parties and the unions to prepare joint actions against the government. However, Georges Marchais, the Communist leader, so far has rejected the advances of the Socialists, whom he blames for the collapse of the Alliance and the Left's defeat in last year's elections. At the moment, commentators say, it looks as though the Communists are inclined to act on their own in order to establish themselves as the only true representatives of the French working class.

Denmark: Oil Prices Upset Budget Projections

The 1980 draft budget presented this month by the Danish minority coalition government of Social Democrats and Liberals is being viewed in Copenhagen more as an administrative act than as a binding statement of economic policy. The reason is that many of the budget's key projections already have lost their validity as the result of the latest oil price push. Finance Minister Knud Heinesen conceded that he would have to submit a supplemental budget statement when Parliament reconvenes, in early October.

In its present form, the draft budget provides for total expenditures of 118.9 billion kroner and revenues of 108.2 billion kroner. Thus, in comparison with the 1979 budget draft, public spending would show an increase of 9%, while revenues would rise by 13.3%. To emphasize the government's cost-cutting drive, Heinesen pointed to the 2.9

Budget *(contd.)*

billion-kroner reduction in the projected deficit, which he said would be made possible by the tax increases contained in the economic austerity program enacted last June and by budget savings of 2.5 billion kroner. However, even Heinesen could not say exactly where these savings will come from, and this is undoubtedly a volatile political issue within the coalition that has still to be resolved.

Commentators have noted with interest that the government itself is not displaying much optimism in the area of employment-related spending: the budget planners have projected for 1980 an average number of 165,000 jobless persons fully covered by unemployment benefits, and this is 12,000 higher than the number estimated last June. As has become a long-standing tradition, the social affairs ministry again administrates the largest individual budget, at 38 billion kroner, whereas, for instance, the defense ministry is ranked fifth, with a mere 7.3 billion kroner.

Germany: Taxpayer to Pay for Business Losses in Iran

The German taxpayer will have to bear most of the loss resulting from cancellation by the Khomeini regime of multi-billion Deutschmark contracts that German companies had concluded in Iran. Bonn's export credit insurance program, administered primarily by Hermes Kreditversicherungs AG, Hamburg, a private insurance company, is expected this year to run into the red for the first time. In 1977, Hermes AG collected roughly DM 400 million in premiums and paid some DM 155 million in compensation.

Giving a rough estimate of the loss caused by cancelled contracts is made difficult because a German company may apply for compensation only after the Iranian partner is at least six months in arrears. Bonn sources say that the German Government has insured risks for contracts between German firms and Iranian companies as well as the former government valued at DM 8 billion. The total volume of orders placed by the former Shah regime and private Iranian companies is estimated to be near DM 12 billion.

Under its export credit insurance program, the Bonn Government guarantees repayment of loans extended by German businesses to buyers of goods and services abroad. Guarantees are issued mainly by Hermes AG. In 1978, Hermes and the two smaller private insurance companies operating under a government mandate issued insurance policies to some 30,000 businesses for contracts valued around DM 90 billion, still well under the DM 130-billion statutory ceiling imposed on the government. (For this year, the ceiling was raised to DM 145 billion.)

Iran Losses *(contd.)*

A Hermes guarantee usually covers 80% of commercial risks; the remaining 20% must be borne by the business. Thus, a German business gets its money if the foreign buyer becomes insolvent or fails to pay the full amount on time. The guarantee also covers 85-90% on political risks. The premium for a guarantee covering the risk of nonpayment of export credits granted to private businesses or individuals amounts to 1.3-1.4% per annum.

Ireland: OECD Predicts Slower Growth for Economy

After boasting the fastest-growing national economy in the OECD area during the past two years, Ireland this year will experience a much slower rate of growth (4% as opposed to 7% in 1978), accelerating inflation, and a current-account payments deficit that should reach £450 million (1978 = £150 million). This forecast was made in the latest annual survey of the OECD, which said that these problems are closely tied to the oil price situation: Ireland must import 85% of its primary energy requirements, with oil accounting for 75% of these requirements and for 10% of the country's import bill. Additional criteria in the economic slowdown, however, are a tighter monetary policy and the removal of certain fiscal stimulants.

A vital factor in Dublin's efforts to protect the economic gains made so far and to stabilize the economy in the future will be an incomes policy built on a broad consensus of the industrial partners, the OECD experts said. They predicted that wages and salaries will again move up by 16.5% this year but warned that an excessive rise of nominal wages is bound to lead to higher imports, demand-reducing measures, and lower incomes growth in real terms.

EURO COMPANY SCENE

NEB/ Q1

A 50:50 joint venture for the European manufacture and distribution of desk top microcomputer systems has been announced by Britain's National Enterprise Board (NEB) and Q1 Corp. of Hauppage, N.Y. The state-owned NEB will contribute about £5 million in share and loan capital to the project, while Q1 will bring in its know-how. The U.S. company reported sales of $4.5 million last year.

RBP/ Coastal States/ Occidental

The Belgian oil refinery RBP in the port of Antwerp, which has been out of commission for almost a year, will be reactivated in mid-September. The Coastal States Gas Corp., Corpus Christi, Texas, has acquired the refinery for a reported $25 million from Occidental Petroleum Corp., Los Angeles. This takeover ends one of the most spectacular plant occupations in Belgium and represents a partial victory for the labor unions. After Occidental had shut down production of RBP last September, the workers took over the refinery's

RBP/ Coastal States Occidental *(contd.)*

maintenance on their own. The occupation was continued even after a three-week solidarity strike by Belgium's refinery industry. Coastal States has now hired about 100 of the 158 "occupants," which originally numbered 256. Occidental in turn has agreed to pay about BF 20 million in severance pay to some 60 workers who had stayed with RBP until the end but could not get a job with Coastal.

Coastal Gas reportedly plans to invest about BF 4 billion to expand RBP's capacity from 4.5 to 6 million tons a year. The Belgian government, which had taken part in the takeover talks, has been particularly interested in having RBP operate as a refinery that would be independent of the large multinational oil concerns, mainly as a supplier of nonaffiliated dealers.

Darblay/ Sopalin/ Kimberly-Clark

The French paper manufacturer Darblay SA has sold its one-third stake in another paper maker, Société Sopalin, to the U.S. Kimberly-Clark Corp., which already held the other two-thirds. Sopalin last year reported sales of about FF 300 million.

Peugeot-Citroen/ Chrysler-Dodge

The French automobile concern PSA Peugeot-Citroen has taken 75% control of Camdic, the French distribution company for Chrysler's Dodge trucks assembled in Spain and Britain. The deal, of which financial details were not disclosed, was seen as a "demonstration" that Peugeot-Citroen is ready to break into the heavy truck market. Last year, only 69 Dodge trucks were sold in France, but this number went up to 350 in the first half of this year, and a further increase is expected.

Common Market Reports

EUROMARKET NEWS

Issue No. 555 *Report No. 378, September 6, 1979*

IN THIS ISSUE

Community: Trade Barriers to Be Probed by EEC Unit

A special committee made up of senior officials of the European Commission will take a closer look at how the Member States are using technical barriers to protect their domestic industries from competition. It will be seeking and analyzing examples of the problems that manufacturers encounter when exporting their products to another Member State. The Commission hopes to obtain the kind of evidence it needs to bring legal action against those states that violate the rules governing free trade within the EEC. By mid-October the committee will submit evidence so that the Commission can counter specific abuses.

Since the beginning of 1977 the EC executive has received nearly 500 complaints about technical barriers from manufacturers, industry associations, consumer organizations, members of the European Parliament, and several Member State governments. Health and safety considerations are most often used as a pretext for devising obstacles to intra-EEC trade, and Commission officials say that in recent years these national regulations have proliferated to the point where they now inhibit trade at a faster rate than harmonization measures encourage it. A major reason is that many individual industries in the various Member States are fighting cutbacks in production as a result of recession;

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Trade Barriers *(contd.)*

here the national governments are trying to help by protecting those industries against too much competition from other Member States.

For diplomatic reasons the Commission has refrained from pointing out which states it considers to be the worst offenders, but observers point out that the major exporting countries, especially France and Germany, have been more active in establishing technical barriers than the others. Every year some 1,500 new industrial standards are introduced in Germany, 1,000 in France, and 1,800 in the U.K. A Member State is entitled to establish its own mandatory requirements concerning design, approval, and certification unless a product is covered by an EEC directive harmonizing national rules and establishing a Community type-approval procedure. Although a state's mandatory requirements may not violate the letter of the EEC Treaty, they do violate its spirit, observers say.

Last year France caused a controversy when it introduced new regulations for forklift trucks that in effect barred imports from other Member States and third countries; German exporters were hardest hit. For years the Commission has been criticizing the German government for its practice of establishing and imposing new industrial standards, which are developed by industry and then approved by the government. However, it never threatened to take Germany to the European Court of Justice because it would have found it difficult to prove a violation of the EEC Treaty. The evidence that the special committee might gather could change all that. Ratification of the GATT agreement, with its code on technical standards, would provide an even better weapon against using technical standards as barriers to international trade.

Alignment of Export Rules Sought

The Commission has proposed harmonization of national rules that govern customs procedures for the export of goods. The objective of the measure is to establish uniform export procedures and thus to eliminate differences in the way EEC-based firms are treated. At present the national rules are still generally tailored to national interests and therefore do not take into account the requirements of the customs union, the cornerstone of the Community. Moreover, these rules burden exporters in different ways and thus may cause deflection of trade and also artificial transfers of business.

Adoption of the draft directive and its common rules would guarantee that national customs authorities impose export duties uniformly and that they are also strict in applying other Community provisions. Approval of the measure would do away with the red tape that the Commission considers unnecessary. At the same time the common rules would be flexible enough to adapt to new trends and situations.

Export Rules *(contd.)*

The draft lays down general rules that would govern the presentation of an export declaration. A 1977 Council regulation introduced the common forms EX and EXC, which exporters are required to use *(Common Market Reports, Par. 313.347)*. In order to cope with all situations that might confront national customs authorities, the measure would authorize the Member States to apply special procedures. Thus, the Member States could enact legislation that would exempt the declarer from submitting a written declaration if the goods are of low value or are exported for noncommercial purposes. More important for businesses would be that national customs could authorize them to furnish certain items of a declaration after presentation. Information contained in a declaration could be replaced by codified data. Moreover, businesses could be authorized to export goods without presentation of an export declaration so long as the essential information is presented in other commercial documents necessary for product identification.

The Commission is counting on speedy action by the Council of Ministers so that the Member States could align their rules by Jan. 1, 1981.

In Brief...

The Court of Auditors' very critical report on the spending practices of the 13 members of the European Commission is expected to produce heated debates when the European Parliament reconvenes this month. The special report was requested by the former Parliament and leaked to *Stern* magazine, a German publication. It alleges that the commissioners last year exceeded travel and entertainment expenses by 23% over what had been authorized in the budget - a charge the Commission has denied. The Court of Auditors' regular report on the Communities' 1978 fiscal year has not yet been completed + + + Council and Commission experts have prepared a study that compares Articles 21-28 of the proposed statute of the European company *(Societas Europaea - SE)* with the corresponding provisions of the draft convention on the international merger of public limited liability companies and those of the enacted third Council directive on national mergers of public limited liability companies *(Common Market Reports, Par. 1381)*. The study, requested by the Council's working group discussing the SE draft statute, reveals inconsistencies in language and other differences, not all of which are apparently warranted by the different topics of the individual measures, according to reports.

Germany: Seeking to Cut Energy Use in Buildings

A proposal recently submitted to Parliament to amend Germany's 1976 Energy Conservation Law would grant the federal government the statutory power to issue more regulations to cut energy consumption in homes and commercial buildings. Landlords would have to make sure that a tenant pays only for the heating actually consumed. The law would not stip-

Energy Use *(contd.)*

ulate precisely how consumption should be measured (i.e., by separate meters, electronic devices, or evaporation measurements). However, the future regulations would establish binding rules that could invalidate existing agreements between landlord and tenants. Because consumers are now very interested in saving energy, the government believes it can count on their cooperation; there would be no official checks to see whether landlords are following the rules.

The government hopes to cut energy consumption in homes and commercially used buildings by some 20% annually in the coming years. Since heating accounts for approximately 40% of the energy used in Germany, the government expects a further reduction in dependence on oil. Currently, half of the nation's energy needs are satisfied by oil. Compelling landlords to charge their tenants only for the energy consumed would not be entirely new: regulations that went into effect on July 1 require landlords of houses and apartment buildings financed with low-interest government loans to gradually change their billing methods. There is a transitional period of three to five years, depending on the type and size of building.

The government is also seeking authorization from Parliament to decree insulation standards for existing buildings and to establish operating standards for heating units in those buildings. The government already has the power to establish such standards for new buildings *(Doing Business in Europe, Pars. 23,550, 30,953, 31,054)*.

The latest proposal signals a change in approach. Until now Bonn has confined itself to a DM 4.3-billion program encouraging home and building owners to make energy-saving investments. Government officials believe, however, that the policy change is needed to accelerate the energy conservation drive. While realizing that it costs more to insulate existing buildings than new ones, they believe that the future standards would not lead to unreasonable investment costs (which would violate statutory criteria). In any case, the financial burden would be eased by a maximum five-year transitional period.

Denmark: Proposal for Nuclear Power Referendum

The Danish government has proposed to follow the Austrian and Swedish example in letting the voters decide whether or not they want nuclear power plants to help meet the country's energy requirements in the future. The Social Democrat-Liberal administration has not yet taken a firm stand on the issue, even though Prime Minister Anker Jörgensen, a Social Democrat, and Deputy Premier Henning Christophersen, his Liberal coalition partner, have repeatedly come out for nuclear energy, even after the events at Harrisburg. Denmark's A-power opponents have interpreted the government's referendum decision as a victory for themselves.

Nuclear Power *(contd.)*

A precondition for the deployment of nuclear energy in Denmark would be the safe operation of both the plant(s) and the nuclear waste storage and disposal facilities. The government intends to submit draft legislation to this effect during the fall of 1980. Should Parliament approve this bill, the proposal would be made the subject of a popular referendum, either in late 1981 or, most probably, in 1982.

The early announcement of the referendum is politically motivated. According to the Danish constitution, a referendum must be called if at least one-third of the members of Parliament demand that any piece of draft legislation be additionally confirmed by the country's voters. There was no question that, on this sensitive issue, Parliament would have insisted on a referendum. By scheduling the vote so far in advance, the government wants to gain time for additional studies and an intensive public information campaign. It has, for instance, commissioned the Economic Advisory Council to prepare a study on the economic, ecological and social consequences in the event the A-power proposal fails. Evidently, it is hoped that the conclusions of the study will be persuasive enough to ensure the passage of the nuclear energy bill.

Originally, the step toward nuclear energy had been fully supported by Denmark's Liberals and, on a majority basis, by the Social Democrats and the labor unions. The Social Democrats' left-wing factions were opposed, however, and this opposition intensified after Harrisburg. When Sweden's Social Democrats also backed proposals for a nuclear referendum in their country, the Danish party began to have second thoughts. For a while, the Liberal coalition partner insisted that no referendum be held; however, this position has now been given up, evidently in order to give political relief to Jörgensen.

A major influence on the decision of the Danish voters should be the outcome of the referendum in Sweden to be held next March. Should the Swedes block the construction of additional nuclear power plants in their country, observers say, then the Danes also may not want to go ahead.

Netherlands: Economic Unit Puts Damper on Forecasts

The Dutch government's Central Planning Bureau has put a damper on optimistic forecasts for Holland's economy made by some industry representatives only a few weeks ago. The CPB experts say that there is no way to accurately assess before the end of this year or early 1980 the consequences of the most recent energy price boost. As to the economic outlook for 1980, the Bureau predicts an unavoidable general decline in incomes. The oil price increases will present a tough challenge to Dutch industry, so that a few major sectors - for instance, chemicals - will contribute less to economic growth than in previous years. On the other hand, govern-

Forecasts *(contd.)*

ment revenues will improve to an unexpected degree because the price of domestic natural gas is tied to that of oil. The extra revenues most likely will be used to plug at least partially the high deficits in the public budgets.

Overall, the CPB forecasters anticipate a situation not unlike that in 1973-74, when the first oil crisis broke out and the economy appeared to be in similarly good shape. Six months later, however, the picture had completely changed, with activity slowing down, inflation and unemployment rising, and export performance eventually suffering. The business community should keep this in mind, the Bureau said, in its projections for the medium-term future.

The CPB urged the government to take advantage of the opportunity provided by the higher gas revenues to reduce the public debt and thus make it financially possible to foster the restructuring of industry in anticipation of the 1980s, when Holland's gas reserves (and thus revenues) will decline. The Bureau said it would be irresponsible to use the current extra revenue to bolster wages.

Earlier, the Dutch industrial associations had demanded that the business community be given fiscal relief to offset the effects of the higher energy prices. In a letter to the government, they said that The Hague's boosted gas revenues should be used to ease production costs and thus maintain industrial competitiveness. It was suggested, for instance, to lower social insurance contributions. The associations claimed that the higher energy costs have accumulated to an additional 1 billion guilders so far this year. Including the wage adjustments, the extra costs since the end of 1978 are totaling 1.75 billion guilders. A further price rise to $20 per barrel would add 50-60% to energy costs for Dutch industry and drive up overall costs by some 4 billion guilders, whereas the government could count on the same amount in additional revenue.

France: FF 4.5-Billion Economic Boost; Bond Issue

While the Communists are clamoring for sizeable inflation adjustments of wages and social incomes, the French government has approved additional funds totaling FF 4.5 billion to aid families, pensioners, and the construction industry. It was announced late last month in Paris that FF 2 billion will be set aside for low-income pensioners and families with children. The "school allowance" is to be raised from FF 190 to 390. To help overcome the current crisis in the French construction industry, the government will allocate some FF 2.5 billion for new public works and housing projects. With these measures it is hoped to improve next year's economic growth rate from 2% to 2.5% without unduly stimulating imports and thus enlarging the foreign trade deficit.

The government has also announced the floating of a

Boost
(contd.)

FF 6-billion state bond issue as of early September. According to the Economics Ministry, the issue will have a term of 15 years and carry an interest rate of 10.8%. It will not be repaid during the first four years. The issue is to help finance the current budget deficits, as did the previous two issues this year of FF 3 billion (April) and FF 5 billion (June). Financial observers expect that a fourth issue for FF 6 billion will follow late this year, so that approximately half of the 1979 deficit would be financed that way.

In the meantime, the public debate continued in France over a possible resignation of Prime Minister Raymond Barre following the "failure" of his three-year austerity program. Speculation over such a step intensified after the news of the 1.3% increase of the consumer price index in July, which meant an annual inflation rate of 13.5% during the last three months. Very high increases were reported particularly for industrial products on which the government earlier had removed price controls. The pessimistic mood also was reflected on the exchange markets, where the franc declined further to a rate of more than 2.33 against the Deutschmark.

Greece:
Tough Measures
Put Brakes
on Inflation

Within only a few days last month, the Greek government submitted two separate economic austerity packages, mainly aimed at controlling inflation, which stands in excess of 11% for the first half-year period and is virtually certain to top 20% for all of 1979. A program announced on Aug. 25 included price controls and the easing of some import curbs. Earlier, on Aug. 21, the Karamanlis cabinet had approved a package imposing a wage freeze, other strict price controls, and a reduction of public spending.

As part of the Aug. 25 set of measures, Athens will waive import licenses for certain industrial goods, raw materials, and foodstuffs. Also, it will lift the requirement of cash deposits now applying to certain imported products. In the retail sector, the government issued regulations setting ceilings on profit margins, which was explained with the need to protect consumers in the lowest income brackets. For the same reason, retailers will be permitted to offer price reductions and bargain sales at any time of the year instead of only twice a year.

Under the austerity program unveiled on Aug. 21, the government froze wages, salaries, and fees at their current level until the end of this year. Public expenditures are to be reduced by 16 billion drachmas, which reportedly equals about one-third of the public-sector deficit forecast for 1979. The interest rates on savings deposits, now between 7.5% and 12.5%, are to be raised by 4%. At the same time, the rates for loans also are to be boosted by 3-4%.

EURO COMPANY SCENE

Continental Telephone/ Group 800

Continental Telephone Corp., based in Atlanta/Georgia, has purchased an interest of about 20% in Group 800 NV, a holding company headquartered in Amsterdam, with service headquarters near Geneva. The deal involves 175,000 shares of Group 800 NV's outstanding stock at $7.30 per share, plus additional shares and debentures for about $3 million. The European company was organized in 1973 to provide the international business community with a service that permits their customers toll-free long-distance dialing, similar to the 800 system used in the United States. It currently has about 100 clients in major European cities, with 200 lines in service and others signed up.

Sambron/ Richier/ Ford

Paris reports said that France's Société Sambron has reached agreement in principle with Ford Motor Co. to take over parts of the latter's Richier SA. The deal is still subject to approval by the French authorities. Sambron will acquire the engineering, production and distribution sections for hydraulic excavators, rollers, concrete mixers, and crushers. Ford will retain the manufacture of wheel bearings and tractor trailers.

General Motors

The Austrian government and General Motors Overseas Corp. have now signed a contract under which GM will build a $30 million engine plant on the site of the former Aspern airport, near Vienna. Construction is to begin next year; the production start is scheduled for 1982. The plant is to have a capacity of 270,000 units annually and a work force of 1,500. The Austrian government will contribute about one-third of the total investment, while GM is under obligation to make use of Austrian supplies and services in an equal amount.

Continental/ Stenhouse

According to U.K. reports, Continental Corp., the U.S. financial group and property and casualty insurer, plans to take a 20% stake in Stenhouse Holdings, the British insurance broker. Stenhouse is the majority shareholder of Canada's Reed Stenhouse, described as the world's fifth-largest insurance broker, with a premium income of £608 million last year. At the 87.5p price quoted on Aug. 17, when dealings in Stenhouse shares were suspended, the open-market deal would cost some £6.6 million.

Northern Foods/ Bluebird

The U.K.'s Northern Foods has made an agreed $72-million bid for Bluebird, Inc., a major U.S. producer and processor of hams, which reported sales of $573 million and a net income of $8.8 million in the 1978-79 business year.

Common Market Reports

EUROMARKET NEWS

Issue No. 556 *September 11, 1979*

IN THIS ISSUE

Community: Pushing for Excise Tax Alignment

The Permanent Representatives this month were scheduled to resume their deliberations on proposals calling for the harmonization of the Member States' excise taxes on beer, wine, and alcohol. The talks had been interrupted by the summer recess. Work on the proposals, which had been submitted by the European Commission in 1972, was broken off at the end of 1974 over what appeared to be irreconcilable differences. The Council's working group resumed discussions in February 1978 and completed work on purely legal matters by the end of that year. However, it left a number of political problems to be solved by the Representatives.

Last June the Commission offered compromise solutions. Member States that charge no excise tax on wine would be asked to do so in the future, once the differing VAT rates have been aligned. No one knows, of course, when this will happen. Excise tax on wine is not imposed in Germany or Italy, but it is imposed on imported wine in Luxembourg. Bonn has said it will never consent to a measure committing it to introduce a wine excise tax.

While the Commission may not be able to do more here to advance the progress of harmonization, it does have the power under the Treaty of Rome to combat existing inequities among the national excise tax systems whenever these have a discriminatory effect on intra-EEC trade. Article 95 bars a

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Excise Tax *(contd.)*

Member State from imposing on products from another Member State a tax in excess of that levied on similar domestic products *(Common Market Reports, Par. 3001)*. Invoking that article, the EC executive last year brought action against the U.K., France, Denmark, and Italy. In its suit against the U.K. the Commission has demanded changes in legislation that discriminates against trade in wine, mostly imported from the Continent, by taxing it at a much higher rate than beer, which is mostly domestically produced. The difference between the two rates averages about 40%. France is alleged to favor its domestic cognac, Denmark its aquavit, and Italy its grappa by subjecting these products to lower excise taxes than the tax imposed on imported Scotch whiskey.

Euromarket Controls Urged by Commission

The Commission has joined those who advocate some control of the sprawling financial Euromarket. Commissioner Christopher Tugendhat said that he favors coordinated action to control the conduct of the Eurocurrency market. Germany has been pressing for international action for some time and has received support from the U.S. government, but so far these efforts have been blocked mainly by the British and the Swiss. Washington wants concerted central bank efforts and has recommended that the central banks be empowered to demand from domestic banks minimum reserves on their Eurocurrency deposits.

Over the past four years, Eurodollar credits have increased annually by an average of 22%, and the total volume is estimated to be near $500 billion. The rapid expansion of Euromarket credit represents a growing threat to the central banks' control of the money supply. The experts say that the enormous size of some transactions presents a considerable risk for the banks involved, tends to work against the stabilization of exchange rates, and encourages speculation.

The pressure for some controls is coming primarily from Germany and the United States because both have borne the brunt of the ups and downs of the international currency markets. To combat speculation, the central banks have used strong currencies to buy weaker currencies. This increases the money supply of countries with strong currencies and brings with it the threat of inflation. Although U.S. authorities have some supervisory power over certain aspects of Euromarket operations, the German government does not have such powers. An agreement between the German banking control agency and those German banks with subsidiaries in Luxembourg, a major center of the Eurocurrency market, is seen as a step toward bringing some measure of control to the Euromarket. Under that accord the German banks agree to provide the German authorities with additional information about their subsidiaries' financial activities.

The origin of the Euromarket goes back to the late

Controls *(contd.)*

1950s, when billions of dollars left the country as a result of Washington's fiscal policies and growing deficits. Banks all over the world, but especially in Brussels, Luxembourg, and London, accepted dollars as deposits and then used them to extend credit. In contrast to the low interest rates decreed in the United States, the borrowing rates were rather high in Europe. American banks, which were concentrating on the huge domestic market, reacted coolly to European companies seeking credit. These firms then turned to other banks, all of which had plenty of U.S. dollars. When the British government prohibited U.K. banks from using pounds sterling to finance the sales of Australian suppliers to U.S. customers, the banks used U.S. dollars instead, and this represented the birth of the Euromarket.

In the early 1960s, the Euromarket was used by U.S. multinational companies to escape U.S. capital controls by borrowing on it to finance their European investments. Since 1974, when it had reached a volume of over $200 billion, the Euromarket has become a factor in successive international monetary crises because the OPEC countries channelled their excess petrodollars back into it. Since then, the industrialized as well as the developing nations have raised funds on the Euromarket because borrowing was cheap and not subject to the type of conditions imposed by the International Monetary Fund. The financial problems of Zaire, Peru, and Turkey are examples that demonstrate the risks that an uncontrolled Euromarket can produce for the countries and banks involved.

In Brief...

The Commission has submitted a draft directive to the Council that would abolish existing restrictions on movement and residence of EEC nationals who want to reside permanently in another Member State. Existing EEC law accords the right of entry and residence only to employed and self-employed nationals and their families + + + The British government has forwarded to the Council a draft declaration that it wants to have added to the first protocol of the convention relating to mutual recognition of companies and legal persons *(Common Market Reports, Par. 6255)*. A Council working party is discussing adjustments of the convention, to which Denmark, the U.K., and Ireland have agreed to accede. The draft declaration would not widen the scope of the convention, according to British officials, but it would ensure that forms of businesses organized or treated differently in the U.K. than on the Continent are granted mutual recognition under Articles 1 and 2 of the convention. A case in point: under English law a partnership does not have a legal personality, but under Scottish law it does. Still the British government wants agreement from the other contracting Member States that Article 1 of the convention should apply not only to partnerships organized under English law but also those established under Scottish law.

Britain: Ruling Could Curb Powers of Tax Authorities

The powers of the U.K. Inland Revenue to search for and seize documents on private premises where tax evasion and fraud are suspected could be severely circumscribed should an Aug. 16 decision by the Court of Appeal be upheld by the House of Lords *(Rossminster Group and others v. Commissioners)*. In this case, what was described as a "military style" dawn raid was conducted at the offices of Rossminster Ltd., its accounting advisers AJR Services, and at the homes of some persons connected with these firms. Twelve van loads of documents were removed, including some of a strictly personal rather than business nature, and 70 tax inspectors were involved in the seizure.

For some years Rossminster has been concerned with highly complex but apparently legal tax avoidance schemes, which have been devised in answer to the U.K.'s very high levels of taxation and which therefore have become increasingly popular. Certain of these schemes were the subject of retroactive legislation in the 1978 Finance Act and subsequently became of increasing concern to the tax authorities.

Section 20c of the 1976 Finance Act empowers a Circuit Court judge to issue a warrant, provided he is satisfied that "there is reasonable ground for suspecting that an offense involving any form of fraud with or in relation to tax has been committed and that evidence of it is to be found on premises specified in the information." On entering the premises with a warrant issued under this section, officers may remove anything that they have reasonable cause to believe may be required as evidence. The Court of Appeal's chief justice, Lord Denning, said that when this legislation was passed in 1976, only by a small majority, it had been criticized by many people as a danger to individual freedom. He emphasized that the Revenue's powers could, in some hands, become an instrument of oppression, since the legislation was drawn so widely. It thus was the duty of the court to construe the statute to ensure "it encroached as little as possible on the people of England."

Lord Denning said it was a "principle of ancient jurisprudence to specify the offense," but in this case the Revenue had consistently declined to specify what "reasonable cause" it had. Similarly, the warrants did not indicate what offenses were suspected. Although Lord Denning deplored tax evaders as "parasites who sucked out the lifeblood of society and should be brought to justice," he said it was fundamental that "the means (of search and seizure) should not offend against the right of freedom and the elemental right of property."

The Rossminster case is considered of great significance in the U.K. because, if the Court of Appeal is upheld, the tax authorities would have to make definite charges of tax evasion before seizing documents, and this would make their task more difficult. In addition, they would not be

Powers *(contd.)*

able to undertake a search of the type directed at Rossminster and the others involved.

Germany: Electricity Levy to Be Lowered

The German government has announced that it will lower the levy that consumers of electricity pay to keep coal-fueled power stations competitive with oil-fueled power stations. Adjustment has become necessary because prices of heavy oil have risen by 59% in recent months. The levy, called the *Kohlepfennig,* is imposed on all electricity bills and varies somewhat from region to region, but on the average it amounts to 6.2% of the bill. A decision on the size of the cut will be made this month, and government officials say the reduction will take effect on Oct. 1. Observers expect the new levy to be slightly over 4%.

The levy was introduced in 1975, when heavy heating oil was still so cheap that it became a threat to those utility companies that relied heavily on domestic coal. Miners' high wages, investments to replace obsolete equipment, and high safety standards had made domestic coal so expensive over the years that many power stations switched or planned to switch to oil or natural gas. As a result, many mines were closed. Trying to stall this trend, the government decided to compensate power stations for the higher operating costs incurred by burning domestic coal. The money came from the levy. Last year the total revenue from the *Kohlepfennig* amounted to DM 2.3 billion, but only about one-third of the total was channelled back to the utilities because the cost difference between oil and coal meanwhile had become minimal.

A number of political leaders and industry executives think the levy should be abolished entirely. The government disagrees, arguing that some of the remaining revenue is needed to keep coal-fueled power stations operating since these are costlier to run than oil-fueled stations, apart from the cost of the fuel used. Another part of the revenue is used for grants toward the cost of modernizing old power stations and constructing new ones.

The demands for the abolishment of the levy have been coming mainly from Bavaria and Baden-Württemberg. In those states the levy has been higher than elsewhere because they have no coal deposits, and shipping coal from the Ruhr district to power stations in those regions would have been even costlier than burning oil.

France: Record Deficit in '80 Budget; Building Aids

The 1980 draft budget approved by the French cabinet last week projects expenditures of FF 525 billion, which would mean a 14.5% rise against this year's budget and a record deficit of some FF 31 billion. According to preliminary reports, earners of low incomes can expect a more favorable

Budget Deficit *(contd.)*

assessment base, while unchanged tax schedules for those in higher income brackets would effectively result in a higher tax burden because of a 10%-plus inflation rate. A part of the government's expanded spending is to be made up by yet another increase in taxes on tobacco, alcohol, and automobiles.

In related developments, French government sources have now given a breakdown of the FF 2.5 billion in additional funds allocated for the construction, housing and public works sectors under Paris' most recent economic stimulation package. For construction investments proper, the government has set aside FF 1.7 billion, whereas the remaining FF 800 million will flow into other public works projects. Of the total, FF 1 billion is to be made available immediately; the remainder is covered by payment guarantees. For this year's budget Paris already had earmarked FF 14 billion for housing construction, and it is estimated that the new supplemental budget will trigger additional construction investments of FF 12.7 billion.

In the area of social housing, the program is expected to provide financing toward about 20,000 new housing units, at a cost of FF 180,000 to 210,000 each. Beyond this, the government plans to promote privately financed housing, although it is not yet clear in which form. Also stepped up will be state subsidies toward the reconditioning and remodeling of pre-war housing; until now, the government had contributed up to FF 50,000 or 20% of reconditioning costs per unit. To round out the package of financial aids, it is planned to expand the scope of subsidies now paid toward energy-saving investments (for instance, insulation improvements) of both old and new buildings.

Spokesmen for the French building industry have welcomed the additional public investment program but reminded the government that its impact on the economy will not be felt until several months from now.

Belgium: Government Insisting on Freeway Levy

Despite numerous technical difficulties and considerable political opposition, the Belgian government says it is determined to go through with its proposal to introduce a special levy on the users of the country's freeways. As reported early last month, the government plans to collect this charge from both domestic and foreign motorists and truckers as of Jan. 1, 1980. The announcement has stirred protests especially in the other EEC Member States, notably the U.K. and Germany, which fear a detrimental effect on intra-Community commercial road haulage.

Undeterred by these objections, the pertinent government authorities in Brussels are now drafting the implementing regulations. According to unofficial reports, the introduction of these rules is to be combined with the strict-

Freeway Levy *(contd.)*

er enforcement of freeway speed limits, especially with regard to foreign motorists. Fines for violations probably will be raised, and police would be empowered to collect them on the spot. The government furthermore wants to make provision for the temporary impounding of vehicles and for the posting of bonds to ensure the collection of fines.

It has been estimated that the revenues to be collected through this system will total about BF 3.5 billion annually. The funds are to be used toward the improvement of the country's transport infrastructure.

Portugal: OECD Predicts Slow Growth for Economy

Portugal's existing economic problems "are likely to be aggravated by an international environment much less favorable than in 1978," says the Organization for Economic Cooperation and Development in its latest annual survey on that country. "On the basis of present trends and on the assumption of unchanged policies, a continued slowdown in activity can be expected coupled with a further deterioration of unemployment, an acceleration of inflation - partly due to the increase in oil prices - and, finally, a current external deficit at least as large as in 1978." The OECD experts recommend that the new Portuguese government concentrate its efforts on fighting inflation (now at 24%) by imposing tight controls on public spending.

In the meantime, political activity in Portugal is affected by the delay in setting a firm date for the interim elections this fall or winter. Following the resignation of the Mota Pinto administration last June, the affairs of state are in the hands of a caretaker government headed by Maria de Lourdes Pintasilgo. The dissolution of Parliament was postponed last month to permit a debate on a number of budget amendments which, if approved, would leave a 1979 deficit of at least 130 billion escudos. This is about 30 billion more than originally scheduled by the Mota Pinto government. The new administration was also expected to seek approval for raising public-sector subsidies and plans increases in controlled prices, such as transportation fares and electric power rates. Late last month, Parliament had approved a package of 17 economic measures, among them three foreign bond issues totaling nearly $100 million and several domestic issues needed to partially cover the budget deficit.

EURO COMPANY SCENE

Veba/ Belridge

Veba, Germany's No. 1 energy group, may join the bidding for the United States' Belridge Oil Corp. in what could be the largest foreign bid ever for a U.S. company. American reports said that the price for Belridge could be as high as $2 billion, influenced by the fact that the company owns extensive drilling rights in Kern County, near Los Angeles.

Veba/ Belridge *(contd.)*

Much of Belridge's reserves consist of heavy oil, which would benefit from the Carter Administration's decision to decontrol heavy-oil prices and from exempting heavy oil from the planned windfall profits tax. Securities analysts said that as many as 10 oil companies may join in the bidding for Belridge, while Mobil and Texaco, which now own about 35% of of Belridge stock, are trying to prevent the sale. Bids were scheduled to be opened on Sept. 17. German reports said that Veba's bid, if it is tendered, should be highly competitive because the company is determined to build up its oil reserves in politically stable areas.

Beecham/ Jovan

Britain's Beecham Group Ltd., the pharmaceuticals and foods group, has made a $85-million cash offer for a U.S. manufacturer of perfumes and fragrances, Jovan Inc. According to U.K. reports, the bid has been accepted by Jovan's controlling shareholders. Last year Jovan reported sales of $78 million and pre-tax earnings of $12.1 million.

Bank of America/ Banco Comercial

Bank of America has made preliminary arrangements for the purchase of Spain's Banco Comercial Para America of Madrid, with branches in Barcelona, Bilbao, and Valencia. The deal is still subject to approval by the Spanish authorities. After its conclusion, the bank will be renamed Bank of America - Espana - SA. Banco Comercial has assets equaling about $12 million and deposits of some $60 million.

Earlier the Spanish government had authorized six more foreign banks to establish branch offices in Spain in 1980 and '81, after New York's Citibank and France's Banque Nationale de Paris opened Madrid branches last June. The six will be First National Bank of Chicago, Bankers Trust, Bank of Tokyo, and Banco di Roma (all authorized to open as of Sept. 1, 1980), American Express, and the U.K.'s Midland Bank (both after Jan. 1, 1981).

Wells Fargo

Wells Fargo Bank plans to close its Luxembourg affiliate and shift the latter's activities - which concentrated on banking business in Europe, the Mideast and Africa - to London. Some of the activities already had been transferred last year.

Common Market Reports

EUROMARKET NEWS

Issue No. 557 *Report No. 379, September 19, 1979*

IN THIS ISSUE

Community: Brussels Study May Help U.K. in Budget Row

A confidential European Commission report on the problems of Community financing could become Britain's most important ally in its drive for a reduction of its EC budget contributions if that report withstands the scrutiny of the Council of Ministers in the coming months. According to the report, the U.K. will be paying into the 1980 budget some 1.5 billion units of account more than it will receive, compared with the 527 million UA that it is expected to contribute this year. Hence, the U.K. - considered the Community's third-poorest Member State after Ireland and Italy - would be paying far more than Germany, the richest Common Market country, which will be paying about 1.1 billion UA in both 1979 and 1980.

It is the first time that the Commission has formally backed the British government's claim that the U.K. is contributing disproportionately more to the Community budget than the other Member States. Not all of the 13 commissioners agreed with the findings of the report, which was prepared by Christopher Tugendhat, the commissioner responsible for the EC budget. Observers in Brussels therefore expect some changes and additional comments on the report before it is sent to the Council, where some opposition is also expected. (Several Member States have until recently refused

This issue is in two parts, consisting of 136 pages. This is Part I.

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Budget *(contd.)*

to consider that Britain is being given a poor deal under the current system.) However, a decision that would bring about a definite change could be expected from the next EEC summit in Dublin in November at the earliest.

According to the report, Britain's disproportionately high net contribution is due to two factors. First, 70% of the Community's budget is spent on agriculture, and since Britain's farmers are very efficient, the U.K. receives much less comparatively than France and Germany. Secondly, the financial mechanism introduced to compensate Member States paying a disproportionately high share is not working to Britain's advantage because its balance of payments has greatly improved as a result of North Sea oil revenues. Some blame is also placed on the change in the budget financing system that took effect this year whereby a Member State's budget share is no longer calculated on the basis of its GNP but is taken from its VAT revenue. Each Member State pays around 0.75% of VAT base revenue into the budget. (Bonn is an exception because it has not complied with the sixth VAT directive.) As a major importer, the U.K. collects more duties and agricultural levies than the other States, and all of this money flows automatically into the EC budget as part of Britain's contribution.

Continuation of EEC Trademark Efforts

Commission and Member State experts are intensifying their efforts to wind up the discussions on a draft regulation that would create a Community trademark. Commission officials are optimistic that the talks will be concluded by the end of the year so that the EC executive could keep its promise to submit the proposal to the Council in early 1980. This optimism is based on the fact that major issues have been resolved. The experts are now concentrating on the remaining details.

One of the major issues settled some time ago was the choice of a regulation as the legal instrument for the creation of a Community trademark. It would require unanimous approval by the Council but would be directly applicable in the Member States. The original proposal had taken the form of a draft convention and would have required ratification by the national legislatures. This, most likely, would have been a time-consuming affair *(Common Market Reports, Par. 5873)*.

Under the draft regulation, registration for a European trademark would be simple and relatively inexpensive. A manufacturer could submit his application either to the European Trademark Office (yet to be established) or his national patent office, which would forward the application to the ETO. The ETO would examine and research the application. The pending application would be announced to give parties an opportunity to raise objections to registration; if no objections were made, the registration would be pub-

Trademarks *(contd.)*

lished. In addition to its purely administrative duties, the ETO would also have a semi-judicial function in that rejected applications could be appealed to its appellate board, which would be independent enough to assure due process. The ETO's revocation board could revoke a trademark under certain conditions, e.g., when personal rights were infringed upon. Under specified conditions, decisions by the ETO's boards could be further appealed to the European Trademark Court, also yet to be established.

In Brief...

The Commission has sued Germany for failure to comply with the Council's sixth VAT directive *(Common Market Reports, Par. 3165)*. The action (Case No. 132/79) came after Germany's opposition-controlled upper house vetoed a Bundestag-approved bill over constitutional issues and the Schmidt administration could not make any promises about when a compromise would be reached *(Doing Business in Europe, Par. 31,104)* + + + Member State officials have agreed that the Council draft regulation introducing registration of crude-oil and petroleum products imported into any Member State from another State or third country would initially apply to crude-oil imports only; other petroleum products would be included as of Jan. 1, 1980. Although the draft was approved in substance last July 24, enactment had been postponed until several details were clarified. The Council was expected to formally enact the measure on Sept. 20.

France: Oil Profits Tax Included in Budget

Among the fiscal features included in the French draft budget for 1980 is a special levy on the windfall profits of companies that are producing oil or natural gas in France. The government estimates that the tax will result in about FF 500 million in additional revenue, but it insists that this is a one-time levy which will not be carried forward to subsequent years. The tax will be collected in two installments, in May and September next year.

Actually, only three major companies are affected: Elf-Aquitaine, in which the state holds a 70% stake, and the French subsidiaries of Esso (Exxon) and Shell. It has been calculated by Industry Ministry sources that Elf alone will have to pay some FF 340 million. The tax is to be imposed on the reserves set aside for the development of new oil and gas wells. These reserves, which are largely tax-free, have been built up considerably lately because of the oil companies' very high profits. The tax rate will be 80% in the case of oil activities and 40% on natural gas operations. Not affected are refining or distribution activities.

Spokesmen for the companies affected have reacted with criticism to the levy, saying that the funds collected by the state will be lacking to finance new exploration and exploitation investments. They also complained about the timing of the tax, pointing out that the government has only

Profits Tax *(contd.)*

recently urged new efforts to locate new oil and gas deposits in France.

In other developments, the CGT and CFDT labor federations continued their strike actions against the state railways with another three-day walkout last week. The autonomous union of locomotive engineers - in which 30% of the engineers are organized - did not participate this time, however. The strikes are aimed at forcing the railway administration to abandon its plan to have freight trains operate in the future with only one locomotive engineer instead of the present two.

Denmark: OECD Urges Changes in Pay Indexation

The Organization for Economic Cooperation and Development has strongly recommended that Denmark change its existing wage indexation system to avoid further damage to its economy. In its latest annual survey on that country, the organization warns that without a modification of the system there will be the danger of imported inflation setting off a wage-price spiral. The OECD proposes that Denmark's industrial partners adopt a pay policy patterned on that of Germany (one-year collective agreements without inflation indexation) or Sweden (two-year agreements with a revision clause).

Because of the restrictive measures imposed by the government, the country's strong dependence on imported energy, and the slowed growth of the world economy, the OECD does not see any improvement in Denmark's economic situation either this year or next. In fact, the Paris-based agency believes that unemployment, industrial competitiveness, and the foreign trade balance will take a turn for the worse. A similarly pessimistic view is offered with regard to price development. Here, the OECD predicts that, at about 9% both this year and in 1980, the Danish inflation rate will approach the high levels of previous years.

According to the survey, Denmark's economic growth should be rising to about 2% in real terms this year (from only 1% in '78) but will fall back again in 1980. Although the export outlook in itself is described as encouraging, this will be overshadowed by the effect of the latest oil price increases on the imports bill. Thus, the OECD predicts that the foreign trade deficit will continue to climb from nearly 13 billion kroner in 1978 to 14 billion this year and 15 billion in 1980. These shortfalls cannot be made up elsewhere in the payments balance, which therefore will show deficits of nearly 10 billion kroner in 1979 and 11 billion next year.

The OECD has again referred to the possibility of a krone devaluation as a means of improving Denmark's trade competitiveness. This possibility was given new life earli-

OECD Survey *(contd.)*

er this month as the Copenhagen central bank was forced to intervene several times to reduce the speculatory pressures on the krone.

Germany: Bonn Announces Further Steps to Save Energy

The German government has announced another legislative program to conserve energy and move the country closer to fulfilling its commitment assumed at the Tokyo economic summit last June to reduce energy consumption by 5% annually until 1985.

Part of the program would be a regulation requiring utility companies to modify their present rate system under which commercial and private consumers benefit from a lower rate when they use more electricity. The regulation would require the consent of the Bundesrat, the upper house. An earlier, far more radical proposal did not win Bundesrat approval: it would have allowed no rebates at all for those using large amounts of electricity.

There would be several additional measures, some to be implemented this year and others in the 1980s. For example, the government will soon propose legislation revoking the federal excise tax exemption for diesel fuel used to power recreational boats. Long-range projects include abolishment of the existing motor vehicle tax based on engine displacement and a corresponding boost in the gasoline excise tax; this proposal would be submitted in 1981. Many experts believe that a steep rise in the fuel tax, already high at DM 0.56 per liter, would have a much more significant impact on fuel consumption than most of the other measures enacted or planned. These include an agreement by the country's automakers to produce new models by 1985 that would use 10% less fuel, and appeals to motorists to drive less and more sensibly.

In order to induce more commuters to switch to public transportation or join car pools, the government would propose legislation that would entitle employees to claim an income tax deduction based on the distance from home to the job and back, no matter what mode of transportation is used. Current law entitles employee motorists to deduct from income DM 0.36 per kilometer for the total annual commuting distance; employees using public transportation or bicycles are not entitled to this deduction. It has been estimated that this new deduction would cost the treasury around DM 700 million annually.

There is still considerable disagreement among the coalition parties over the policy approach in the energy conservation drive. The Free Democrats favor self-restraint and voluntary commitments from manufacturers and consumers. Several leading Social Democrats are calling for legislation that would compel appliance manufacturers to make models

Energy *(contd.)*

that use less electricity. Volker Hauff, minister for energy and technology and a Social Democrat, has called for rigid government intervention in all sectors, and he has even advocated a ban on heating private swimming pools. The administration will decide in October whether the self-restraint approach will be continued.

Britain: TUC Voices Opposition to Tory Policies

The 111th annual conference of Britain's Trades Union Congress, held as usual in the first week of September, confirmed the position of the unions against the government's economic and industrial policies, despite some disagreement as to what precise form their opposition should take. By a small majority, the delegates took the advice of TUC general secretary Len Murray not to heed the call for mass demonstrations throughout Britain against the government's policies. Murray emphasized that it would be for the General Council to decide on the best way to combat the Conservatives' proposals. However, if the government forced the unions to adopt a defensive position, then "we must show that we can defend our proper interests, and defend them effectively."

In subsequent talks between Employment Secretary James Prior and TUC representatives, the latter declared their total opposition to the proposed labor law changes in such fields as secondary picketing and the closed shop. Murray said that the proposals "could have as serious and disastrous an effect on the country's industrial relations as the 1971 Industrial Relations Act." He appeared to indicate that the voluntary code of conduct drawn up earlier this year with the previous Labour government (covering such matters as strike conduct) would be withdrawn if the Conservatives decided to press ahead. (Nevertheless, Prior said that appropriate legislation would be introduced in Parliament before the end of the year and should be in effect by next spring.)

On the first day of the TUC conference, delegates had unanimously approved a motion that the resources of the entire trade union movement be mobilized against the government proposals for reforming union legislation and that a national publicity campaign be initiated against them. The government was urged to "maintain existing and encourage new experiments in industrial democracy in both the public and private sectors, so that the rights of workers are not weakened but enhanced." The conference also called for a strengthening of the public sector, as opposed to the government's proposed sale of assets. It came out for a shorter workweek and was in total opposition to wage restraint. TUC president Tom Jackson, generally considered a moderate, said that the unions could not and would not hold back wage demands when the government "had given up all attempts to

TUC *(contd.)*

control the rocketing level of prices, withdrawn from consensus policies, and deliberately fostered unemployment."

Despite all these warnings, the TUC leadership emphasized throughout the positive part the unions wished to play in the country's economic and social affairs. Yet observers said the climate at the conference indicated that the Thatcher administration can expect considerable militancy in the coming months from the unions, whose membership has increased by over one quarter of a million since 1978, to more than 12 million.

Austria: 1.5% Surprise Revaluation of Schilling

Foreign exchange dealers and bankers were completely surprised by the 1.5% revaluation of the schilling that the Austrian National Bank carried through on Sept. 7 as part of its daily currency interventions. At the closing of the market that day, the D-mark was quoted at a median rate of 7.027 schillings as against 7.3135 the day before. The rate against the Swiss franc was 7.995 (8.065). The revaluation in effect returned the schilling to the same level vis-à-vis the D-mark that it held in the spring of 1978.

The Vienna authorities made their move after the most recent improvements in the Austrian payments balance and after the country's inflation rate had remained below those of Germany and Switzerland for three consecutive months. The revaluation will help in servicing Austria's external debt, of which about half is denominated in D-marks and one-third in Swiss francs (year-end 1978). Officially, the revaluation was described as being part of the federal government's program to maintain the economy's "overall stability" and to counter imported price pressures, especially those emanating from oil and raw materials.

Economic commentators said that the revaluation also had the intended effect of anchoring the relatively low domestic inflation rate (lower than that of both Germany and Switzerland), thus enabling the country's labor unions to pursue a moderate wage policy. By the same token, the revaluation serves notice on the employers that any undue pay concessions on their part would not be compensated by a weaker schilling rate.

The Kreisky administration's own contribution to the most recent stabilization program will consist of the attempt to pare about 10 billion schillings off the budgeted net deficit in 1980. For the current year, the net deficit (total deficit minus debt servicing) is now being calculated at nearly 40 billion schillings, although it had been originally projected at only 31 billion. Austria's payments balance, on the other hand, has been performing unexpectedly well, with the 1979 deficit now estimated to stay below 10 billion schillings rather than approach 17 billion, as had been originally forecast.

Greece: OECD Urges Inflation, Deficit Cuts

Inflation remains for Greece the No. 1 problem, whose solution is made difficult because of "deep-rooted habits, structural problems, and institutional practices," according to the latest annual survey of the Greek economy prepared by the Organization for Economic Cooperation and Development. The OECD experts predict that the strong domestic inflationary pressures combined with the oil price increases will result in an inflation rate of 17.5% this year, compared with 12.5% in '78. At the same time, the economic growth rate should slow from 6% to about 3%. In this context, it is proposed that more should be done to stimulate productive investment so as to lay the ground for sustained growth in the future.

The OECD recommends that the Athens government not rely so heavily on the impact of its price controls but concentrate most of all on inhibiting incomes growth. "Unless a substantial slowdown in the rise of nominal earnings is achieved in the next wage round, beginning in January 1980, accompanied by a similar deceleration in the rate of growth of self-employment income and other personal income...both real income and employment risk being curtailed by the more stringent demand management policies that continued high inflation would render inevitable." The survey notes that "lax monetary policy" has contributed to mounting inflation in the past four years, with annual increases in credit and money aggregates far outpacing GNP growth. "Easy credit availability has weakened employers' resistance to high pay claims, which is reflected in the considerably faster rise in average earnings than implied in collective agreements."

The Karamanlis administration is also being urged to reduce its budget deficits, which, under conditions of nearly full employment, equal about 5% of GNP. To achieve this, Athens should control the rise of total government spending, reduce the share of current public expenditure, and pay particular attention to "certain transfers and subsidies" that no longer correspond to their original objectives.

In conclusion, the agency comments briefly on the implications of Greece's forthcoming accession to the EEC. To meet this challenge, it is pointed out, the country will have to make "sufficiently large gains in productivity" and will have to put much greater emphasis on "increases in both directly productive and infrastructure investment and on the introduction of advanced production and marketing techniques." Only if industrial and public sector efficiency are thus improved could Greece "reasonably look forward to reaping considerable benefits" from its integration within the Community.

Common Market Reports

EUROMARKET NEWS

Issue No. 558 *September 25, 1979*

IN THIS ISSUE

Community: EC-Spain Talks Get Down to Main Issues

Substantive talks over Spain's accession to the Communities got under way last week when high-ranking officials from Spain and the nine Member States met in Brussels. Spain had applied for membership in mid-1977, and the negotiations were officially opened last February *(Common Market Reports, Par. 9965)*. Enough progress has been made on preliminaries (timetable, procedures, etc.), so that the participating officials can now take up issues such as dismantling of tariffs, treatment of farm commodities, freedom of movement, and the right of establishment.

Observers see many major problems ahead for the negotiations, which are expected to last over two years. Spain's accession will, for instance, compound the problems of EEC farm surpluses. France and Italy oppose the unrestricted access of Spanish fruit and wine because this would hurt the small farms in southern France and southern Italy. Other important issues will be the free movement of workers and the period of transition. The Commission has suggested a ten-year transitional period, during which both Spain and the rest of the Community would gradually apply Treaty provisions and subsequent legislation ranging from the customs

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Spain *(contd.)*

union to social provisions. The transitional period would give all partners time to absorb the strong economic and social impact that would result from an immediate and unrestricted application of the Treaty of Rome and secondary legislation. For example, accession without a transitional period would mean increased unemployment in Spain and that could spur migration of jobless workers to the other Member States. If the tariffs were abolished immediately, Spain's industry would have difficulty competing with products imported from other Member States, since many Spanish industries are still lagging in the application of modern production methods and know-how. Just as in the Common Market, the textile and steel industries in Spain have to cope with low-priced textile imports and reduced demand for steel. To counter the decline in steel products, the Spanish government is supporting a broad shipbuilding program.

One politically sensitive problem for which no solution is yet in sight, according to officials, is the fact that Spain has no diplomatic relations with Israel. If Spain becomes a member of the Communities she would also have to accede to all the trade agreements concluded by the EEC with Mediterranean countries, including Israel.

Opposition to Proposed Levy on Egg Imports

The European Commission's proposed amendments to Council Regulation No. 1059/69 have produced unfavorable comments from importers' associations in several Member States. The amendments would expand the present system of charges imposed on imports of certain processed foods to cover eggs and a number of processed foods in which eggs are used, such as cookies. The critics fear that, once the amendments are passed, both the Council of Ministers and the Commission would be pressured into broadening the range of products even further. Giving in to those pressures would add credibility to the charges that the Community is erecting new barriers to international trade instead of lowering existing obstacles, the critics say. Adoption of the amendments would mean that the import of eggs and processed products containing eggs from third countries would be subject to an import charge. Also, imports from another Member State would be hampered whenever monetary compensatory amounts are levied in intra-EEC trade to keep farm products from the importing state competitive.

Regulation No. 1059/69 subjects to import charges a wide range of products, among them sugar confectionery, chocolate and other food preparations containing cocoa, preparations of flour, and prepared foods obtained by roasting cereals. Most of these products have in common that their base ingredients include cereals, milk, butter, or sugar. The import charge consists of a fixed and a variable component. The fixed component, an ad valorem duty, is designed to protect EEC-based food processors against competi-

Import Levy *(contd.)*

tion from third countries. The purpose of the variable component is to bring up the low prices of the imported products to the high level in the Community *(Common Market Reports, Par. 955)*.

Bonn sources report that the Commission's initiative was largely prompted by complaints from German egg producers who believe their existence is threatened by increasing imports of eggs from Holland. The heavy subsidies that Dutch egg producers receive from their government allow them to offer eggs at prices much lower than those asked by German and other Common Market producers.

In Brief...

The Lomé II draft convention can be signed now that representatives of the 57 African, Caribbean, and Pacific (ACP) countries have agreed to the compromise reached in June after 11 months of negotiations. Although only a majority backed the compromise, observers expect the others will eventually follow. Scheduled to take effect on March 1, 1980, when Lomé I expires, the convention would provide increased financial support from the EEC in several ways, among them more revenue to offset sharp declines of world market prices of raw materials and minerals exported by the ACP countries + + + The Council has approved an energy research and development program of 100 million units of account. Nearly half will be spent over the next five years on methods of using solar energy in housing, industry, and farming. Some 27 million UA of the total will be put into efforts to conserve energy in residential and commercial buildings as well as industrial plants, and the remainder will be devoted to research and development of geothermal energy and strategy studies + + + The Commission has prepared a study on employee capital ownership and other forms of asset formation in each Member State. These include incentives to encourage individual savings, access to home ownership, and participation in profit sharing. In 1976, representatives of the national business and union organizations and the Commission agreed that the Member State governments, employers, and unions should take steps to encourage asset formation by workers. In the Commission's view, giving employees an opportunity to acquire capital ownership is an efficient way of achieving the fundamental goal of greater justice in the distribution of wealth.

Germany: No Tax Cuts Before 1981, Coalition Says

Bonn's government coalition parties have now settled their difference of opinion about the timetable of upcoming tax cuts: they plan to introduce legislation early next year, so that individual taxpayers could count on relief as of 1981. The Free Democrats, junior partners in the government, had originally favored tax reductions to take effect in 1980, just as the Opposition had demanded.

Tax Cuts *(contd.)*

Finance Minister Hans Matthöfer said the bill planned for early 1980 would change the tax rate structure to allow more individuals to benefit from the 22% flat rate instead of subjecting their income to the progressive rate. Under current law, an individual with an annual taxable income of not more than DM 16,000 (DM 32,000 for married taxpayers) pays 22%. On incomes up to DM 48,000 (DM 96,000) this rises progressively to 48%. The maximum 56% tax rate is imposed on taxable incomes of DM 130,000 (DM 260,000) and above. Matthöfer refused to give any details about how the tax rate structure might be revised, but sources in Bonn report that one of the considerations is to expand to DM 20,000 the income bracket that is subject to the 22% flat rate.

Although government leaders agree with the Opposition that some correction in the tax law is needed in order to relieve individual taxpayers, they believe there is no need to grant this relief on taxable incomes for 1980. The economy is doing relatively well, and earlier tax relief would give taxpayers billions of D-marks more to spend. This in turn would fan inflation (currently 4.7%), which has become the government's second main concern after unemployment, currently standing at about 800,000.

Tax relief in 1980 would also mean DM 5-7 billion less in revenue. This would force the government to borrow on the capital market in order to finance the 1980 budget, which projects DM 187.5 billion in revenue and DM 215.5 billion in expenditures. Borrowing more than the DM 28 billion provided for in the 1980 draft budget would expose the government to even more criticism from the Bundestag and the Bundesbank. In 1976 Parliament had called on the government to cut back on public borrowing in order to lower its debts. It was argued that an excessive debt level limits any government's freedom of action and places an undue burden on the next generation of taxpayers because of the high interest payments. The central bank also has been asking Bonn to reduce borrowing and thus leave enough money on the capital market so that individuals and industry could borrow at reasonable terms.

Italy: Public Sector Wants Quarterly Pay Adjustment

Efforts to diminish the impact of Italy's wage indexation system on labor costs and price expansion were dealt another blow this month when some 3 million public service employees blanketed the country with a general strike. The unions had called the walkouts to underscore their demand for an alignment of the public-sector *scala mobile* with that of private industry. In the public sector, wages are now adjusted to the cost of living twice a year, in January and July, while employees in all other sectors benefit from such an adjustment once every quarter. As a result, indexation offsets about 70% of inflation in private industry and services but only 30% or so in the public sector.

Pay Adjustment *(contd.)*

Economic observers are taking it for granted that the quarterly system will be introduced for the entire public service by the end of the year. It has been estimated that Rome and the public sector administrations will have to spend nearly 1,300 billion lire for these *scala mobile* payments in 1979. This is about twice as much as had been set aside for this purpose in the budget (659 billion), based on the semiannual rhythm. Next year, this expenditure item is forecast to rise to 1,750 billion lire.

The switch to the quarterly system is coming at a most inconvenient time for the government, which not only fears the additional spending burden but also the budgetary uncertainties caused by the indexation's direct link to the inflation rate. The employers' disappointment is just as acute, since the latest development will serve to institutionalize wage indexation rather than reduce its negative effects on the economy.

The gliding wage scale was introduced in Italy in 1947. Its present mechanism as applied to the private sector was agreed upon in early 1975 between the Confindustria industrial federation and the labor unions. At that time, the employers had hoped that their cooperation would constitute a big step toward a more peaceful labor climate. These hopes have not been realized: although the unions have shown more moderation in collective pay demands, there has been hardly any progress in working morale and labor productivity.

The concession now being made in the public service makes it unlikely that the government and the employers will succeed with their proposal to remove the oil prices from the catalogue of items on which the cost-of-living index (and hence the *scala mobile*) is based. The impact of the oil price increases on the index has been a major reason why the administered fuel prices in Italy have been moved up only cautiously in the past. This, in turn, is why Rome finds it difficult to put pressure on the country's motorists to reduce their gasoline consumption *(see also story below)*.

Energy Prices Lifted; Heating Zones Set Up

The Italian government has stepped up its energy savings program with another package of measures that includes gasoline, oil and electricity price boosts, the establishment of "heating zones," and the abolishment of gasoline coupons for foreign tourists. The Cossiga cabinet also authorized the creation of an emergency fund to finance diesel fuel purchases on the international market and to promote new energy investments.

The price for premium gasoline was raised by 50 lire to 600 lire per liter and that of both diesel and heating fuel to 242 lire. The extra revenue will flow into the emergency fund. The authorities also published a map dividing the country into six different heating zones. In the south, the

Energy *(contd.)*

winter heating period is now limited to 106 instead of the previous 120 days. In the north, this period has been reduced from 190 to 183 days. All heating must be turned off between 11 p.m. and 5 a.m. Room temperatures may not exceed 20 degrees centigrade. In addition, there will be a series of power cuts during the upcoming winter season.

As previously reported, the issuance of tourist coupons for the low-price purchase of gasoline is being discontinued. The Italian Automobile Club announced that the coupons still in circulation can be used until the end of the year; after that, they will no longer be valid.

France: Invitation to 'Concerted Action' Talks

Prime Minister Raymond Barre has sent an invitation to the French industrial associations and labor unions, asking them to meet in "concerted action" talks about some of the country's most pressing socio-economic issues. Such discussions would afford the opportunity to air opinions and proposals on such topics as minimum wages and wage improvements for those in the lowest income groups, worktime reductions, employee participation, and collective agreements in the public sector and nationalized industries. The Prime Minister said he had no intention of intervening in the collective bargaining process but merely wanted to be informed about the viewpoints of the industrial partners.

Barre's invitation was accepted by such labor organizations as the Socialist CFTD union, the Social Democratic Force Ouvrière (FO), the FGM teachers' union, and the CGC union of *cadre* employees, even though they voiced doubts about the effectiveness of the proposed discussions. There was no immediate word on the reaction of the Communist-led CGT, France's largest union. Some observers expected the CGT to join the discussion, though reluctantly; others said it would reject the invitation on the often-stated ideological grounds that there can be no "national consensus" between employers and unions.

In other developments, the French commercial banks have raised their base lending rate by 0.7% to 10.75%, which is the fifth and largest increase since June. At 17-20%, the rates for private loans have now reached an absolute peak. The rise in interest rates has been promoted by the policy of the monetary authorities to keep the base lending rate at least on a par with the inflation rate (currently 10.3%) in in order to maintain the parity of the franc and at the same time guarantee an acceptable return to investors. Also, the commercial banks are trying to slow the intensifying demand for credits, which could put them under strain because of the prevailing credit volume limits. Despite accelerating inflation, the central bank has again set an 11% target for money volume growth next year, and there is speculation that credit growth ceilings will also be slightly tightened.

Netherlands: Dockworkers' Strike Cripples Rotterdam Port

Holland's most serious wildcat strike in years has been paralyzing wide sections of Europe's largest port, Rotterdam, since Aug. 28. The walkout, which is not sanctioned or supported by the labor unions, has been instigated and organized by a dockworkers' committee, which is said to be influenced by Communist action groups. The dockworkers have rejected the terms of a contract negotiated last month by their transport workers' union, even though these approximate their demands. The contract calls for a 28.50-guilder increase in weekly wages, 25 days of annual leave, and optional early retirement at age 62. The dockworkers are pushing for 30 guilders a week retroactive to Jan. 1 and optional retirement at age 60. They accept the 25 days of leave.

Rotterdam reports said that apparently at least half of the dockworkers would want to return to work but are kept off their jobs by militant picket lines. Many workers are beginning to suffer hardships since they do not receive any financial support from the unions and, as participants in a wildcat strike, are not eligible for welfare aid. In fact, the unions have repeatedly stated that the contract terms offered are fair and should be accepted. The strike has centered on the general cargo sections of the port, where 7,000 of Rotterdam's 12,000 dockworkers are employed.

The lengthy walkout is being viewed by many Dutch observers as a protest not only against the employers but also against the official union policy of wage moderation in exchange for job security and worktime reductions. This policy, broadly in line with the government's economic policies, was first openly challenged last month by the meat industry workers, who won considerable retroactive pay raises. Their success caused the tugboat crews at the Rotterdam port to stage a wildcat strike for similar wage improvements. When a court ordered the crews to return to work, the dockworkers organized a spontaneous solidarity strike as of Aug. 28.

It is now feared that the Dutch unions will have to adopt a tougher stance in their wage policies and that this could affect their relations with the coalition government, which has only a very small parliamentary majority. Wim Kok, the chairman of the FNV labor federation, said that the strike did not reflect specific grievances by the dockworkers but was symptomatic of a "latent conflict situation." He said the attitude of the employers and the government was forcing the unions "to take up again the strike weapon."

Denmark: Record Boost of Discount Rate

As of Sept. 17, the Danish National Bank boosted its discount rate from 9% to 11% in order to ease the pressures on the krone, which had forced the Bank into increasingly massive intervention actions during the past few weeks. On the last business day before the increase, Sept. 14, the Bank had to

Discount Rate *(contd.)*

spend more than 1 billion kroner in foreign exchange to support the krone, which has been hovering close to the lowest intervention point within the European monetary system. The last previous increase of the Danish discount rate, by one point, had come last June 15. The current level equalizes the 11% record set at the end of 1976.

The renewed turbulence to which the krone is subjected results from the unexpectedly steep rise in Denmark's payments deficit, which is now estimated to go up from 7.7 billion kroner in 1978 to at least 12 billion this year. The latter figure is Copenhagen's official estimate, which contrasts with independent forecasts of up to 16 billion kroner. Last June the government imposed a series of energy taxes in order to control energy imports and sift off purchasing power. However, so far it has shied away from a widely recommended devaluation of the krone because of the impact this would have on wage indexation. Because of Denmark's foreign trade dependence, a devaluation would immediately affect consumer prices and the domestic inflation rate.

In reference to the rapidly mounting payments deficits, Economics Minister Anders Andersen has spoken of the country's "most serious crisis" in a long time. Andersen even alluded to the year 1813, when the state of Denmark had to declare itself bankrupt.

Sweden: Elections Result in Virtual Tie

Rather than clarify the domestic political situation, the Sept. 16 general elections in Sweden have resulted in a virtual standoff between the leftist and center-right parties. The regular poll results made it impossible to predict whether the center-right parties, which had come to power three years ago, would continue in that role or whether the opposition Social Democrats would again take over. Olof Palme's Social Democrats and the Communists together won 175 mandates, while the Conservatives, the Center, and the Liberals had a total of 174. However, it was possible that the results of 40,000 mail ballots, which remained to be counted, would produce a one-mandate shift in either direction.

Common Market Reports

EUROMARKET NEWS

Issue No. 559 *Report No. 380, October 2, 1979*

IN THIS ISSUE

Community: Council, EP in Tug of War over Budget

Having established the Community's draft budget for 1980, the Council of Ministers is now expected to engage in the annual tug of war with the European Parliament over how much should be spent and on what. The 16.6 billion-UA ($24.7 billion) draft budget represents a 22% increase over this year's budget; slightly more than half of the increase can be traced to the farm price boost approved by the Council in June despite objections from the European Commission. Members of the Parliament are up in arms about the fact that the Council, in pruning some 1.4 billion UA from the Commission's preliminary draft budget of 17.9 billion UA, cut 350 million UA from the 1.2 billion UA allocated for the Regional Development Fund. Although the main beneficiaries of that fund - the U.K., Ireland, and Italy - agreed to the reductions demanded by Bonn and Paris, the EP is expected to restore some of the cuts.

Under Treaty Article 203, Parliament has the right to amend the draft budget and propose to the Council modifications on items pertaining to compulsory expenditures. These are outlays explicitly provided for in the Treaty and subsequent legislation, such as spending on the common agricultural policy, which accounts for roughly 70% of the total budget. Here the Council has the final say, but on all ex-

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Budget *(contd.)*

penditures that are not the automatic result of Community legislation, the EP has the last word. The EP's powers thus cover the administrative cost of running Community institutions and most operational expenditures such as the Social Fund, the Regional Development Fund, and research and energy. These expenditures are still quite considerable, accounting for over 20% of the 1980 draft budget. Parliament has the power not only to reallocate expenditures but also, within limits, to raise their volume *(Common Market Reports, Par. 5022)*.

Because of the farm price increase and because the cost of buying and storing surplus farm commodities has been rising by about 20% each year, the Community will soon reach the limit of its own financial resources and may have to look for ways of augmenting its revenue. This year the Member States are paying 0.79% of the required 1% VAT revenue into the Community's budget, and next year it will be 0.9%. According to the Commission, a decision will have to be made in 1980 about either reducing farm price support for surplus commodities or raising the Member States' financial commitments above the current statutory limit.

Paris Agrees to A-Talks with Australia

France has given the Commission the go-ahead to negotiate with Australia an agreement on the delivery of uranium and to take part in the negotiations for a draft convention on the physical protection of nuclear matters. The other eight Member State governments in turn agreed to set up a group of experts to look into the French demand for amendments to Chapter VI of the Euratom Treaty. Thus, the give-and-take approach so often applied by the Council to advance the Community in legislative and policy-making fields may have stalled a smoldering crisis in the European Atomic Energy Community (Euratom).

Last July the French government submitted a memorandum to the other eight states demanding significant modifications of the rules governing the supply of nuclear fuels for nonmilitary purposes. Paris believes these rules are too rigid and no longer in keeping with the present situation. At first most Member State governments were apprehensive about the demand, but on second thought they reportedly saw some positive elements. However, it will be for the national experts to establish whether France's arguments are indeed founded and, if so, what modifications should be made.

Most observers tend to agree that, without the Member States' positive response to a Euratom Treaty revision, Paris would not have dropped its objections to an agreement with Australia. The start of the negotiations had been held up for more than two years because France refused to consent to a negotiating mandate for the Commission, being afraid that the latter would exceed its legal capacity as a negotiating party at the expense of the Member States. Australia,

A-Talks *(contd.)*

on the other hand, insisted on safeguards prior to delivering uranium to Euratom. When the talks did not get under way, the U.K. negotiated its own uranium supply contract with Australia. Last February the Commission vetoed this contract but reversed its decision in mid-July on the condition that the contract be replaced by the future Euratom-Australia agreement.

The safeguards on which Australia has been insisting will be part of the negotiations in which the Commission will take part on Euratom's behalf in mid-October in Vienna. These talks will take place under the auspices of the International Atomic Energy Authority, a branch of the United Nations, located in Vienna. Last June the negotiations for a draft convention on the physical protection of nuclear matters were broken off because the Commission did not have the full negotiating mandate that the other parties, including the United States, insisted on.

In Brief...

On Sept. 18, the Council formally approved the sixth amendment to the 1967 Council directive approximating the Member States' rules on the classification, packaging, and labeling of dangerous substances. The measure will bring about largely uniform government controls of new chemicals and will make it possible for the chemical industry of each Member State to market new chemicals under equal conditions + + The British government has dropped its objections to the Commission-proposed code that the Member States would have to follow in aiding their national steel industries and which would remove competitive distortions among the Community's steel makers. Subsidies could be given only over a limited period of time and only to improve steel companies' efficiency and not to cover operating losses. Any subsidy would have to be cleared in advance with the Commission + + The Commission has launched an inquiry into alleged dumping practices by five Japanese manufacturers and five East European state-owned companies, all of which produce ball bearings and tapered-roller bearings. The inquiry was prompted by complaints from the Federation of European Bearings Manufacturers Association, which charged that its members are being hurt by continued dumping practices of Japanese exporters and recently also by below-cost sales of steel makers from Poland, Romania, and the Soviet Union. The Commission's last inquiry against Japanese companies resulted in the imposition of a provisional 15% duty, but last March the European Court invalidated the underlying Council regulation.

Germany: Social Reports of Companies Disturb Unions

Union leaders have expressed their apprehension about the fact that a growing number of German companies are publishing so-called social accounts in addition to the balance sheets, profit-and-loss statements and annual reports they are required to present. Over 20, mostly large, corporations

Social Reports *(contd.)*

have published social accounts this year, and an estimated 100 firms are either planning to do so or are at least considering it. Critics say that there is a danger that these social accounts might be abused for company advertising and self-praise. Corporate executives believe this fear is unwarranted and charge that the unions are apprehensive because a favorable social account does not fit into the picture that union leaders often paint in speeches to the rank and file. Some scholars have criticized the absence of rules that would control the content of social statements; the government is not planning such rules.

Although the social statements published so far vary widely in their form, they commonly consist of three parts: a social report, a statement on the value added by the company's activities to the gross national product (in short, a value-added statement), and a social balance sheet. In the social report management describes the company's objectives and activities in fields that are especially relevant for society. In other words, the figures that appear in the ordinary balance sheet and profit-and-loss statement and that are explained in the annual report are seen in a broader perspective when it is shown, for example, how much was spent to conform to pollution control requirements and how much was done voluntarily to preserve the environment. A social report also shows how much was spent on job safety and on measures to improve working conditions. Most reports also disclose information on the average income of employees and how much employees received for making cost-saving suggestions.

The value-added statement explains how the company's activities fit into the broader context of the entire economy. It is shown how the size of the company's work force ranks in relation to the country's working population. Also given is the value added by the work force in relation to the value added by the entire working population as well as how much the employees earned in relation to the entire working population and how much they paid in taxes in relation to the total revenue derived from income tax.

The social balance sheet shows what was spent on society-oriented activities and programs, mandatory and voluntary, as well as any profits derived from these. This includes, among other things, how much was spent on recreational facilities for employees.

Netherlands: Budget Aims at Structural Improvements

As part of its 1980 draft budget, which was announced on Sept. 18, the Dutch government has proposed selective tax changes to gradually remove inflation-caused accounting distortions. However, it apparently has decided not to introduce a comprehensive plan for inflation accounting. Some of the changes would be implemented next year, others in 1981.

Budget
(contd.)

It is, for instance, proposed to eliminate paper profits in inventory valuation by reducing taxable profits by a certain percentage. Not eligible would be enterprises that value their inventories according to the LIFO method.

The tax-free allowance on the interest income of private savers is to be raised from 200 to 700 guilders annually as of next year. In 1981, the government wants to end the unlimited tax deductibility of interest debts on private loans. Such debts henceforth would be deductible only if they did not exceed the proceeds from assets, plus 5,000 guilders. Exempt from this rule would be mortgage debts incurred through the purchase or improvement of private homes.

Other fiscal changes pertain to an increase in indirect taxes on tobacco, alcohol, gasoline, and motor vehicles. In contrast to the current budget, in which tax boosts were primarily aimed at lowering the deficits, the new budget emphasizes expenditure for structural economic improvements and giving relief to the lowest income groups. In this way, The Hague hopes to maintain the purchasing power of annual incomes up to 32,500 guilders and to persuade the unions not to insist on real-term wage increases in 1980.

The draft budget is built on expenditures of 114.9 billion guilders and revenues of 100.6 billion. This compares with 105.1 and 88.9 billion, respectively, in the current budget. Thus, the deficit would decline slightly from 16.2 to 14.3 billion guilders, which represents 5.5% (6%) of national income.

Rather than sharply curtailing public spending, the government wants to promote industrial restructuring, innovation and exports to the tune of 2 billion guilders. Of the total, some 900 million guilders are to be spent on creating 6,500 new jobs in the public sector and on improving labor mobility. Most of the new jobs would open up through the voluntary retirement of civil servants at age 63.

The fiscal changes in themselves will result in extra revenues of only 390 million guilders. The financing of the additional expenditures is to be largely covered by higher natural gas revenues of more than 2 billion guilders. The price of cigarettes is to be raised from 2.60 to 3 guilders per pack; the alcohol tax is to go up by 2.35 guilders per liter (including VAT); the gasoline price will be boosted by 5.13 cents per liter; and the price of automobiles will go up by 2% to 5%, depending on the model. On the other hand, the treasury expects to lose about 770 million guilders by reducing from 20% to 18% the tax rate applying to annual incomes of up to 7,701 guilders. The tax burden on incomes beyond this level will be slightly higher in that the effect of inflation will be compensated only up to 80% instead of 100%.

Outlines of Long-Term Energy Savings

The Dutch economics minister, Gijs Van Aardenne, has submitted to Parliament the outlines of a 20-year, 60 billion-guilder energy conservation program. Van Aardenne said Holland was facing a more serious challenge in this area than other countries because the decline of its natural gas reserves will make it more dependent on oil imports. However, by aiming at a 30% cut in the energy consumption trend, the government hopes to stabilize oil imports at today's level in the longer term. Of the estimated investments of at least 60 billion guilders required until the year 2000, the government plans to contribute about 20% in the form of annual subsidies totaling 600 million guilders.

Holland's energy savings drive would not be based on short-term solutions such as driving bans, fuel rationing, etc. Instead, the emphasis would be on the impact of price mechanisms and improved efficiency. Thus, the natural gas price for private users is to be raised sharply, and the country's hot-house garden industry - which is being heavily subsidized - eventually would be required to pay its energy costs in full. In the medium term, the government stakes its hopes on the better insulation of private homes, the use of energy-saving appliances and equipment, reduced fuel consumption by motorists, and other measures. The Hague aims for overall savings of 10% until 1985, 20% until 1990, and 30% until the turn of the century. Until the year 2000, energy savings for the heating of private homes are to total 45% compared with 1977; for other household purposes, 20%; for office and plant buildings, 35%; for traffic, 25%; and for industry, 27-31%.

Italy: Ciampi Named Governor of Central Bank

The Italian business community and government and monetary authorities are hoping that a calmer climate will return to the Bank of Italy after that institution's supervisory board has named Carlo Ciampi to succeed Paolo Baffi as the Bank's governor. Baffi, who held the position since 1975, had first disclosed his resignation plans at the Bank's annual meeting last May 31 but held off to allow the formation of a new government following the June 2 elections.

Baffi's resignation is directly tied to official accusations against him, the Bank, and others in connection with investigations of loans to the SIR chemical group. A Rome prosecutor has, in fact, charged him with fraud and misappropriation of public funds. Baffi was spared arrest only because of his age (68), while the Bank's director-general, Mario Sarcinello, actually was temporarily held in custody. The investigations are still continuing at this time.

Ciampi, 58, director-general of the Bank since July and head of its research department before that, has been with the central bank for 33 years. His appointment was still subject to approval by the cabinet and President Sandro

Governor *(contd.)*

Pertini, but this was considered a mere formality. Ciampi will officially assume his new duties on Oct. 8.

Rome, Unions Agree on Pay Adjustments

Sooner than expected, the Italian unions and the government have now reached agreement on having public-sector employees benefit from the same wage indexation system *(scala mobile)* as workers in the private sector. This announcement was made on Sept. 19. It means that as of Feb. 1, 1980, the country's 3.6 million public servants will have their pay adjusted to the cost-of-living index on a quarterly basis rather than semiannually.

Despite this agreement, the unions of various sectors are under intense pressure by their rank and file to campaign for pay supplements on top of the collective raises won only three months ago. These demands are spurred by the accelerating rate of inflation, heading for 17%, which is only partially compensated by wage indexation. To pacify the membership, union leaders indicated they would ask the government to ease the tax progression affecting low and medium incomes or at least raise tax-free allowances.

Britain: Green Paper on Accounting Disclosure

The U.K. government has published a Green Paper on "Company Accounting Disclosure" (HMSO London, Cmnd. 7654), which contains proposals for substantial alterations to the present legal requirements, especially in the case of small companies. The document aims toward the implementation of the EEC's fourth directive on company law harmonization, as concerns accounting *(Common Market Reports, Par. 1391)*. The government wants to obtain the views of all interested parties before incorporating the proposals in a bill to be presented in the next session of Parliament.

The main aim of the measures is to relay the statutory provisions for disclosure by small companies. At present, the U.K. has a unitary system of disclosure. It is binding on all companies, whatever their size, and requires them to have their accounts audited annually. The government has taken note of the views of the accountancy bodies that it is not always possible to verify information and get independent evidence of the business activities of small companies, so that an adequate audit is not always feasible. Accordingly, small companies will be exempt from having their annual accounts audited by accountants, and they will not need to publish a profit and loss statement. They need only produce an abridged balance sheet, which may omit profit margins and turnover.

The Green Paper refers to three tiers of companies - large, medium-sized, and "proprietary" (small). The latter must satisfy at least two of these three conditions: less than £1.3 million in turnover, fewer than 50 employees, and a balance sheet total of less than £650,000. For the medi-

Accounting *(contd.)*

um-sized companies, the respective figures are £1.3-5 million, 50-250, and £650,000 to 2.5 million. They would still enjoy some exemptions concerning, for instance, the detailed breakdown of their activities or data on profit margins. Companies would be deemed to be large if they satisfied at least two of these three conditions: a minimum turnover of £5 million, 250 or more employees, and a balance sheet total of £2.5 million. They would have to give more detailed information on such matters as leasing agreements, short-term borrowings, and pension commitments.

Fears have been expressed that the proposed changes could result in financial losses for creditors because of more limited disclosure. Consequently, it could be even more difficult for small businesses to obtain financing. An increase in bad debts, it is argued, would result in higher costs for the consumer. However, Secretary for Trade John Notts has said that such fears are exaggerated and that the easing of reporting obligations would allow companies to "get on with their job of actually doing business."

The chairman of the Accounting Standards Committee, Tom Watts, has emphasized that no American companies are legally required to make their accounts available, although listed companies do so under stipulation of the Securities & Exchange Commission. However, it might be possible for large companies to transform themselves into a number of smaller "proprietary" companies, thereby obviating the new disclosure requirements for themselves, despite the complexity of any such arrangement.

Sweden: Non-Socialists Win Elections by One Seat

The makeup of a new government in Sweden remains undecided after the final results of the Sept. 16 elections gave the non-Socialist parties a one-seat edge over the leftist bloc. The poll results had left the two sides in a virtual deadlock, but the counting of about 45,000 absentee ballots showed that the Conservative, Center and Liberal parties had won 175 mandates against 174 for the Social Democrats and Communists. Premier Ola Ullsten, who had headed a Liberal minority government for about a year, resigned on Sept. 20 to clear the way for the formation of a new administration. This was considered a difficult task because of major political differences among the non-Socialist parties, which nevertheless may try to form a three-party coalition.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Group Debates Three Measures on Environment

The Council of Ministers' working group entrusted with environmental legislation is currently discussing three proposals. One of them concerns the protection of surface waters against dangerous substances such as mercury and cadmium and their compounds and a number of organohalogens such as aldrin, dieldrin, and endrin. The proposal would ban the direct discharge of these highly toxic substances into rivers, lakes, and coastal waters. Their indirect discharge would be subject to prior authorization. Enactment of the measure would primarily affect businesses that use mercury as electrodes in electrolytic processes.

The proposal represents a follow-up to the Council's 1976 directive aimed at reducing pollution caused by certain dangerous substances in the aquatic environment *(Common Market Reports, Par. 3315.18)*. That directive presented a "black list" of the most dangerous substances known for their toxic, bioaccumulative and persistent properties. Mercury and cadmium are on the list and so are their compounds; aldrin, dieldrin, and endrin are also included.

The second proposal would establish health protection standards on sulfur dioxide and suspended particles in urban areas. It would commit the Member States to make certain that the concentration of sulfur dioxide in the atmosphere

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Environment *(contd.)*

of urban areas does not exceed proposed levels. It would also obligate the states to monitor pollution levels *(Common Market Reports, Par. 9820)*. This measure has been pending before the Council since mid-1976; a major reason why the working group failed to make any headway was that Germany thought it could not meet both the proposed pollution control standards and the 1982 deadline. Bonn officials said the government could not comply before 1990, and earlier compliance would involve tremendous difficulties, perhaps even the relocation of some industries from heavily industrialized areas to less polluted regions. In recent months it became clear that Germany had misinterpreted the Commission's proposal, failing in particular to consider the mitigating factors. It appears now that compliance would not present insurmountable problems.

The third measure would provide for air quality standards on lead in order to protect human health from the effects of atmospheric pollution by lead. The Member States would be obligated to take the appropriate steps to comply with these standards. Concentration of lead in the atmosphere of urban areas in the Community would be monitored at 41 locations in both residential areas and areas of heavy traffic *(Common Market Reports, Par. 9744)*.

Dispute over Investment Rule in Lomé II

Representatives of the nine Member States and 57 African, Caribbean and Asian countries are expected to sign the Lomé II draft convention late this month or in early November. To succeed the current convention expiring on March 1, 1980, Lomé II would raise the Community's financial commitments to the ACP countries to 5.6 billion European currency units from 1980 through 1985. Most of it would be spent to stabilize the export earnings of the ACP countries whenever world market prices of raw materials decline. The total volume of financial support provided under Lomé I was 3.4 billion ECU *(Common Market Reports, Par. 4281)*.

Observers anticipate difficulties in the implementation of one concept of Lomé II if several ACP countries insist on their interpretation of a clause written into the new draft convention. Under that clause, the ACP countries would agree to extend protection of investments to all EEC Member States if any one ACP country grants this protection to investors in a bilateral agreement with any one Member State. Investors from a Member State planning to conclude such an agreement would also be protected. This sort of most-favored treatment of investors would be significant because Germany has concluded individual investment protection agreements with 22 of the 57 ACP countries (France has concluded two, the Netherlands six). Under Lomé II, investors from other Member States would benefit from these existing agreements. Several ACP countries are of the opinion that only investments existing on March 1, 1980, should qualify

Lomé II *(contd.)*

for protection; these countries are prepared to extend protection to new investments from Member States only in separate bilateral agreements and only for additional concessions.

Commission officials are confident that the interpretation of the investment clause by just a few ACP countries will not jeopardize the results of two years of negotiations. They assume that the representatives of those countries will sign Lomé II, especially since France and Germany have come out strongly against inclusion of the most-favored treatment of investments in individual agreements. The position taken by these two Member States carries considerable weight because of France's one-time colonial relations with ACP countries and Germany's economic strength. In fact, their stand has prevented Commission and Indian officials from winding up negotiations on a new trade and cooperation agreement between the EC and India because of the latter's insistence on an investment protection clause and corresponding concessions.

In Brief...

The Commission has sent to the Council an amended draft directive on products liability. Ignoring pleas from industry and recommendations from the European Parliament, the Commission held on to an important detail set out in its original proposal: a manufacturer would be held strictly liable for a defective product even if he could prove that he had no way of discovering the defect at the time he put the product on the market. The Commission accepted, however, other suggestions by the EP on the exemption of farm and handicraft products *(Common Market Reports, Par. 9891)* + + + The European Court of Justice has ruled that France violated the Treaty of Rome when it applied beyond Dec. 31, 1977, national rules blocking the import of British lamb and mutton. Although the Court agreed with the French government's contention that the common agricultural policy does not as yet include trade in sheep meat, it declared that France had no right to set up national import rules (judgment of Sept. 25, 1979; Case No. 232/78) + + + The Commission has proposed a "scrap and build" program to help the Community's ailing shipyards. The $400-million, two-year plan calls for the scrapping of old ships totaling about 2 million tons and the construction of new ships with a total tonnage of 1 million tons. The plan is subject to the Council's approval.

Germany: Consensus on Capital Ownership

After several futile attempts the Schmidt administration has made headway toward its goal of expanding ways of promoting capital ownership among German employees. The two government coalition parties have reached a consensus on planned legislation to amend the DM-624 Law and the Collective Bargaining Law. Among other things the changes would enable employers' associations and the unions to establish funds

Consensus *(contd.)*

that would be managed jointly. Employers would pay into the individual funds, and the annual, tax-deductible contributions would be laid down in labor-management contracts. Employees would have the option of obtaining either fund certificates or cash benefits paid out directly by the employer. The cash payments would be tax-exempt. Furthermore, the forms of employees' savings and employers' contributions that qualify for tax relief and government grants under the DM-624 Law would be expanded.

Under the current law, an employee may build up capital by either making cash deposits or buying company stock; the employer's contributions may be either in cash or company shares below par value. The planned amendments would increase the number of qualifying forms of capital ownership and would include shares of companies controlled by the employing corporation as well as investment fund certificates.

Details of fund management and the income ceilings for participation would still have to be ironed out. However, the significance of the consensus lies in the fact that the plan would open capital ownership for employees of small businesses and the public services. At present it is mostly large and medium-sized firms that make contributions under the DM-624 Law either voluntarily or under union contract. Employees who save DM 624 annually and freeze the money for six years are entitled to a government grant amounting to 30% of the total. Depending on the size of the employer's contributions, an employee does not always have to save the full DM 624. After six years, the employee's accumulated capital - made up of the savings, the employer's contributions, and the government grant - amounts to DM 7,000; it is tax-free when paid out.

Last year about 15 million out of 24 million German employees saved approximately DM 8 billion under this plan, and the government's overall grants amounted to roughly DM 2 billion. So long as there is no alternative plan to spread capital ownership, many union leaders favor raising the ceiling of qualifying savings from DM 624 to DM 936. However, the government claims it could not afford this, since it would cost the Treasury an additional DM 1.5 billion annually. Other forms of capital ownership among employees, especially stock ownership, have proved less attractive. Only 70 out of 2,000 German stock corporations have issued shares to nearly 700,000 employees, whose stake has remained modest.

Denmark: New Elections Scheduled for Oct. 23

Early elections in Denmark have been scheduled for Oct. 23 following the resignation on Sept. 27 of Prime Minister Anker Jörgensen and his coalition cabinet composed of Social Democrats and Liberals. The two parties, which normally occupy opposing positions in Denmark's political spectrum, had

Elections *(contd.)*

joined in a coalition 13 months ago in hopes that their alliance would help pull the country out of its severe economic crisis, mainly marked by galloping payments deficits. Since then, however, these problems have even worsened, and the collapse of the coalition became unavoidable last month when the two sides were unable to agree on the contents of the government's policy statement for the opening session of Parliament.

Acting under massive pressures of the labor unions, Jörgensen's Social Democrats could not commit themselves to a two-year wage and price freeze proposed by the Liberals and their leader, Deputy Premier and Foreign Minister Henning Christophersen, as the only way to contain the fast-rising payments deficits. The Liberals in turn opposed the demands by the Social Democrats and the unions for the establishment of a central employee profit-sharing fund as a first step toward "economic democracy." The Social Democrats have proposed that the employers contribute 10% of their after-tax profits to such a union-administered fund, which could then provide the financing for productive investments such as stock purchases. The Liberals would regard such a move as an encroachment on Denmark's free-market economy, and they have instead recommended a system of voluntary profit sharing in which the individual employee would retain control of his savings.

Beyond these issues, the former coalition partners also could not agree on other aspects of fiscal and incomes policy. The Social Democrats, for instance, would rather impose new taxes than eliminate or weaken the present wage indexation system, which would risk an open confrontation with labor.

Many observers are, in fact, blaming the unions - and particularly labor federation boss Thomas Nielsen - for the fall of the coalition. In August 1978, when the Liberals followed the invitation to join the Jörgensen cabinet, Nielsen had protested that this alliance represented "a betrayal of the workers." He warned the Social Democrats that the coalition would not survive unless it respected the labor unions' claims. For the past few months, the Liberals have complained that the unions were using the Social Democrats as their "tool" and that they constituted in effect a "supra-government."

The breakup of the coalition government came only three days after the Danish krone was devalued by 3% against the other six currencies in the European monetary system. Previously, the National Bank had twice raised the discount rate within five months to ease the pressures on the currency. Nevertheless, it has been pointed out that successive devaluations had never succeeded in reducing Denmark's cost disadvantage on the world markets, and it was not expected that the latest devaluation would change this situation.

Italy: Budget Aimed at Economic Stimulation

In an effort to maintain an economic growth rate of at least 2.5% next year (compared with an estimated 4.3% in '79), the Italian government has built its 1980 draft budget around a number of stimulatory measures designed to prevent a recession. Included are higher personal tax allowances, more social insurance relief for employers, and expanded housing programs. To finance the additional expenditures and revenue losses, Rome is again forced to raise several public service tariffs (electric power, telephone, public transport, etc.), increase certain production taxes, and boost taxes on second homes by 30%.

Adopted by the Cossiga cabinet on Sept. 30, the draft budget is based on expenditures of 124,948 billion lire (1979 = 105,950) and revenues of 75,629 billion (65,500). Thus, the budgeted deficit would rise from 40,450 to 49,319 billion lire and the public borrowing requirement from 36,000 to 42,000 billion. With the inflation rate threatening to rise well over 16% this year, the government hopes to keep price expansion below the 15% level (14.1%) in 1980. Other rates of growth are projected at 1.5% for GNP, 1.9% for capital investments, 1.5% for private consumption, and 2% for public consumption. Imports are forecast to grow by 2% in real terms and exports by 4%.

Rome plans to ease industrial production costs by 1.5-2% by having the state take over some 2,700 billion lire employer contributions to the social insurance system. The annual volume of export credit guarantees is to be stepped up by 1,000 billion lire to a total of 5,500 billion. The modification in personal tax allowances will cost the treasury some 1,200 billion lire; for most employees and pensioners, the average tax-free allowance will rise from 84,800 to 126,000 lire. The housing programs - in the form of low-interest loans for the purchase of condominium units, social housing financing, and the issuance of mortgage bonds - will cost a total of 3,000 billion lire.

Netherlands: Rotterdam Dockworkers End Strike

Some 6,000 dockworkers at Rotterdam port went back to work on Sept. 24, thus ending an unsanctioned four-week strike that had paralyzed wide sections of Europe's busiest port. The strike leaders could no longer sustain the walkout because several hundred workers earlier had gone back to their jobs after their union, the Socialist FNV, had promised them 550 guilders each as an advance toward a new collective agreement. Such an agreement will have to be negotiated for the next year, anyway. The strikers earlier had rejected a settlement concluded by the FNV last August.

Another major labor conflict, which involved the FNV as well, also ended late last month. The union called off a strike at the Royal Shell refinery in Rotterdam's Pernis oil port to prevent more violence between pickets and workers

Dockworkers *(contd.)*

willing to return to work. At one point, workers had forcibly broken through picket lines. Observers said the collapse of the Shell strike - which also involved a chemical plant at nearby Moerdijk - was caused by the fact that too few workers were directly affected by the union's claims. Of the refinery's 7,000 employees, some 3,000 are office personnel and only 1,600 belong to the FNV.

Britain: London Appears Set to Ratify U.S. Tax Treaty

After the recent visit to the United States by the head of the U.K. Inland Revenue and the minister of state at the Treasury, the British government now appears intent on ratifying the revised U.S.-U.K. double taxation relief treaty by laying the appropriate orders before Parliament by Christmas. This is in spite of considerable opposition by some 100 of Britain's leading companies. These firms urge that ratification be postponed for some months in view of the treaty's failure to prohibit the unitary tax system by which California, Oregon, and Alaska would tax U.S. subsidiaries of British parent companies on their proportion of corporate assets, even if the companies made losses.

The original draft treaty precluded unitary taxation in Article 9(4), but this was rejected last July by the Senate Foreign Relations Committee. The U.K. government seems to feel that continued opposition to the unitary tax through delaying tactics would serve little purpose. The Confederation of British Industry also has approved immediate implementation of the treaty. The opposing industrialists believe, however, that a delay might accelerate consideration by both houses of Congress and the State of California of measures to exempt foreign companies from unitary tax.

It now appears that a formal exchange of notes between London and Washington will follow ratification, in which the U.K.'s continued opposition to unitary taxation will be indicated.

The treaty offers some valuable concessions to American companies in Britain, such as repayment to them of half their advance corporation tax. It also would bring definite gains to British firms, since U.S. withholding tax on U.K. companies would be cut from 15% to 5%. Furthermore, the ad valorem tax on U.K. insurance companies in the U.S. would be lessened.

In related news, the U.K. government proposes to introduce legislation that would provide British companies with greater protection against U.S. antitrust measures and safeguard British sovereignty. There would be further curbs on the information to be made available to U.S. investigating authorities, in addition to those already contained in the Shipping Contracts and Commercial Documents Act 1964. Furthermore, certain judgments obtained in U.S. courts would not be enforceable in Britain. Last year, certain British transatlantic shipping companies were indicted in the U.S.

Tax Treaty *(contd.)*

for alleged breaches of antitrust legislation in connection with freight rates. The proposed measures appear to stem from these cases and from growing dissatisfaction with U.S. efforts to impose internal rules on overseas companies.

EURO COMPANY SCENE

ITT U.K.

ITT Consumer Products U.K. Ltd., the British subsidiary of the U.S. conglomerate, plans to shut down two out of its three color TV plants in the U.K., which will mean the loss of 900 jobs. Worldwide overcapacities were given as the main reason. The move is part of ITT's strategy to consolidate its consumer appliances division, which last year lost $11 million on sales of $922 million. Color TV production in Britain will be concentrated at Basildon, east of London; the two factories to be closed are located at Kearsley, near Manchester, and at Hastings.

Deere

Foreign investments of $350 million over the next five years, most of them in Western Europe, have been announced by Deere & Co., the farm equipment manufacturer based at Moline, Ill. In the five-year period that ends on Oct. 31, the company has spent $160 million on such investments. Deere named the new target in announcing a new line of German-built tractors designed especially for overseas markets. The company pl[illegible] to build a new components plant in Germany and will expan[illegible] existing production facilities in Germany, Spain, and France.

General Foods/ Hag

General Foods of White Plains, N.Y., has purchased 95% of the share capital of Hag AG, Germany's leading coffee producer, located at Bremen. The price was given as $110 million. Founded in 1906 and considered the inventor of decaffeinated coffee, Hag reported net earnings of DM 4 million on a turnover of DM 815 million last year. General Foods already operates a German subsidiary, with sales of about $100 million.

Veba/ Belridge

Contrary to earlier speculation, Germany's leading energy group, Veba, did not join the bidding for California's Belridge Oil Corp. because of the objections of a major shareholder in Deminex, the Veba subsidiary that would have made the actual bid. The shareholder, Wintershall, a refining subsidiary of the BASF chemicals concern, said U.S. regulations and quotas probably would have prevented access to Belridge's California oil fields. In the meantime, Shell Oil Co. has bid up to $3.65 billion for a cash takeover of Belridge.