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Community: Commission Scrutinizes Britain's Poultry Ban

Lawyers in the Commission's legal service are scrutinizing the U.K. decree ordering a sudden change from vaccination to compulsory slaughter as a way of dealing with outbreaks of fowl pest (New Castle disease) for possible violations of Community law. In effect since Sept. 1, the decree bans poultry and egg imports from other countries, including the EEC Member States, that adhere to the vaccination method of fighting the disease. Theoretically all Member States except Ireland and Denmark are affected by the changeover. Ireland has had a poultry import ban for the same reason for quite some time, and Denmark has followed the compulsory slaughter policy for decades. Economically only France and the Netherlands are affected by the ban because only these two countries sell poultry to the U.K. in substantial quantities; their combined annual exports are estimated to be between 10,000-15,000 tons, mostly turkey. The ban comes at a time when contracts for the delivery of turkeys are being negotiated; the contracts are usually signed by the end of October.

This issue is in two parts. This is Part I.

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French turkey farmers contend that the ban was aimed at foiling their export chances. British poultry farmers and processors have been complaining to their government that their French colleagues have been successful on the British market only because they receive illegal aids from the French government.

Searching for a legal basis to challenge the legality of Britain's ban, Commission lawyers have found nothing in Council regulations establishing common market organizations for poultry and eggs, nor is there anything on this point in the veterinary legislation enacted by the Council of Ministers *(Common Market Reports, Pars. 461, 471, 958.01)*. However, the search focused on two Treaty articles on which a suit against Britain could be based. Article 6 commits the Member States, in close cooperation with the EC institutions, to coordinate their economic policies. Britain allegedly breached Article 6 with its sudden change from vaccination to compulsory slaughter, which had the effect of disrupting trade without any prior consultations *(Common Market Reports, Pars. 185, 186)*. Article 36, which permits curbs on health grounds *(Common Market Reports, Pars. 351, 351.04)*, would probably be better suited, according to Commission lawyers. They say that Britain nevertheless violated Article 36 because it went overboard with its ban and may have also breached Article 7 barring discrimination if it is proven that even now 20% of the poultry sold in the U.K. comes from farms adhering to the vaccination method.

EC Tribunal Confirms Patent Law Doctrine

Although a patent owner is free to decide where he wants to sell his products, even in a Member State that has no patent law, he must also live with the consequences of the Common Market principle that allows products to move freely within the Community, according to a recent judgment of the European Court of Justice (July 14, 1981, Case No. 187/80). Thus the Court has once again confirmed its doctrine that a patent or trademark owner's rights are exhausted once he or another authorized person has started selling the product in any Member State *(Common Market Reports, Pars. 8246, 8362)*.

The American drug manufacturer Merck & Co., Inc., brought suit in the district court of Rotterdam against the Stephar Corp., a Dutch enterprise that imports drugs, among other products. Merck wanted the court to stop Stephar and another firm from importing from Italy its drug Moduretik, used to treat high blood pressure. Merck had obtained a patent for the drug in all Member States except Italy, which at that time had no patent law. Merck sold Moduretik in Italy nonetheless. Stephar took advantage of the much lower prices in Italy and imported considerable quantities of the drug to the Netherlands.

Merck's suit invoked Dutch patent law. The court suspended proceedings to ask the Court of Justice whether a patent owner

may prevent a third party from selling the patented product imported from another Member State in which the manufacturer has already marketed it but for which he had no patent there? The Court said that he may not, and thus a patent owner may not bar reimports of patented products that he has put on the market of a Member State in which they are not protected. Allowing the patent owner to bar parallel imports would be contrary to the idea of free movement of goods implied in the Common Market, the Court concluded.

In Brief...

The Commission's legal service is advising the EC executive to take France to court for holding up clearance of imported Italian wine. Some 400,000 hectoliters have been impounded since the outbreak of violence on the Italian-French border over cheap wine imports. The promise that the French government gave in a compromise negotiated among French, Italian, and Commission officials to clear the wine through customs has been retracted + + + The Commission is about to present to the Council a number of proposals dealing with veterinary rules. One major proposal would strengthen the Community element in controlling slaughterhouses located in third countries. It would be for the Commission to select veterinarians from its own staff (it has just hired three additional vets) and contract professionals from the Member States instead of having to rely on national experts selected by the particular State.

Germany: 1982 Draft Budget Would Affect All Sectors

If the elements of the Schmidt administration's Sept. 3 decision on the 1982 draft budget are cast into legislation, they are going to affect individuals as well as all businesses in Germany. The Opposition, which controls the upper house of Parliament, has vowed to inject some of its own ideas into the proposals. Although the federal budget would rise by only 4.2% to DM 240.8 billion, and borrowing would be kept down to DM 24 billion, some DM 8 billion less than in 1981, it is not the kind of austerity budget that the Free Democratic party, the junior partner of the coalition, originally insisted on. The compromise reached is a shaky one, according to observers, since the two sides could not agree on how to reverse the economy's downtrend, marked by 1.3 million persons unemployed, the highest jobless figure in 29 years. Should this trend continue, the Social Democrats plan to bring up once again the idea of a surcharge on individual and corporate income taxes, a concept to which the Free Democrats remain opposed. The revenue from the surcharge would be used to promote employment.

There are several elements in the Sept. 3 compromise that concern businesses. The loss carry-back concept introduced in

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1975 would be extended so that a business could carry back a maximum loss of DM 5 million to two years instead of one. This change would cost the treasury an estimated DM 100 million each year *(Doing Business in Europe, Par. 23,332)*. More important would be an increase in the depreciation of the cost of moveable assets. A business applying the declining-balance method would be allowed to deduct in the first year 30% of the cost for any asset acquired after July 31, 1981. At the moment the tax offices usually allow no more than 25%. Government officials say that some DM 1.4 billion in revenue would be lost if businesses took advantage of the increased depreciation rate.

Disappointing to businesses is the planned repeal of the privilege allowing an enterprise to deduct from its turnover tax liability the amount of value-added tax paid to a dealer for a company car; this would bring in some DM 280 million more annually *(Doing Business in Europe, Par. 23,375)*. An earlier plan would have allowed an enterprise to deduct at least half of the VAT paid. The food and cosmetics industry would have to face up to another increase in the excise duty on ethyl alcohol; the draft budget foresees increasing the duty by an additional DM 300 per hectoliter as of April 1, 1982. The proposed increase would bring the total duty per hectoliter to DM 2,550, and government officials expect this change to yield some DM 350 million more. How unpopular this plan is was demonstrated by sporadic strikes in several food processing and cosmetic industry plants the day after the cabinet's decision on this point. It was only last April that the excise tax went up by DM 300 per hectoliter *(Doing Business in Europe, Par. 40,157)*.

There are still other plans to bring in more revenue that have reaped criticism from the business community. One includes subjecting the sale of books, magazines, and weekly newspapers to the full 13% turnover tax rate that applies to virtually all other commercial transactions. This change would yield an estimated DM 500 million more each year. Daily newspapers, however, would continue to benefit from the 6.5% rate *(Doing Business in Europe, Par. 23,375)*.

Companies setting aside reserves for pension funds would have to expect a less favorable tax treatment of these reserves. Tax offices would apply the restrictive treatment as of 1983, and the revenue gain is placed near DM 800 million, the largest amount that any of the changes would bring.

France: Government Forces Banks to Drop Interest Rates

The government-owned banks cut their base lending rates for prime customers from 15.3% to 14.5% on Sept. 4, and private banks are expected to follow suit, following measures taken by the government to impose restrictions on depositors' interest rates. The national credit council, acting under government

instructions, announced a substantial increase in the floor above which the banks are allowed to set interest rates freely on resident bank deposits. The measures will not affect non-residents' deposits. Until now, all resident deposits of over FF 100,000 for more than one month were free of interest rate restrictions, and rates had been offered of between 16% and 17% in recent weeks. Now, however, only deposits for more than one year are entirely free of restrictions irrespective of the amount, and deposits for more than six months have to be larger than FF 500,000 to be free. All other deposits are subject to administrative interest rates, with, for example, deposits from one to three months earning 7.5% (as do savings bank deposits) and three-month deposits of FF 300,000 to FF 500,000 getting about 10%.

Economics and Finance Minister Jacques Delors aims to push bank base rates down to 14% by the end of the year, but expected that the new measures would force the banks to cut rates by only the amount they saved, 0.6%, rather than the 0.8% which actually resulted. The difference is thought to represent the banks' attempt to allay the heavy criticism which the minister heaped upon the banks shortly before the measures were announced. Delors accused the banks of "torpedoing" the government's efforts to set in motion an economic recovery, of blocking industrialists' investment projects through too high interest rates, of refusing to use the government's special facilities for bridging credits to companies in liquidity difficulties, and above all, of refusing to follow the central bank's 0.3% reduction in its money market intervention rate with a reduction in their own base rates. It is believed that the state-owned banks were pushed into action also by Delors' public threat to make top-level management changes.

Bonds, not Cash, for Shareholders of Nationalized Businesses

Publication of the details of a preliminary bill to be submitted to the French National Assembly in mid-September put an end to speculation about how shareholders of nationalized companies would be compensated. According to the report, the shareholders of the five major companies to be nationalized first would have a choice between two types of bonds. One would be like the typical government bond, with a maturity of 15-20 years and an interest rate similar to that offered to buyers of other government bonds (now around 17%). These bonds would be redeemable, starting Jan. 1, 1983, and the sequence would be determined by lot. The second alternative would consist of participating bonds, whereby the yield would be made up of a combination of fixed interest and a percentage of corporate profits. What the interest or the profit percentage would be was not revealed in the report.

Shareholders' compensation in bonds would be based on the average quotation of shares on the official stock exchanges over

a period of time; the time span has yet to be determined. Assuming the average of the five companies' stock quoted on the stock exchanges since the beginning of the year, the nominal values of bonds given to shareholders as compensation would amount to about FF 10 billion. To pay this amount in cash, which is what most shareholders would prefer, would have meant even more borrowing by the government, already on a course of deficit spending.

The enterprises covered by the bill are Compagnie General d'Electricité (CGE), France's No. 1 manufacturer of electrical equipment; Rhône-Poulenc, the biggest chemicals producer; Pechiney Ugine Kuhlmann (PUK), the largest aluminum producer; Saint-Gobin-Pont-à-Mousson, the biggest flat-glass manufacturer; and Thomson-Brandt, the No. 1 French manufacturer of household goods and electronics equipment.

Netherlands: Van Agt to Form New Government

Following some complex political maneuvers within the Christian Democratic Party, the Dutch government crisis, which has lasted since the general election on May 26, appears to have been solved. The Christian Democrats, Socialists, and the left-liberal Democrats 66 agreed to form a coalition under the premiership of Andries van Agt, the prime minister of the outgoing center-right coalition. The crucial labor and social affairs ministry will be headed by former prime minister and Socialist leader Joop den Uyl.

Uncertainty still surrounds the nature of the compromise made on the issue of budget savings, disagreements over which led to the failure of previous coalition attempts and Van Agt's resignation as the Christian Democratic parliamentary leader last month, when his demand for 4.5 billion guilders in budget savings was not accepted by prospective coalition partners. According to Christian Democrat negotiator Ruud Lubbers, most of his party's demands have been met, but observers report that the eventual savings are to be closer to 3 billion guilders. The budget is due to be tabled on Sept. 15, and since its present draft, prepared by the previous government, includes the full cut of 4.5 billion guilders, the tabled form will probably include a number of blank spaces. Whatever the size of the cuts, the main targets are expected to remain social security, health, and civil service pay. The increase in expenditure, which socialist ministers will want in order to finance an ambitious employment program, will have to be paid for by further cuts elsewhere, according to the coalition agreement.

Britain: Advertising Rules for Accountants Announced

Accountants wanting to advertise their professional services

received guidance in how to go about it in detailed rules; advertising will be permissible for the first time from October 1. This fundamental shift in policy by the Institute of Chartered Accountants and the Association of Certified Accountants was in response to the Monopolies Commission report that a total restraint on advertising was against public interest.

An accountant may inform the public of the professional services provided by him through an announcement in a local newspaper or other similar local publications which circulate in the area where he practices. Initially, any newspaper which does not have a national circulation in England and Wales, or in Scotland, or in Ireland, will be regarded for these purposes as a local newspaper, but the London evening newspaper, "The Standard," will be excluded. In addition, advertising will not be allowed in the trade or professional press. There is no limitation on the number of occasions on which accountants may advertise, but only one announcement may appear in any one issue of the medium of publication. There is also no restriction as to the size of lettering or the use of color, but the size of the advertisement must not exceed 10 square inches, or 65 square centimeters.

In every case the advertisement must be factual and not likely to mislead, and it must not contain any explicit or implicit criticism of the professional services of others. It should make no claims to any particular expertise; any reference to the services offered should be restricted to auditing, accountancy, preparation of accounts, bookkeeping, trusts, personal or corporate taxation, management consultancy, and general financial advice. The word "computerized" may be inserted before any of these, where appropriate.

The advertisement should be of a style and content appropriate to the profession and should make no reference to fee levels. It must, however, include a statement to the effect that the basis of the fee will be discussed before an assignment is accepted. Finally, it should make no reference to any office situated outside the area of circulation of the paper in which it appears.

Since the aim of such advertisements is essentially to inform the public of the services available, additional words descriptive of the actual services, potential clients, or the manner in which the services are provided, are not acceptable, with the exception of the word "computerized."

Accounting firms which practice in the U.K. and have offices or associates in other countries should not advertise in those countries, unless it is acceptable under the ethical requirements of the profession in the countries concerned.

Observers believe that the smaller accounting firms are those most likely to take full advantage of these relaxations on advertising, since the larger firms are principally concerned

with corporate clients, who already take full advantage of the services available.

Portugal: New Government Faces Tough Talks With IMF

Formation of the new Portuguese government, once again under the leadership of Prime Minister Pinto Balsemao, was delayed by the fact that none of the approached individuals wanted to accept the finance ministry. Banker Joao Salgueiro finally accepted the post, and one of his first tasks will be to negotiate with the International Monetary Fund a new $1.2-billion credit to cover Portugal's balance of payments deficit. Observers expect that the IMF will, just as on previous occasions, make a new loan dependent on substantial cutbacks in government spending, a vigorous policy to fight inflation even if it means unemployment, and perhaps even another devaluation of the escudo.

Negotiations between IMF and Portuguese officials are overshadowed by several negative economic developments. Contrary to the government's hopes to keep annual inflation down to 16%, the most recent statistics reckon with an annual inflation rate of 20%. Exports did not rise by 4.8%, as the government had predicted, but fell during the Jan.-Aug. period by 4%. Imports jumped by 16%, due in large to grain imports, which were necessary to make up for last year's poor crop due to lack of precipitation. Fewer tourists came to the country and therefore less foreign exchange was brought into the country. Portuguese nationals working abroad sent home less money in the first eight months of 1981 than in corresponding periods of previous years.

Switzerland: Interest Rates Reach Record High

The Swiss National Bank boosted its key interest rates by 1% at the beginning of September in an effort to counter a rate of inflation which, at 6.6%, has reached a six-year high. The discount and lombard rates now stand at 6% and 7.5% respectively, a long way above the levels of 3% and 4% with which the year began. Unlike most of its neighbors, Switzerland experienced relatively steady growth in 1980 (+3%), and suffers from a severe labor shortage at present. The major commercial banks followed the central bank's move by raising interest rates paid on customer time deposits by 1%.

The central bank has also decided to dismantle on Nov. 30 the last of the monetary defences established in 1978, the offering of foreign currency drawing rights for exporters. These were available at favorable rates to guarantee traders' receipts against Swiss francs. Currency risk coverage will, however, continue to be available as part of the federal export risk guarantee program.

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Community: Possible Court Action Against France and U.K.

The Commission has asked the French government to explain by Sept. 20 why France should not be taken to court for breaking the Treaty's rules on the free movement of goods. French authorities have prevented customs clearance of some 400,000 hectoliters of cheap Italian wines by alleging that the import papers were not properly filled out. The EC executive maintains, however, that the French government wants to protect French wine growers and prevent further violence. The Commission says that the impounding violates Treaty Article 30, which bars quantitative restrictions and all other measures having a similar effect *(Common Market Reports, Pars. 321, 322)*. French customs should release the wine immediately, according to the EC executive, and the importers could furnish the missing particulars, such as the origin, afterward. With its letter addressed to the French government, the Commission has taken the first procedural step required under Treaty Article 169 prior to taking a Member State before the European Court of Justice *(Common Market Reports, Pars. 4615, 4616)*.

In the poultry affair the United Kingdom was also given an

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ultimatum. The British government has until Sept. 25 to refute the EC executive's position that the U.K.'s restrictions on poultry and egg imports are discriminatory and disproportionate to the animal health risk involved. Britain imposed the import ban on Sept. 1, four days after announcing that in combating the fowl pest it was switching from vaccination to slaughtering as a way of controlling the disease. The Commission contends, however, that the switch was made only to shut out foreign competition, especially from Dutch and French poultry farmers who have made substantial inroads on the British market with their turkey sales.

If the Commission considers the replies from either government unsatisfactory, it could bring suit against each country in the Court of Justice. Actions brought under Treaty Article 169 usually take six months from the day of filing until the day of judgment. However, together with its suit, the Commission could request an interim order, the equivalent of a temporary injunction, compelling both countries to restore the status quo while the case is pending, but even this could take one to two months.

Paris Allows Inspection of A-Plants

Abandoning a policy followed by the previous French government, the new Socialist administration has agreed to admit inspectors of the International Atomic Energy Agency (IAEA) to its nuclear power plants and research centers. This is the essence of a recent agreement reached by the Vienna-based IAEA, the European Atomic Energy Community (Euratom), and the French government providing for verification of compliance with international safeguard and security rules by Common Market-based installations and businesses using fissionable materials. After the United States and Britain, France has thus become the third country to open its civilian nuclear facilities to IAEA inspectors.

Although the Commission welcomed the French government's shift in policy, the agreement is far from what it originally had in mind. After Euratom (represented by the Commission) and seven Member States (all except France and Britain) in 1973 committed themselves in an agreement with IAEA to incorporate the controls and safeguard provisions of the Nonproliferation Treaty on Nuclear Weapons, the Commission proposed a draft regulation to the Council of Ministers. The measure would have allowed IAEA inspectors to verify compliance with the standards. France's refusal meant that the other Member States had to take individual legislative action in order to live up to their 1973 commitment. Council attorneys prepared a model draft law that the Member State governments were supposed to use in drafting their proposals. Although the States largely followed the lines drawn in the model draft law, the Commission would have preferred its uniform (and directly applicable) Council regulation.

In Brief...

Under pressure from the European Parliament, especially conservative members from the U.K., the Commission has decided to modify for a second time its 1978 proposal that was to set 44 tons as a maximum weight for commercial vehicles. The new upper limit would be 40 tons, 2 tons more than the British government was previously prepared to accept; the present U.K. maximum is 32.5 tons. Britain was holding out against adoption of the proposal because of the proposed maximum weight limits for trucks, but other Member States objected to the provision that would have obligated them to consult the Commission prior to barring trucks from unsuitable roads; now the Commission would be satisfied to be notified of the barring + + + The Commission has proposed uniform rules concerning the supervision of all banks and other credit institutions that hold a majority interest in other credit and financial institutions. The proposal is a follow-up to the 1977 Council directive on banking rules coordination *(Common Market Reports, Par. 1486.19)*. The measure would empower national authorities to require consolidation of certain minority interests to give a complete picture of an institution's activities + + + Italy has informed the Commission that it plans to extend the requirement compelling importers of all goods except crude oil and cereals to deposit with the central bank for three months, interest-free, a sum equal to 30% of the paid bill. The measure, in effect since May 27 and slated to expire on Sept. 30, was taken to defend the lira. The rules would be modified so that after Oct. 1 importers would have to deposit only 25% of the amount on the bill. Thereafter the requirement would be reduced by 5% on the first day of each following month and thus would be abolished by April 1, 1982.

Germany: Employer Must Justify Pay Differential, Court Rules

The German Supreme Labor Court has expanded slightly the equal pay principle by shifting the burden of proof onto the employer, who must demonstrate that the higher pay for men is based on grounds other than sex. Legislation barring women from work between 10 p.m. and 6 a.m. does not constitute grounds for paying women less (judgment of Sept. 9, 1981, Case No. 5 AZR 1182/79). Equal treatment of men and women is guaranteed by the Constitution, but union statistics not challenged by the national employers'organization indicate that, on the average, men in Germany earn about DM 14 per hour, women roughly DM 10. Legislation enacted in compliance with the EEC's Equal Pay Directive is making some headway in eliminating discrimination: union contracts may not contain provisions discriminating against women *(Doing Business in Europe, Pars. 23,429, 23,431; Common Market Reports, Par. 3942.15)*. However, union contracts do not entirely restrain the freedom of contract, and it is this contractual freedom that made it possible for employers to promise men more

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money for doing the same work as women. The high court has now clarified that an employer does not discriminate in paying men more than women even if they are performing equal work so long as he has genuine grounds (for example, night work) for paying more.

Twenty-nine women worked for a film-processing company in two shifts from 6 a.m. until 10 p.m. and yet received roughly DM 1.50 less per hour than their male colleagues doing the same work. Only men worked the night shift from 10 p.m. to 6 a.m., and some men worked on the other two shifts. A lower court granted the claim for equal compensation; the appellate court denied it. But the Supreme Labor Court restored the lower court's decision, saying that the employer failed to show why men deserved higher pay. Management should have specified to each male employee that the pay differential was given for night work, the Court concluded. In court the employer claimed that the men were paid more for working nights, but the Court said the employment contract should have included this fact.

Labor law experts concur that the recent judgment (the high court itself did not see it as a test case) does not bar employers from paying men more than women so long as there are grounds for higher pay that are not related to sex.

Flick Group Obtains Another Favorable Tax Ruling

The German government has granted the Flick group the requested tax deferral on yet another portion of the gain realized from the sale of Flick's interest in the Daimler-Benz Corp. This time the industrial holding received a favorable tax ruling because that part of the gain (DM 210 million) it invested in 1978 in the Gerling insurance company was considered beneficial to the economy as a whole. If the deferral had been rejected, the Flick group would have to pay some DM 120 million in income tax.

With this latest ruling, Flick has gotten tax deferrals for nearly DM 1.5 billion of the DM 1.9 billion realized from the 1975 sale of its 29% interest in Daimler-Benz. Other investments treated in the same manner include a DM 800-million stake in W.R. Grace, the U.S. diversified chemicals group, and investments of some DM 450 million in several firms controlled by the Flick holding. No tax deferral was granted for the part of the gain that Flick invested in the U.S. Filter Corp. in 1978; in the meantime Flick has sold its Filter stock at a profit.

Under Section 6b of the Income Tax Law, the taxpayer wanting a tax deferral must obtain the consent of the federal ministries of economics and finance and a state agency designated by the state where the investment was or is being made (usually the state's economics ministry). Tax deferral may be granted if the investment deserves government support because it would be beneficial for the economy, is suited to improve the structure

of a particular branch of industry, or would greatly increase the number of potential investors. (Under legislative plans, the taxpayer would also need a positive response from the Federal Labor Ministry as to the investment's impact on employment.)

In answer to criticism from some leftists of the Social Democratic party and several union leaders that Flick was shown favoritism, a government spokesman said that the holding was entitled to the favorable ruling, just as any other taxpayer would have been in similar circumstances. The spokesman said that Flick's engagement in the Gerling Corp., shaken by the collapse of the Herstatt Bank, was in the interest of the economy as a whole because it prevented a move planned by another powerful insurance group to gain control of Gerling. This would have resulted in an undesirable concentration on the insurance market, according to the government.

France: Additional Tax Plans for 1982

The government is to present plans to Parliament this fall for additional taxes to help finance expected deficits of the state unemployment insurance agency Unedic in 1982 (some FF 12 billion) and in the 1982 budget. Contrary to earlier expectations, the new wealth tax rate will vary from 0.5% up to as high as 1.5%. However, expert opinion appears to differ on how much revenue the government could actually gain from the tax. Non-government experts say that the planned FF 3 million exemption will result in a total taxable income of only FF 275 billion being affected, generating about FF 3 billion in revenue, but the government expects to obtain up to FF 10 billion from the tax. A further supplementary tax will affect investments in capital equipment and structures ("tools of production") above FF 2 million. Representatives of small and medium-sized industry have attacked the planned tax as likely to cause reduced investment as well as the sale of many smaller enterprises to foreign owners, who would not be subject to the tax.

Italy: Spadolini Prepares Budget, Labor Negotiations

Having promised to present the 1982 draft budget to Parliament no later than the end-of-September deadline laid down by law, Italian premier Giovanni Spadolini, leader of the small Republican Party, is simultaneously trying to move toward negotiations with the trade unions on a long-contemplated reform of the wage-indexation system. The situation is complicated by an unusually high budget deficit expected for next year. According to official estimates, the 1982 deficit will reach 65,000 billion lire (13% of GDP) unless major cuts are made. Spadolini, however, also wishes to implement a 115,000-billion-lire, 3-year industrial investment and restructuring program prepared earlier this year, in order to persuade the trade unions of the govern-

ment's readiness to combat unemployment, which is growing at an alarming rate. Observers are doubtful of the prospects of persuading the premier's Socialist, Christian Democratic and other coalition partners to agree to the massive cuts in current spending necessary to both finance the investment plan and reduce the budget deficit to more manageable proportions.

In the event of a failure to control spending, government officials have indicated that they plan to increase overall tax revenues by 25%, once more delaying an adjustment of tax progression rates and additionally introducing a new, municipal real property tax. Finance Minister Rino Formica recently said that a minimum condition for easing tax progression affecting taxpayers as a result of high inflation (around 25%) would be the trade unions' consent to a reform of the wage indexation system. Such a reform is also one object of the voluntary price restraint agreement recently concluded between Industry Minister Giovanni Marcora and the wholesale and retail trade. The agreement limits price increases on 20 vital commodities to a 16% annualized rate between Sept. 15 and Nov. 15 (when the arrangement ends).

Spadolini wants to keep inflation down to 16% in 1982, and hopes to persuade the trade unions that wage settlements should not exceed that amount, thus modifying the indexation system accordingly. The government has set an example of its own by limiting to 16% the traditional September wave of tariff increases in public transport, telephone, electricity, and gasoline prices. Trade union reaction so far has been cautious but not hostile. This fall, however, wage contracts for 7 million workers in various industrial sectors are up for renegotiation, with the militant metalworkers first in line. Some union leaders want to demand higher wage rises to compensate for any reductions in wage indexation.

Britain: Commercial Bill Market Broadened

Thirty-nine overseas banks have been given an enhanced status in the U.K. due to the Bank of England's new system of operating the money markets. The Bank wants to involve itself far more in the commercial bill market, and accordingly is widening the £5-7 billion U.K. bill market by considerably increasing the list of banks that will be in a position to have their commercial bills purchased by the Bank of England. The number of such eligible banks has now increased to 96, or almost double the previous figure, and the main beneficiaries are American (including Citibank and Bank of America as well as 15 other major U.S. banks), French, and Japanese banks.

This is a radical change from the previous system, whereby the Bank effected changes in the money market by lending directly to the discount houses, which would discount bills of ex-

change. Then, the market was confined to the U.K. clearing banks, principal U.K. overseas banks, and Australian and Canadian banks as well as the London accepting houses.

It is perhaps significant that, while the list includes most of the leading European banks, there are none from Italy and Scandinavia. The apparent reason for this is that the Bank of England was not satisfied that U. K. banks were offered reciprocal arrangements in the Italian and Scandinavian markets. Only one U.K. consortium bank is included in the list, and there are no representatives from Spain, Greece, or Israel.

Portugal: OECD Report Pessimistic

In its latest economic survey, the OECD criticizes Portugal's government for having based economic policy this year on an overly optimistic assessment of results obtained in the first half of 1980. The organization predicts that in fact economic growth will deteriorate sharply from the 5.5% level achieved last year to only 3.5% this year and 3% next year. (The government also expects no more than 3% growth for the current year.) At the same time inflation is expected to rise to 18.5% in 1981 and 1982, from 16.6% in 1980. The trade deficit, which was $4.2 billion in 1980, is forecast to grow to $4.6 billion this year and $4.8 billion next year. The current account deficit, which at $1 billion represented 4.3% of GDP in 1980, will expand even more to $1.6 billion this year, and then decline somewhat to $1.4 billion if the expected recovery in exports materializes. The survey's authors urge the government to tighten credit policy and attack the foreign payments deficit as soon as possible, an advice the administration in fact took even before the report was published.

Norway: Conservatives to Form Next Government

The Conservatives, under their leader Kaare Willoch, and two right-of-center parties won a clear mandate in the Sept. 14-15 national elections to form the next government. They captured 86 seats in the 155-seat Storting. The Social Democrats now have 65 seats, losing nine seats. Willoch, a 52-year-old economist, promised Norwegians during the election campaign that he would gradually reduce what is considered punitive rates of taxation in order to stimulate work and savings, while curbing the influence of Statoil, the government-owned oil company which increasingly dominates Norway's extensive North Sea oil and gas fields. The Conservatives plan to give other private Norwegian oil companies such as Norsk Hydro and Sagan bigger shares in offshore oil and gas concessions.

In other news, the chairman of the Storting's standing committee on finance, Gunnar Berge, has urged progress in modifying

the taxation of foreign oil companies and in harmonizing North Sea oil tax laws with those of Britain. According to Berge, who drew attention to tax changes in Britain earlier this year, foreign oil companies "are making too heavy profits," thus requiring new legislation. The foreign companies are said to be borrowing funds abroad at high interest rates and using them for tax deduction purposes, rather than employing their own capital. Berge complains that there is no way of checking into the veracity of the companies' loans. Berge's proposals involve a system of individual field taxation, allowing the authorities to speed up development of particular fields. This is thought preferable to an all-round tightening of taxation which might make several fields unprofitable for development. The finance ministry is understood to be working on various possible tax reforms.

Austria: Country's Second Largest Enterprise Collapses

The collapse of the Austrian Eumig Corp., the country's second largest private enterprise, would have come far earlier, according to economists, if management had not been encouraged by its bank to make additional investments. It was the government-owned *Länderbank*, Austria's No. 2 financial institution, that provided the needed funds that resulted in new jobs in the various plants of the leading photographic and electronic equipment manufacturer. Presumably to preserve jobs, the bank went on lending Eumig money to cover operational losses that rose each year after cheaper but good Japanese products entered European and overseas markets. Now the *Länderbank* is saddled with some 2 billion schillings in bad debts that the taxpayers will have to pay. Attempts continue to rescue at least some of the plants.

The bankruptcy of Eumig Corp. reflects poorly not only on management, according to a number of economists, but also on the government. They say that a banker with foresight would have insisted on rationalization measures, even if it would have meant mass layoffs, instead of granting more and more credit. The government's policy of maximum employment, largely based on deficit spending, has, in the economists' opinion, deprived the government of the flexibility needed for financial maneuvering. To acquire the money needed to help enterprises make long overdue decisions in terms of rationalizing production and adapting to new market trends, the government must borrow on the capital market at high interest.

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EUROMARKET NEWS

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Community: Revival of European Company Proposal

The hopes of the British government for a quiet end to the proposed European Company Statute will not be realized now that a large majority of the Member States is insisting that deliberations in the Council working group continue. Under the proposal a European company, considered by many experts to be the optimal corporate form of doing business, could be created in one of three ways: two companies established in two different Member States could either merge, form a holding company, or set up a subsidiary.

The discussions about the 1970 proposal have proceeded slowly, not only because of the number of provisions (some 300 articles) but also because of the novelty and the many still-unsolved issues, including taxation and workers' participation (although the Commission amended its proposal on the latter issue in 1975 - *Common Market Reports, Par. 5252.19*).

This issue is in two parts. This is Part I.

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Britain's disinterest in the proposal is reflected by the fact that the Council working group will meet only once more in 1981 to discuss the proposal. Currently in the president's chair, the United Kingdom could have scheduled several meetings in order to make headway on the measure.

In related matters, the British have put the proposed European Cooperation Grouping on the agenda of the Council working group entrusted with company law measures. The new legal form that the proposal would create would enable businesses from different Member States to cooperate for specific purposes for a specified period of time. The parties to such a grouping would be free to designate in the underlying contract the national provisions governing the aspects of their cooperation that would not be subject to EEC rules or would be left to their discretion *(Common Market Reports, Par. 9630).*

The measure on cooperation grouping, proposed in 1974, was discussed several times by the Council working group in 1976-79, but interest gradually waned in most States, and there has not been a meeting on the subject since 1979. Most governments have questioned the need for such a new legal instrument.

OK for Extension of Italy's Import Deposit System

The EC's economics and finance ministers on Sept. 17 reluctantly approved an extension of the controversial Italian cash deposit requirement on imports but specified that the system be continued on a reduced basis. The arrangement was introduced at the end of May for a four-month period, but Rome has been campaigning in Brussels for an extension until the end of March 1982, in a modified form. The European Commission wanted Italy to end the requirement as soon as possible.

The ministers' compromise provides for the system's termination by the end of February 1982. The deposit requirement would be reduced from 30% to 25% on Oct. 1, to 20% on Jan. 1, and to 15% on Feb. 1. As of October, all EC farm products as well as nonferrous-metal products would be exempted. Previously exempted were steel products, cereals, and crude oil. The compromise formula was to be issued in the form of a Council directive to the Commission, for subsequent implementation by Italy. This procedure is laid down in Treaty Article 103(3) *(Common Market Reports, Par. 3621).*

France: More Foreign Exchange Curbs; Money Market Rates Up

Deflecting speculation over an imminent devaluation of the franc, the French government has outlawed all forward cover buying by importers as of Sept. 21. Until that date, importers had the option of purchasing foreign exchange up to one month in ad-

vance in order to protect themselves against fluctuations in the franc's exchange rate. Last May, upon being installed in office, the new Mitterrand administration reduced the pre-purchase period from two months to one.

In conjunction with the tighter currency rules, the Finance Ministry also decreed an increase in the money market rate from 17% to 18.5% to maintain the franc's attraction for foreign investors. The commercial banks were, however, instructed to maintain their lending business on the basis of the current 14.5% base rate, which recently had been reduced to that level in stages from 17%. The banks were told to meet the extra costs out of their profit margins, which the government considers adequate at this time.

On Sept. 18, the Bank of France had been forced to intervene on the exchange markets to the tune of about $1 billion to support the franc, which was rumored to be a prime devaluation target as investors rushed into the newly strengthened Deutschmark. French investors switching into German securities had to pay a surcharge of up to 35%. (The purchase of foreign shares from resident investors is the only legal way for other resident investors to divest themselves of francs.)

Financial observers said that the French government, in making the latest moves, was trying "to buy time" for a general realignment of exchange rates within the European Monetary System. Paris apparently wants to avoid at all costs the loss of prestige that would go with a "Socialist" franc devaluation. Bonn, on the other hand, is not inclined to discuss such a realignment (i.e., D-mark revaluation) at this time because German exporters have been capitalizing on the D-mark's relatively weak position. The realignment issue became less pressing while the dollar was making a strong comeback; now, however, with the U.S. currency once more in retreat, the tensions within the EMS are again resurfacing.

No Nationalization of Foreign Banks, Paris Insists

Both Premier Pierre Mauroy and Finance and Economics Minister Jacques Delors have adamantly reaffirmed previous official statements that the French government does not intend to nationalize foreign banking establishments in France. The administration thus has disassociated itself from the recommendations of the Conseil d'Etat, its own legal advisory body, which for constitutional reasons has advocated the equal treatment of all banks, including those controlled from abroad. The government is not obliged to accept the advice of the State Council, but it may consequently have to face legal challenges all the way up to the Constitutional Council *(Doing Business in Europe, Par. 22,605)*.

The State Council has, for instance, termed arbitrary the proposal to nationalize all private banks with deposits of at

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least FF 1 billion, except foreign banks. To avoid discrimination of the domestic banks, the Council says, it would be necessary to either include the foreign banks in the nationalization program or raise the deposit threshold to at least FF 3 billion. Both alternatives are unacceptable to the government. Paris has repeatedly vowed not to touch the foreign banks, and a reversal here would be most damaging internationally. An increase in the deposit threshold to FF 3 billion, on the other hand, would reduce the number of banks to be nationalized from 36 to only nine, even though it would spare all foreign banks in France (of which Dutch-controlled Neuflize-Schlumberger-Mallet is the largest).

Other legal complications pointed out by the State Council, a body of leading jurists, pertain to the two finance holdings Suez and Paribas, which in the process of their nationalization are to return their industrial participations to the previous private shareholders. Such a transaction would, however, call into question the "public necessity" for nationalization, which is a constitutional requirement, among other things.

Britain: More Unions to Be Represented in TUC Council

At Britain's annual Trades Union Congress this month, the delegates acted against the advice of General Secretary Len Murray by adopting by a substantial majority what has been described as the most fundamental reform of the TUC constitution in half a century. The General Council is to be enlarged, and those unions with a membership of at least 100,000 will now be automatically entitled to a seat on the Council.

At present all U.K. unions join in the elections to the General Council, but this system has given rise to certain anomalies. For instance, a leading union can be excluded on grounds of personal or political hostility. It has been felt for some time that the voting arrangements have borne no relationship to the realities of present-day trade union membership, and the agreed changes should certainly increase the influence of the growing white-collar unions, while that of the traditional unions, representing manual workers, is likely to decline. As a result, observers foresee a gradual shift to the right in the labor movement, which could assume a particular significance under any future Labour government.

Unions with an affiliated membership of half a million will be allocated two seats on the Council, with a maximum of five seats for those with 1.5 million members. Smaller unions will elect a further 12 representatives from their own ranks.

The recession and the growth in unemployment have been responsible for a marked decrease in union membership, which has fallen over the past two years by about 1 million to approximately 11.6 million. This is of growing concern to the unions.

Belgium: Government Quits Over Steel Plan Dispute

For the second time this year, Belgium's political life has been disturbed by a major crisis with the resignation of the five-month-old coalition government of Mark Eyskens on Sept. 21. It was not immediately clear whether Eyskens would be able to succeed himself or whether new elections would be called.

The Walloon Socialists in the coalition had attempted to present the premier with an ultimatum seeking an immediate decision on emergency state aids to the Walloon steel industry. Eyskens, the Flemish Socialists, and the two Christian Democrat parties had wanted more time to negotiate an aid package for the newly structured Cockerill-Sambre steel group. At the height of the dispute, the French-speaking Socialists boycotted the sessions of the four-party cabinet.

Netherlands: Major Revisions Due in 1982 Draft Budget

The 1982 draft budget recently presented to Parliament by the new Dutch coalition government of Christian Democrats, Labor, and Democrats '66, but originally prepared by the predecessor center-right government, should undergo considerable revision in the coming month. (The premature submission of the draft was the result of the constitutional requirement that the budget be presented by the third week in September, which this year coincided with the opening of the new session of Parliament.) Andries Van Agt, however, who headed the previous administration and remains premier in the new coalition, continues to insist on a cut in the budget deficit as close as possible to the 4.5 billion guilders originally proposed.

The draft foresees a 6.4% increase in total spending to 125 billion guilders, and a 7.7% increase in revenues to 109 billion guilders. Revenues from natural gas production are expected to rise from 18 billion guilders in 1981 to 24.5 billion in 1982, which would amount to 18% of total revenues and thus render unnecessary any increases in other taxes. With the inclusion of funding for road construction and investment support, the draft aims to cut the central government deficit from 18.7 billion guilders in 1981 to 15.3 billion next year. This would be accomplished through tightened conditions for the payment of sickness benefits, reduced health services spending, abolition of certain income tax allowances for old people, limitation of public-sector pay increases, and an overall cut in departmental spending. Defense and housing subsidies would be the only items to show a real-term increase.

The size as well as the nature of the cuts are likely to undergo major revision, however. In the government's policy statement inaugurating the new session of parliament, major emphasis was placed on the need to combat rapidly rising unemploy-

ment. The Hague will attempt to prevent unemployment from rising much beyond the 400,000 (9.6% of the active work force) already recorded in August.

Germany: Restrictions Proposed for Employment Agencies

The German government has proposed legislation that would prohibit employment agencies or other businesses or individuals from procuring employment for construction workers. Other proposed changes would further tighten rules aimed at checking the underground economy *(Schwarzarbeit)*. For economic and constitutional reasons, the cabinet rejected the suggestion advanced by several leading Social Democrats that employment agencies be outlawed altogether or other businesses or individuals be prohibited from placing people.

An unlicensed employment agency or any other business that procures employment may, under current law, draw a fine of up to DM 30,000. A fine of DM 50,000 may be imposed if a licensed agency or business fails to fulfill the usual obligations incumbent upon every employer, such as withholding social security and income taxes. The bill would empower the authorities to levy a DM 30,000 fine also on anyone who employs a person sent by an unlicensed agency or any other business that fills jobs without permission. If the person sent is an illegal resident, the maximum fine could be DM 100,000 and could be collected from the agency or business that sent the person as well as the employer.

Since the government is also committed to a tougher policy toward illegal residents, the bill would authorize state's attorneys to prosecute persons who make a business out of bringing aliens over the border illegally; if convicted, a person could be sent to jail for up to five years.

Pending legislation would make it easier to prosecute individuals performing services or doing work to "a substantial extent" without having registered with the authorities. Realizing that this relaxed criterion would be hard to prove in practice, the government is proposing a statute that would allow prosecution of individuals who are "drawing substantial economic benefits" from their illegal work. Services or work done to an extent that is normal among relatives, friends, or neighbors would continue to be exempt from penal sanctions *(Doing Business in Europe, Par. 40,221)*.

Switzerland: Court Confirms Rights of Shareholder Minorities

The Swiss Supreme Court has ruled that any group of shareholders may nominate one or several individuals for managing board posts and that the shareholders' assembly is bound by that choice. This follows from the idea of protecting shareholder minori-

ties that is reflected in Article 708 of the Code of Obligations, which sets forth the rules for establishing and operating stock corporations *(Doing Business in Europe, Par. 29,211)*. Only when there are really serious objections against the designated candidate may the shareholders refuse to confirm the appointment. For example, a majority of shareholders may reject a candidate who obviously is not fit for the office or who cannot get along with others, the high court said.

In the case before the Supreme Court, a majority of shareholders was opposed not so much to the choice of a director for the managing board but to the fact that the candidate was nominated by individual shareholders belonging to a group and not by the group as such, as required by the articles of incorporation. Leaving open what the drafters may have meant with this requirement, the high court concluded that in such a situation the principles governing the interpretation of law must be given priority over the drafters' intentions in drawing up the corporate bylaws.

Sweden: Krona Devaluation; Price Freeze; VAT Cut

The Swedish government on Sept. 14 devalued the krona by 10% and imposed a price freeze until the end of the year. The standard value-added tax rate is to be lowered by 3.46% to 20% as of Nov. 1. In addition, the Thorbjörn Fälldin administration introduced a budget savings package of SKr 3.9 billion, which is conceived as an advance portion of spending cuts totaling SKr 12 billion proposed for next year.

The drastic devaluation came in reaction to the strength of the U.S. dollar, the lead currency in Stockholm's "currency basket," which recently had caused a 12% rise in the krona's value vis-à-vis the currency of West Germany, Sweden's No. 1 trade partner. Both the temporary price freeze and the VAT reduction are designed to promote exports and slow domestic price pressures. Only a year ago, in a lengthy political wrestling match, VAT had been boosted to its current record level. Its planned reduction on Nov. 1 is also being viewed as a concession to the Social Democratic opposition.

Norway: First Conservative Government in 53 Years; Oil Tax

Conservative leader Kaare Willoch is to head a Norwegian minority government when Labor leader Gro Harlem Brundtland resigns on Oct. 12 following her party's defeat in the recent general elections. The Conservatives will be supported in Parliament by two smaller right-of-center parties, the Christian People's Party (15 seats) and the Agrarian Center (11). However, because of certain policy differences, these parties decided not to join Willoch's cabinet. Nevertheless, on most issues, the new gov-

ernment - the first Conservative administration in 53 years - will command a narrow majority in the 155-seat Storting.

The last act in office of the outgoing Labor government will be to present a 1982 draft budget, which will then be altered by the new administration. The Conservatives expect few economic policy disagreements with their parliamentary allies, except on oil and gas exploitation, where the partners favor production cuts. In this context, it has been announced that 1981 oil tax revenue (installment tax) will total $3.566 billion, 12% more than in 1980. The tax is paid by 34 companies engaged in exploiting and transporting oil and gas from Norway's continental shelf.

Portugal: Hopes Rise for Foreign Banking

Following the strengthening of Prime Minister Pinto Balsemao's political position, hopes have risen among foreign bankers that the Portuguese center-right government's plan to open up major sectors of the economy to private enterprise may soon make headway. Previous attempts in this direction have foundered on the veto of the Revolutionary Council, but Balsemao may now be in a position to put together a compromise formula acceptable to both the parliamentary opposition and the Council's left-oriented officers. Representative offices are operated in Lisbon by about 15 foreign banks, including four U.S. institutions. These banks anticipate extensive opportunities to finance industrial activity once Portugal joins the Common Market, perhaps in 1984.

Balsemao's second government, installed on Sept. 4, meanwhile has received parliamentary approval for its policy program, which is calling for greater effectiveness of the public sector and more private investments, among other things.

Greece: Early Elections on Oct. 18; Equality Law

The way was cleared for early parliamentary elections next month in Greece with the formal resignation on Sept. 15 of the Georgios Rallis government. However, Rallis was immediately installed as the head of an interim administration, whose main task it will be to carry through the Oct. 18 elections. The country's major parties had agreed to hold the elections two months earlier in order to avoid a conflict with the Christmas holidays.

In other news, the Greek parliament has passed legislation guaranteeing equal treatment to men and women in matters of pay and working conditions. The new law voids any provisions to the contrary contained in existing individual or collective employment contracts or in corporate regulations.

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Community: Realignment of Currencies Announced

The Community has announced a realignment of the currencies in the European Monetary System. The realignment entails a 5.5% revaluation of the German mark and the Dutch guilder and a 3% devaluation of the French franc and the Italian lira.

Germany: Lower Tax on Reinvested U.S. Company Profits

Within the framework of the German-American double taxation agreement *(Doing Business in Europe, Par. 23,303)*, the German government in the future plans to spare U.S. investors from the effects of the restrictive "reinvestment clause," which means it would collect only 15% instead of 25% capital yield tax. This announcement was made by the parliamentary deputy minister in the Finance Ministry, Rolf Böhme, before delegates attending the annual congress of the International Fiscal Association (IFA) in Berlin.

The higher 25% rate applied where profits earned in Germany were reinvested in German subsidiaries *(Doing Business in Europe, Par. 23,244)* was aimed at preventing competitive distortions at the expense of domestic industry. Lagging U.S. investments

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in Germany have led to a reexamination of the situation by Bonn. Böhme told the IFA delegates that the impact of the reinvestment clause is now serious enough to endanger jobs and to prevent the creation of new employment.

On the same subject, it was reported by sources in the Finance Ministry that officials there are as yet uncertain whether the change in rules will come by way of legislation or merely an administrative regulation. In any case, Bonn can act unilaterally in this matter because a tax reduction, rather than an increase, is involved. In practical terms, the U.S. parent companies would continue to have to pay 25% on transferred profits but could then apply to the German authorities for a refund of the excess 10%.

Observers said that Bonn's latest move apparently is also meant to ease the ongoing U.S.-German negotiations over an adjustment of the double taxation treaty to provisions of the 1976 corporate tax reform. According to Böhme, these discussions are "most difficult" and an agreeable conclusion is "not yet in sight."

Bonn Plans to Repeal VAT Privilege on Company Cars

The German government's plan to propose the repeal of the right to deduct from a business's turnover tax liability the sales tax (value-added tax) on the purchase of a company car may not have been greeted with enthusiasm, but repeal of the provision would not violate EEC law, according to government lawyers in Bonn. In fact, Article 17(7) of the Sixth Council VAT Directive allows curtailment or even repeal of the VAT deduction privilege for capital goods or other goods; a Member State may do so for cyclical economic reasons but only after consulting the other Member States *(Common Market Reports, Pars. 3165S, 3166D)*. This consultation has not yet taken place, but government attorneys expect this to happen once a proposal is submitted to Parliament.

In defending the administration's plan, government lawyers point out that Germany is the only major Member State that puts no restrictions on the exercise of the deduction privilege. (Holland and Luxembourg still allow the deduction.) Government officials also refer to an internal commitment among all Member States to the effect that the Commission should submit a proposal before the end of 1982 that would make denial of the VAT deduction mandatory for all States. (The Commission has already prepared a first draft and has discussed it with national experts.) Germany would have to repeal the deduction privilege anyway after the Council of Ministers approves the EEC measure. If approved, the change in the German law would take effect on Jan. 1, 1982.

The German business community has heavily criticized the

plan, expected to yield about DM 300 million in revenue annually. Critics say that the plan cannot be reconciled with Article 17(7) of the Sixth Council VAT Directive, according to which the States should retain the right to restrict or ban deduction of prior VAT as an instrument to control a booming economy. They also say that the plan will hit the German economy at a precarious time, when the government should avoid anything that might tend to worsen the situation. Repeal of the deduction privilege would be a penalty for investments, businessmen say, considering the several hundred thousand company cars bought each year, which are a considerable factor for the automobile industry and the economy as a whole.

Britain: 4% Target for Public-Sector Pay; Cabinet Shift

Following its reshuffle by Prime Minister Margaret Thatcher last month, the new U.K. cabinet left no doubt about its determination to continue a tough economic policy with its imposition of a 4% average on public service pay settlements. This will affect some 4 million employees in the next financial year. The new 4% target compares with a 6% figure set previously for this year. However, the Treasury has emphasized that 4% is not a proposed norm but that some increases will be less and others more. "There is no automatic entitlement to any particular pay increase - each must be justified on its merits. The pay factor is a broad measure of what the government thinks reasonable and can be afforded." Excessive pay increases would result in further cutbacks in public-sector capital investment, it was stated, costing jobs in both the public and private sectors.

The Confederation of British Industry, while welcoming the 4% target, said the figure was still more than some private employers would be able to afford. The general-secretary of the National Union of Public Employees, Alan Fisher, on the other hand, described the government's action as "the first major step toward possible confrontation this winter."

The cabinet's target on wage settlements received an early setback when the annual inflation rate, after a continuous downward trend over the previous 15 months, rose in August by 0.6% to 11.5%. It now seems highly unlikely that it will come down to as low as 8% in the spring of 1982, as forecast in this year's budget. The continuing decline in the value of sterling against other major currencies, which is pushing up the cost of imported raw materials, and the fresh rise in domestic interest rates, are not encouraging for the government, which has to persuade the public to accept a fall in living standards.

With the recent cabinet reshuffle, Mrs. Thatcher is said to have consolidated her own position in the government team, while perceptively moving the administration to the right. Commentators said there was little doubt that the hard-line mone-

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tarists "are in the ascendancy." One notable move involved the replacement of Employment Secretary James Prior by Norman Tebbit, who is likely to adopt a tougher stance on trade union reform than his predecessor. A bill intended to curb union powers is to be introduced in the next session of Parliament, and observers believe that Tebbit will make union funds "vulnerable" unless the unions take all reasonable steps to terminate unlawful strike action. It also seems likely that the provisions on secondary picketing in the 1980 Employment Act will be tightened, possibly by specifying that such picketing will need the approval of the employees concerned.

Belgium: Early Elections Scheduled for Nov. 8

Early parliamentary elections will be held on Nov. 8 to end Belgium's political crisis that resulted in the resignation on Sept. 21 of the four-party coalition government under Prime Minister Mark Eyskens. Willy Claes, economics minister in the outgoing cabinet, who had been appointed "informateur," said that he saw no chance for an agreement now among the feuding political parties.

The elections, which normally would not have been due until late 1982, are virtually certain not to result in any major shifts in Belgium's political balance of power because all parties are dependent on coalition pacts. At this point, the best chances are seen for a coalition of the Christian Democrats and Liberals, although this could drive the French-speaking Walloon Socialists further into a militant opposition. The Socialists had been instrumental in breaking up the Eyskens cabinet in a dispute over steel industry aids.

From an economic policy viewpoint, the waiting for the election date will necessitate the postponement of several urgent measures. The 1982 draft budget will be blocked until late November, which could lead to a dramatic rise in the budget deficit, now projected at BF 201 billion. Certain dangers are also seen for the government's credit policy because of the state's enormous borrowing requirements.

France: Nationalization Bill Goes to Parliament

Following cabinet discussions of changes in its nationalization bill proposed by the State Council, the French government has presented a slightly amended version of the bill to Parliament for debate. The only significant change concerns the mode by which shareholders' compensation is calculated. In the original bill the entire compensation was to be based on the average share value in the three years ending in 1980. Under the new terms, this method of calculation would be restricted to 50% of the amount of compensation, while 25% would be based on a com-

pany's net assets and 25% on average net profits. As a result, total compensation paid to shareholders in the five industrial groups affected would increase by 12%, although the effect on individual companies would vary greatly.

According to the French securities commission (COB), the total government payout for the takeover of the five industrial companies, 36 banks (including the Paribas and Suez financial holding groups), and the remaining private shareholders in the already nationalized banks will amount to about FF 35 billion. This excludes the state's 51% purchase of both the weapons manufacturer Matra and the aircraft builder Dassault. Rhône-Poulenc shareholders are now expected to receive an estimated FF 136 per share (21% more than in the earlier proposal). For Saint-Gobain, the compensation would be FF 156 per share (15% more) and for Paribas, FF 219 per share (4%).

Shareholders have nevertheless complained bitterly that the new formula is still unfair, especially since it is based entirely on figures for net assets and profits derived from the accounts of the holding companies and ignores hidden assets and profits retained in subsidiaries.

The government expects the parliamentary debate on the bill to last for several months, particularly since the opposition has tabled over 1,000 proposed amendments. In the interest of social peace, the government may accept a few of the amendments, but the bill is certain to be passed by the National Assembly by a large majority. The Senate, given its conservative majority, may reject the bill but could then be overruled by the National Assembly. Once the bill becomes law, however, a flood of court cases contesting its constitutionality is expected, particularly from private banks and their foreign shareholders. These legal challenges will attempt to make use of a State Council recommendation, rejected by the government, that in the interest of avoiding discrimination, foreign banks and domestic banks should be treated equally. This would have involved either nationalizing the foreign banks or else raising the threshold for nationalization from FF 1 billion to FF 3.3 billion in assets, thereby excluding all the foreign banks but also many important domestic ones.

Italy: Cabinet Agrees on Budget Deficit Cuts

Following a near-breakdown in negotiations, Italy's five-party coalition cabinet has agreed to present to Parliament specific plans for a 9,700-billion-lire cut in the projected 1982 budget deficit. After this year's expected 45,000-billion-lire deficit, the shortfall next year would otherwise have risen to 68,000 billion, according to most estimates, whereas even the total savings volume for 1982 is expected to be only 70,000 billion lire. Involved would be a 7,200-billion-lire reduction

in health service expenditures through the introduction of charges for many services, and a 2,500-billion-lire reduction in transfers to local authorities, who would be allowed to raise taxes in order to meet planned expenditures. The cabinet also agreed to ask Parliament to ratify the three-year plan for industrial reorganization which has been under discussion since the spring.

The main source of internal disagreement was a dispute between Treasury Minister Nino Andreatta, a Christian Democrat, who favored much larger cuts in the budget deficit matched by substantially higher levels of taxation, and Finance Minister Rino Formica, a Socialist, who wanted to reduce taxes and eliminate fiscal drag. Andreatta later gave a press conference at which he claimed that the real budget deficit will turn out to be 55,000 billion lire and that the government will have to spend a further 5,000 billion lire on investment measures under the three-year plan in order to gain trade union acceptance of the budget cuts.

Netherlands: Small Business Incentives; Jobs Plan

In the first concrete indications of how the new Dutch coalition intends to live up to its promise to combat unemployment, the deputy minister for economic affairs, Pieter van Zeil, has announced that the government will present to Parliament a comprehensive plan for small business development. Among the measures contemplated are subsidies and the granting of tax holidays of 3-5 years to new businesses. The government fears that unemployment, currently at 396,000 (9% of the working population), could reach 500,000 by next year. About 45% of the Dutch workforce is employed in small and medium-sized companies.

At the same time, Social Affairs and Employment Minister Joop den Uyl, the Labor party leader, has launched a public campaign for the government to spend 4 billion guilders annually on new jobs. Den Uyl proposed that the cost be met by a 1.5% real-term reduction in average incomes, weighted in favor of the lower-paid, as well as by cuts in public spending and increased taxation of Royal Dutch Shell and Exxon, the oil companies mainly involved in the exploitation of Holland's North Sea gas reserves. He also called for the government to establish an agreement with the banks and insurance companies on future investment policies.

Switzerland: Major Changes in Anticartel Rules Proposed

The Swiss government has proposed to Parliament major changes in existing anticartel legislation *(Doing Business in Europe, Par. 29,501)*. Agreements restraining the freedom to compete would

not be prohibited, just as they are not banned by current law, but the government would be given additional powers, especially to impose fines to control abuses committed by parties to such agreements. Any agreement to limit competition would be evaluated for its negative and positive elements, and only when the positive effects prevailed over the negative ones would an agreement be allowed.

Recommendations made by individual enterprises to other businesses such as wholesalers or retailers would come under government scrutiny, and so would distributorship agreements. Restraints on the freedom of competition would be tolerated only if they were not contrary to the public interest. The current provision allowing the government to monitor prices, heavily criticized because it has been ineffective, would be dropped.

Provisions in the bill on merger controls are an entirely new element. Parties to large mergers would have to notify the Cartel Commission. If the latter determined that the drawbacks of a completed merger, as seen from the viewpoint of public interest, outweighed the economic benefits, it could recommend to the government that the merger be dissolved. Only the Economics Ministry could actually dissolve the merger; an appeal against the rollback order could be lodged with the Supreme Court.

Another novelty would be the right of consumer organizations to go to court to attack restraints on the freedom of competition and demand compensation for damages sustained by the consumer.

Sweden: New Proposals for Employee Profit Sharing

New proposals for the establishment of an obligatory employee profit sharing system in Sweden have been advanced by the country's LO labor federation and the opposition Social Democrats, both of which held their annual congresses this month. Discussions of such a system have been going on for over ten years, but the emphasis has been changed in view of the precarious state of the domestic economy: whereas in previous years Sweden's left-wing factions had demanded a shift in the balance of power in favor of the workers, they now talk of the need to infuse new capital into the economy to stimulate growth and employment.

By their own judgment, the Social Democrats have "excellent" chances to return to political power after next year's parliamentary elections and to push through the establishment of employee profit-sharing funds. Their plan provides that employers contribute to 24 regional funds 1% of their payroll and 20% of that share of profits which exceeds interest yields of 15-20% on their capital resources. The funds, in turn, would use this money primarily to invest in industrial securities.

Revenue from the payroll levy would amount to SKr 2.5 bil-

lion annually and that from the profit sharing portion to about SKr 2 billion. Out of the total, the funds would purchase shares valued at SKr 2-3 billion, while the remainder would be made available to the general capital market via the AP pension fund.

According to the government's latest long-term calculations, Sweden's industry in the 1980s needs a boost in its capital resources of about SKr 4 billion annually in order to remain competitive. The Social Democrats are convinced that their "industrial democracy" concept will more or less cover these requirements. The party's leader, Olof Palme, told the delegates at the congress that "the employee funds are necessary in order to lead Sweden out of the crisis."

Business reactions to the proposal have been overwhelmingly negative. Olof Ljunggren, director of the SAF employers' federation, said that, in practical terms, the system would transfer some of the state's taxation rights to the unions. The employers' federation has calculated that the accumulation of share capital in the employee funds could lead to the latter's control of key industries within a relatively short time.

EURO COMPANY SCENE

Ford Nederland, the Dutch production subsidiary of Ford Motor Co., apparently is heading for bankruptcy following the parent company's announcement that it will cease to provide funds to the ailing plant as of Dec. 1. Originally, Ford had planned to shut down the operations at the end of September, but a court order prevented the closure pending an official inquiry. In the first half of 1981, the Dutch company reported losses of 50.7 million guilders.

Alexander & Alexander Services, billed as the world's second-largest insurance broker, has made a £150-million takeover bid for Alexander Howden Group of Britain, which has very extensive Lloyd's interests. The U.S. group was in the news recently due to the failure of its merger talks with the U.K.'s largest independent insurance broker, Sedgwick.

A $60-million tissue paper plant is to be built in Italy by Burgo-Scott, the 50:50 joint venture of the United States' Scott Paper and Italy's Cartiere Burgo. The plant, which will have an annual output of 48,000 tons, is to be completed in early 1983.

The operation of the Anglo-Norwegian Statfjord Field is to switch as of 1987 from Mobil, the U.S. oil company, to Statoil, Norway's state oil company. This decision, criticized by Mobil, was made by the outgoing Norwegian Labor government, but there are indications that it might be reversed by the new Conservative administration.

Common Market Reports

EUROMARKET NEWS

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Community: Substantial Headway on Fisheries Policy

After more than a year of intermittent discussions without any tangible results, the Council of Ministers made substantial headway in establishing a common fisheries policy on Sept. 29, when it reached agreement on a number of measures that are considered part and parcel of that policy. Agreement was reached on a draft regulation that would establish a common marketing organization for fisheries products. Key elements of the draft regulation, still awaiting formal approval, would be minimum prices guaranteeing stabler prices and protection against low-price imports. If prices of imported fish were below the Community's reference prices, protective measures could be taken within six days after the European Commission had received and examined the complaint. The proposal would also introduce an intervention system: fish could be removed from the market if prices dropped below minimum levels, and fishermen would be granted compensation for withdrawing up to 20% of their catch *(Common Market Reports, Pars. 745, 761).*

Equally important, the Sept. 29 compromise allows the im-

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plementation of the politically and commercially important fishing agreements with Canada and Sweden, and it clears the way for adoption of an EEC regulation permitting vessels from the Faroe Islands to fish in Community waters. Until Sept. 29, Britain refused to sign the initialed EEC-Canada agreement, hoping for concessions on other issues. In fact, the U.K.'s signature could be secured only on the condition that the 20,000 tons of cod and 5,000 tons of herring that the Canadians would be entitled to ship to the Common Market each year would not enter the U.K. at low prices. For the small but efficient German deep-sea fleet, the agreement with Canada means that German fishermen could catch most of the EEC's quota of 14,000 tons of cod in Canadian waters. Germany is the Community's biggest importer of fish, and German trawlers are eager to reach Canadian waters by the beginning of December, when the new season starts. Bonn gave its consent to the various measures on the condition that the Canadian legislature would approve the EEC-Canada agreement on time.

Agreement on the measures, including appropriations of some $30 million for development and improvement of the Community's fishing industry, was made possible only by postponing settlement of two major problems - fixing the total allowable catches (TACs) for 1981 and their distribution among the Member States, and access to a Member State's fishing waters. Britain has so far insisted on reserving the waters within the 12-mile zone for its fishermen alone; the other States want the 12-mile restriction eliminated by 1982. The Council is scheduled to return to these issues at the end of October.

Commission Plans New Energy Policy Drive

The European Commission is prepared to launch new initiatives for the further development of a common energy policy. Most of the initiatives would be designed to reduce the Community's dependence on imported energy, especially crude oil and natural gas. The efforts would concentrate on finding a common approach to natural gas imports, taxation and pricing of energy, investment in coal mines and coal-fueled power plants, development of nuclear energy, and ways of coping with temporary oil shortages.

Although there is no mention of a common energy policy in any of the three Treaties (Coal and Steel, EEC, and Euratom), the Community has been working toward such a policy for a long time. However, it was only after the first oil crisis in late 1973 that the governments of the Member States agreed that the Community needed effective measures for an energy policy immediately. So far, though, the energy policy has not advanced very far; it consists largely of the exchange of information and consultation between Member States and the Commission with respect to conditions and foreseeable developments in the supply situation. There is also a system of registering crude-oil prices; this is slated to expire on Dec. 31, but the Commission has pro-

posed extending it for an indefinite period. Although the Council also approved the Commission-proposed objectives for 1985 to reduce oil consumption and develop alternative energy sources, at the moment the Community is far from attaining these objectives.

Convinced that the Member States are willing to fulfill their joint commitment to a more coherent energy policy, the EC executive plans to submit detailed proposals. One proposal would be based on last year's agreement among members of the International Energy Agency to use crude-oil stocks to prevent upward and speculative pressures on spot market prices. If supply problems developed in one Member State, the Council would convene within three days and could decide to transfer crude oil from one State's stocks to another. The Commission also wants the Member States to commit themselves to having their energy prices reflect world market prices. Thus, those States that still favor energy consumption with a system of reduced prices and/or tax benefits (and thus also distort competition) would have to change policies.

The EC executive is also planning to propose harmonization of excise and turnover tax rates applied to energy consumption. Brussels observers see great difficulties ahead for this proposal as well as for the Commission's plan to force a review of existing or projected natural gas import contracts. Such a review would affect the current negotiations involving France, Germany, Italy, Belgium, and the Netherlands on the purchase of Soviet natural gas.

In Brief...

On Oct. 4 the Council of Ministers made several adjustments in the parities of four of the eight Member State currencies linked in the European Monetary System. Both the German mark and the Dutch guilder were revalued by 5.5% each; the French franc and the Italian lira were devalued by 3% each. In operation since March 1979, the EMS commits member countries (all EC Member States except Greece and the U.K.) to prevent their currencies from rising or falling against each other by more than 2.25% from the central rate; Italy is allowed a 6% margin, but otherwise all EMS currencies float freely *(Common Market Reports, Par. 3603)*. For months the D-mark has been rising in value, while the French franc and the lira lost ground, requiring massive intervention by the central banks of both countries and also support from other member countries + + + The Commission has set up a working group to study the ramifications of the French government's program to nationalize major industrial manufacturers and banks. Treaty Article 222 allows a Member State to change ownership and thus to nationalize sectors of industry, and so the Commission has remained silent about the French government's program. (Only Commissioner Karl-Heinz Narjes has

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taken a critical position on the matter in a public speech.) Nevertheless, Article 222 does not prevent those Member States affected by proposed French expropriation legislation from seeking a common approach to respond to the legislation.

Britain: Accountants Protest EC's Proposed Curbs

The U.K. government is strongly supporting British accountants in their mounting protests over proposed restrictions by the European Commission. These curbs would prevent auditors from providing their clients with advice on various related matters, such as taxation, which can be especially profitable. However, actual audit fees still constitute the largest element in the total earnings of U.K. accountants.

Reginald Eyre, a junior minister in the Dept. of Trade, has said that such a prohibition would have "serious effects" on the structure of the accounting profession in the U.K. It would be bad for industry, "obliging companies to employ two firms of accountants where at present one will do," and leading to less satisfactory advice and an increase in costs. "We shall resist this proposal vigorously," Eyre said, and he would leave the Commission in no doubt of the government's views on this particular aspect of the EC's draft Eighth Directive on Company Law *(Common Market Reports, Pars. 1350.55, 1411).*

Eyre's statement came in the wake of a meeting between the Trade Dept. and the six principal U.K. accounting bodies, which had expressed dismay at the effect of the proposals.

U.K. Securities Body Seeks to Slow 'Blitz' Takeovers

The U.K. Council for the Securities Industry, the City watchdog, is becoming increasingly concerned over recent takeover bids, when effective control of a target company was secured before the directors had an opportunity to consider the bid and advise shareholders. The Council considers it undesirable that such control should change hands in a matter of hours, before all shareholders are aware of what is happening and the board of directors has a chance to comment or to update market information. Since a change of control is an event of major significance in the life of a company and there are many considerations, including the interests of employees, the Council believes that the remedy lies in slowing down the rate at which a controlling position may be acquired. It has, accordingly, come up with a temporary solution, while referring the various issues involved to a committee, which is to find a long-term answer to the problem.

All target firms will now have a breathing spell of seven days within which to consider a takeover bid, inform shareholders, and mount a possible defense. The rules governing sub-

stantial acquisitions of shares have been amended, so that once prospective bidders have obtained 15% of the voting rights in a company, they may then not buy any additional shares for seven days. If they already have 15%, they may acquire an additional 5% of the voting rights. If they own 29.9%, a further 4.9% may be added before the seven-day moratorium. In addition, an option to purchase shares is now to be treated as an acquisition, for the purpose of these rules.

A potential bidder will not now be able to announce before the first closing date of the offer that his offer price will not be increased, since such a statement may lead shareholders to sell without waiting to hear the board's response. Takeovers of foreign companies remain unaffected by these changes.

France: Temporary Price Freeze to Control Inflation

To consolidate the franc's new parity within the European Monetary System and to curb inflation, the French economics and finance minister, Jacques Delors, has announced a wide-ranging temporary price freeze on goods and services. Delors said the government is seeking to reduce the annual rate of inflation from 14% to 10%, and this would be the wage restraint target to which Paris would like to commit both the employers and unions in upcoming discussions.

It is proposed to freeze the price of services at the level of Oct. 3 for a period of six months. A three-month price "stabilization" period is foreseen for "sensitive" food products, such as bread, milk, butter and margarine, sugar, and coffee. Importers' profit margins also are to be blocked at the level they held on Oct. 3; this would prevent these margins from absorbing import price increases caused by the franc's devaluation (8.5% against the D-mark).

The government has appealed to everyone to help in the "deceleration of price pressures." It "recommends" that industry restrict its price increases to a maximal 8% within the next 12 months, lest there be a return to official price controls. The state itself would observe the 8% ceiling in public tariff increases, with the exception of energy rates.

In reply to massive criticism that the devaluation percentage had been inadequate, Delors said that the franc now reflected a "realistic parity" vis-à-vis the D-mark, the lead currency in the EMS. However, he did not commit himself to the removal in the near future of the currency controls imposed in May and last month, and he could not predict a drop in interest rate levels.

Public reaction to the government's latest measures has been pessimistic. Observers said the Socialist administration, which includes Communist cabinet ministers, can expect some degree of cooperation from the labor unions, not excluding

the Communist-controlled CGT. However, the 1982 budget shows a finance deficit of about FF 100 billion, and the franc devaluation - while aiding French exports - will lead to a significant rise in import prices.

New Taxes in '82 Budget; Ban on Anonymous Gold Deals

On the basis of fresh estimates, the French government can expect annual revenues of FF 4 billion at most from the new wealth tax that has been proposed as part of the 1982 budget. As previously reported, the tax-free exemption would be FF 3 million, but this limit is to be raised by another FF 2 million for productive assets (business capital). Also, net investments could be deducted from the tax owed. On these terms, no more than 150,000 taxpayers would be exposed to the levy, the rates of which would vary between 0.5% and 1.5%.

The special levy currently imposed on the highest incomes, and affecting only some 100,000 taxpayers, is to be replaced by a so-called solidarity levy of 10% to benefit the unemployed. This levy is to finance half of the projected FF 12-billion deficit of the unemployment insurance system, while a bond issue would cover the other half. Affected by the surcharge would be 1.5-2 million taxpayers whose annual tax bill exceeds FF 15,000.

Another FF 1.5 billion in revenue would be gained from the reduction of maximum income tax allowances that a household may deduct for each family member. The government also would retain special levies on the windfall profits of oil companies and banks (FF 2 billion) *(Doing Business in Europe, Par. 40,085)*. The rates of the standard income tax are to be degressively adjusted to inflation. Some FF 10 billion would be raised via massive increases in excise duties on tobacco, alcohol, and fuels. The car registration tax *(vignette)* is to be boosted as well, probably by 25%.

The 1982 budget, approved by the cabinet on Sept. 30, is projected on an economic growth rate of 3% for next year. It foresees a deficit of FF 95 billion, which is 35% higher than that expected for 1981. The additional taxes would bring in a total of FF 36 billion. Major spending increases would benefit industrial aid (up 52%, to FF 34 billion) and employment (61,000 new public-sector jobs and a 45% boost, to FF 18.6 billion, in direct state aids to employment programs).

In other news, the government as of Oct. 1 prohibited anonymous gold transactions in any form. Any sale and purchase of gold - whether in the form of coins, bars, or ingots - must be logged in dealers' accounts, giving the name of the parties involved, their addresses, and the value and date of the transaction. On the first day of the decree's implementation, prices dropped dramatically on the Paris gold bourse - to FF 90,500 per kilogram after FF 94,790 the previous day. Dealers reported "near-panic sales" by small investors.

Italy: Budget Measures to Cut Borrowing Requirement

The 1982 draft budget presented to the Italian parliament by Budget Minister Giorgio La Malfa proposes a deficit of about 50,000 billion lire, consisting of an 18,500-billion-lire shortfall in current expenditure and a 30,700-billion-lire deficit in capital account. A substantial cut in the borrowing requirement is to be made through various measures. There will be, for instance, a 4,000 lire charge on all visits to the doctor and increased prescription charges (saving 4,700 billion lire), new local authority taxes to save 2,500 billion lire in government transfers, and increases in rents, postal charges, electricity rates, and air fares. Prime Minister Giovanni Spadolini has promised that in the future no new expenditure plans will be presented to Parliament without simultaneous proposals for their funding.

So far the premier has failed to obtain trade union cooperation for his plans for social spending cuts and a wage indexation reform. Prospects for success in any new discussions are thought to be limited, because of dissent among the various unions and as a result of pending strike threats. The employers' federation has also given the budget a frosty welcome, complaining that little has been done to reduce industry's wage costs. In fact, the budget does include the "fiscalization" of 7,000 billion lire in employers' social security contributions.

The economic forecasts on which the budget is based project 2% economic growth and 16% inflation for 1982, implying a real-term fall in GNP.

Netherlands: Unexpected Windfall in Corporate Tax Revenue

The Dutch Finance Ministry has reported a 109% increase, to 1.827 billion guilders, in corporate tax revenues for the first half of this year. With further data not yet available, The Hague has been unable to give a complete explanation of this "phenomenon." However, rather than reflecting improved business performance, the unexpected windfall is thought to be most likely the result of the remittance of taxes owed from previous years. At the end of last year, some 4.4 billion guilders in held-over taxes was outstanding, of which 1.4 billion was still owed from as far back as 1975. An additional factor, according to the ministry, was an increase in profits for the country's two natural gas producers, DSM and NAM.

Greece: State Incentives for 120 Investment Projects

The Greek Coordination Ministry reports that by mid-July it granted 120 applications for state incentive awards on the ba-

sis of Law No. 1116/81, which took effect last March. The authorizations covered both domestic and foreign investments totaling 14.2 billion drachmas. Major projects being given financial support by the government include two automobile assembly plants, valued at 1.1 billion and 1.5 billion drachmas, respectively, and the expansion of a textile production complex, requiring investments of 1.2 billion drachmas. Foreign investments supported by state grants and incentives include the construction of a pharmaceutical production plant (11.3 million drachmas) by Switzerland's Ciba-Geigy-Hellas.

During the initial period following the legislation's passage, the processing of applications had been held back by insufficient documentation submitted by potential investors. Thus, within the first two months, only 19 out of 715 applications were approved by the ministry and referred to the commission granting the actual permits.

Spain: 1982 Draft Budget; Employers Quit Pay Pact

Spain's 1982 draft budget envisages a 26% increase in public spending, to 3,533 billion pesetas, the result mainly of government efforts to stimulate the economy by a 24.8% increase in the public-sector capital investment program, which would affect energy, housing, and transport. Social welfare expenditures would also rise, with spending on unemployment assistance going up by 74%. The budget deficit of 698 billion pesetas (435 billion in 1981) is expected to represent 3.5% of GNP, and the government plans to finance it by floating bond issues of 247 billion pesetas on the domestic market and borrowing $1 billion abroad. The central bank will be expected to fund the remaining 350 billion pesetas directly. The budget is based on forecasts that GNP will rise by about 3% in real terms in 1982, given a 12% rate of inflation.

Much of the budget planning is based on an agreement between the government, the trade unions, and employers which stipulates a limit of 9% on civil servants' pay increases and of 9-11% on private-sector wage rises, in return for increased government spending on social services, the creation of 350,000 new jobs, and industry's efforts to boost employment. However, the leading employer federation, CEOE, has now withdrawn from the agreement in what is seen as a major attempt to pressure the ruling Christian Democratic UCD party to follow more conservative economic policies. CEOE president Carlos Ferrer Salat has objected to the slight rise in corporation tax and the size of the proposed budget deficit as well as to the government's agreement to allocate 800 million pesetas to the trade unions as part of a 2.4-billion-peseta compensation deal for property confiscated under the Franco regime.

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Community: France, Other States Disagree Over Economic Policy

Differences of opinion among the Member State governments over medium-term economic policy objectives have led to an open clash. The cause for the disagreement lies in the economic policy aims of France's Socialist-Communist government, which believes that unemployment can be overcome via vigorous economic growth. Deficit spending is one of the ways to achieve that policy, according to experts advising the new French government. Although some of France's aims are also backed by Denmark and Belgium, all other Member State governments have put inflation control ahead of reducing unemployment.

The divergent views came to a head recently when the Council of Ministers discussed the Commission's draft economic policy program for the next five years, the so-called fifth proposal. Representing the position of the new Mitterrand administration, the French officials argued that a real dent in cutting back unemployment can be made only by expanding government programs, increasing existing taxes, and introducing new taxes. This stance is in contrast, however, with the Ten's compromise agreement of last May, which also reflected the views of the

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previous Giscard d'Estaing government. At that time, there was a consensus that the Member States should give priority to combating inflation and do their best to improve businesses' competitive standing on world markets; this was considered the best approach to reducing unemployment over the next five years. There was also agreement that taxes should not be raised, government spending should be cut back, and the governments should exert influence on partners to collective bargaining to keep pay increases down. It was thought that these measures would improve conditions for private investments and thus create new jobs.

In order to make at least some progress toward the economic policy program, the Commission is suggesting a common approach to specific areas in which the States have few or no differences of opinion. Commissioner François Ortoli, in charge of economic policy matters, hopes that the Member States will agree on the promotion of energy-saving investments by industry, development of new energy sources, and support of industries considered to have a good potential. In order to provide the States with the necessary funds, the Commission is proposing an expansion of the Community's borrowing facilities.

Commission Wants Deeds, Not Words, From Japan

The EC executive has once again expressed its dissatisfaction over the fact that the Japanese government's many declarations of intent about how to improve the Community's negative trade balance have not really been followed up by deeds. Commission vice-president Wilhelm Haferkamp, in charge of foreign trade matters, told a 25-man delegation of Japanese business leaders and bankers that the EEC would impose import restrictions unless Japan comes up with concrete actions soon.

Aside from promises to Germany and Belgium to slow car exports, Japan has done nothing to correct the lopsided trade picture. (The EC's 1981 deficit in trade with Japan is expected to reach $16 billion - $4 billion more than in 1980.) The Commission has been pressing for a liberalization of Community exports to Japan, moderation in the aggressive export drives of Japanese manufacturers, and increased cooperation between Common Market-based and Japanese companies, but the head of the Japanese delegation and president of the national employers' association, Yoshihiro Inayama, puts emphasis on industrial cooperation. Commissioner Haferkamp believes that emphasis on cooperation would not bring a real change in the trade balance.

In Brief...

The Council has adopted two draft directives aimed at aligning national rules on veterinary medicinal products. Both measures

constitute a step toward the free movement of these products within the EEC. Under the directives the Member States commit themselves to adhering to the common analytical, pharmacological, and clinical standards and recognizing each other's test results as to the effectiveness and safety of the drugs. Adoption of the directives is also important for implementation of EEC rules on hormones + + + The Commission has fined the Dutch subsidiary of the French tire manufacturer Michelin 680,000 UA (nearly $700,000) for abusing its dominating position by operating a restrictive distribution network in the Netherlands. In the Commission's view, the subsidiary's discriminatory pricing policy violated Treaty Article 86. Michelin dealers were granted loyalty rebates, but others were not, which made it difficult for newcomers to enter the market, and competitors had a hard time staying in business + + + The Commission has started preliminary proceedings against 62 paper pulp manufacturers in countries outside the Common Market for alleged violation of EEC competition rules. These companies, mostly Swedish, Finnish, U.S., Canadian, Spanish, and Portuguese, have since 1973 allegedly sold newsprint in the Community at fixed prices in violation of Treaty Article 85(1). The Commission has given the companies three months to respond to the allegations. Representatives of the companies will also have an opportunity to express their views at a Commission hearing in Brussels, which is expected in January.

Germany: High Court Approves VW's Policy on Spare Parts

West Germany's Supreme Civil Court has approved Volkswagen Corp.'s policy of insisting that its 3,350 dealers and repair shops use only VW-approved replacements and spare parts. Invalidating a March 1979 order of the Federal Cartel Office that prohibited the automaker's practice, the high court ruled that a system of binding dealers guaranteed consumers a high standard of service. VW had not breached the Law Against Restraints on Competition (GWB), the court ruled (judgment of Sept. 22, 1981, Case No. KVO 8/80).

For decades Volkswagen AG has been insisting that VW dealers and repair shops install in VW motor vehicles only those parts that are manufactured either by the parent company itself or by VW's subcontractors. No dealer or repair shop is allowed to buy directly from subcontractors or wholesalers that are not bound by exclusive contracts with Volkswagen AG. In the Federal Cartel Office's opinion, VW violated the discrimination ban set forth in Sections 25 and 26 GWB by unreasonably hindering the dealers and repair shops from buying spare parts cheaper elsewhere *(Doing Business in Europe, Par. 23,511)*. The FCO issued an order prohibiting the practice, and the West Berlin Court of Appeal largely affirmed the order.

Setting aside also the appellate court's decision, the Su-

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preme Civil Court declared that a car manufacturer's spare parts business is economically and technically linked to its new car sales operation. Before deciding which car to buy, the potential customer considers what kind of service he can expect and how reliable the service might be, the court said, and he expects that the repair shop will use only those spare parts that the manufacturer vouches for in every respect. Thus it was not unreasonable for VW to deny dealers and repair shops the freedom of choice in buying replacement parts, the high court concluded. However, the court also added that it had not been shown that VW exploited its position stemming from the exclusive right of supply by putting an excessive markup on its spare parts. This could also have been a ground for barring VW's practice *(Doing Business in Europe, Par. 23,509)*.

Britain: Government Study on Worker Directors

In most British companies operating with employee directors on the board, the relationship between this system and the trade unions is "at arm's length and characterized by suspicion, if not conflict." This is the essential finding of a research study by the U.K. Dept. of Employment into seven employee director schemes operating in private industry between 1976 and 1979; the results have been disclosed in the Department's monthly publication, "Employment Gazette." Only in one instance were the unions fully involved. In three cases it was felt that the concept was incompatible with union activities, and otherwise it was met with "tolerant indifference."

While the systems were not highly regarded by many of the workforce, the board colleagues of the worker directors were more positive in their response - perhaps because the arrangements had been initiated from board level and had actually developed along the lines envisaged by their founders, introducing workers onto boards "on terms established by and favorable to the interests of existing directors." Many directors did, in fact, feel that the work of their board had improved by the introduction of the system and that "more rounded" decisions were the result.

The study is of particular interest in Britain in view of the stated joint intentions of the Labour Party and the Trade Union Congress to increase employee participation in British industry, which has made little progress since the recommendations of the Bullock Committee met with almost universal disfavor *(Doing Business in Europe, Par. 40,064)*.

Denmark: Investment Capital From Pension Funds, Insurers

Premature elections were averted in Denmark this month when the governing Social Democrats, in negotiations with three smaller,

supporting parties in Parliament, did not push further their demand for a stiff tax on the interest income of private pension funds and insurers if part of this income is not reinvested in industry. Prime Minister Anker Jörgensen had linked this demand with the threat to call new elections. The administration will now attempt to win the insurers' voluntary agreement to modify their investment policies.

Copenhagen would like to make more investment capital available to both industry and agriculture by introducing index-linked bonds with real-term yields of 2-3%. It wants the pension funds to channel some of their accumulated money into the economy rather than purchase state papers and mortgage bonds, which currently earn effective interest yields in excess of 20%. Investments in industrial shares or long-term bonds are earning far less at this time.

Because the interest income of pension funds and insurance companies is not taxed in Denmark, these institutions tend to accumulate capital rapidly, with yields of 10% or so after inflation. To make the proposed indexed bonds attractive, the government had proposed to slap a tax of 40% on the interest yields of bonds purchased by the institutions in the future.

The arguments over the need for such a tax come against the background of Denmark's rapidly worsening budget deficit, which in 1982 is expected to reach DKr 39.9 billion, or nearly 9% of GNP. Critics, which include central bank governor Erik Hoffmeyer, say that the government's continuing policy to finance its deficits via bond issues puts too much of a strain on the domestic credit market and helps drive up interest rates. This is why, they say, industry shows little inclination toward new investment, which would create much-needed new employment.

France: Assembly Endorses Energy Policy

The Socialist French government has won overwhelming parliamentary support for its energy policy, which steers a compromise course between Socialist Party demands for a radical cutback in the country's nuclear program and the previous government's commitment to rapid A-power expansion. In voting 331-67 on Oct. 8, the National Assembly approved a 10-year program providing for work to begin on six new reactors within the next two years. The previous Giscard d'Estaing administration had proposed nine reactors, and Socialist Party energy experts had advocated only four. Under the approved program, France's nuclear sector will have a production target within the next decade of 60-66 million tons of oil equivalent (mtoe), which compares to the 73 mtoe desired by the previous government. Energy savings and greater usage of coal are to make up the difference. The estimates of the country's total energy requirement in the year 1990 have been scaled down from 242 to 232 mtoe.

Italy: Wages Run Ahead of Inflation; Strikes Down

The most recent figures published by Italy's central statistical institute show that average wages and salaries have not only kept up with the current 19.7% rate of inflation but are often well ahead. Within the last reported 12-month period, agricultural wages rose by 22.6%, salaries in banking and insurance by 19.6%, and civil servants' salaries by 34.5%. The automatic wage index escalator contributed 14.1%, 9.3%, and 14.5%, respectively, to these increases. In industry, wages went up by 24.1% (index contribution 17.7%) and salaries by 19.2% (13.2%). For commerce and catering, the figures were 22.2% (16.4%) for wages and 21.6% (14.9%) for salaries.

At the same time, the total number of workdays lost as a result of strikes showed a marked decline to 47 million in the first eight months of 1981, compared with 71.7 million in the same period of 1980. In August of this year, only 400,000 workdays were lost, compared with 3.7 million in August 1980.

Portugal: First Private Investment Company Since Revolution

A private investment company, recently established following special permission granted by presidential decree, represents the first step toward the revival of a private banking sector in Portugal. Since the 1974 revolution, the constitution has expressly forbidden private banking, and some observers view the new decree as a way around the prohibition. The Sociedade Portuguesa de Investimentos (SPI) has an equity capital of 1 million escudos, 77.5% of which is held by a group of 103 Portuguese firms, 7.5% by a World Bank subsidiary, the International Finance Corp. (IFC), and 5% each by Germany's Deutsche Entwicklungsgesellschaft, France's Crédit Lyonnais, and Swiss Bank Corp.

The company has its head office in Oporto and plans to raise funds both on the domestic capital market and the Euromarket as well as by certificates of deposit, which it can issue in an amount up to ten times its own capital. The IFC has also provided $10 million in starting funds. According to its president, Arturo Santos Silva, SPI will give credit for large and medium-sized companies' investment projects, finance joint ventures between Portuguese firms and foreign enterprises, and provide suppliers' credits for Portuguese exporters. Concrete projects are said to be already in hand in the textile, machine-building and energy-saving sectors.

In 1980, foreign direct investment in Portugal increased 2.5 times over 1979 to reach 10.7 billion escudos. Some 68% of this went to the company sector, and 50% of all investment came from the European Economic Community. The principal investment sectors were the chemical industry, metalworking machinery and equipment, transport, and trading companies.

Switzerland: Hopes Fade on Budget Balancing by 1984

Finance Minister Willi Ritschard has expressed pessimism about the chances for meeting the Swiss government's target of balancing the federal budget by 1984, following a recent reassessment of the 1982 budget. Although the deficit for next year is already projected at SF 1.12 billion (following SF 1.17 billion this year and SF 1.07 billion in 1980), the underlying trend is now said to be upward once again. Last year the Finance Ministry had still hoped to bring the 1982 deficit down to SF 780 million, but since then proposals for two new taxes, which had been expected to add SF 370 million in revenues, have become bogged down in Parliament or are threatened by a negative referendum vote. These taxes would penalize excessive energy use and impose a duty on interest paid on fiduciary deposits held at Swiss commercial banks, mostly by foreign central banks and other financial institutions *(Doing Business in Europe, Par. 40,072)*.

Government ministers anticipate a higher budget deficit, partly as a result of Switzerland's increased rate of inflation (which adds heavily to the public sector's wage costs), higher interest rates, and the lower parity of the franc against the dollar. Expenditure is expected to grow by SF 1.6 billion (9.5%) in 1982, well above the current 6% rate of inflation. Revenues should rise by SF 1.7 billion so long as economic growth does not seriously falter - an assumption over which considerable doubt has been expressed.

EURO COMPANY SCENE

The United States' Quaker Oats has confirmed that it proposes to make a public offer for the remaining 17.7% share capital in the Italian food group Chiari e Forti still held by minority shareholders. Since early 1979 Quaker Oats has been the majority shareholder (82.3%) in Chiari, which reported net earnings of about 2 billion lire in the 1980-81 business year, down from 3.45 billion the year before.

Reports in the German financial press are speculating on the possibility of the sale of the Löwenbräu brewery as part of the current policy of the Bavarian Hypo-Bank to divest itself of its substantial brewery holdings. A likely purchaser for the prestigious Munich-based brewing company is considered Miller Brewing Co. (Philip Morris) of Milwaukee, which produces and distributes Löwenbräu beer under license in the United States.

Pending the approval of the U.K. Office of Fair Trading, the U.S. retail chain group F.W. Woolworth is planning to acquire for £20.1 million Britain's Dodge City chain of 81 do-it-yourself stores.

Switzerland's La Générale SA, a holding company for the Uhrenindustrie watch-making group, has sold its production plant for watch casings to the United States' Robinson Nugent.

Arbuthnot Latham Holdings, the London merchant bank, is to be purchased by Dow Scandia Banking Corp., London, in which Dow Chemical's European banking interests are grouped. The deal values Arbuthnot's ordinary share capital at about £24 million.

First Interstate Bank of California last month opened a representative office in Milan.

The Bank of Finland and governmental authorities have granted the application by Citibank to set up a Finnish subsidiary with a share capital of FM 20 million. Citibank thus becomes the first foreign bank to establish a subsidiary in Finland under a 1979 amendment to the banking act. It may not, however, set up branches in Finland nor own real property or shares in real property companies.

Marsh & McLennan Co., New York, which is regarded as the world's No. 1 insurance broker, has plans to divest itself of its British finance house subsidiary, Bowmaker. Offers exceeding £50 million are expected from prospective purchasers.

Glücksklee GmbH, German subsidiary of Carnation Co., the U.S. foods company, has taken a 50% equity in the share capital of Lünebest Molkerei, a leading German producer of milk products. Lünebest expects sales in excess of DM 190 million this year.

The German city of Kaufbeuren is purchasing from Olympia-Werke AG, an office equipment manufacturer, a 22,000-square-meter plant site and plans to lease it to the newly established German subsidiary of International Duplicator, Plainfield, N.J. The intention is to save jobs that would otherwise be lost as a result of the closure of the Olympia plant.

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EUROMARKET NEWS

Issue No. 667 *Report No. 434, October 27, 1981*

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Community: Privileged Information in Test Case Before EC Court

Business lawyers are once again focusing their attention on a case before the European Court of Justice involving the disclosure of privileged information *(Australian Mining and Smelting (AM & S) Europe, Ltd. v. Commission,* Case No. 155/79). The appeal was brought by a British company against a July 1979 Commission decision ordering AM & S to submit certain correspondence between company lawyers and a law firm counseling the company *(Common Market Reports, Par. 10,153)*. The matter should have been wound up early this year, since the Court heard the parties' arguments once before in late 1980 and the Advocate General delivered his conclusions last January. However, in a rare move, the Court decided in February to reopen oral proceedings. The rehearing was to take place on Oct. 27.

The case arose from a surprise visit at AM & S's headquarters by Commission officials who wanted to look at the company's files for evidence of price fixing and market-sharing arrangements to which AM & S and a number of other zinc producers and sellers were allegedly party, in violation of Treaty Article 85(1) *(Common Market Reports, Pars. 2005, 2011)*. The officials

This issue is in two parts. This is Part I.

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were granted access to all documents except the correspondence between lawyers of the company's legal department and outside counsel that the company said was privileged information. Subsequently, the Commission issued a formal decision ordering the company to grant access to the correspondence.

Two main issues are involved: Is the concept of privileged information a principle of law of all Member States and, therefore, also a principle of EEC law? If so, who should decide whether a particular document is protected by that privilege? Former Advocate-General Jean-Pierre Warner said in his conclusions delivered on Jan. 20, 1981, that all Member States protect relations between a lawyer and his client. Warner could not imagine which Community institution could settle disagreements between a party and the Commission about whether a document is protected by the privileged information doctrine. This is a matter for the national courts, the Advocate-General concluded.

Pay Indexation Remains Topic for Council

Finding ways of loosening the rigid systems of indexing employment incomes to prices will remain on the agenda of Council meetings in the coming months, according to Community officials. The EEC Monetary Committee and the Coordination Group for Economic Policy are also scheduled to take up this issue in order to help Member States that are applying indexation to make adjustments that experts agree are necessary. Only the unions are opposed to any change. Commission economists point out that the need for a modification was demonstrated most recently by the adjustments of the central rates of four of the eight currencies joined in the European Monetary System.

At present, Belgium, Luxembourg, and Italy apply an automatic system of linking the consumer price index to hourly wages. In Denmark and the Netherlands, wages are adjusted semiannually on the basis of a special index that disregards the effects of raised excise taxes and other factors, such as increased prices for energy or medical services. In all other States, to the extent that it exists at all, automatic indexation is limited. In France it is confined to adjusting minimum wages. The most recent collective wage agreements in Greece and Ireland provide for compensation should consumer prices rise by 20% and 10%, respectively. Germany bars any type of indexation.

Indexation has helped settle wage disputes and prevent labor unrest, but it has drawbacks for any single economy and the economies and currencies linked in the EMS. Indexation does not reduce balance of payments deficits, promote real economic growth, or lower inflation. Thus, the Commission has become active to bring about a change for the better. The Council agreed to the Commission's proposal that the mechanisms for indexing nominal income should be made more flexible or be limited. The

European Council, at its Maastricht meeting last March, said an adjustment should be considered.

The Commission has presented some other ideas in a brief report to the Council. In view of the limited powers the Community has in influencing Member States' economic policies, it is also important that Commission Vice-President François Ortoli is going to talk to labor union leaders in Italy and Belgium in the hope of getting the unions to relax their opposition. The Commission recommends an adjustment of indexing systems to give employers some relief and also slow inflation. The Commission would like to see indexation, whether provided by statute or union contract, ignore events over which employers have no control, such as higher excise tax rates or increased fares for public transportation.

In Brief...

The European Parliament has demanded Community controls for multinational companies. In a resolution adopted on Oct. 14, the EP suggests that EEC legislation should introduce rules on accounting, intercompany pricing, and merger controls + + + Italy and France have reached an understanding that could end the three-month-old wine dispute between the two countries. Roughly one million hectoliters of cheap Italian wine have been impounded by French customs. The understanding provides for the release and clearance of the impounded wine within two months.

Italy: Income Tax Rebates Proposed for Current Year

After recently suffering massive increases in a number of indirect taxes and public tariffs, Italy's taxpayers for once can anticipate actual tax cuts for the current fiscal year. The government has decided that both the employed and self-employed should be given tax rebates of 3% plus higher deductions. It is expected that the pertinent draft legislation will pass Parliament without problems, since the parliamentary party factions have generally accepted the proposals submitted by Finance Minister Rino Formica. The taxpayers will, however, have to wait another year for the repeatedly promised reduction in tax rates, which would have to take into account this year's 18% rate of inflation.

The gross reduction of 3% now in the parliamentary pipeline would affect employment incomes of up to 30 million lire annually. Incomes exceeding this limit would be subject to a uniform fixed tax reduction of 252,000 lire. The boost in allowable deductions, from 108,000 to 180,000 lire, would benefit those taxpayers who have spouses with no earned income of their own. A further concession is the government's decision not to collect for this year the 0.5% extraordinary tax surcharge set aside to

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finance reconstruction in the quake-damaged regions of the Mezzogiorno.

Formica's proposals would be to the advantage principally of earners of low incomes (up to 15 million lire annually), who can expect total tax rebates of 229,000 lire - equivalent to 7.1% of their current tax burden. Those with employment incomes above 30 million lire would enjoy a total reduction of 384,000 lire, which corresponds to a cut of 4.6%. In practical terms, these tax rebates would be reflected in the "13th-month" wages and salaries paid at the end of this year and in the 1981 tax declarations to be filed by the self-employed in May 1982.

Observers say that the government views the proposed tax rebates, particularly as they would apply to low-income groups, as a concession in its efforts to secure the labor unions' cooperation in defusing the *scala mobile* wage indexation system. So far, however, the unions show no sign of relenting on that issue.

Rome Introduces Rules for Investment Funds

For the fourth time since 1964, an Italian government is making an attempt to provide a legal basis for the operation of investment funds in Italy. All previous efforts had failed to clear parliamentary obstacles, the last time in 1972.

According to draft legislation worked out by Treasury Minister Nino Andreatta and now partially endorsed by the cabinet, investment funds could not be operated by partnerships but only by companies with a minimum capital of 1 billion lire. The number of funds is to be limited to three per investment company. Most important among the proposed criteria is that a fund may not hold more than 20% of the share capital of any company; this quota is reduced to 5% for companies quoted on the stock exchange. Another condition to be imposed is that a maximum 5% of a fund's total securities investments may be invested in one company.

The cabinet is still divided over the issue of the funds' taxation. Andreatta is advocating certain concessions, whereas Finance Minister Rino Formica is opposed to any favorable fiscal treatment of the funds. Prime Minister Giovanni Spadolini has reserved for himself the final word on the matter, and the cabinet is scheduled to take up this issue once more.

Stockbrokers and the financial community feel that Rome's introduction of rules for investment funds is needed to give the stock market a much needed boost of confidence. Trading volume on the bourses has been persistently low, and new capital issues being raised by major companies have not helped matters. It is hoped that the investment funds will bring more capital to the market and help counterbalance severe price fluctuations. Last June, Consob, the regulatory agency, was forced to avert a market crash, and since then the market has been ailing.

At present, only 11 of a larger number of investment funds are authorized to operate on the domestic market; virtually all of them are operated by state-controlled or private banking and finance institutions. Last year the net assets of the authorized funds more than doubled from 509 billion to 1,127 billion lire, according to central bank statistics.

Germany: Comprehensive Job Safety Code Drafted

The German Labor Ministry has put together the first draft of a comprehensive job safety code which would combine rules scattered about in a number of laws, expand their scope of application to include farming, and adapt them to modern requirements. A new job safety code would create new obligations for employers and more rights for employees. Employer organizations and the unions will get a chance to comment on the widely criticized plan when the government seeks their opinion, probably in November, before sending the measure to Parliament.

Basic job safety rules are contained in the 1891 code governing industry, trade, and handicraft *(Gewerbeordnung)*, which established a dual approach to enforcement via the state business supervisory agencies *(Gewerbeaufsichtsämter)* and the semipublic trade organizations *(Berufsgenossenschaften)*. The new code would retain the dual system, but, heeding an old demand of the unions, it would provide for the establishment of councils to be attached to the supervisory agencies. The councils, to be made up of an equal number of representatives of industry and union organizations, would get better and faster results in the enforcement of job safety rules, according to the unions.

Maximum working hours, overtime, and rest periods are regulated by a 1938 statute *(Arbeitszeitordnung)*, which is considered behind the times because it is based on a maximum 48-hour workweek and a maximum of two hours' overtime per day. At present, four-fifths of the 21 million people in employment work no more than 40 hours a week. Since the issue of what the new permissible workweek maximum should be is hotly disputed, the draft does not have concrete figures. However, Bonn observers expect agreement on a flexible clause, leaving details on maximum daily and weekly working hours and rest periods to collective bargaining.

There would be several legal changes important for employers and employees alike. Most statutory bans barring women from certain jobs or trades or restricting their working hours at night have been repealed in compliance with the EEC's equal treatment legislation *(Common Market Reports, Par. 3910.123; Doing Business in Europe, Pars. 23,431, 40,006)*. Several curbs would still bar women from certain jobs, especially in the steel and construction industries. On the other hand, the future code would stiffen existing rules enacted specifically to protect

women, such as during pregnancy *(Doing Business in Europe, Pars. 23,433A, 23,433C)*. The drafters also suggest that employees be given a statutory right to complain to management about unsafe working conditions and even the right to refuse work under such conditions.

Britain: Still No Intention of Joining EMS

The Chancellor of the Exchequer, Sir Geoffrey Howe, has made it clear that the British government has no intention at present of joining the European Monetary System. He said that it was an option to which close attention continued to be given since the EMS is designed to achieve currency stability in Europe, and the government had never cast doubt on the validity of that aim. However, the government had repeatedly made it clear that the problem about sterling's membership arose from "the fact that the effects on sterling of developments in the oil market are the opposite of their effects on other Community currencies."

Sir Geoffrey said that it was "moonshines" to suggest that tying the U.K. currency to the currencies of its neighbors would enable Britain to spend its way back to full employment - "the truth is almost precisely the reverse." He emphasized that participation in a currency alliance inevitably diminishes the freedom of action of the participants, and "a country which, for whatever reasons, finds its currency under pressure, is expected to take prompt action to relieve that pressure."

In Sir Geoffrey's view, no amount of European exchange controls and coordinated reflation with the U.K.'s European partners "could effectively shield our currency or our interest rates from international pressures." He concluded that if the U.K. reflated alone, sterling would fall out of the EMS, and "if we reflated together, we would face together the inflationary twist of higher import prices as European currencies plummeted against the dollar."

These comments have come at a time when the U.K. is being increasingly urged to become a full member of the EMS. Dr. Wilfried Guth, a chief executive of Germany's Deutsche Bank and a close adviser of Chancellor Helmut Schmidt, has stressed that the present fall in sterling makes this a good time to join and thus to limit exchange rate fluctuations.

Greece: Papandreou's Socialists Win Elections

The Greek business and industrial community has appealed to the new government to declare "swiftly and clearly" its plans for the country's economic future. There was speculation on the imposition of a price freeze, drastic currency controls (to prevent a flight of capital), a currency reform, and the expansion

of the public sector in the wake of the Oct. 18 general elections, which brought the resounding victory of the Pan Hellenic Socialist Party (PASOK) under Andreas Papandreou. The latter introduced his cabinet on Oct. 22, taking over from Prime Minister Georgios Rallis and the conservative New Democracy party. Thus, Greece now has the first left-wing government in its history.

According to results that were not yet final, PASOK had won 47.7% of the vote and 174 mandates in the one-chamber, 300-seat Parliament. (In the previous national elections in 1977, the party had gained 25.3% and 94 mandates.) The New Democracy wound up with 35.7% of the vote and a probable 112 seats, compared with 41.8% and 177, respectively, in 1977. The Communists won 10% (9.3%) of the ballots and will have 14 (11) mandates. No other parties will be represented in Parliament, which is scheduled to convene on Nov. 16.

Netherlands: Mediators Attempt to Revive Center-Left Cabinet

Following the proferred resignation of the Netherlands' 35-day-old center-left coalition on Oct. 16, Queen Beatrix has appointed two Labor party *informateurs* to attempt to bring the three coalition partners back together. Despite the fact that most leading representatives of all three parties apparently want the attempt to succeed, the mediators, Prof. Victor Halberstadt and Prof. Cornelis de Galan, both economic experts and members of the Social-Economic Council, are facing a difficult task. Should they fail, further elections are seen as inevitable, unless the Democrats '66 renege on their promise not to enter a coalition with the right-wing Liberals.

The crisis originated with the inability of the government to agree on means for financing a program to create 30,000-40,000 new full-time and 30,000 part-time workplaces in the next four years. Unemployment, currently at 400,000 (9.6%), is predicted to rise to half a million by the end of 1982. The plan would have cost 4 billion guilders, of which 3 billion guilders was to be generated through reductions in government spending and 1 billion guilders through increased windfall profits taxation from natural gas production companies (Shell and BP).

France: Accelerated Debate on Nationalization Bill

Employing a constitutional device often criticized by his own Socialist Party when it was in opposition, Prime Minister Pierre Mauroy has declared the nationalization bill covering five major French industrial groups, 36 banks, and two financial holdings an "urgent measure." This permits the government to limit debate to only one reading of the bill in each house of Parlia-

ment, followed by final consideration by a conference commission. The reasons for the attempt to push the bill through at top speed are both the opposition's acknowledged delaying tactics and the danger that important foreign subsidiaries of firms to be nationalized will be sold off to foreign buyers before the legislation is passed.

The parliamentary opposition has tabled nearly 800 amendments and demanded to have each one dealt with individually. It has also promised to refer the bill to the Constitutional Council, against whose decision there is no appeal *(Doing Business in Europe, Par. 22,605)*. The government, however, is confident that the Council will not risk challenging the will of the elected assembly.

The decision to speed up the legislation has been prompted in part by the threat of major shareholders, including the U.S. group A.G. Becker, to stop Paris from nationalizing the Swiss subsidiary of the leading French investment bank Paribas (Cie. Financière de Paris et des Pays Bas). There has been talk of selling Paribas Suisse, one of Paribas's largest foreign outposts, for $418 million to an international investment group. The secretary of state for expansion of the public sector, Le Garrec, said the government was trying to prevent "major centers of economic power" from passing into foreign hands, and Mauroy himself has even attacked senior bank officers for what he called their "emigrant mentality."

Belgium: Government Debt on Rise; Language Dispute

Latest figures show Belgium's national debt rising to BF 2,400 billion at the end of September, including BF 327 billion owed to foreign lenders. The debt rose by BF 47 billion during September, compared with BF 27 billion in the same month last year. In the course of the current year, the government (excluding other public bodies) so far has had to raise BF 437 billion on the capital markets to cover its deficit, including BF 175 billion abroad. In the first three quarters of 1980, the borrowing requirement was only BF 278 billion. The final total for 1981 is expected to be BF 470-500 billion.

In other news, the run-up to the early general elections announced for Nov. 8 has been increasingly dominated by Belgium's bitter language rifts. For several days in mid-October government operations were paralyzed when caretaker premier Mark Eyskens suspended cabinet meetings after the French-speaking education minister closed the Flemish section of a school in a Francophone area. Only the intervention of King Baudouin persuaded ministers to carry out their day-to-day duties.

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Community: AG Sides with Commission in IBM Case

In IBM's legal fight against the Commission, Advocate-General Gordon Slynn is supporting the EC executive. Delivering his conclusions in the first of two cases pending before the European Court of Justice involving the computer multinational and the Commission, Slynn took the view that the acts contested by IBM do not amount to "decisions" within the meaning of Treaty Article 173 and that therefore IBM's application to annul them should be held inadmissible. IBM thought that the Commission's acts initiating proceedings against a possible violation of EEC competition rules and its statement of objections were full-fledged decisions and, therefore, should be subject to judicial review. Commission attorneys say that IBM's position is contrary to both prevailing doctrine and case law of the Court of Justice (*IBM v. Commission*, Case No. 60/81).

For a number of years the Commission, which had received complaints from several of IBM's competitors, has been investigating the marketing practices of the multinational and its subsidiaries in order to determine whether these practices amount

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to an abuse of a dominant position on the market within the meaning of Treaty Article 86 *(Common Market Reports, Pars. 2101, 2111)*. In December 1980 the head of the Commission's antitrust division sent IBM a letter to the effect that the EC executive had launched an investigation pursuant to Article 3 of Regulation No. 17/62 and that it intended to make a decision regarding the infringements. A statement of objections, as provided for in Article 19 of Reg. 17, was sent along with the letter. At the same time, IBM was invited to submit its reply in writing and was also informed that it would be given an opportunity to state its views at a hearing later on.

In its statement of objections, the Commission maintained that IBM had a dominating position and that it had abused that position by effectively excluding competitors from a considerable market of software compatible with IBM's machines. On receipt of the letter and the statement of objections, IBM asked the Commission for details of why an investigation was being launched and why the statement was prepared. After the Commission refused, saying these decisions were internal ones, IBM told the EC executive that the administrative procedure was defective; the company demanded withdrawal of the statement of objections and termination of the proceedings. Without waiting for the Commission's reply, IBM asked the Court of Justice to void the Commission's decisions to launch an investigation and prepare a statement of objections.

The Court of Justice must decide whether the Commission's acts initiating proceedings and preparing a statement of objections constitute "decisions" within the meaning of Treaty Article 173 *(Common Market Reports, Pars. 4635, 4636)*. Slynn did not accept the Commission's argument that, if IBM succeeded in showing that the contested acts were such decisions, any administrative act of the Commission could be challenged. Nevertheless, he felt that IBM's arguments were not convincing.

Veterinary Measures Submitted to Council

The Commission has submitted to the Council of Ministers several proposals pertaining to animal health and veterinary standards. All of the measures, in one way or another, concern intra-Community trade or trade with third countries.

One draft directive would require the Member States to inform each other and the Commission within 24 hours of an outbreak of any of the 11 diseases listed in Annex A, among them foot-and-mouth disease, cattle plague, or any new serious transmissible diseases. Another draft directive would deal with health problems arising from the use of antibiotics in farming. This measure would be a follow-up to the Council's action taken last July to ban the use of specific hormones and thyrostats *(Common Market Reports, Par. 958.31)*. The purpose of the proposal is to lay down principles for checking that meat does not

contain detectable residues of antibiotics. The States would have to make sure that random checks are carried out by veterinarians in slaughterhouses. (The meat of two out of 100 animals slaughtered would have to be checked.) If residues were detected, the veterinary authorities would have to identify the farm the animal came from and prohibit the owner from selling livestock from his farm until residues no longer exceeded the minimum permissible levels.

Included in the series of proposals are also important amendments to Council Directive 462/72, which lays down health and veterinary standards for the importation of livestock and fresh meat from third countries *(Common Market Reports, Par. 958.11)*. Since 1972, the year the directive was adopted, there have been many scientific and technological developments that the Commission feels should be taken into account, so that slaughtering occurs under the best hygienic conditions possible and that the most effective methods are applied in fresh meat inspection.

Since the standards applicable in intra-Community trade in fresh meat were raised in 1974, the Commission is proposing that the raised requirements also be applied to fresh meat imports from third countries. This would involve primarily the updating of the technical provisions contained in the annexes to the directive. Importation would involve less red tape if the Council adopted the Commission's proposal to permit both animal health and public health certification on the same document.

Germany: Higher Insulation Standards for Buildings

The German government has proposed higher insulation standards for buildings and tightened operational requirements for heating units. For the first time, there would be rules designed to avoid wasting energy in the operation of air conditioners. Enactment of the raised standards would result in substantial energy savings. The additional expense involved in complying with these standards would, in the long run, be paid for by savings realized in lower heating oil bills, according to the government. Compliance with the higher insulation standards, which would apply not only to new buildings but also to any expansion or modernization of existing ones, would add 2% to construction costs.

Under the 1976 Energy Conservation Law, the federal government is authorized to issue regulations establishing insulation standards and maintenance requirements for heating and air conditioning units. Only the Bundesrat's approval is needed for passage of such regulations, and the government hopes that the upper house of Parliament will approve the two proposals in the first half of next year so that they could take effect on June 1, 1982 *(Doing Business in Europe, Pars. 23,550, 23,550A)*.

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Two regulations requiring insulation of exterior walls, windows, and roofs for new private houses and commercial buildings and establishing maintenance requirements for heating units have been in force since November 1977 and are already showing results in terms of energy savings *(Doing Business in Europe, Pars. 23,550B, 23,550D)*. But the government says that there is still room for improvement. The ultimate objective is to lower heating oil consumption by one-third by the year 2000.

According to the proposal on the operation of heating units, boilers could not have more capacity than that needed to heat the building in which they are installed. Pipes conducting hot water would still have to be better insulated than the 1977 regulation required. All units installed in newly built and existing buildings would have to be equipped with control devices to prevent the waste of energy. Owners of existing buildings would have a three-year transitional period to install the heat control devices. Air-conditioned buildings would have to be equipped with windows that reduce the impact of solar rays.

France: Foreign Banks Reject Compensation Terms

Following a London meeting on Oct. 26, a group of 16 international banks and financial institutions with minority shareholdings in French banks have rejected the compensation terms offered under the French government's nationalization program. In a communiqué, the banks declared that the proposed compensation falls short of "generally accepted principles of international law concerning adequate, prompt, and effective compensation." (In reply, the government made it clear that it has no intention of raising compensation. Jean le Garrec, minister in charge of the nationalization program, said there was "no question of a revaluation" of the proposed terms.)

Among the institutions represented at the meeting were the United States' Wells Fargo and Philadelphia National Bank, plus Belgian, British, Dutch and German banks. Not all the participants were named. Two weeks earlier, a similar group had met in Brussels.

The banks said that, if it was not possible to find a solution acceptable to both sides, they would deploy all legal means at their disposal to win "adequate, prompt, and effective compensation." It was suggested that consolidated accounts be used as a basis for evaluation and that the last four years of inflation be taken into account. The representatives argued that the weight given in the government's compensation proposal to share prices was "far too high," considering that political uncertainties had often depressed prices during the reference periods. They said compensation should be immediate and in cash and should take into consideration such factors as inflation, currency fluctuations, and French taxation. The 15-year government bond proposed as compensation would be of limited interna-

tional negotiability, they said, "due to its domestic fiscal status."

In related news, Paribas-Suisse, the Swiss branch of the leading French bank Paribas, has succeeded in escaping nationalization by being taken over by Pargesa Holding, a Swiss financial group. The swift deal caused angry reactions in the French government and in Parliament, where both Premier Pierre Mauroy and Economics Minister Jacques Delors denounced the coup as an "assault on French sovereignty." Paribas chairman Pierre Moussa resigned from his post amid speculation over his part in the transaction. Also, it was not certain whether the new Paribas management would succeed in averting a foreign takeover of Paribas's Belgian branch, Cobepa. It was revealed that direct control of over 10% of the Cobepa share capital had been lost recently, so that Paribas was left with less than 50%.

Interior Minister Gaston Defferre, meanwhile, has proposed that the nationalization law be amended to enable the government to bar retroactively any company from severing its foreign affiliates to save the latter from nationalization.

Elsewhere on the nationalization front, pressure by its U.S. partners has prompted Matra, the French armaments and electronics group due to be nationalized, to obtain government authorization to renegotiate shareholdings in its joint ventures with these U.S. companies (Harris, TRW, Intel, and Tandy). Apparently, the American shareholders are unwilling to remain in ventures that would be majority-controlled by the French state. The French government, in turn, wants to protect its access to U.S. microchip technology.

Greece: Papandreou Cabinet Takes Oath of Office

The 21-member cabinet of Greece's new Socialist government took its oath of office on Oct. 21 and was exhorted by Premier Andreas Papandreou to forget all election campaign controversies and present itself as "the government of all Greeks." Observers took note that most of the cabinet ministers were relatively unknown to the general public, that about half of them were jurists by profession, and that, compared with previous cabinets, their average age was fairly low, at 52.

In addition to the premiership, Papandreou himself also heads the defense ministry, the new administration's relationship with the armed forces being a key component in its political future. The important economic coordination ministry was given to Prof. Apostolis Lazaris, 61, who for many years served as an adviser to the United Nations. He will be instrumental in drawing up an economic stabilization program, which is among the first priorities of the government. The best-known and most popular member of the Papandreou team is actress Melina Mercouri, who heads the cultural and science ministry. She was ac-

tive in the Greek resistance movement during the years of the military dictatorship and has been a Socialist member of Parliament since 1977.

Italy: Two-Month Extension of Price Freeze; Strike

The voluntary price limits agreed between the Italian government and producers and retailers have been extended for a further two months, from Nov. 15 until Jan. 15. The limits have been in operation since Sept. 15 and affect a group of 20 essential food commodities. According to industry and trade minister Giovanni Marcora, who negotiated both the original agreement and its extension, the system has provided "relatively satisfactory" results so far, and the extension would help restrict the traditional pre-Christmas round of price increases. In the first month of the agreement, sales of goods covered by it increased by 26%.

In other developments, a four-hour warning strike called by the country's three main trade union federations on Oct. 23 took on the dimensions of a general strike when it was joined by hotel and catering workers, 1.5 million farm laborers, and substantial numbers of civil servants. Altogether 10 million people, including 7 million industrial workers, took part in the stoppage, the aim of which was to demonstrate dissatisfaction with the government's austerity policies and the employers' refusal to give in to union demands for higher wages. Collective contracts covering many categories of workers are due for renegotiation this fall.

Neither the government nor the employers seem likely to change their stand. Some weeks ago negotiations broke down between employers and labor representatives over a modification of the *scala mobile* wage index system so as to ease the impact of growing wage costs on Italy's hard-pressed export sector. Since then, inflation has shown signs of accelerating once more, with the October consumer price index showing a 2% gain on September. Both Treasury Minister Nino Andreatta and Budget Minister Giorgio La Malfa insist that continued inflexibility in the trade unions' demands would mean a collapse of the government's economic policy, which is substantially based on a 16% inflation target in 1982. As the warning strike went ahead, party secretaries from the five government coalition parties met with Prime Minister Giovanni Spadolini and assured him of their full support for the administration's policies.

Netherlands: Basic Agreement to Maintain Coalition

Holland's Labor Party (PvdA) has acknowledged its readiness to maintain a coalition with the Christian Democrats and the left-liberal Democrats '66, which has given rise to hopes that the

current government crisis can be resolved soon. The other two parties previously indicated their willingness to continue in the coalition. However, the delegates of a special PvdA convention reiterated the party's previous demand that a 4-billion-guilder employment program be made part of the new government's overall policy program. A dispute on how the financing of such a massive jobs program could be squared with the need to contain the budget deficit led to the Oct. 16 resignation of the Van Agt cabinet, after only five weeks in office. Two mediators are now trying to negotiate a compromise, which would enable the three parties to make a fresh start.

Norway: Economic Policy Plans; Oil Workers' Pay

Norway's new Conservative government, which took office the day after the outgoing Labor administration presented a draft budget for 1982, is expected to set the accent for its policy program by significantly altering key details of the budget. According to Finance Minister Rolf Presthus, taxpayers will be protected from both an increase in taxation and a fall in real disposable income. Both would have resulted from implementation of the draft budget as it stands, with temporary concessions on income tax granted this fall being dropped and social insurance contributions rising.

Labor's budget draft counterbalances measures to keep unemployment down to its present level of 2% with curbs imposed on demand and price pressure. Both revenues and expenditures are scheduled to increase by 9.5%, for total revenues of NKr 110 billion and a slightly higher deficit of NKr 7.5 billion. In fact, the budget shows a surplus before loan transactions, but high interest rates have resulted in a boosted deficit on these transactions of NKr 17.7 billion and hence an increased borrowing requirement. In terms of its share of GNP (excluding oil and shipping), the total deficit is expected to drop from 7.1% (1981) to 6.5% (1982).

Premier Kaare Willoch and his cabinet are expected to take immediate measures to trim public spending and remove some of the existing curbs on business activity. However, many of these regulations are associated with development programs and state investment projects, in which the two small right-of-center parties that back the minority Conservative government in Parliament have special regional interests. This is expected to slow down the pace of the cabinet's reforming zeal. The government is expected to waste no time, on the other hand, in returning the country's major commercial banks to the control of private shareholders, ending the majority voice that government appointees have been given on the banks' supervisory boards.

In other news, wage cost pressures for the operators of Norway's offshore oil and gas fields appear to have been eased with the award of an across-the-board pay rise of NKr 128 per

month for production workers by a state arbitration board. The raise will add less than 1% to workers' pay checks. Union officials have complained bitterly, although no further strike activity is expected as a result. Instead, the unions will attempt to negotiate a separate pay adjustment, as foreseen in last year's wage contract.

Sweden: Devaluation Followed by Lending Rate Cuts

In an effort to underpin the impact of September's 10% devaluation of the krona, the Swedish central bank has cut its discount rate from 12% to 11%. It also lowered from 15% to 14% the penalty rate charged to commercial banks whose central bank borrowings exceed a certain level and approved a reduction in bank lending rates from 16% to 15%. Riksbank governor Lars Wohlin said the measures had been made possible by recent U.S. and West German interest rate reductions, but he warned that the chances of holding down the rates or reducing them further would largely depend on domestic price development.

Figures issued by the central statistical bureau show that prices rose by 0.7% in September, resulting in a 9.2% increase in the consumer price index for the January-September period. The government hopes to minimize the impact of devaluation on prices by lowering value-added tax by 3.46% to 20% as of Nov. 1.

EURO COMPANY SCENE

The British subsidiary of the United States' Hoover plans to lay off more than a quarter of its U.K. workforce after incurring losses of £6.79 million in the first half of this year. Scheduled to be closed down is Hoover's Perivale (London) plant, which employs 1,081. Some 400 jobs would be lost at a cleaning products plant at Cambuslang, near Glasgow, and another 400 at a production facility in Merthyr-Tydfil, South Wales.

Radio Corp. of America (RCA) plans to withdraw completely or at least partially from television picture tube production in Europe. The U.S. group now has a 43% stake in Videocolor, which manufactures 3 million tubes annually in France, Germany, and Italy. The remaining Videocolor shareholders are France's Thomson-Brandt and Germany's AEG-Telefunken. Spokesmen for Thomson-Brandt did not preclude the possibility of the company's acquiring the RCA equity via a capital increase. The French electronics group is among the firms scheduled for nationalization.

Honeywell is building new facilities in Brussels, near its European headquarters, for the development and production of its TDC-2000 computer-based process control systems. The plant is to begin operations in June 1982.

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Community: Council Supports New Common Oil Strategy

The Council of Ministers has agreed in principle to the Commission's plan to counteract the effects of a limited shortfall in crude-oil supplies. This concept, part of the Commission's drive for a new Community energy strategy, contains a number of steps to reduce the effects of an oil shortage even prior to a major oil crisis that might involve an embargo. The Council still has to agree on many details, especially about the range of steps that might be taken.

If a limited shortfall in oil supplies was likely to create problems for the economy of the Community or one or several of its Member States, the Commission would consult the OPEC group. Thereafter the Council of Ministers would meet and decide whether serious problems really existed and what measures would be necessary. In deciding what steps to take, the Council would seek the cooperation of other industrial countries.

The range of possible measures would include asking the oil companies to refrain from making unusually large purchases that

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would push up world market prices. The Council could commit the Member States to increasing efforts to reduce dependence on oil imports by either reducing consumption or promoting other forms of energy in the public and private sectors. Although the Commission also envisages tapping each Member State's commercial stocks in the event of a shortfall, the Council has asked the EC executive for further studies on the benefits and costs of a change in current mandatory stock supplies. Also to be examined is the possibility of transferring oil stocks from one State to another to ease a difficult supply situation.

More Effective Regional Policy Proposed

The Commission has proposed to the Council of Ministers a draft regulation to bring about a more effective regional policy. Among the changes suggested are making funds available to those Community areas that need help most, an expansion of the nonquota section of investments qualifying for assistance, and a change in the method of financing from individual to program contracts.

Under current Regional Fund management, some 95% of EEC regional spending is based on a fixed quota, with the largest amounts earmarked for Greece, Ireland, Italy, and the U.K. *(Common Market Reports, Par. 3601.62)*. The remainder goes to the other States. Under the proposal, these other States would not receive anything under the fixed-quota system; France and Germany would be affected most. The nonquota section, which currently accounts for 5% of the Fund's resources, would be increased to 20%. Operations under this section are not subject to geographical limitation, and it is here that those States that would be denied guaranteed spending under the quota system could obtain assistance. But the Commission wants the money to be spent in areas where recession has caused a drastic decline in economic activity.

The Regional Fund could be applied to a wider range of operations if the Commission's plan is realized. At present, businesses qualify for grants to offset the cost of capital investments only. Under the proposal, grants would also be made available for intangible investments such as market studies, improvements in management, and the dissemination of information on modern techniques.

Many Brussels observers doubt whether the EC executive will have its way on all the points outlined in the proposal. Adoption in the current form would mean that the Benelux countries, Denmark, France (except for its overseas *departements*), and Germany would not receive any guaranteed receipts after 1982. Even if those States still could obtain funds from the nonquota section, Germany, the EC's largest net contributor, is likely to object to the proposal because its depressed regions would not receive any money from the guaranteed receipts.

In Brief...

The Council has cut the import levy on Yugoslav baby beef by 45% (from $127 to $70 per 100 kilograms). The decision, which leaves Yugoslavia's annual EEC quota of 34,000 tons untouched, is seen as an effort to remove a long-standing source of friction in EEC-Yugoslav relations and to help Belgrade increase its once profitable exports to the Common Market. Yugoslav exports declined sharply when Greece acceded to the EEC because Yugoslav exporters could not compete with French and Italian exporters selling baby beef to Greece + + + The customs affairs division of the European Commission has prepared a special report that calls for a halt to duty-free shopping in the Community's airports and harbors by persons traveling between Member States. Travelers heading for destinations outside the Common Market would be allowed access to the shops. The Commission will examine the study shortly and then decide whether to present a proposal on the matter, a move that would be met with opposition from several Member States + + + The Commission has launched an investigation into the German Post Office's telecommunications procurement policy in order to clarify alleged violations of the Treaty of Rome's competition rules. In Germany, as in most other Member States, the government has a telecommunications monopoly, which the Bundespost exercises. The Bundespost allegedly restricts access to the German market of equipment from other Member States.

Germany: New Deficits Require Another Budget Revision

In late October the German coalition government made yet another correction in the 1982 draft budget in order to cope with both an unexpected DM 4-billion deficit that has emerged in the current fiscal year and an estimated 1982 deficit that is DM 7 billion larger than had been originally calculated. The economy's slight downtrend, marked by continuously rising unemployment, reduced tax revenue, and a growing wave of bankruptcies, is the reason for the unexpected deficits. The government's countermove would be yet another 0.5% increase in the unemployment insurance contribution rate. The current rate is 3%, shared by employers and employees alike, and the coalition parties reached a compromise in July to propose a 0.5% increase. Raising the rate by a full percentage point would yield an estimated DM 5.6 billion, which would go to the government agency that pays benefits to the unemployed, currently 1.4 million people. Critics say that the added burden for employers cannot be squared with the government's claim that it wants to improve the climate for new investments.

The substantial profit that the central bank made in 1981 will help the government cover the additional deficit expected for 1982 and enable it to stick to its target of keeping borrowing down to DM 26.4 billion next year. There has been a lot of

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arguing among leaders of the three political parties, economists, and bankers about the wisdom of utilizing the Bundesbank's profits, but there can be no doubt about the legality of the planned move. Section 27 of the 1957 law establishing the Bundesbank commits the latter to transferring the remainder of annual profits to the federal government after fulfilling the statutory requirements, such as setting aside reserves for various purposes. The Bundesbank's 1981 profit of DM 10 billion was realized from interest charged to commercial banks for borrowing and the return from investing foreign exchange reserves abroad.

Britain: Taxation of Social Security Benefits

The U.K. Financial Secretary to the Treasury, Nicholas Ridley, has confirmed that social security benefits will be taxed in the new parliamentary session, as was forecast in the Conservative Party's election manifesto in 1979. Such benefits include supplementary benefits and payments to the unemployed, the sick, and those on strike *(Doing Business in Europe, Par. 23,955)*. The government's proposal has met with considerable opposition from trade unions and the Labour Party.

Provision will be made in the 1982 Finance Act, after next year's Budget, to withhold tax refunds as from April 6, 1982, and to actually tax benefits three months later, beginning on July 5. These funds represent the variation in an employee's tax code when there is a fall in salary and at present are made available immediately. From next year, however, refunds would generally not be paid out until employment is resumed. In the case of those on strike, this would act as a considerable incentive to return to work.

The Trades Union Congress responded by stating it could not accept any change that would adversely affect the living standards of people who became unemployed. These individuals had already suffered from cuts in social services, and "if the proposed change will lead to a further deterioration, it will be regarded as unacceptable."

Accounting Committee Draft on Leasing

The U.K.'s Accounting Standards Committee has now published its long awaited exposure draft (ED 29) on accounting for leases and hire purchase (installment credit) contracts. This discussion paper represents the results of six years of study, during which time leasing has developed into a major means by which companies finance their fixed assets due to leasing's attractive tax advantages over alternative methods of finance. In 1980, for example, leasing accounted for 12.4% of all new capital investment in plant and equipment in Britain.

Most companies using leased assets (lessees) have been

writing off lease payments as an expense, when paid, and have not shown on their balance sheets either the asset or the liability for future lease obligations. It is now proposed that, in the case of a finance lease (in which substantially all the risks and rewards of ownership of the particular asset are transferred to the lessee), the latter should "capitalize" the asset, showing on his balance sheet both the leased asset and the obligation to pay future rentals. By doing so, the lessee would treat the asset in a way similar to one being financed by a hire purchase contract. Thus, "off-balance sheet finance," as it has been termed, would be brought into the open and on to the balance sheet. This would enable readers of the accounts to obtain a proper appreciation of the financing of the enterprise.

Committee chairman Tom Watts said that the present accounting procedures for leasing were more and more unhelpful to analysts and other users of financial statements. If the proposals were adopted, it would be feasible to compute ratios based on the balance sheet, such as the actual return on capital employed, without the distortions brought about by different accounting treatments for leasing or other forms of finance.

France: Further Dilution of Wealth Tax Bill

As its wealth tax bill is being debated in Parliament, the French government is making additional concessions on this legislation. Some observers predict that, in the end, only real property and securities will be effectively subjected to the tax, which would then cover about 60% of the FF 8,000 billion in estimated national wealth, half of which is owned by only 10% of all households.

In reaction to protests by the business community and other affected groups and individuals, it is the government itself that is dismantling the bill as originally proposed by Budget Minister Laurent Fabius. President François Mitterrand himself has decreed that objects of art - paintings, sculptures, etc. - not be exposed to the tax. Instead, the existing sales tax on art purchases and sales is to be doubled from 2% to 4% for auctions and from 3% to 6% for galleries. Furthermore, for the purpose of the wealth tax, the wine and cognac inventories of the French vintners are to be assessed on their original storage value rather than at current market prices. Earlier, the government also had announced that reinvested productive assets (business capital) would be spared from the tax.

Under the bill's remaining provisions, the wealth tax applies to the domestic and foreign assets above FF 3 million (FF 5 million for productive assets) of all individuals taxable in France. Taxable assets would include real property, securities, furniture, jewelry, etc. The tax rate is staggered and would apply at 0.5% to assets valued at FF 3-5 million, at 1% to assets of FF 5-10 million, and at 1.5% to assets exceeding FF 10

million. Making provision for the tax-free allowance, assets of FF 5 million thereby would be taxed FF 10,000 (0.2% in real terms), while those of FF 10 million would be taxed FF 70,000 (0.7%).

The government is already taking precautions against tax evasion. All purchases and sales of art objects and jewelry above FF 5,000 in the future must be effected via checks rather than cash. Violations would expose both dealers and buyers/ sellers to a fine of 25% of the transaction's value. Insurers must report to the authorities the names and addresses of individuals who have insured taxable assets valued in excess of FF 100,000. The failure to do so would draw fines of FF 5,000 in each case. Earlier, the government had announced that it will no longer be possible to have anonymous gold transactions.

Revised Incomes Policy Under Consideration

Economics and Finance Minister Jacques Delors plans to put to the French trade union leaders a new wages and salaries policy, which aims to keep the rise in employment incomes during 1982 within the bounds of the government's 10% inflation target. Proposed are semiannual pay increases in the private sector, which should occur in January and July and reflect productivity increases in the relevant sector and be adjusted to compensate for retail price increases. This adjustment would occur immediately if prices had moved by more than 1% ahead of incomes, but only at the end of the following half-year if the difference between incomes growth and price rises was smaller. In the public sector, salaried employees would receive a 2.5% increase every quarter, which would then be adjusted at the end of every half-year to compensate for prices if these had moved further ahead than incomes.

In related news, the official minimum wage (SMIC) was increased as of Nov. 1 from FF 3,017 to FF 3,090 per month.

Italy: Unity Call by Spadolini as Wage Talks Fail

In an attempt to accomplish a breakthrough in the government's efforts to return to price stability despite the apparent collapse of negotiations with both social partners, Premier Giovanni Spadolini has appeared on television to urge the Italians to "pull together" in order to bring the country's economy out of its crisis. Earlier, in a statement to trade unionists, Spadolini warned that "either we succeed in agreeing on an anti-inflation package or the nation heads toward bankruptcy." On TV, he said that the economic situation was worsening, with inflation unlikely to drop below 19.5% this year, unemployment over 2 million, and state-subsidized short-time work up 100% in the first seven months of the year. Provisional figures show a 2% rise in the retail price index and a trade deficit of 2,154

billion lire, twice the August figure. According to central bank governor Carlo Ciampi, the current-account payments deficit this year will reach 11,000 billion lire and net foreign indebtedness (excluding gold holdings) $8 billion.

Negotiations on reducing wage cost pressures seem to have failed, even though leaders of the three main labor federations, including the Communists, reached a consensus that some kind of agreement on wage limitation was required. The government had agreed to limit fiscal drag and curb administrative price increases, while the unions offered to accept an upper limit of 45 points on the total increase in the automatic cost-of-living escalator *(scala mobile)* permitted in any one year. The condition for the unions' offer, however, was that Rome exempt from taxation any wage rises resulting from the wage-indexation system, thus increasing the value of each one-point rise from around 1,400 to 2,300 lire. The employers are demanding a continuation of the "fiscalization" of employers' social contributions, saving them 8% per year on their wage costs, a demand which the government seems likely to satisfy in any case.

One reason for the failure of the talks so far to come up with results is thought to be the renewed speculation over a possible government crisis or early general elections. In a recent move, Socialist party leader Bettino Craxi demanded a cast-iron agreement among the five coalition parties for the government to serve its full term until spring 1984. This was seen by many as a barely concealed bid by Craxi for the premiership, failing which his party may prefer to bring the government down.

Greece: Change of Leadership at Central Bank, Other Banks

The governor of the Greek central bank, Xenophon Zolotas, 77, resigned last month after having served with the bank since 1944 and becoming governor in 1955. The military junta had removed him from his position in 1967, but he was reinstalled by the Caramanlis government seven years later. One of the most respected figures among Europe's central bank chiefs, Prof. Zolotas was a member of the "group of four" which in 1960 was assigned to remodel the Organization for European Economic Cooperation into the present Organization for Economic Cooperation and Development.

Zolotas has been succeeded by Gerasimos Arsenis, 50, an economist who worked for several years in leading positions with the United Nations and other international organizations. The new Papandreou government has also appointed a new chief for the Hellenic Industrial Development Bank (ETBA), Dimitrios Koulourianos, also 50, who takes over from Prof. George Spentzas. A new appointment was expected soon at the state-controlled National Bank of Greece, the country's largest bank, and at a number of other institutions.

Sweden: Government Reveals Tax Reform Plans

Sweden's center-liberal coalition government has finally revealed details of a plan to reform the country's tax system. During a three-year transition period starting in 1983, the fiscal burden on 3.5 million of the country's 6 million taxpayers would be steadily eased, and maximum rates on top income earners are to be reduced from 85% to 50%. The measures would cost SKr 10.3 billion during the transition period. The treasury would hope to recoup these revenue losses by raising the payroll tax and possibly introducing a new production factor tax. In addition, deductions of net interest losses would be limited to 50% (affecting homeowners,among others), netting an additional SKr 1.4 billion in revenue.

It was over the tax reform issue, urged upon the government by the opposition Social Democrats, that the conservative Moderate Party left the coalition earlier in the year.

Switzerland: Bern Predicts Rising Budget Deficits

According to the finance plans and budget projections now submitted for the next four years, the Swiss federal government predicts an increase in its annual budget deficits from about SF 1.1 billion at present to more than SF 2.6 billion in 1985. The projected increases are being attributed to inflation, the rising interest burden on higher debts, and shrinking possibilities for budget savings because of public-sector commitments. The 1982 budget draft includes revenues of SF 17.8 billion and expenditures of SF 18.9 billion, which would leave a deficit of SF 1.1 billion.

In efforts to implement measures to cover budget deficits in the future, Swiss voters are called to the polls on Nov. 29 to decide on a 12-year extension of the federal finance code, an increase in turnover tax rates, and a slight reduction in the direct federal (income) tax. Turnover tax rates are to be raised from 5.6% to 6.2% for retailers and from 8.4% to 9.3% for wholesalers; these are lower increases than originally proposed *(Doing Business in Europe, Par. 40,270)*.

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Community: Council Fails to Reach Accord on Excise Tax Rules

The Council of Ministers' failure to reach agreement on several proposals designed to harmonize national excise duties and value-added tax rules on wine, beer, and spirits has raised the prospect that the matter will end up in court, according to Brussels observers. The U.K., holding the presidency of the Council until the end of the year, and other Member State governments as well as the Commission would prefer a political rather than a legal solution imposed by the European Court of Justice. The protracted quarrel at the negotiating table is testing the EC executive's patience, according to Brussels reports *(Common Market Reports, Par. 10,237).*

Last year the Court of Justice added considerably to the Commission's legal leverage when it found that France, Italy, and Denmark had failed to fulfill their obligations under Treaty Article 95 by discriminating against importers of alcoholic beverages through the imposition of higher taxes (Case Nos. 168/78, 169/78, 171/78 - *Common Market Reports, Pars. 8647, 8648, 8649).*

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In Case No. 170/78, brought by the Commission against the U.K., the Court upheld the EC executive's view that wine and beer were to some extent substitutable and that the British tax system favored beer over wine. Judgment was deferred, however, and the Court called on the Commission and the U.K. to reexamine their dispute and report to it by the end of 1980. The Court has extended the deadline upon the Commission's request, but now the sentiment in the Commission is reportedly shifting to having the nine-year-old problem settled in court. Case No. 170/78 would be taken up first. Afterward the Commission would be prepared to file as many as 15 suits, which could involve almost all of the Member States.

Parliament Calls for Controls on Multinationals

The European Parliament has passed a resolution calling for binding rules applicable to multinational corporations operating in the Common Market. The rules would compel multinationals to disclose certain information and to abide by yet to be established requirements on transfer pricing between parent companies and subsidiaries; there would also be merger controls. The resolution suggests setting up a special EP committee to monitor the activities of multinationals.

There is considerable disagreement among members of the EP over the need for Community action on multinationals. (The resolution was passed by a narrow majority of 94 to 80, with 37 abstentions.) While the Socialists, Christian Democrats, and Communists favor legislation along the lines suggested by EP member Richard Caborn in his report for the economic and monetary affairs committee, the Liberals, European Democrats, and Progressive Democrats are rather skeptical.

The resolution calls on the Commission to report within three years on where existing and proposed Community measures in the areas of consultation and information disclosure need to be supplemented to create an adequate overall framework. The proposed measures include the seventh company law coordination draft directive on group accounts (now in the final phase in the Council's working group) and the 1981 draft directive that would require the management of companies to inform and consult employees on decisions that could affect the latter's interests *(Common Market Reports, Pars. 1407, 10,265).*

In Brief...

The Commission has fined Klöckner-Werke AG, Duisburg, the equivalent of $2.2 million for exceeding its steel production quota during the first quarter of 1981. The fine is based on the anticrisis system proposed by the Commission under Article 58 of the Coal and Steel Treaty and approved by the Council. Last May, Klöckner Corp., Germany's No. 1 steelmaker, brought suit

against the Commission because it disagreed with the latter's figures used in establishing the quota; the case (No. 119/81) is still pending + + + The European Parliament's budget committee has taken a far more conciliatory attitude than in previous years in proposing amendments to the Council's draft 1982 budget of 21.7 billion EUA, and it appears that the majority of the EP's members share this position. The committee wants roughly 400 million EUA added to the regional and social funds and for other aid purposes at the expense of the common agricultural policy, which accounts for approximately 70% of the Community budget. CAP expenditures should be cut by 775 million EUA, according to the committee.

France: Better Protection for Housing Tenants

"To prevent speculation and guarantee the smooth functioning of the housing market," the French cabinet has approved draft legislation offering better protection for tenants in France. In the future, rental contracts would have a minimum life of six years, with automatic extensions of at least three years. Landlords would be able to terminate contracts only on "serious and legitimate grounds" - for instance, by claiming the premises for their own family needs. Not acceptable for purposes of termination would be a landlord's intention to have a building vacated in order to put it up for sale.

Terminations would be acceptable in cases where the tenant failed to pay the rent and/or supplemental charges. Any security deposits ("key money") would be limited to the equivalent of two months' rent, and rent increases would be limited to the rise in the construction cost index. To provide a solid contractual base for the housing market, the associations of houseowners and tenants should formulate framework agreements covering rents, supplemental costs, and administrative rules. Agent and contract fees would be paid solely by the landlords.

In reaction to the Socialist government's bill, building industry spokesmen said they feared another decline in housing construction activity. Real estate agencies said many property owners are planning to divest themselves of rental housing before the legislation takes effect. The political opposition warned that the proposal constitutes an attack on individual ownership rights and that this type of "cold socialization" would, as it had elsewhere, lead to a shrinking supply of rental housing in France.

Paris Files Suit in Paribas Affair; Record Unemployment

The French Finance Ministry on Nov. 6 filed another suit against some officers of Paribas, the major financial group due to be nationalized, as well as 55 of its clients. In the action, five

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Paribas executives are being accused of illegal capital transfers to Switzerland. A few days earlier, a similar suit was brought against Pierre Moussa, who resigned last month as the chief of Paribas, and two fellow officers for their alleged involvement in illegal gold transfers valued at FF 29 million on behalf of an aerospace industrialist. The capital transfers, in particular, are thought to be connected to the sale of Paribas' Swiss subsidiary as a way to escape nationalization. As previously reported, Paribas meanwhile has also lost its majority stake in a Belgian offshoot, Cobepa.

With the court actions, the French government is demonstrating its tough stand on illegal capital exports and its determination to prevent such maneuvers from undermining its nationalization campaign. In this connection, Paris has put diplomatic pressure on the Swiss government to close any loopholes concerning unlawful capital transfers with all legal means at its disposal. A bilateral expert group is to examine the ramifications of the Paribas affair in this respect, and the Swiss banking control commission may launch a probe of Paribas Suisse to investigate the French charges. The French government estimates that illegal cross-frontier currency movements have been totaling FF 18 billion so far.

In other news, provisional Labor Ministry figures have put French unemployment at over 2 million for the first time ever. In October, the jobless rate rose by 4.9% compared with September, to 2.006 million. This reflects an overall unemployment rate of 7.5%, which is 26.6% higher than last year at that time. Psychologically, the latest figures came as a heavy blow to the Socialist government, which claims that its reflationary measures have not yet taken hold and which aims to stabilize unemployment at 1.9 million next year.

Germany: Government Proposals on Energy Rationing

The German government is seeking the approval of the upper house of Parliament for four draft regulations that would empower the authorities to ration the sale of gasoline, restrict heating oil supplies, and secure oil and gas supplies of power plants in an emergency situation. These four proposals, based on the 1975 Law to Secure Energy Supplies, would give the government the instruments it needs to cope with an actual oil shortage; they could be applied only after the government, in a separate regulation also subject to upper house approval, had determined that a crisis existed. The intervention instruments could be used only if free-market measures no longer sufficed.

Under the gasoline rationing proposal, each car owner would receive a specific number of ration card coupons per month; the number would vary according to the vehicle's engine displacement and total weight. Businesses operating commercial vehicles would also be entitled to a basic monthly allotment, but

they would be entitled to more gasoline to meet special requirements. A basic principle of the proposed intervention system would be that the needs of businesses take priority over the interests of private individuals.

There would be no rationing of light heating oil used in households and commercial buildings. In a real crisis, retailers would be required to cut their sales to homeowners and businesses by a specific percentage. Again, priority would be accorded to businesses in order to keep to a minimum the impact of an oil shortage on employment and business. However, hospitals and homes for the aged would take precedence over businesses' needs. A hardship clause could be invoked by anyone who had been saving fuel long before the declared crisis and thus would be at a disadvantage because of the supply rule based on past consumption.

The other two draft regulations would provide the government with intervention powers if oil and natural gas shortages affected the operations of power plants. Should bottlenecks occur in meeting electricity needs of private households and businesses, electrical power would be allotted to those who needed it most. Power could be shut off temporarily if households switched to electric heaters to substitute for oil or gas.

Belgium: Election Results Bring New Uncertainties

The ruling Christian Democrats (CVP/PSC) emerged from Belgium's Nov. 8 parliamentary elections with unexpectedly high losses averaging about 10%, which should weaken their position with regard to the formation of a new government. Their coalition partners for the past three years, the Socialists, held their ground in both Flanders and Wallonia and even added three seats. The winners of the elections are the Liberals, who made sizable gains virtually everywhere and are now the second-largest party in the country's two main regions. Advances also were recorded for the Flemish nationalist Volksunie, which seeks more autonomy for Dutch-speaking Flanders. By contrast, the Francophone Front and Rassemblement Walloon, which represent the French-speaking factions of Wallonia, suffered serious setbacks.

The election results came as a surprise to most political parties because the polls had predicted losses of no more than 5% for the Christian Democrats, who have been in the government for 23 years. In some Flemish precincts, the CVP/PSC lost up to 20% - the worst decline since the war. In the 212-seat Parliament, the CVP/PSC is now represented with 61 mandates (minus 21). The Socialists also have 61 (plus 3), the Liberals 52 (plus 15), the Volksunie 21 (plus 6), and the Francophones 8 (minus 7).

Prevailing opinion in Brussels was that the results will make formation of a new government coalition even more difficult

than had been feared. Commentators said the outcome of the forthcoming negotiations is completely open, and only the Liberals have so far made a claim for participating in a new government.

Netherlands: Revival for Van Agt Coalition

Dutch income-earners face a tax increase next year following the revival of the coalition between Labor, Christian Democrats, and Democrats '66 under Prime Minister Andries Van Agt. This follows a compromise reached on the financing of an ambitious employment program demanded by Labor party leader and Employment and Social Affairs Minister Joop den Uyl. A dispute over this issue had led to the collapse of the government in October, only five weeks after it was formed and several months after the May 26 elections. The latest crisis was resolved by two mediators. The government immediately announced that on Nov. 16 it would present a new policy program to Parliament, where it controls 109 of the 150 seats in the lower house.

The compromise foresees the expenditure of an extra 1 billion guilders every year on employment-creating measures until 1985. Next year this will raise total spending on such measures to 2.6 billion guilders. The extra funds are to provide additional stimulation for housing construction (250 million guilders), the creation of part-time workplaces (100 million), environmental cleanup projects (100 million), industrial modernization (250 million), and job-creating, energy-saving measures (300 million). Most commentators regard this as a full approval for Den Uyl's program, which foresees the creation of 60,000 new workplaces over the next four-year period.

In 1982 the program is to be partly paid for by an increase in income taxes between April and September (500 million guilders) and by cutting investment bonuses (250 million guilders) and raising funds on the domestic capital market (250 million guilders). In the following years, a new, long-term "investment surcharge" on incomes is to be introduced. This is expected to take the form of a 0.5% tax on wages and salaries. In negotiating the compromise, the Christian Democrats had originally demanded that value-added tax be increased to cover the new expenditures and that the trade unions not make extra wage demands to compensate for tax increases. Neither proposal seems to have been included in the agreement, but it is expected that the future stability of the government will depend to some extent on the attitude taken by the unions.

Italy: State Rescue for Finsider; Total May Pull Out

The Italian government's industrial policy committee has agreed to a 7,500-billion-lire rescue package for the ailing public-

sector steel concern Finsider, a subsidiary of the state holding company IRI. The agreement includes 5,000 billion lire in new capital to be provided by the state, 2,000 billion lire to be raised by a bond issue, and 500 billion lire from existing allocations for the financing of industrial restructuring. For its part, Finsider has agreed to eliminate 5,000 jobs by 1985 (rather than the 9,000 originally urged) and increase its involvement in special steels. The plan is aimed at returning the company, which is expected to lose 2,000 billion lire in 1981 alone, to profitability by 1985. Most economic observers, however, remain skeptical about the outcome. Considerable funds promised by Rome to the company last year failed to materialize.

In another development, Total, the French oil company, is thinking of following in the steps of BP and Shell and leaving Italy. Total operates three refineries, two coastal depots, and 3,200 gas stations in Italy and is the second-biggest supplier of petroleum products after Exxon, with a market share of 7.5-8%. The company blames the government for pushing it into a loss-making situation by keeping Italian gasoline, diesel, and heating oil prices below the world market level. In the first half of 1981, Total lost 100 billion lire. If the company does pull out, about 4,000 jobs would be at risk, directly and indirectly.

Protests Against Obligatory Data Bank Register

Negotiations are proceeding between the Italian interior ministry and business representatives to head off the introduction of an obligatory registration system for electronic data banks. Under the proposed system, which would affect more than 90,000 firms, all businesses would have to report the existence of data banks and their contents to the interior ministry before the end of this year. The Confindustria industrial federation and the association of data processing equipment producers, backed up by complaints from thousands of individual firms, have protested the plan, which was prepared by a newly formed security department within the ministry. Business spokesmen described the proposal as "illegal, technically impossible to comply with, a product of incompetence, and a danger to the free-market economy."

Norway: Bank Shareholders to Regain Majority Control

The new Conservative minority government in Oslo intends by the end of this year to present Parliament with a bill that would return the private shareholders of the Norwegian commercial banks to a majority position on the banks' administrative (supervisory) boards. On the basis of existing law, which took effect on Jan. 1, 1978, Parliament designates eight of the 15 members of a bank's administrative board; the eight are chosen ac-

cording to the representation of the political parties in Parliament. The bank's shareholders elect four board members and the bank employees, three. Thus, the state holds a majority position.

Oslo reports said that the government probably will propose that the shareholders be represented with eight of the 15 board seats and the employees with four, while the state's representation would be reduced to only three.

When the existing law was approved in 1977 by the then-governing Social Democrats and Socialists, the Opposition vowed to invalidate this "democratization" of the banking sector as soon as it would have a political majority. Following the September elections, this situation has now come about: even though the Conservatives run a minority government, they can be sure of a parliamentary majority on this issue, being supported by the Christian People's and Center parties.

The Norwegian banking community has welcomed the government's revision proposal, particularly in view of the upcoming administrative board elections next spring, which would then be conducted under the new rules. The state's majority on the administrative boards admittedly has not brought about any noticeable changes in the banks' business policies, but bankers nevertheless have been apprehensive about possible long-term effects. They have not, for instance, discounted the possibility of a gradual attempt to change credit policies, which could lead to conflicts of interest between profitability considerations and political aims.

Switzerland: Real Property Sales to Aliens Continue

Despite the general ban on real property sales to aliens, the Swiss authorities last year issued 5,950 special permits for such sales, involving 250 hectares and a total value of SF 1.8 billion. In 1979, the respective figures were 206 hectares and SF 1.58 billion. Since the introduction in 1961 of a permit procedure for such transactions *(Doing Business in Europe, Par. 29,153)*, the Swiss federal and cantonal governments have issued 57,816 exemptive permits. The foreign purchasers paid a total of about SF 13 billion for 2,794 hectares.

These figures, just publicized by the federal statistical office in Bern, have again triggered headlines in the national press protesting the "sellout" of Swiss land and the fact that a strict enforcement of the ban has not been possible so far. The government is preparing draft legislation that would introduce a revised quota system on a federal and cantonal basis - a task made difficult by extreme political positions on this issue.

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Community: Court Holds IBM's Complaint to Be Inadmissible

The Court of Justice has ruled that IBM's complaint against the Commission's planned investigation of the multinational is inadmissible (judgment of Nov. 11, 1981, Case No. 60/81, *Common Market Reports, Par. 8708*). The Court ruled that the EC executive's Dec. 19, 1980, letter to IBM about steps it was going to take was not a decision within the meaning of Article 173 of the EEC Treaty. In the letter the Commission told the multinational that it had initiated a procedure to determine if IBM's marketing practices amounted to an abuse of a dominant position on the market and that it intended to make a decision regarding violation of Article 86. The Court also ruled that the statement of objections attached to the Dec. 19 letter was not a decision either. In the 1,000-page statement, the Commission alleged that IBM had abused its dominant position by favoring users of the company's computer systems and by excluding competitors from the market (*Common Market Reports, Pars. 2101, 2422, 2582, 2637, 4635, 10,303*).

IBM had asked the Court of Justice to annul both the decision to initiate a procedure and the statement of objections.

This issue is in two parts. This is Part I.

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The multinational argued that the Commission failed to describe the objectives of the procedure, did not exercise its powers as a collegial body (the letter was signed by the head of the competition rules division), and did not reflect principles of international law. The Court did not examine the substance of these arguments, noting that they would be examined if IBM appealed a decision by the Commission. The Court added that the Commission's administrative procedure could be attacked at this early stage only if the measure lacked the appearance of legality. This was not the case, the Court concluded.

Council OKs More Active R&D Policy in Microelectronics

The Council of Ministers has taken yet another practical step toward bringing the Community onto a more active research and development policy course. To avoid overlapping of efforts and spending by the Member States, the Council has agreed on a system of information exchange and consultation for plans aimed at promoting the diffusion and development of microelectronics technology and its application. It also agreed to allocate some $40 million for studies and projects in this technology. However, the Council did not endorse the Commission's view that the Community should double its R&D expenditures in the next four years. Most Member States want more assurance that an effective strategy will be developed first.

Under the information exchange system (only Denmark withheld its consent because of the government crisis), the Member States would commit themselves to furnishing the Commission with all relevant information concerning activities aimed at:

(a) the promotion of applied industrial research and development on equipment, processes, instruments, and techniques, for both hardware and software, for use in the design, industrial manufacture, and testing of advanced integrated circuits;

(b) dissemination of basic knowledge and the training and education of management and staff specializing in the design, utilization, and testing of advanced circuits; and

(c) encouragement of the establishment within the EEC of an industry capable of designing and producing the equipment, materials, and techniques used in the manufacture of advanced integrated circuits.

In Brief...

The Court of Justice has ruled that the Treaty provisions on capital movements are not directly applicable and, therefore, not enforceable in the national courts. Two directives on capital movements have been adopted by the Council so far, but these do not liberalize transfers to accounts and the export of cash *(Common Market Reports, Par. 1651)*. The judgment means that Member States may retain and enforce criminal provisions against

the unauthorized export of cash. The case involved an Italian national, a resident of West Germany, who was arrested and brought to trial for attempting to take DM 24,000 across the Italian-Austrian border (judgment of Nov. 11, 1981, Case No. 203/80) + + + The Commission has launched proceedings under Article 88 of the Coal and Steel Treaty against France, Italy, and Belgium for failing to inform the EC executive, as required by the current anti-crisis steel aids code, about subsidies given to steel mills. The purpose of initiating the procedural move before taking these States to court is to have them clarify their intentions prior to the Dec. 10 meeting in London of the ten States' industrial policy ministers. This meeting will be devoted to reviewing the Community's steel strategy, and Brussels reports indicate that the Commission wants to stiffen the steel aids code.

Netherlands: Policy Emphasis on Unemployment Fight

The fight against unemployment and the creation of new jobs will be the chief priorities of Holland's center-left coalition government over the next four years, according to Prime Minister Andries Van Agt. In his policy statement to Parliament, Van Agt said that these priorities will require financial sacrifices by all income earners and drastic cutbacks in social transfers. He urged employees and unions to recognize this in their wage demands.

The emphasis on employment policy has been the most important condition advanced by Social Affairs Minister Joop den Uyl in the party negotiations that accompanied the coalition's collapse last October and subsequent revival this month. At present, unemployment in the Netherlands exceeds 400,000, which represents about 10% of the working population. Aside from a special program for the creation of 175,000-200,000 jobs within the new four-year legislative period, it is planned to find workplaces for an additional 175,000 individuals by converting full-time employment into part-time jobs.

Another target area singled out by Van Agt in his 52-page policy statement was the restoration and improvement of the world market competitiveness of Dutch industry. Here, the government has promised more favorable tax treatment and higher subsidies for modernization investments. Emphasis will be laid on the energy sector: the oil companies exploiting Holland's rich natural gas resources may be taxed more heavily or may be required to step up their domestic investments, whereas the electric utilities will be aided in their conversion to low-priced import coal, which would hopefully lead to lower electric power rates. To promote industrial innovation, The Hague also plans to establish an "industrial projects company" with a starting capital of 330 million guilders. Furthermore, R&D projects might benefit from improved tax incentives.

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Britain: Inspector to Probe Stockbrokers' Activities

The London Stock Exchange has appointed an inspector, the first ever, to investigate the activities of member firms, both brokers and jobbers, and ensure that they are conducted properly and that accurate records are maintained. The action is largely in response to the failures of three stockbroking firms earlier this year. The Stock Exchange Compensation Fund indemnifies investors for any losses incurred as a result of such failures, and this year it is likely that the fund will have to make good losses of about £500,000.

Nicholas Goodison, chairman of the Stock Exchange Council, said the reform would not have been introduced "if we did not have the suspicion that some past events might have been discovered." He said the appointment was aimed at preventing fraud and inefficiency and was "expected to increase the chances of preventing future failures."

The first inspector will be Robert Wilkinson, a member of the Stock Exchange Council and chairman of the committee that monitors member firms' accounts. Wilkinson will, however, remain a member of the Stock Exchange while being employed by the secretariat, independently of any particular firm. He will make routine visits to the 250 U.K. and Irish member firms, and it is unlikely that any prior warning would be given. Examined would be not only the firms' accounts but also their dealing, settlement, and internal reporting procedures.

At present, the financial affairs of firms are closely monitored via monthly statements, quarterly figures, and annual audits. Beyond this, however, it is hoped that the inspector would be able to pinpoint any dealing irregularities that could lead to the eventual collapse of a firm, and so act as an early warning system. In addition, the threat of a random investigation is generally felt to be an effective deterrent to bad dealing practices.

Labour Would Push for SEC-Type Regulatory Body

The U.K. Opposition spokesman on company matters, Stanley Clinton Davis, has indicated that a future Labour government will strongly consider replacing self-regulation in the operations of both the Stock Exchange and the accountancy profession with a U.K. version of the U.S. Securities & Exchange Commission. He said in the House of Commons that "the whole miserable and flimsy structure that we have in this country for dealing with abuse must be rectified," since the self-regulatory system "has been shown to have failed in case after case in our recent history."

Davis said that he had the greatest respect for what the Accounting Standards Committee had achieved in recent years; however, time after time, it had been clear that progress on a particular standard could have been quicker if the profession

had the backing of a powerful regulatory authority. The proposed "SEC" would complement the present Standards Committee. Hopefully, it would improve the present cumbersome system by which parliamentary time has to be found to table amendments to company law; it would provide initial research and present Parliament with clear recommendations on new company legislation. The "SEC" would adopt the role of the present advisory committee, established by the Board of Trade.

France: Higher Social Insurance Contributions

Amid cries of foul from both business and labor, the new French Socialist government has moved to raise social insurance contributions to cover an estimated *securité sociale* deficit of FF 36 billion this year and in 1982. Of the total additional funds to be raised, the employers are to pay FF 15.6 billion and the employees FF 16.9 billion. This "temporary" action, announced after a Nov. 10 cabinet meeting, is to be followed by a complete overhaul of the social insurance system, the details of which are to be worked out by the fall of 1982.

The system's 1981 and '82 deficits are essentially to be covered by the following measures:

- Employees' health insurance contributions are being raised by 1%. Such an increase had already been implemented on Oct. 1, 1979, by the previous Barre administration and was rescinded as of Feb. 1, 1981. In effect since Nov. 1, the new extra levy is to raise FF 14 billion in revenue.
- The assessment ceiling of employer contributions to the health insurance system has been raised by 3.5% (Nov. 1; FF 9.1 billion).
- A health insurance levy of 1% is to be imposed on unemployment insurance benefits that exceed the legal minimum wage (FF 0.6 billion).
- The assessment ceiling for the old-age pension insurance is to go up on Jan. 1 and July 1, 1982 (FF 3.5 billion).
- The assessment ceiling for the surviving spouse's pension insurance is to be eliminated (FF 250 million).
- Family allowances for self-employed individuals and farmers are to be adjusted in accordance with the general insurance system (FF 1.5 billion).

In addition, a doubling of the tax on automobile insurance premiums is to produce an extra FF 1 billion, and the government itself will contribute another FF 2.5 billion from budget funds.

(Aside from raising the social insurance burden, however, the Mitterrand government also has decided on a number of social welfare benefit improvements. Among them are an increase in minimum old-age pensions from FF 1,700 to 2,000 (FF 3,400 to 3,700 for married couples), a 25% boost in housing allowances as of Dec. 1, and higher family allowances in the course of 1982.)

The Patronat employers' federation said the contribution increases will burden French business and industry with an additional FF 12 billion in labor costs, which should hurt international competitiveness and hinder the creation of new employment. The Communist-controlled CGT labor federation termed the government's move "an error, a big mistake, a social injustice," and the Socialist CFDT said the measures defeated the intentions of the government's employment policies and the goal to erase social inequities. (See also *Doing Business in Europe, Par. 22,830.)*

Paris Eases Currency Controls; No VAT on Gold Sales

French Finance and Economics Minister Jacques Delors has announced a slight easing in the rigid controls on forward dealings in foreign exchange; these curbs had been introduced on Sept. 19 to defend the franc. Importers of rice, coffee, wool, leather, and hides, who the government says have been hardest hit by the controls, will in the future be able to make forward purchases of up to three months of any foreign currency named in their import contracts, so long as the currency is disposed of before the payment deadline specified in the contract. According to Delors, further easing of the controls is unlikely under the present international monetary situation, and currency market conditions also dictate that base interest rates fall no further than the current 14% level.

In other news, Budget Minister Laurent Fabius has officially rejected rumors to the effect that sales of gold bars and coins are to become subject to 33% value-added tax. Instead, the existing 6% sales tax is to be retained. Trading has been depressed on the Paris gold market ever since the government last month eliminated the traditional anonymity of gold sales in order to plug a loophole for evasion of the new wealth tax. Many traders predict that, as a result, most gold deals will be conducted on the black market.

Germany: Statutory Fee Schedule for Tax Advisers Proposed

The German government has proposed a statutory fee schedule for tax advisers and consultants. The purpose of the proposal, based on the 1975 Tax Consultants Law, is to do away with the private fee tables and achieve a certain degree of fee uniformity. Disagreements between taxpayers and tax advisers have been on the rise ever since the Supreme Civil Court held in 1969 that the private fee tables, usually prepared by regional professional organizations, had not found wide acceptance. The Federal Cartel Office saw in the advisers' promotion of broader acceptance of the private tables a price recommendation that is prohibited by the Law Against Restraints on Competition. But the Office did not bar the use of the private tables, and thus

tax advisers have continued to base their fees on the 1969 schedules, plus an additional charge to make up for increased costs.

Under the statutory authorization granted by the 1975 Tax Consultants Law, advisers' fees must be reasonable and be based on the time spent, the monetary amount involved, and the type of work done. The government's proposal would not prevent tax advisers from charging more or less than what is set forth in the proposed schedule. The professional bodies would have to see to it that this remaining realm of freedom in regard to fees is not abused.

The proposal is patterned after the statutory fee schedule applicable to practicing attorneys and law firms, but it also reflects the peculiarities of tax work. For most types of professional services, the fee would be a percentage of the monetary amount involved. The time factor would be applied in computing a fee only if it was impossible to estimate the amount involved or if experience had shown that the time element differs so greatly from case to case that not even a fee bracket provides reasonable compensation for the effort. The freedom that tax advisers now enjoy with respect to charging the taxpayer for the time spent would be curtailed. The government says that the proposed fees for services rendered are close to the fees now charged.

Denmark: Early Elections Scheduled for Dec. 8

Anker Jörgensen, Denmark's Social Democrat prime minister, has called early general elections for Dec. 8 following his government's parliamentary defeat, by 78 votes to 74, on an Opposition motion criticizing part of the administration's economic plan. At present the Social Democrats are standing low in the opinion polls, while the Conservatives have been gaining. Many observers believe that a Liberal-Conservative coalition may result from the election, with either Conservative leader Poul Schlüter or the Liberals' Henning Christophersen becoming premier. With 13 parties competing in the elections, it is unlikely, however, that any government could be formed without backing from the three smaller center parties - the Center Democrats, the Radical Liberals, and the Christian People's Party.

The Social Democrats fell over their proposal to force life insurance firms, pension funds, and banks to invest 50% of their profits in new index-linked, low-interest bonds and industrial shares. These institutions now prefer to purchase state papers and mortgage bonds with effective yields of over 20%. Following a campaign in which the government was accused of planning to "steal the pensioners' savings," the Opposition, including the three center parties which previously backed the Social Democrats, gained a majority in Parliament for removing the compulsory element from the plan, whereupon Jörgensen resigned.

If the Liberals and the Conservatives do form a government, they plan to cut government expenditure by 8% immediately and by more later, using some of the funds generated to reduce taxes. However, the main problem any Danish government will have to face is the current 9.3% level of unemployment: even if the international economic climate improves, unemployment is expected to remain as high as 8% unless major changes are made in the domestic economy. The Social Democrats in effect wanted to use profits of insurance companies and pension funds to finance an employment program providing 50,000 new jobs a year.

Greece: Merchant Shippers Worried About Future

Greece's shipowners have reacted with some trepidation to the election of the country's first Socialist government. They fear possible challenges to their industry, which comprises the world's largest shipping fleet (inclusive of Greek tonnage under foreign flags). The union (association) of shipowners recently sought assurances from Prime Minister Andreas Papandreou that the new administration would make no dramatic changes in the legal and tax structure under which the Greek shipping companies now operate. It had been suggested, for instance, that, given the right conditions, it would be possible to man all 4,000 vessels under the Greek flag with all-Greek crews rather than rely substantially on seamen from developing Asian countries. Doing so, would presumably help reduce unemployment.

The shipowners argue that to have all-Greek crews, including lower-deck crews, would overextend the country's manpower capacities and that higher labor costs would price the Greek fleet out of the world shipping market. They say that, as concerns lower-deck crews in particular, the best way would be to have bilateral crewing agreements with seamen's unions of developing countries in Asia.

According to the president of the shipowners'association, Karajorgis, Greece's merchant marine tonnage is constantly expanding. It now comprises 3,942 vessels totaling 41.2 million gross tons under the Greek flag and 483 Greek-owned ships totaling 3.2 million tons under foreign flags. Greece accounts for 55% of the merchant fleet tonnage of the EEC states, and with the country's accession to the EEC, the latter's share of the world tonnage rose to about 33%. Last year the Greek state earned revenues of about $2.5 billion from the country's merchant fleet; the figure exceeded $3 billion with the inclusion of the tourist fleet.

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Community: Plan for European Union Formally Presented

The plan of Germany's and Italy's foreign ministers, Hans-Dietrich Genscher and Emilio Colombo, for a European Union has received a generally positive response in the ten national capitals and in the European Parliament, where Genscher presented the plan after having informed the Member State governments.

In the ten-page preliminary draft for a European Union, the Member States are called upon to reaffirm their political will to strengthen the ties linking them in the three Communities and to move on to a European Union. Elements on the way to that union would be a further alignment of national foreign policies beyond existing political cooperation, coordination in matters of national security, cooperation in the field of culture and, most important for businesses and individuals, harmonization of national rules beyond what is envisaged in the Treaty of Rome.

Adoption of the "European Act" and ratification by the ten national legislatures would mean at first that the institution of the European Council (the three-time annual meetings of the

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ten heads of state or government) would have a legal foundation. Most important, the European Council would become the supreme political institution for the three Communities, and the informal character of the European summits would be a thing of the past.

The draft act also provides for strengthening the role of the European Parliament. The EP would have to be consulted by the Council of Ministers before the European Commission president is appointed. Parliament would have to be heard whenever a European country applied for membership in the Communities. Finally, the European Council would have to report to Parliament semi-annually about progress toward the European Union.

Further VAT Alignment in Intra-EEC Trade

The Commission wants to simplify and harmonize national value-added tax rules applied in intra-Community trade. The concepts and extent of the plan are outlined in a document prepared by tax and customs experts of the EC executive. At this point, Commission officials refuse to speculate about when formal proposals would be submitted to the Council of Ministers.

Among the concepts of major interest to businesses is the principle that would compel all Member States to grant importers a deferment in paying value-added tax imposed on products imported from another Member State or third countries. Although most States already adhere to this principle on the basis of national law, application varies. Some States extend deferment of payment to all importers, while others grant this privilege only to some of them, such as established importers that have a good record in paying taxes and thus a good rapport with the local customs office, which grants the deferment. The Commission would like to see these differences removed for competitive reasons: importers that are granted deferment of payment have a temporary advantage over those that are not. A condition for granting deferment as a matter of law would be the filing of an import declaration by the importer.

Another important concept would remove the differences among Member States with regard to the base assessment used in computing value-added import turnover tax. EEC law allows the Member States to compute import turnover tax on the basis of the customs value of the product rather than the price stated on the invoice. The Commission would like to see the assessment base be the same, regardless of whether the product changes hands on the domestic market or is imported from another Member State.

In Brief...

The German government has decided to let the "butter boats" continue to make their cruises out of Baltic and North Sea ports

and to sell certain quantities of alcoholic beverages and cigarettes duty-free and also butter and cheese at substantially reduced prices. The cabinet has rejected a proposal of the Finance Ministry that would have stopped the cruises as of April 1, 1982. The ministry's proposal was based on the European Court of Justice's judgment of July 7, 1981 (Case No. 158/80), in which the Community tribunal held that the butter boat cruises are incompatible with EEC law. Germany will now make a decision on the butter boats' continued existence dependent on a common arrangement concerning the duty-free shops in airports and ports of the ten Member States + + + The Commission has given the Dutch government until October of next year to phase out subsidies to hothouse growers of plants and vegetables. Holland's practice of selling natural gas to these growers at reduced prices has been an issue for years and has brought protests from throughout the Community *(Common Market Reports, Par. 10,240)*. The Commission considers the sale of cheap natural gas to be an illegal state aid, but it has not yet tackled the issue directly.

Germany: Bonn Remains Noncommittal on A-Power Expansion

Opposition within the governing Social Democratic party on the national level and from environmental groups on the local level is the major reason why the Schmidt administration remains noncommittal about the expansion of Germany's nuclear energy potential. In its recently adopted third energy program, the government acknowledges the necessity for nuclear power stations to contribute a growing share to satisfy rising energy needs. However, contrary to the opinion of several research institutes, national industrial associations, and the utilities about what is necessary to prevent electric power shortages in about 15 years or so, the government does not believe that the current A-energy potential needs to be quadrupled. The 16 nuclear power stations now in operation contribute about 4.2% to the overall volume of electricity. The proponents of more nuclear energy have pleaded for a 17% share by 1995.

Since the "growing contribution" of A-powered plants would not be assured unless some of the obstacles that are blocking construction and delaying commissioning of nuclear power plants are removed, government officials have started drafting rules that would streamline the procedure for applying for the commissioning of an A-power plant. Enactment of these rules could get the current nuclear energy program moving again and would sidestep some of the tactics used by anti-nuclear groups that have been fighting expansion of the A-power potential on ecological grounds.

Under current law, local inhabitants must be consulted at various stages in the development of an A-power plant - on the site, construction, commissioning, and alteration of the origi-

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nal plans. This right goes far beyond the limited involvement of the local population in the development of an industrial project *(Doing Business in Europe, Par. 23,543B)*. Opponents of A-power plants have exploited this right by putting forward many objections at various stages that must be considered at public hearings. This has often resulted in delays of several years. The new rules would not encroach on the local population's right to be heard, but they would offer the utilities, which usually build the A-plants, as well as the courts much clearer guidelines and would enable them to anticipate time-wasting objections.

Italy: Labor Union Concessions on Wage Indexation?

A first breakthrough may have been achieved in the attempts to seek a modification of Italy's rigid wage indexation system, which has long been regarded as a prime cause for runaway inflation. At the national congress of the country's largest, Communist-controlled labor federation, CGIL, an overwhelming majority of delegates gave their secretary-general, Luciano Lama, a mandate to negotiate changes in the *scala mobile* with the other labor organizations and the government. This vote meant a major departure from the union's long-held position that "La scala mobile non si tocca" (wage indexation cannot be touched). Lama was reelected as the CGIL chief for another four-year term; he heads a 12-member board composed of seven Communists, four Socialists, and a representative of a militant splinter group.

While welcoming the CGIL's willingness to discuss labor costs, the government has rejected as financially unacceptable Lama's reform proposal for the scala mobile. The union leader had suggested that inflation adjustment of wages and salaries be limited to a 45-point increase annually, at 2,300 lire per point. Government experts were quick to calculate that this would add another 6,000 billion lire in lost revenues to Rome's projected public-sector deficit of 50,000 billion lire next year. At most, the government would be prepared to allow concessions of 1,500 billion lire, it was reported.

In any case, Lama has promised the CGIL's cooperation only if wage rises held within the government's inflation rate target of 16% next year would be free of tax and social insurance contributions, lest there be a real-term drop in incomes. This was termed unrealistic by Prime Minister Giovanni Spadolini, who personally addressed the CGIL congress. He warned that the 16% target would have to be without tax and social security concessions, given the state's huge budget deficits.

Observers have expressed mixed reactions over the CGIL's consent to discuss wage indexation. Some of them view the decision as a political success for the government and a defeat for labor extremists,who have been advocating a course of confronta-

tion. Others feel that Lama's preconditions will prevent a reasonable compromise. The first test will come very soon, when Italy's industrial partners are due to begin talks on a four-year collective agreement for 1.5 million metal and engineering workers.

France: Decree Powers Sought; Textile Industry Aids

Faced with a continuing worsening of the economic situation, France's Socialist government has decided to avoid the delays implicit in putting its job-creating social legislation through the regular parliamentary process. Instead, it will ask both chambers (Assembly and Senate) to pass an "orientation law" under Article 38 of the Constitution, which would allow implementation of certain measures by decree. Under such decrees, the government would reduce the retirement age to 60, put limits on the kind of jobs that pensioners may accept, and cut the work-week to 39 hours by Jan. 1, if possible, or by June 1, at the latest. Decrees would also be used to extend annual paid leave to five weeks and provide a legislative basis for job-creating "solidarity contracts" between industry and labor.

Until recently cabinet ministers had hoped to avoid the recourse to decrees, which they had violently criticized while in opposition. But as the parliamentary timetable was slowed down by continuing debate on the budget and nationalization bills, the unemployment situation was taking a turn for the worse, and immediate action was called for. According to a recent survey, 56% of France's small and medium-sized firms plan no new investments in the coming six months, and 83% of them will hire no new labor. Insolvencies in the first ten months of 1981 were up 23.3% over the same period last year, and capacity utilization in industry has fallen from 85.5% to 81.7% since January 1980. As a result, many experts disagree with the optimistic official prediction of a 3% increase in private investment next year (minus 4.5% in the current year), despite the most recent slight activation of consumer demand.

In other news, the Mitterrand administration has taken the first steps to reorganize ailing industries. As an interim measure, the textile industry is to receive subsidies to reduce its social insurance burden. Still pending is a state plan for the reorganization of textile plants, employing 30,000 workers, owned by the bankrupt firm Agache Willot. The government apparently wants to await the results of ongoing discussions in Geneva on a new Multifiber Arrangement before any final decision is made.

New Leadership for 'Patronat' Employers' Federation

The executive board of the Patronat, the French employers' federation, has nominated a self-described "moderate reformer," Yvon

Gattaz, as the organization's new president. Gattaz, 56, whose formal election on Dec. 15 seems assured, is a self-made businessman who got his start as an engineer at Citroën and eventually founded with his brother an electronic components company, of which he is the director-general. The new Patronat chief has been the ackowledged spokesman for France's small and medium-sized enterprises and for years has been the head of ETHIC, an association representing that sector. Gattaz will succeed François Ceyrac, who has led the Patronat since 1972.

The change of command at the employers' federation comes at a time when the new Socialist government is embarking on its ambitious nationalization drive. The Patronat leadership intends to keep the state's influence at bay, so far as possible, and Gattaz has been quoted as saying that he would vigorously fight "whatever economic, social, or tax measures are contrary to the mission of the company sector."

Denmark: Economic Gloom; Local Elections; Glistrup

As the Danes prepare to go to the polls in early general elections on Dec. 8, the nation's "three wise men," joint chairmen of the independent Council of Economic Advisers, have issued their most pessimistic economic forecast since World War II. Unemployment, at 9.3% already the major headache for whichever government will take office, is predicted to rise soon to over 10%. The current-account deficit is projected at double its present level of DKr 13.5 billion by 1985 and, according to Finance Minister Svend Jakobsen, will reach DKr 16 billion already next year.

Further cause for concern is seen in the recently published draft budget for 1982, which projects a doubling of the finance deficit from this year's predicted DKr 21 billion to an estimated DKr 40 billion. In fact, according to Jakobsen, the current year will see a deficit of closer to DKr 30 billion as a result of falling tax revenues and rising unemployment insurance costs.

In other news, municipal and county council elections resulted in the governing Social Democrats dropping their share of the vote from 38.5% to 35.8%. However, Prime Minister Anker Jörgensen still expected his party to form the next government after the Dec. 8 general elections. The vote total of the combined parties of the left actually rose to 47.8%, as a result of a 3% advance of the socialist People's Party to 6.7%.

By coincidence, news came during the election campaign that Mogens Glistrup, the prominent "tax rebel" and leader of the anti-tax Progress Party, had been convicted of tax fraud "of exceptional grave character" by a Danish appeals court. He was sentenced to four years in prison, fined DKr 4 million, and debarred for life from practicing as a lawyer. Glistrup said he would appeal the judgment to the supreme court.

Luxembourg: Probing the Status of Fiduciary Deposits

The Luxembourg banking control authorities are currently examining draft legislation on the legal status of fiduciary accounts. A government-appointed expert commission has proposed keeping any deposits in such fiduciary accounts out of the banks' balance sheets, thereby making it clear that these deposits would not be at the disposal of a bank that might encounter financial difficulties. Until now, fiduciary deposits have been carried on the balance sheets, unlike the practice in Switzerland where the deposits technically are not viewed as liabilities incurred.

The activities of the Luxembourg government in this realm have, in fact, raised fears in Swiss banking circles that the Grand Duchy may try to lure lucrative business away from Switzerland, where banks reportedly manage fiduciary assets of SF 165 billion - about 60% more than last year. The reason for the strong interest by investors is the high interest rates paid on Eurocurrency deposits. By contrast, fiduciary deposits in Luxembourg total only LF 46 billion (April 1981).

The Luxembourg authorities claim that the changes considered for the fiduciary business are merely one aspect of a general modernization of the Grand Duchy's banking business. Nevertheless, it goes unchallenged that the client security provided for fiduciary deposits would also apply to securities, gold, precious metals, etc. By contrast, clients of Swiss banks deposit fiduciary funds at their own risk. Also, the Swiss Parliament is studying proposals to put a 5% withholding tax on interest income from fiduciary accounts *(Doing Business in Europe, Par. 40,072)*.

Britain: Hidden Reserves Status for Banks

Four U.K. financial institutions have been recognized by the Secretary for Trade as banking companies within Schedule 8 of the Companies Act 1948. This means that they are entitled to keep hidden reserves and are not obliged to reveal their true profits. In 1970, the London clearing banks decided to make a full disclosure of their profits, and observers believe this is the first time since then that banks have been permitted the special privilege of hidden reserves, although this practice is not uncommon in Europe.

The decision has been regarded with some surprise, since there is generally a greater emphasis on disclosure in financial and company matters, and this would seem to go against the current trend. A House of Lords committee, which comprises several peers with banking connections, is at present examining an EEC draft directive on bank accounting *(Common Market Reports, Par. 10,293)*, including the questions of whether, in fact, banks should be permitted to have hidden reserves and not be required to reveal their actual profits. Although the directive is not

likely to be implemented in the U.K. for some years, the committee is expected to produce a detailed report sometime next year, which is likely to strongly influence government policy.

EURO COMPANY SCENE

Britain's Ferranti electronics group and the United States' General Telephone & Electronics have announced the formation of a U.K. joint venture under the name of Ferranti GTE Ltd. With an initially projected investment of £8 million, the new company will produce and market telecommunications equipment at a Manchester plant. Over the first three years, management foresees a cumulative turnover of £25 million annually and the creation of 250-300 jobs.

The French subsidiary of International Harvester Co. (IHC), which employs about 4,500 workers in two plants, plans to reduce its workforce by more than 800 by the end of 1982. More than half of the layoffs are to be via early retirement.

The United States' Intel and Matra Harris Semiconducteure have a 49.7% share each in a new joint venture, Cimatel, for the design of semiconductors. Matra Harris is jointly owned by France's Matra and the U.S. Harris group. Originally, the joint venture was to be set up on a 51:49 basis in favor of Matra, but Intel reportedly balked at this proposal in view of the French government's plan to take a 51% equity in Matra. The remaining 0.6% shareholding in Cimatel's FF 12-million base capital is in the hands of French board members.

Autelca AG, a member of Switzerland's Hasler group, has signed an agreement with Vapor Corp., Chicago, for the U.S. distribution and eventual production of Autelca's ticket dispensing automats.

Esso Italiana (Exxon) intends to cut down its operations in Italy because of low profit margins partially caused by official price controls. Esso said it would reduce diesel fuel imports as well as its Italian refinery output. The company thus follows the example of other oil majors, including Mobil, BP, and Shell, which previously announced reduced or discontinued operations.

Despite an "attractive" offer from the United States' Philip Morris (via Miller Brewing Co.), the second-largest Bavarian brewery, Löwenbräu AG, remains in German hands: more than 80% of the company's DM 14.6-million share capital has been purchased by Agricola, a family holding company in the Merck-Fink group. Miller produces and distributes Löwenbräu beer in the U.S. under license, and Philip Morris became a prime bidder when the German brewery was put up for sale a few months ago.

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Community: Concern Over Greek, French Nationalizations

The Commission has declined to comment on the plan of Greece's Socialist government to propose nationalization of major enterprises and the banking sector (see story on page 7). It had also remained silent when France's Socialist-Communist government announced its plans for taking over, to start with, six major manufacturing companies as well as 36 private banks (in the meantime approved by the National Assembly). In fact, the EC executive may not say anything on the matter because Article 222 of the Treaty of Rome leaves it up to the Member States to decide which philosophy of ownership will prevail *(Common Market Reports, Pars. 5261, 5262)*. The Commission will remain silent so long as government-owned companies and banks abide by the competition rules and the anti-discrimination principle (Treaty Articles 90 and 7; *Common Market Reports, Pars. 2351, 191*).

Commission officials nevertheless see in the French and Greek governments' nationalization drives negative consequences for the process of integration. The ultimate goal of integration is to mold the ten economies into a genuine single market,

This issue is in two parts. This is Part I.

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with capital and investors moving freely throughout the Community and availing themselves of the right of establishment as provided by the EEC Treaty. A major foreign company may not want to face the risk of establishing a subsidiary or acquiring an interest in a country that might be about to nationalize a particular sector. According to Commission officials, if this attitude of individual potential investors were to spread, it could, for all practical purposes, lead to an erosion of the right of establishment, which is an absolute condition for the free movement of businesses. If other Member States were to follow the French and Greek examples, European investors might decide their money is safer in American or Australian ventures, the officials say.

The French nationalization program could have a negative impact on competition, according to officials in Brussels, who point out that throughout the world government takeovers of privately owned businesses usually have been at the expense of the freedom of competition. The chances of this happening in France reportedly have grown: with the nationalization of the 36 private banks, practically the entire credit sector has come under government ownership.

Britain to Be Taken to Court Over Poultry Import Ban

The Commission has decided to take the U.K. before the European Court of Justice in order to establish that Britain's health regulations that effectively ban imports of poultry are contrary to the Treaty of Rome. The dispute arose when the U.K. government issued a decree ordering a sudden change from vaccination to compulsory slaughtering as a way of dealing with outbreaks of fowl pest (New Castle disease). In effect since Sept. 1, the decree bans poultry and egg imports from any other countries, including EEC Member States, that control the disease through vaccination rather than the slaughtering of all fowl on a farm where an outbreak occurred. The measure drew immediate protest from France because French exporters were just about to sign substantial contracts for the sale of Christmas turkeys to the U.K.

Britain's decree was also strongly criticized by the Commission, but legal action was delayed because the EC executive was led to believe that the U.K. might amend the decree along the lines of Danish regulations, which control imports on health grounds but do not amount to an overall ban. In its latest response to the Commission, the British government indicated that it had not changed its position; instead, it repeated its call for Community-wide legislation on a slaughtering policy. The Commission regarded this as a delaying tactic.

In its suit against the U.K., the Commission is expected to contend that, while Treaty Article 36 permits import curbs for

reasons of health, Britain nevertheless violated that article in several respects - among others, by extending the ban to egg imports as well. Should the Commission be able to prove that previously as much as 20% of the poultry sold in the U.K. came from farms that used the vaccination method, Treaty Article 7, which bars discrimination, could also be invoked in support of the action *(Common Market Reports, Pars. 191, 351, 352.04)*.

In Brief...

The EC's ten heads of government failed at their Nov. 26-27 summit meeting in London to make decisions on the reforms of the common agricultural policy and the budget that the Commission had proposed in response to the May 30 mandate. The foreign ministers will try in the coming weeks and perhaps even months to smooth out the differences on the extent of CAP reform. France, Ireland, and Italy, opposed to the Commission concepts that would hurt small farmers, agree on the necessity of controlling CAP expenditures. Britain and Germany favor the special levy on milk produced by dairy farmers. On the budget issue, Germany, the largest net contributor to the EC budget, failed in its bid to have its share of the budget payment fall below the present 30% level. Although any decisions were deferred until the CAP and budget issues are resolved, the Ten did reach agreement on plans to promote new policies in the economic and social field. A proposal to expand by 3 billion EUA the size of the borrowing and lending facility, known as the new Community instrument, was accepted in principle + + + The Council has approved two directives and a regulation that will, as of next January, increase the duty-free allowances and excise tax exemptions for travelers and for small consignments sent from third countries or sent by a Member State resident to a private person in another State. Travelers entering the Community from third countries will be allowed to bring in free of duty or excise tax cigarettes and alcoholic beverages valued up to 45 EUA (at present, 40 EUA). Small, noncommercial consignments sent from third countries will be exempt up to 35 EUA (now 30 EUA), and the exemption for those sent within the Community will be 70 EUA (60 EUA). (Official Journal No. L334, Nov. 21, 1981, page 1, and No. L338, Nov. 25, 1981, page 24).

Germany: Budget Bill, Accompanying Legislation in Conference

The upper house of the German parliament, the Bundesrat, has rejected the 1982 budget bill and all but one of the accompanying pieces of legislation. These are designed to help the federal government trim the budget to keep borrowing down when revenue is declining and, at the same time, continue paying unemployment insurance benefits when joblessness is growing *(Doing Business in Europe, Par. 40,323)*. All of the measures had been approved ear-

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lier by the lower house.

Rejection by the Bundesrat's Opposition-controlled majority does not mean that the government and the government coalition parties will not have their way. This is particularly true for the two excise tax bills; one would extend the federal excise tax on heating oil indefinitely, and the other would raise excise duties on tobacco and alcohol. Here the lower house, in which the government coalition parties have a comfortable majority, may overrule the Bundesrat's veto. The same goes for a measure aimed at cutting back government-financed vocational training programs *(Doing Business in Europe, Par. 40,324)*.

So far as the budget bill and some of the other legislative pieces are concerned, the Bundesrat's veto has thrown what has been dubbed "Operation '82" into conference. There are already signs that the government and the Opposition are willing to compromise. The government had proposed lowering the contribution rate to the old-age pension insurance funds by 0.5% for 1982 and 1983. The proposed relief was seen as a sort of compensation for the 1% increase in the unemployment insurance contribution rate. The upper house's majority rejected the proposed lowering of the contribution rate to the pension insurance funds, reasoning that the measure would put the funds in a financially tight spot and would require a rescue operation in a few years' time. The government reportedly is prepared to withdraw the proposal.

Bonn observers point out that the success of Operation '82 will also depend on whether the 2.5 million public service employees will accept the 1% cut in base salaries that the government and the Bundestag prescribed for civil servants working for the federal government. Negotiations between public employers and representatives of the powerful public service union are scheduled for early next year. Major concessions by the government at the bargaining table could mean failure for Operation '82.

Britain: Proposing Further Curbs on Union Powers

Norman Tebbits, Secretary for Employment, has announced his proposals for further industrial relations legislation intended both to improve the operation of the U.K. labor market by providing a balanced legal framework and to safeguard individuals from abuses of trade union power. Described by Tebbit as a "fairly rounded package for the time being," the proposals are set down in a consultative document, following on from the government's Green Paper on Trade Union Immunities (Cmnd. 8128).

The most radical innovation would be to narrow the breadth of legal immunities at present enjoyed by unions, on the premise that these immunities are no longer necessary for unions to re-

present their members effectively. "It is unfair and anomalous that while trade union officials may be sued for organizing unlawful industrial action on behalf of a trade union, the union itself can escape liability altogether." Accordingly, the document recommends that a union would be vicariously liable for a tort committed by one of its officials if its national executive board had specifically authorized or ratified the action or where the official had authority for the action under the union's rules. Damages would be awarded on a sliding scale depending on the size of a union, with an upper limit of Ł250,000 if a union had more than 100,000 members. However, a union's provident and political funds would not be liable for any damages that might be awarded.

The document regards as inadequate the present levels of compensation available to employees who are unfairly dismissed in order to enforce a closed-shop agreement. It is proposed that an employee would be able to receive over Ł24,000 if reinstatement was refused by the employer after an industrial tribunal had ordered it. In the future, dismissal for non-membership in a trade union in a closed shop would be regarded as unfair if there had been no secret ballot of employees within 12 months of the new legislation coming into effect or if the ballot had not shown overwhelming support of perhaps 85% for the continuation of the closed shop. Further ballots would also be required at regular intervals, perhaps every three or five years.

The proposals have met with hostility from trade union leaders and the Labour opposition. The shadow employment secretary, Eric Varley, described them as a "recipe for disaster" and pledged that a future Labour government would wipe the legislation off the statute books, as happened with the 1971 Industrial Relations Act. The general-secretary of the Trades Union Congress, Len Murray, said the government was deliberately going out of its way to pick a fight with the unions, and the casualties would be employers and the relations between employers and workers. The unions would not stand idly by and see their funds plundered, their active members victimized, and agreements with employers disrupted. The TUC had consistently shown that it was not afraid to back unions in fighting against injustice.

Belgium: Finance Squeeze Aggravates Government Crisis

Successive failures to form a new government following the inconclusive Nov. 8 elections are posing an additional problem for state administrators trying to cope with Belgium's increasingly desperate financial situation. Acting Labor Minister Roger De Wulf was forced to concede on Nov. 27 that his department had virtually depleted its funds for payment of benefits to the country's 413,000 unemployed. De Wulf said his Ministry had requested BF 10.9 billion to pay compensation benefits in Decem-

ber but the treasury could provide only BF 2.4 billion. At present, Belgium's jobless rate of 12.7% is the highest in the European Community.

To obtain the funding necessary for these and other purposes, the Belgian state regularly floats large bond issues and international loans. However, the newly constituted parliament so far has convened only once, and the caretaker cabinet has trouble dealing even with routine matters, according to observers, because of rivalries among its outgoing members.

Hopes that the political deadlock might be resolved by Christmas faded again with the collapse of the latest bid to form a center-right coalition. Willy De Clercq, leader of the conservative Flemish Liberals, returned his mandate as a "formateur" after failing to win the support of the Walloon Christian Socialists for his five-point economic austerity program. He was succeeded by acting Foreign Minister Charles-Ferdinand Nothomb, a French-speaking Christian Socialist, who is expected to attempt the formation of a coalition comprised of his own party, the Liberals, and the Socialists.

Denmark: Tax on N. Sea Oil, Gas Profits; Nuclear Power

Following the example of Norway and Great Britain, Denmark plans to impose a special tax on corporate profits derived from the exploitation of oil and natural gas reserves in that country's North Sea continental shelf. However, with Danish reserves being much smaller than those in Norway and the U.K., and profit potentials vastly lower, taxation would be relatively mild. It would be at a rate of 70% after depreciation, exploration costs, and corporate tax. Danish depreciation allowances are very generous, so that companies would be left with an after-tax gain of at least 25% on invested capital. The government proposal was expected to be passed into law regardless of the outcome of the Dec. 8 general elections, given the bill's broad support by the political parties in the Folketing.

In other news, the governing Social Democrats have published a revised energy program which admits the need for nuclear power in the longer term but estimates that Denmark can do without it until the turn of the century. If the Liberals and Conservatives form the next government, they may act on their assertion that nuclear power is needed much sooner.

France: Senate Rejects Nationalization Bill; Budget Approved

In a move that had been expected, the French Senate, acting on a procedural motion, has rejected the government's nationalization bill by 184-109 votes. The motion was introduced by members of

the Senate commission that had spent weeks examining the bill and criticized it as unconstitutional on 15 separate counts and likely to provoke disputes abroad. The aim of the Opposition senators, who represent largely conservative and rural France, is acknowledged to be to delay the bill and give time for further challenges. The government, however, intends to have the last say. The next step will be the appointment of a mixed parliamentary commission to study the bill before it is returned to the National Assembly for a second reading. Thereafter it can be presented once more to the Senate. If rejected again, it can be implemented unilaterally by the Assembly on a third reading. Commentators doubt that this procedure can be completed before Christmas, and since Opposition senators and deputies are eventually expected to take the issue to the Constitutional Council, the legislation is unlikely to be actually implemented until well after Jan. 1, 1982. (See also *Doing Business in Europe, Par. 40,307*.)

In other news, the government's budget proposals for 1982 have been passed by the Assembly and will now also be sent to the Senate. Based on a forecast of 3.3% growth in 1982, the budget calls for FF 760 billion in revenue and FF 850 billion in expenditures.

Greece: Nationalization Plans; Possible EC Referendum

By a vote of 172 to 113, the Greek parliament has approved the policy program of the governing Socialist PASOK party as presented by Prime Minister Andreas Papandreou. The ten Communist deputies abstained, complaining that the program did not go far enough. The wording of some of the policy aims was, in fact, so vague as to leave doubts about the true intentions of the government. Concerning Greece's EC membership, Papandreou committed his administration to seeking "a better deal" or a special agreement with the Community, preparatory to asking President Constantine Karamanlis, the architect of the country's accession to the EC, to hold a national referendum on the issue.

A key element in Papandreou's policy program is the "socialization" of much of domestic industry, involving a combination of direct nationalization and worker participation. Sectors affected would be banking, insurance, mass transport, communications, shipbuilding, steel, cement, fertilizers, pharmaceuticals, and industries related to national defense. On the other hand, the premier promised the encouragement of private initiative in small and medium-sized companies as well as in foreign investment, where such initiative was "transparent" and served national economic development.

Much of the government's program is to be incorporated in a 1983-87 five-year plan due for publication by the end of next year. Athens intends to implement a short-term economic program

in 1982, emphasizing simultaneous measures to combat inflation and overcome the recession. As of January, lower-income groups are to benefit from an automatic wage escalator linked to the consumer price index, with adjustments every four months. (The premier also warned against excessive pay demands, however.) The tax burden is to be more evenly shared, and farm pensions are to be raised.

Switzerland: Voters Approve Finance Code, Tax Increases

Government spokesmen in Bern have registered with relief the results of the Nov. 29 national referendum, in which all Swiss cantons and a solid majority of voters approved a new federal finance code for the next 12 years and thereby an increase in indirect and excise taxes and a slight decrease in income taxes. About 818,000 supported the proposal, and 369,000 came out against it. However, the voter turnout was among the lowest ever, at 29.9%.

Before the balloting, the government had reason to be pessimistic about the outcome, mindful of similar referenda in 1977 and '79, when the electorate defeated two proposals for the introduction of value-added tax in replacement of the turnover tax. This time Finance Minister Willi Ritschard waged a vigorous campaign for a "yes" vote, warning that a rejection would have disastrous consequences for the ailing federal finances. Ritschard badly needs the additional net revenues now approved - SF 570 million for 1983 and SF 300 million annually for the subsequent years - to cover about half of the federal budget deficit. No solution has yet been agreed on for the other half, and government and Parliament are considering such possibilities as an energy tax, a transport tax on heavy trucks, and a levy on fiduciary accounts *(Doing Business in Europe, Par. 40,072)*.

Under the constitutional amendment now approved, turnover tax rates will go up from 5.6% to 6.2% for retailers and from 8.4% to 9.3% for wholesalers. While the treasury expects to gain some SF 600 million annually from these increases, it will lose SF 290 million at the same time because of the income tax adjustments.

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Community: Information About Industrial Accidents

The Council of Ministers has reached agreement on a compromise version of the draft directive on major hazards of certain industrial activities, commonly referred to as the Seveso directive. Once the Member States have enacted legislation along the lines of the directive (they have 18 months to do so), manufacturers will be required to notify the authorities about toxic, explosive, or highly inflammable substances that they use or produce, and employees and the authorities will have to be informed about accidents that have occurred.

The directive itself does not set forth the mandatory exchange of information and consultation among Member States about major hazards that the Commission had proposed to minimize the effects of major accidents in industrial plants near Member State borders. Instead, the information and consultation requirements are provided for in a nonbinding declaration. Even if this declaration is published in the Official Journal, some Commission officials fear that it will not be as effective as the originally proposed information exchange procedure. Nevertheless, it is hoped that the declaration, though nonbinding for the State on

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whose territory a potential hazard exists, will exert moral pressure when invoked by neighboring States whose population might be affected, so that the particular State will have to respond to the request for information and consultation.

France had blocked adoption of the Seveso directive for several years, although it never disputed the core of the proposal. Paris was opposed to the clause that would have required a Member State to inform its population about major potential hazards and to inform and consult other States whose population might also be affected. The French government was mainly concerned that a commitment at this point would be prejudicial to the expansion of its nuclear energy program. Since then, a new Socialist-Communist administration has come to power in France, but it is taking the same position on the matter as the previous government (see related story on page 5).

Greece Lists Demands for EEC Concessions

The concessions that Greece is going to demand are now known. At the Nov. 26-27 London summit, Greek Prime Minister Andreas Papandreou spelled out his government's plan for a special arrangement with the EEC that would allow implementation of the country's industrial and farm development program. What is still unknown is the form any concessions might take. Renegotiating the Greece-EEC Accession Treaty would be a long and arduous affair, and the amendments would have to be ratified by the legislatures of the other nine States, which could take years.

Granting concessions within the various common policies that allow Community institutions some discretion would not be so time-consuming. Commission officials can imagine broad application of the safeguard clause contained in the accession treaty. Thus, if a particular sector of the Greek economy experienced severe difficulties that were liable to persist or adversely affect the situation in a particular region, the Greek government could ask the Commission to take temporary measures to protect the troubled sector.

Without having seen concrete evidence that would justify application of the safeguard clause, Commission officials believe that Greece's demand for concessions was made out of disappointment over the effects of accession to the EEC rather than out of an acute case of economic difficulty. Many Brussels observers believe that Papandreou had no choice but to demand concessions.

Greece wants concessions on the common agricultural policy and the social policy. The Greek government is primarily concerned about declining exports to countries outside the EEC (prices of Greek farm commodities have gone up and will continue to rise to the level elsewhere in the Common Market), insuffi-

cient protection of small farmers, and rising inflation. Commission officials point out that Greece has been a member of the EEC for less than a year, and its industry and farmers are going through a period of adjustment. They emphasize that fewer exports to third countries have been more than compensated by the advantage of CAP, which offers the opportunity to sell in the Common Market at a higher return as farm prices gradually increase. The officials concede that rising farm prices have contributed to higher inflation (25%, the highest in the Community). So far as the social policy is concerned, they believe that the extent of financial commitments to Greece within existing policies could also be subject to negotiation.

Germany: Plan to Make Waste Recycling Mandatory

The German government plans to submit to Parliament during the current legislative session a bill that would make the recycling of waste matter mandatory. The 1972 Waste Disposal Act requires the lawful disposal of industrial waste and household garbage *(Doing Business in Europe, Par. 23,546)*. The planned amendments would obligate local governments to seek ways of recycling individual waste matter in garbage and trash. To this end, the amendments would commit households to separating garbage and trash into various categories, such as metal, rubber, glass, paper, or food remnants. This commitment could be broadened by the state legislatures to require residents to take waste matter to public collection points or junk dealers. The biggest problem is what to do with plastics, according to the government. No method has yet been found to recycle plastic, although the government is financing several research and pilot projects on the subject.

With the planned amendments, the government wants to increase its efforts to cope with the ever-increasing volume of refuse and garbage. It had some success with its campaign to induce consumers to take empty bottles to central collection points and to convince bottling companies to use fewer one-way bottles and cans. Government spokesmen believe it is highly probable that the bill will provide for a tax rather than a ban on one-way containers *(Doing Business in Europe, Par. 23,546F)*.

Britain: Consolidated Status for Accountants

The U.K. Society of Company and Commercial Accountants has merged with the British Association of Accountants and Auditors, with the ultimate objective of becoming a member of the prestigious Consulting Committee of Accountancy Bodies. This would elevate the professional status of the members in these two organizations. The amalgamation is also intended

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to promote the financial and administrative consolidation of the professions.

The present six institutions of chartered and certified accountants that constitute the CCAB are recognized by the Dept. of Trade as authorized accounting and auditing bodies, whereas the parties to the new mergers have never received recognition as approved auditors of limited companies in accordance with Section 161 of the Companies Act 1948. An amendment was proposed to the Companies (No. 2) Bill, which would have provided accounting bodies outside the CCAB with a limited auditing role. However, this proposal was withdrawn when Reginal Eyre, a junior minister in the Dept. of Trade, said he would give the matter "most careful consideration" and would be glad to hold detailed discussions.

Bank of England Wants Improved Merger Control Powers

The recent takeover bid by the Hong Kong & Shanghai Banking Corp. for the Royal Bank of Scotland Group, the fifth-largest U.K. clearing bank, has spotlighted an apparent loophole in the Bank of England's powers to veto a prospective takeover by an overseas bank: it was argued that these powers extend only to acquisitions of accepting houses. In 1972, when Britain joined the EEC, the Bank of England published a set of guidelines which were intended as a clarification of existing principles in a European context. These specified that (a) there must be consultations with the Bank when there is to be a foreign holding of more than 15% of a U.K. bank's share capital, (b) all the parties concerned must be in agreement, and (c) the bidder will abide by the Bank's findings in each particular case.

The bid for the Royal Bank of Scotland is subject to an inquiry by the Monopolies Commission *(Doing Business in Europe, Par. 24,004)*. Nevertheless, in light of Hong Kong & Shanghai's argument, the Bank of England says that new legislation is needed to enhance its powers to control mergers and takeovers in the banking sector. These would not always involve a foreign element but would extend to possible mergers in the U.K. between insurance companies and banks. At present, it appears that the Bank is happy to countenance overseas banks increasing their financial operations in the U.K. market, so long as they do not seek to take over domestic deposit banks.

France: Trying to Regain Lost Market Shares

As the Socialist-Communist government in France is pursuing its nationalization campaign, other aspects of its industrial policy are slowly emerging. Foremost among these is the de-

termination to have French manufacturing industry regain lost terrain on the domestic markets, where the foreign competition has been making strong inroads. Between 1976 and 1980, the average share of imported industrial products rose from 21.7% to 28.4%. Even more spectacular was the degree of "foreign penetration" for capital goods and consumer durables, at 35.1% and 44.3%, respectively. To support its current "buy French" drive, the government argues that every percentage point regained on the domestic markets means foreign exchange savings of FF 5-10 billion and a gain of 100,000 jobs.

Current policy seeks to concentrate state aids on 14 industry branches considered most in need of such support, including furniture, leather and footwear, household appliances, home electronics, textiles, machine tools, and toys. Paris has already announced aid plans for four of these sectors (textiles, furniture, leather and shoes, and machine tools), and others will follow. Generally, the idea is for the respective sectors to enter into voluntary agreements for the gradual reduction of imports, in return for investment and export aids by the state. The government itself may use administrative obstacles to slow imports and hopes to persuade traders to join in long-term purchasing contracts with French producers. The production industry will be pressured to adapt its sales terms to international norms (delivery terms, for instance).

One typical example of the government's strategy is the "leather plan" recently signed by Industry Minister Pierre Dreyfus and leather industry representatives. That sector employs about 100,000 in 1,300 enterprises and had a turnover of FF 38 billion in 1980. To help shrink the FF 1.8-billion annual trade deficit for leather and shoes, the distributors are called upon to reduce their foreign purchases by 10-25% within 18 months. In the footwear sector, this would have the effect of cutting imports by about 20 million pairs of shoes, from the current level of 128 million pairs. At the same time, French shoe producers are to receive FF 5 million in state funds for export promotion, with the aim of boosting exports by 15% over the next three years. French tanneries, the weakest segment of the domestic leather industry, are to receive FF 90 million in the next two years to improve their capital base. In return, they will maintain current employment levels and pledge to buy two-thirds of their hide supplies in France instead of the present 35%.

Paris Continues Emphasis on Nuclear Power

The French government has given the go-ahead under its slightly slimmed-down atomic energy program for six new reactors to come on stream in 1982 and 1983, including three of the five on which work was halted in July pending consultations with local authorities. The total output of the six reactors will be 7,400 MW. The former Giscard d'Estaing administration had

planned to bring nine reactors into service within the same period. Nevertheless, the French program remains the most ambitious in the world in relation to the size of the economy. Construction of five other reactors will also continue, for completion at a later date. President François Mitterrand appears to be trying to steer a narrow course between the vocal antinuclear critics of his own party and the equally strong demands of both trade unions and industry for a bigger nuclear power program.

The power generation capacity originally to be covered by 1990 by the three reactors now cancelled is to be made up by a combination of expanded use of domestic coal reserves and the import of an additional 8 billion cubic meters of natural gas annually from the Soviet Union.

Netherlands: Talks Begin on Government's Jobs Plan

Joint consultations between the Dutch government, the trade unions, and employers over the implementation of The Hague's jobs plan have begun under the shadow of new economic forecasts suggesting that the program may fail in its proposed effects. As a result, the country's two main labor federations, FNV and CNV, have rejected the plan in advance, and FNV chairman Wim Kok accused the government of lacking an effective remedy for unemployment. Some 423,000 persons are now without a job, about 10% of the active workforce, which is a post-war record.

The jobs plan devised by Labor Minister Joop den Uyl and presented in outline in Premier Andries Van Agt's policy statement last month envisages a drastic cut in the purchasing power of all employees. Wage indexation would be limited to incomes up to 150% of the average level of earnings, i.e., to about 50,000 guilders per year. Holiday pay would be cut by 0.5% and limited to a maximum 5,000 guilders, and insurance contributions would be levied on sick pay, which thus would be reduced to a level below normal pay. Finally, all employment income earners would be subject in 1982 to a "solidarity tax" aimed at raising 500 million guilders, probably via a levy on gross wages. In 1983, this would be replaced by a more permanent "investment wage tax."

The resulting reduction in purchasing power would be expected to vary from 1% for earners of the minimum wage (22,800 guilders annually) to 4% for those earning four times the average income. The government intends to limit gross wage increases next year to 6%, without setting actual wage limits, if possible.

Because of the heavy impact on wages, the unions have opposed the proposals from the start. Their resistance has become even stiffer following Central Planning Office forecasts that, under present economic circumstances, the Den Uyl plan

will do no more than reduce next year's unemployment count from an estimated 480,000 to 475,000. Over 50,000 workers would still lose their jobs in the course of 1982.

The unions demand, in effect, a guarantee that the program will actually create the 65,000 new jobs originally promised by the government - 35,000 through new workplaces and 30,000 by turning full-time into part-time jobs. In addition, the unions want the proceeds of the solidarity levy and subsequent investment wage tax to be used within the individual enterprises from which they would originate and to be administered partially by the employees. The government, on the other hand, intends to use these revenues for long-term, job-creating measures. The employers, for their part, reject the solidarity fund concept entirely.

Italy: Debt Settlement Accord for ENEL Utility

In a unique procedure, Italy's state-run electric power utility, ENEL, has agreed to repay before Christmas 400 billion lire of 1,300 billion lire in total debts to several hundred domestic supplier companies. The agreement was concluded between the respective presidents of ENEL and Confindustria, the industrial federation, and included the setting up of a mixed commission to decide on the modalities and order of debt repayments. Never before has the federation taken upon itself this kind of role of debt administration in the case of an almost insolvent state-owned corporation.

ENEL is expected to remain behind in its payments for a long time to come. The funds generated by a recent increase in gasoline taxes aimed at improving the finances of the stricken corporation will be used mainly to catch up on maintenance and repair work, which had been postponed because of the shortage of funds. ENEL is not expected to undertake any new major investment for a long time.

Denmark: Jörgensen Cabinet Quits After Elections

As had been widely predicted, the early general elections on Dec. 8 failed to clear up the muddled political situation in Denmark and left open the question of which party or parties will form the next government. On the morning following the voting, Prime Minister Anker Jörgensen submitted the resignation of his Social Democrat minority administration; his party had lost 5.4% of its votes and nine of its previous 68 mandates. However, these losses did not automatically accrue to the nonsocialist Opposition but partly to the leftist Socialist People's Party, which expanded from 5.9% to 11.3% and from 11 to 20 seats. Even so, the nonsocialist bloc had some slight gains,

with the Center Democrats winning nine additional seats (now 15) and the Conservatives adding four (now 26). The liberal Venstre went down from 22 to 21 mandates. Not surprising to most observers was the setback of the anti-tax Progress Party, whose leader, Mogens Glistrup, last month was given a four-year jail term for tax evasion. The party lost four of its previous 20 seats.

In the new parliament, the political left will have 84 mandates, based on 46.8% of the vote. The nonsocialist bloc will be represented with 91 deputies (50.3% of the vote). Still, the balance of power may once again hinge on the Radicals, who had supported the Social Democrat minority government and now hold nine seats (5.1%).

Under the circumstances, most political commentators refused to speculate on the composition of Denmark's future government, and virtually all of them predicted lengthy and difficult negotiations among the parties. They also predicted that the next minority administration would not have a viable parliamentary base and, therefore, would not last a full four-year term - a fate shared by all Danish governments in recent years.

Norway: Government to Curb Offshore Pay 'Explosion'

Norway's new Conservative government has threatened to take stern measures to restore orderly wage bargaining in the country's offshore oil and gas sector and raise the production companies' "cost awareness." The government fears that the recent series of high wage settlements won by means of illegal strikes could lead to inflationary pay demands by mainland workers in next spring's round of collective bargaining. Oslo's displeasure has been incurred especially by foreign oil companies, which yielded to strikers for additional pay raises following the official settlement of their dispute by compulsory arbitration. Labor relations experts fear that the practices in the oil fields will erode Norway's industrial relations climate.

Wages represent only a fraction of the oil companies' total operating costs and are fully tax deductible. Up to 85% of any pay increase may be passed on to the state in the form of a lower tax bill. Oil Minister Vidkunn Hveding has promised to bring the "wages blowout" under control, if necessary by eliminating the tax-deductible status of the companies' wage bills.

Another reason for the wages problem is the growth of independent labor unions in the offshore sector, unhampered by the discipline of the mainland LO labor federation. The independent unions were originally set up as company unions in an attempt to keep the LO out of the offshore sector, but recently they have adopted a tactic of militant wildcat strikes.

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Community: Mercury Control Directive Approved by Council

The Council of Ministers has reached agreement on the draft directive to control the discharge of mercury and its compounds by businesses manufacturing chlorine and caustic soda. (The Permanent Representatives still have to make some changes, however.) Formal adoption by the Council and subsequent implementation by the Member States will help combat water pollution caused by mercury or its derivatives, which are specially harmful to man and the environment because of their toxic, persistent, and bioaccumulable properties. The proposal sets forth standards for factories in Member States adhering to the emission control principle (all but the U.K.) and establishes water quality objectives for States seeking to prevent deterioration of the environment by setting quality criteria for rivers and lakes (in fact, only the U.K.).

Formal adoption of the mercury control directive will set a precedent for other measures. Two are now pending; they cover the discharge of three organohalogen compounds (aldrin, dieldrin, and endrin) and cadmium and its compounds. The mercury directive is the first measure to implement the basic Council directive on pollution caused by certain dangerous

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substances discharged into the aquatic environment (76/464/EEC, of May 4, 1976, *Common Market Reports, Par. 3315.18)*. That basic directive covers a range of substances (enumerated in the "black" and "grey" lists) whose discharge must be controlled, the measures to be taken for this purpose, the manner in which they are to be carried out, the time limits for compliance, and the obligations incumbent upon the States.

As with the 1976 measure, the mercury control directive confronted Member State experts with the difficulty of finding a compromise that bridges the gap between the two different approaches to protecting the environment - control at the source, or water quality criteria away from the source - and at the same time avoids distortion of competition. The compromise found after three years of discussions provides that new plants must install discharge control equipment available under current technology. The emission standards will be raised twice - in mid-1983 and mid-1986.

EC Court Confirms Legality of Parallel Drug Imports

The European Court of Justice has confirmed its case law that allows drug importers to take advantage of substantial price differences between Member States for identical drugs so long as certain conditions are met. Pfizer, Inc., New York, lost its case against the German drug wholesaler Eurim-Pharm GmbH before the European Court when the tribunal ruled that Pfizer had exhausted its trademark rights by putting the drug on the market of one Member State (in this case, the U.K.). The drug manufacturer could not prevent imports of the re-packed drug into another State, the Court said (judgment of Dec. 3, 1981; Case No. 1/81). This adverse preliminary ruling will, of course, have a bearing on Pfizer's case against the wholesaler pending in the Hamburg district court.

Pfizer had registered the Vibramycin drug trademark in Germany and sold the drug there through its German distributor. Eurim-Pharm bought large quantities of Pfizer's Vibramycin in the U.K., where it is much cheaper than in Germany, and re-packed the drug without authorization but otherwise did not tamper with the origin or trademark. A leaflet explaining the drug's effects and application was enclosed in order to comply with German rules.

Pfizer brought suit in the Hamburg court, alleging infringement of its trademark and invoking Treaty Article 36. That article provides for exceptions from the basic rule that all obstacles to the free movement of goods between States are to be eliminated *(Common Market Reports, Pars. 351, 352.07)*. Eurim-Pharm argued that invoking trademark rights in this kind of situation is contrary to the principle of free movement of goods. The case was referred to the European Court, which said that Eurim-Pharm had fulfilled the conditions for unimpaired

import as established by the Court in its Hoffmann-La Roche v. Centrafarm judgment *(Common Market Reports, Par. 8466)*: the drug or trademark had not been tampered with, and re-packing had been indicated on each individual package. Furthermore, Pfizer had been informed about Eurim-Pharm's import intentions.

Germany: Change in Real Estate Tax Plans

The German government has changed its tax plans for real property and reportedly is striving first to raise assessed values of building lots by Jan. 1, 1983, and upgrade assessed values of undeveloped real estate except farmland and forests by Jan. 1, 1986. Originally, it was planned to increase all assessed values at once.

Government officials give several reasons for the change. The Federal Constitutional Court has urged the government and Parliament to legislate higher assessed values in order to attain greater equality in taxation. Taxpayers had complained to the country's highest court about discriminatory treatment in the taxation of various forms of real property and other property, such as stock. Several cases are pending, and government lawyers are expecting the *Bundesverfassungsgericht* to be even more adamant in demanding a reform.

A major inequity lies in the fact that the owner of a building lot pays to the local government real property tax amounting to only 0.1-0.2% of the commercial value; the owner of a one-family or two-family house pays twice as much. Because of the extremely low assessed value, the owner of a building lot normally pays no net worth or inheritance tax on the property. He might possibly not have paid real property transfer tax when he bought the land, and yet the value of the property increases annually and substantially.

Current assessed values are based on the last principal assessment of real property as of Jan. 1, 1964, plus 40% to reflect to some extent the rise in value since then *(Doing Business in Europe, Par. 23,363)*. A recent government survey revealed that the inequity in taxation is greater than originally assumed. The survey showed that, on the average, assessed values of one-family homes amount to not more than 13% of the commercial value. The assessed values of apartment buildings amount to 15.8% and those of office and commercial buildings reflect 24% of the commercial value, but for building lots the assessed value is only 5-8%.

France: Mitterrand Clarifies Policy Position

French President François Mitterrand has reaffirmed his determination to push through with the reform program upon which he

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was elected and not to introduce a pause, as had been suggested by Economics and Finance Minister Jacques Delors. In a television interview, Mitterrand promised, however, not to mark new sectors for nationalization before the end of the present legislative period in 1986: there would be no "creeping nationalizations," he asserted.

At the same time, Mitterrand expressed his confidence in Delors and warned the French public not to expect any economic miracles. Unemployment would only begin to fall in 1983, at the earliest, he said, and then only if French industry recovered part of the domestic markets it has lost and if workers were stimulated by being given more codetermination rights.

In a speech elsewhere, Mitterrand described profit as "the motor without which no enterprise can exist." But he told the business community that private investment had risen only by 1% in the last five years, while public investments had gone up by 52%. The French public sector, he said, would represent 17% of the gross national product by the end of this year, 5% more than before. "This nationalization volume is below that of Italy and Austria," Mitterrand said.

French Aid Package to Help Low-Income Farmers

The French government's farm aid package for this year totals FF 5.6 billion, over one-third more than the FF 4.1 billion made available under the previous Giscard d'Estaing administration before the 1981 spring elections. Paris hopes this program will avoid the objections raised in the past by the European Commission. Direct cash payments, of which FF 2.3 billion had been handed out to all farmers under Giscard, this time are being limited to FF 1.5 billion and provided only to those earning less than FF 250,000 per year. These number 538,000 and account for over half of all French farmers.

Half of the aid funds will come from profits of the Crédit Agricole cooperative agricultural bank and the other half from a last-minute addition to the 1981 state budget. The money will be used to help farmers affected by bad weather, to support the agricultural and food fund, and for social welfare and structural measures.

The size of the aid package was attacked as vastly insufficient by the chairman of FNSEA, the country's most powerful farmers' organization, who claims that real-term income losses this year of FF 9.7 billion need to be made up.

Italy: Government Publishes Energy and Chemicals Plans

After three years of discussion, the Italian government's economic policy committee has finally set the framework for a long-term national energy policy. The new ten-year energy plan,

thought to be the largest single expenditure program in Italy's history, envisages spending 85,000 billion lire toward reducing dependency on oil imports to 50% of energy requirements. This year, 28,000 billion lire are expected to be spent on oil imports, equivalent to 80% of total fossil-fuel consumption. Two-thirds of national energy needs are covered by fossil fuels. The plan is intended to function as a coordination instrument without being legally binding. It proposes the construction of six new electric power plants - three of them nuclear fueled and three coal fueled.

Another government decision, in this case by the industrial policy committee, is expected to lead to the rapid reorganization of the Italian chemical industry into a unified state sector controlled by ENI and a private sector centered around Montedison. An emergency bill is to be passed integrating parts of the bankrupt company SIR into ENI. For this purpose, ENI will receive state funds to raise its equity by 220 billion lire as well as to permit it to spend 3,000 billion lire on rationalization of units taken over from SIR over the next three years. The reorganization is being pushed through with unusual speed because part of it depends on a joint subsidiary, Enoxy, set up by ENI and the United States' Occidental Petroleum under an agreement that would expire unless rapid action were taken. Enoxy is to absorb some of the SIR companies, employing 5,500 workers, which ENI is to take over.

The objections raised by Montedison which delayed the reorganization for a long time also seem to have been resolved. Montedison feared that Enoxy plants under American management could flood an already over-supplied basic chemicals market. The government, however, is believed to have offered to arrange the transfer of some of Montedison's own basic chemicals plants to the public sector.

Belgium: Martens Forms Coalition; Bank Rate Boost

After six days of negotiations, Belgium's Christian Democratic and Liberal parties agreed on Dec. 14 to join in a government coalition, which will have a parliamentary majority of 112 mandates, compared with 110 seats for the Opposition. The coalition is headed by Wilfried Martens, the Flemish Christian Democrat who served as the premier of four previous cabinets, from early 1979 until April 1981. The two parties have agreed to seek special parliamentary powers to implement, over a period of 12 months, a program to return the economy to a sounder base. Measures would include the modification of wage indexation, tax relief for businesses, and definitive limits on the budget deficit.

Earlier, on Dec. 11, the Belgian National Bank again resorted to drastic interest rate increases as a way of defending the external value of the Belgian franc. The discount rate was boosted by two points, from 13% to 15%, as was the Lombard rate,

from 15% to 17%. The monetary authorities said they were determined to stabilize the franc within the European Monetary System, after the Belgian currency had touched the lower intervention limit within the EMS. On Dec. 10, the franc's deviation from the EMS's median rate had gone from 70% to 79%, thus overshooting the "alarm threshold" of 75% that requires interventional action, according to an EMS agreement.

Financial observers spoke of an international loss of confidence in Belgium's currency and did not rule out the need for a devaluation. They viewed as particularly worrisome the wide spread between the rates of the controlled "commercial" franc and the freely moving "financial" franc, with the latter quoted up to 16.5% lower on Dec. 10 (Belgium's foreign exchange market has operated on this two-tier basis since 1955). However, following the coalition agreement, the franc staged a strong recovery.

The Belgian interest rate boost runs counter to the current international trend and should, according to commentators, lead to further cost increases and competitive disadvantages for industry. The government has been shunning a devaluation for fear that this would have dire consequences, since the import price increases combined with the effects on wage indexation would drive up the domestic inflation rate.

Netherlands: Parliament Authorizes Wage Rise Curbs

The Dutch government decreed on Dec. 11 wage rise limitations for the coming year after being given the necessary authorization by Parliament. The measure corresponds to the proposals made by The Hague to employers and labor unions prior to the collapse of national wage moderation talks two days earlier. The decree provides that full inflation compensation may be given only to those earning up to 53,000 guilders annually, while employees in higher income groups will receive a fixed increase of 530 guilders for each additional percentage point rise of inflation. Also, vacation bonuses will be reduced from 8% to 7.5% of annual earnings and limited to 5,200 guilders at most.

In this manner, the government hopes to hold the average wage cost increase in Holland to 6% next year and spread the resulting purchasing power losses in such a way that low-income groups would be set back by only 1% in real terms, while those with higher incomes would have to make sacrifices of up to 4%. With this pay intervention, the new center-left government follows the example of the previous administration, which had imposed income curbs for 1980 and this year of 1% and 3%, respectively.

The legislation just passed by Parliament also gives the government the power to intervene in collective bargaining at the industry sector and company levels. However, Social Affairs Minister Joop den Uyl hoped that he would not have to make use of this authorization.

Trying to Cope With Phosphates in Detergents

Dutch soap and detergent manufacturers consider unrealistic the government's intention to require the elimination by 1985 of all phosphates from detergents. The producers have been informed of this target by the Health and Environment Ministry. If these aims were realized, Holland would be the first country in Western Europe to ban phosphates in detergents entirely.

Manufacturers and independent experts say that, despite intensive and costly research, no acceptable substitutes have yet been found for phosphates in terms of cleaning effectiveness, cost, environmental considerations, and energy savings. Other cleaning agents like zeolite or nitrilo triacetate (NTA) either are of only partial effectiveness or their effects on the environment are not really known. NTA, in fact, has proven to be carcinogenic in combination with other substances, such as lead or mercury.

At a recent Dutch symposium on water treatment, it was reported that only one-fifth of the phosphate pollution in Holland's inland waters can be attributed to detergents, while most of it is caused by industrial, agricultural, and household effluents. A large amount of phosphates is "imported" by the Rhine River from Germany; however, even if phosphates were banned from detergents in Germany, the river's phosphate content would shrink by only 25% or so, experts said.

The detergent manufacturers say that the only effective means of curbing environmental damage caused by phosphates is by special sewage treatment. The technology of this process is uncomplicated, they say, and the cost relatively low (about 5 guilders annually per capita), provided most of the pollution is caused by household effluents. Nevertheless, the national association of detergent manufacturers has agreed to reduce the phosphate content of detergents in steps, beginning this year and again in 1983. However, it insists that it will be impossible to make detergents completely phosphate-free by 1985.

Sweden: Income Tax Reform Plans for 1983

By next spring, Sweden's center-liberal minority government expects to have worked out draft legislation on an income tax reform seeking to raise workers' flagging morale, reduce widespread "moonlighting," and, at the same time, curb inflation. The key part of the reform, to take effect in 1983, would be a considerable easing of tax rate progressions. A taxpayer with an annual income equivalent to about $10,700 now has to pay 50% in tax on any additional income above this level. Should Stockholm's new proposals be realized, the 50% rate would not apply before an income level of about $19,000 (after which any additional income is now subject to a rate of 74%). To make up for the resulting revenue losses, the government would reduce tax-free allowances

above the $19,000 level. This would limit the deductibility of interest debts, which would affect homeowners and businesses most of all. The remaining revenue shortfall would be compensated by new taxes.

A reform of this type is supported not only by the two government parties, the Liberals and the Center party, but also by the opposition Social Democrats. These three parties had already reached a framework reform agreement last spring - a "historic compromise" that caused the Conservatives to leave the government coalition with the other two nonsocialist parties last May. The Conservatives want to finance the income tax reduction through spending cuts, whereas the reform draft foresees the imposition of new taxes.

The future political effect of the reform could be that of blocking a possible revival of a three-party nonsocialist coalition following the September 1982 elections. The Conservatives do not want to accept additional burdens for homeowners, but Prime Minister Thorbjörn Fälldin is not willing to compromise on this point. (The three nonsocialist parties did agree, however, on a value-added tax reduction from 23.46% to 21.5% that took effect last month.)

Protest Against Proposed Controls on Foreign Companies

A letter of protest has been handed to Industry Minister Nils Aasling by representatives of Sweden's industrial federation who are opposing Aasling's proposal to introduce controls on the freedom of foreign companies to settle and operate in Sweden. In the letter, the signatories say that, rather than additional regulation, the domestic economy needs government measures to stimulate industrial growth and employment.

Aasling was told by the business spokesmen that any curbs on foreign enterprises' freedom of establishment in Sweden would negatively affect the investment climate and promote protectionist tendencies in international trade. Also, if such controls were introduced, Swedish companies might run into retaliatory action abroad.

The letter - which was also signed by leading foreign investors in Sweden, including Esso (Exxon), IBM, and Unilever - stated that foreign-owned enterprises employ more than 82,000 and work closely with domestic suppliers. The productivity and profitability of these companies exceed the Swedish average, their contribution to corporation tax revenue amounts to about 10%, and their share of exports is substantial.

Largely because of heavy taxation and lack of incentives at home, Swedish investment abroad in recent years has grown to exceed foreign investment in Sweden by about 400%.

Common Market Reports

EUROMARKET NEWS

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Community: Council OKs Trade Concessions for Developing Nations

The Council of Ministers has approved for 1982 the new Generalized System of Preferences, under which the EEC grants trade concessions to developing countries without demanding reciprocity for its own products *(Common Market Reports, Par. 10,324)*. In operation since 1970 and significantly improved for the 1981-85 period, the GSP exempts from customs duties all industrial products except 65 sensitive items, including steel and footwear. Imports from competitive countries will be subject to quotas, whereas imports from other beneficiary countries will be subject to individual ceilings. This dual approach prevents a faster-developing country from exploiting the GSP at the expense of those that are behind in their industrial development.

In the farm produce sector, the EEC offers in 1982 partial or total exemption from duties or levies to 327 commodities. New on the list are 14 products, among them certain alcoholic beverages. There are increased quotas for the benefit of the least developed countries, and among the items covered are cocoa beans and shells, certain vegetables, and fish.

The list of benefiting countries was increased to 125 nations, including Belize and Antigua-Barbuda, which became inde-

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pendent in 1981. Romania and the People's Republic of China will benefit from new concessions for industrial products and agricultural commodities. So far as textiles are concerned, the arrangements for 1982 remain the same as in 1981 both for products covered by the Multifiber Arrangement (MFA) and for those not covered by it.

Still No Agreement on Insurance Proposal

The Council of Ministers has postponed until April 24, 1982, a decision on the indemnity insurance draft directive. The measure would allow insurance companies established in one Member State to offer indemnity insurance in another State *(Common Market Reports, Par. 9803)*. This freedom to render services across EEC Member State borders as foreseen in Treaty Articles 59 and 60 has been difficult to attain for several reasons, e. g., the different philosophies existing among Member States, the extent to which the States control insurance carriers, and other, purely economic reasons. Britain and Holland are relatively liberal, while France, Germany, and Italy exert such tight supervision that government approval is needed to change even minor details on the policy forms.

In the discussions of the Council's working group, Britain was pitted against Germany. British insurance companies, especially Lloyds, would stand to gain if they could operate under more liberal conditions. Germany is against allowing any uncontrolled freedom that might possibly be at the expense of the insured. Consumer protection has been a major argument used by German officials in the working group. The German government also believes that competition could be distorted if insurance carriers from States with liberal controls compete with tightly regulated German companies. It is believed, however, that the German government also wants to shield the saturated insurance market against foreign competition.

In question was, and still is, whether a foreign carrier would have to obtain a license to insure risks in a Member State. Demanding a license would be contrary to the principle of free movement found in the Treaty. In order to make headway, the Commission has proposed a compromise under which the supervisory authorities of the home state would inform the authorities of the other state that a particular company plans to offer insurance services there, but there has been little progress in resolving this issue.

A special aspect of the broader problem of supervising insurance companies' activities concerns the treatment of industrial risks. For example, should Lloyds, in planning to issue a policy on the Ford plant in Cologne, be required not only to inform the German government about its plan but also to submit information about insurance conditions? Britain would go along with post-facto information and subsequent controls exercised

by national authorities, but the information would be confined to general conditions and not insurance premiums.

In Brief...

Stepping up its pressure on Japan for action to change the lopsided trade situation, the Council has instructed the Commission to transmit to the Japanese government a list of demands, among them a request for legislation to ease access of European products and investments to the Japanese market. (The Community's 1981 trade deficit with Japan is estimated to be near $10 billion.) Reduction of tariffs, as planned by Tokyo for alcoholic beverages, is seen as a step in the right direction but could not help solve the central problem, the Council said. The Council expects the Japanese government's response by early February + + + UNICE, the Brussels-based organization representing national industrial associations of the Member States, has demanded several changes in the Commission's proposal that would require management of multinational companies to inform and consult employees on major policy decisions such as mergers. In a report requested by the European Parliament's labor affairs committee, UNICE sees the confidentiality of industrial know-how jeopardized if information is conveyed to employees of subsidiaries in other States. Also, the proposed requirement under which management of a multinational would have to report semiannually about its subsidiary's economic and financial conditions, production, and rationalization and investment programs threatens to paralyze the decision-making process, UNICE says *(Common Market Reports, Par. 10,265)*.

Germany: Spending Cutbacks, Excise Tax Increases Approved

A considerably modified program to cut back government spending and an unchanged excise tax bill cleared the last hurdles in both German houses of Parliament on Dec. 18 and are awaiting the federal president's signature. The measures would become law on Jan. 1, as the Schmidt administration had planned *(Doing Business in Europe, Par. 40,323)*.

There are many elements to the compromise found for the spending-cuts program, but of special significance for business is the fact that the conferees removed from the bill the provision that would have revoked a business's privilege to deduct from its value-added tax liability the VAT paid to the dealer when buying a company car. Retaining this privilege means DM 600 million less revenue for the federal government and some DM 350 million less for the states; the two levels of government share revenues at the rates of 67.5% and 32.5%, respectively *(Doing Business in Europe, Par. 23,393)*.

Unemployment insurance contribution rates will go up to 4%

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as of Jan. 1, but there will be no lowering of the rates for old-age pension funds since the government withdrew this proposal. Children's allowances will be cut by DM 20 for the second and each additional child. The government lost out on its proposal to repeal the exemption from social security tax on monthly incomes under DM 390.

The proposed increase in the depreciation of capital goods and buildings brought about a feature that was not originally intended by either side but was welcomed by the government and the business community, especially the construction industry: the federal and state governments will jointly launch a new mortgage-subsidized housing construction program to help alleviate the housing shortage, especially in the big cities.

The excise tax on tobacco was increased by 33 1/3%, which will raise the price of a pack of cigarettes from DM 3 to DM 4, effective June 1. Alcoholic beverages will become more expensive as of April 1 because the excise duty was raised by DM 300 per hectoliter, to DM 2,550. Finally, the excise tax on heating oil was extended for an indefinite period; it was to have expired at the end of 1981.

Bonn Drops Reinvestment Tax Clause for U.S. Companies

As had been indicated a few months ago by a Finance Ministry official, the German federal government has now decided not to continue to apply the reinvestment clause contained in the German-American double taxation agreement *(Doing Business in Europe, Par. 23,303)*. This clause has enabled Bonn to collect a capital yield tax of 25%, rather than the 15% standard rate, from profits transferred by a German subsidiary to its U.S. parent company and subsequently retransferred to the subsidiary. Since this procedure amounts to a reinvestment of profits earned in Germany, the German government no longer wants to apply the clause, particularly since the resultant decline in reinvestments has had a negative economic impact.

Bonn's decision affects retroactively any retransfers of profits made by a U.S. company to its German subsidiary after Dec. 31, 1980. It also benefits retransfers made before that date insofar as they would be set off against dividends received or to be received by the U.S. company.

The suspension of the reinvestment clause originally had been made a negotiating point by Bonn in the talks with Washington over a revision of the double taxation agreement. These discussions aim at lowering the rate of the capital yield tax on dividends generally to the 15% level, in accordance with provisions of Germany's 1976 corporate tax reform. German government officials view the decision to suspend application of the reinvestment clause as a unilateral step toward the eventual successful conclusion of the discussions.

France: Nationalizations Clear Final Hurdle; Two-Year Plan

In the third and last parliamentary reading, the French National Assembly on Dec. 18 gave final approval to the nationalizations of five industrial groups, 36 banks, and two finance companies. The vote was 331-153. In a last-ditch attempt to avert the nationalizations, the liberal-conservative Opposition filed a complaint with the Constitutional Council *(Doing Business in Europe, Par. 22,605)*, which must act on the matter within 30 days. The nationalizations will take effect on Jan. 1, unless the complainants by that date have been successful with their suit.

It is generally not expected that the nine-member *Conseil Constitutionnel* will invalidate the nationalizations in their entirety: to do so would trigger a serious conflict with the new Socialist-Communist government. Instead, observers believe, the Council might object to parts of the nationalization legislation, for example, those pertaining to the alleged discrimination against domestic bank shareholders (the law exempts banks that are majority-controlled from abroad), or the arbitrary deposit threshold of FF 1 billion above which banks become subject to nationalization. The Council might further examine the adequacy of the government's compensation terms and give an opinion on whether the nationalizations are indeed reflecting a "public need" as required by Article 17 of the French constitution.

In other news, the Assembly has approved the two-year economic interim plan submitted by Planning Minister Michel Rocard. It projects an annual growth rate of 3% and emphasizes social policy aims such as worktime reductions, a more equitable incomes distribution, and improved worker codetermination. It also calls for the active use of state-controlled instruments in guiding the economy. The interim plan, for 1982-83, is leading up to a five-year plan, which is to commence in 1984.

Belgium: Center-Right Coalition Seeks Enabling Powers

Belgium's newly sworn-in center-right coalition government is seeking enabling powers from Parliament, which would permit it to legislate by decree on a wide range of economic matters. Premier Wilfried Martens' Christian Democratic and Liberal cabinet colleagues hope to implement substantial parts of their five-point priority program by means of such powers in the first half of 1982.

Confidence in the new administration appears to be at a high level, as attested by the rapid recovery of the Belgian franc on the foreign exchange markets following Martens' strong stand against devaluation. This can be explained partly by the unity displayed by the four coalition parties in unanimously endorsing the government's economic program, in contrast to the endless conflicts within other recent coalitions. The govern-

ment's slim majority of seven seats is expected to be sufficient to ensure passage of the proposed legislation.

The most drastic measures planned by the Martens cabinet are the partial suspension of wage indexation in order to permit a 3% reduction in real-term incomes in 1982 and a BF 127-billion cut, to BF 200 billion, in the budget deficit. At present the public-sector borrowing requirement amounts to 14% of GNP, but the government wants to reduce it by about 1.5% of GNP annually. Other measures that may be implemented under the enabling powers are a reduction from 48% to 45% in the corporation tax rate *(Doing Business in Europe, Par. 21,323)* and, on an experimental basis, extensive tax relief for companies hiring people in depressed areas. Investment is to be stimulated by other tax incentives or by raising depreciation allowances by up to 120% of purchase costs. Furthermore, funds invested by individuals in share capital of new enterprises or in capital increases of existing enterprises would be eligible for a ten-year tax holiday. Investments of up to BF 50,000 per person annually in Belgian shares would also be tax free.

The main threat to the survival of the new cabinet may come from the open hostility of the Socialists and increasing alienation from the French-speaking Walloon area of Belgium. The government controls only 42 out of 91 seats held by French-speaking deputies in Parliament, and the 30% level of unemployment in the most depressed parts of Wallonia is expected to provide a focus for opposition. The ministers have agreed to complete the capital reorganization of Cockerill-Sambre, the ailing steel combine, which has become a key issue in the south, but refused to give in to Socialist demands for guaranteed production levels (and hence employment) for the plants. Some commentators believe that, if the government provokes an increase in separatist sentiment among French-speaking Belgians, the center-oriented Walloon Christian Democrats could drop out of the coalition, depriving it of its majority.

Netherlands: Aid to Boilermaker Sector; Export Support

A government rescue plan for the Dutch heavy boiler industry, which is suffering from the economic recession, has come under attack from one of the companies involved and many members of Parliament. The two affected companies, Rijn-Schelde-Verolme (RSV) and VMF-Stork, were to have merged their boilermaking activities into a single company, of which two-thirds would have been controlled by the government. RSV opposes this concept with the arguments that it needs to retain boilermaking activities in order to keep its De Schelde division viable and that De Schelde's technological know-how in this field is more advanced than that of competitors.

The government's proposal is backed by agreements of the country's electric utilities to place over the next five years

new orders valued between 4.5 and 5 billion guilders. According to Economics Minister Jan Terlouw, who announced the proposal in Parliament, the plan would guarantee most of the 2,300 jobs in this sector and be funded by 20 million guilders in new capital from the National Investment Bank and 10 million guilders from government funds.

In other news, The Hague intends to increase the government's export support activities in 1982 by 60 million guilders, on top of the 325 million guilders already allocated. Also, the "matching fund," which is the main Dutch export aid tool and allows domestic firms to match conditions offered by foreign competitors in bidding for export contracts, is to be increased by 35 million to 212 million guilders.

Greece: Announcement of Price Boosts, Wage Indexation

In a television broadcast earlier this month Greek Premier Andreas Papandreou announced the first part of the Socialist government's economic reform program, which lays emphasis on curbing inflation, stimulating the economy, and raising the living standard of the lower-income groups. Papandreou, who complained that the previous administration had left the economy in an "advanced state of collapse," said additional measures covering taxation, prices, and credit would be revealed before the year is out.

Under the initial part of the economic program, the price of gasoline was raised by 8%, and telephone and water rates are to go up by 60% and up to 400%, respectively. The extra revenues are to help reduce the public-sector deficit of $6 billion. The workweek is to be cut to 41 hours as of Jan. 1 and to 40 hours as of 1983. The government is introducing a system of wage indexation, which should result in pay increases of up to 25% in 1982, especially for those with low earnings in both the private and public sectors. Old-age pension benefits are to be adjusted in a similar way. Despite these measures, Athens aims to bring down inflation from the current 25% to 20% by the end of the year.

The new indexation system will be graduated in such a way that persons earning less than 35,000 drachmas per month will receive full inflation compensation, while those earning between 35,000 and 55,000 drachmas will receive 50%. The compensation rate shrinks to 25% for incomes between 55,000 and 80,000 drachmas. Earnings above that level will not benefit from the system. Civil servants' salaries will be adjusted on a different basis, with junior grades receiving a flat raise of 5,000 drachmas per month, while those in higher pay grades will receive only an extra 2,000 drachmas. Papandreou said the government is hoping that these increases will serve as a guideline in upcoming collective bargaining between private employers and the labor federation.

EURO COMPANY SCENE

Another oil major, Standard Oil Indiana (Amoco), has decided to withdraw from Italy with the argument that official price policies are making profitable activities no longer possible. Amoco's refinery at Cremona, with a daily capacity of 100,000 barrels, currently operates at half capacity. The refinery is to be put up for sale, as is Amoco's network of 1,100 service stations, mostly located in northern Italy. Amoco has an Italian market share of 3.4% (2.2 million tons) and reported losses there of about 140 billion lire in the 11-month period that ended in November.

The United States' Essex Group (United Technologies Corp.) is reportedly planning to take over Switzerland's Isola-Werke AG, a major manufacturer of insulating materials, wires, cables, and numerous other products. A tender offer by Essex will succeed if at least 91% of the shares of Essex's holding, Elektro-Finanz AG, is made available by Jan. 15, the reports said. Isola employs 3,500 worldwide and reported a consolidated turnover of SF 450 million in 1980.

Honeywell, Inc., Minneapolis, Minn., intends to reduce its stake in France's CII-Honeywell Bull from 47% to 20% and wants to sell this share parcel for $150 million to the French government. According to a contractual clause dating from 1976, the U.S. company could ask for the complete purchase of its equity. Honeywell's gradual withdrawal is in connection with the upcoming nationalization of Cie. Saint-Gobain, which is the controlling shareholder of CII-Honeywell Bull.

The Dutch subsidiary of Ford Motor Co. officially closed its Amsterdam truck assembly plant last month. The 1,200 workers affected will continue on the Ford payroll and receive other benefits until March 1. Not affected are 325 employees who will maintain sales and service operations. Early in December it was reported that the British subsidiary of the U.S. Paccar group probably will take over assembly of Ford's heavy-duty Transcontinental truck from Ford's Amsterdam plant. Assembly would be at the Paccar subsidiary Sandbach Engineering, in Cheshire. Ford's Transit van assembly in Amsterdam will be shifted to existing production lines in Belgium and the U.K.

Playboy Enterprises of Chicago has signed a contract to sell its U.K. casino and betting shop interests for $22.44 million to Trident Television, a British company. Trident thus takes ownership of Playboy's three London casinos, all of which are involved in legal proceedings that could lead to their closure. Nevertheless, Trident management was expecting to win the appeal for regaining the gaming licenses of these three clubs; the case is to begin on Jan. 25.

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Community: Process of Integration Nearly Halted

The economic problems that the Community has been facing for several years nearly brought the process of integration to a halt in 1981. Not surprisingly, the year witnessed a growing tendency in some Member States, especially France and the U.K., to think again in protectionist terms, thereby helping national industries erect barriers to intra-EEC trade under the guise of health, environmental, or consumer protection aspects. The Commission responded with threats of court action and, where new barriers were erected, actually brought suit. The EC executive also stepped up its drive to bring down existing barriers to inter-State trade on the basis of the European Court of Justice's 1979 decision in the Cassis de Dijon case (No. 120/78).

In 1981 there were far more instances of Member States trying to launch, or actually launching, national aid programs for specific industries, among them steel, shipyards, and textiles, because they felt that their first responsibility was on the home front. (There are 10 million unemployed in the Community.) The Commission reviewed the programs under Treaty Article 92 and

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prevailed in most instances with its insistence on modifications or cutbacks of the programs.

Much time and effort on the Commission's and the Council's part were devoted in 1981 to the three topics of the May 30 mandate - development of Community policies, reform of the common agricultural policy, and changing the budget structure. The ten heads of government who met in London on Nov. 26-27 agreed on an expansion of the Community's social and regional policies but postponed any decision until the CAP and budget issues are settled. The need to change CAP's direction is recognized by all except the farmers, who have enjoyed good returns for their produce but who are also fighting an uphill battle against rising fuel, machinery, and fertilizer costs.

The Community moved closer to hitting its revenue ceiling of 1% of the value-added tax transferred to it by the Member States. Germany ended up shouldering a much higher burden than either the Commission or the German government had envisaged. Since the chances for a higher share of VAT revenues remain nil for the foreseeable future, a start was made in late 1981 to find a solution to the situation, which Bonn now finds unacceptable. At their London meeting the ten heads of government made no progress on the matter.

It has long been recognized in the national capitals and the EC institutions that it is most important to make the Community less dependent on the OPEC countries in the 1980s. The Commission has believed for some time that a common energy policy could help to make the EC less vulnerable to declining energy supplies and to reduce the oil bill (an estimated $100 billion in 1981). A full-fledged energy policy has yet to be established, but in October the Council agreed, at least in principle, to the Commission's plan to counteract the effects of a limited shortfall in crude-oil supplies.

The European Monetary System, in its second year, proved its usefulness once again by contributing to monetary stability at a time when the U.S. dollar and the Japanese yen fluctuated sharply. However, since the new Socialist-Communist coalition government assumed power in France, there has been little chance for coordination of the Member States' economic and fiscal policies, according to Brussels observers.

Political cooperation among the Member States continued to develop in 1981. Highlights of this collaboration were the common stand the ten governments reached on the Soviet invasion of Afghanistan, the Madrid review conference, and the Palestine Liberation Organization's involvement in peace efforts in the Middle East. Four Member States will send troops for the peacekeeping force when the Israelis withdraw from the remainder of the Sinai peninsula in the spring of 1982. Political cooperation, not provided for in the EEC Treaty, has developed gradually since the 1970s because government leaders felt that the Member States have joint responsibilities in this area as well.

Belgium: Efforts Must Focus on Economic Crisis

After months of political haggling and only ten days before Christmas, it was finally possible in Belgium to install a new coalition government composed of Christian Democrats and Liberals. Whether the new administration, under Premier Wilfried Martens, will succeed in its aim of drastically curbing spending largely depends on the attitude of the Socialists, who have now joined the Opposition. Observers fear a further polarization of Belgium's political spectrum and renewed and stronger demands for more autonomy for the country's French-speaking regions.

As in the past, Belgium can ill afford the crippling effects of the rivalries across its language divide as the economy continues its downward slide. The National Bank is predicting for this year a GNP growth rate of only 0.6%, a 1.3% fall in investments, an inflation rate rise from 7.8% to 9%, and even higher unemployment. The state of the public finances is widely regarded as catastrophic, and interest rates had to be boosted drastically last month to aid the slumping franc. The new government hopes to implement an austerity program of deficit limits, tax relief to businesses, and modified wage indexation.

Britain: Government Points to Signs of Recovery

The Chancellor of the Exchequer, Sir Geoffrey Howe, said last month that the signs of economic recovery were beginning to multiply in the U.K. Industrial production and manufacturing output were rising, there was a reduction in short-time work, and overtime had increased. Inflation was expected to come down to 10% (after one or two "difficult" months immediately ahead, in the words of Prime Minister Margaret Thatcher), and there was growing moderation in wage settlements. Sir Geoffrey said these improvements were "not the hothouse product of any short-sighted switch of policy. They result from real and sustained changes in our economy."

There has been increasing criticism from within the Conservative Party itself of the government's economic policies and its strict adherence to the doctrine of monetarism and the regulation of the money supply as a means of reducing inflation and ensuring economic recovery. In fact, during the past 12 months, the supply of money has grown at an annual rate of approximately 18%, or double the government's target of 6-10%, and this trend seems set to continue. Consequently, the government is being urged to cut interest rates and the national insurance surcharge, increase industrial investment, and reduce unemployment. However, the number of those out of work has remained below the 3-million mark, and the number of openings is up. Wage settlements, if not always within the government's public-sector target of 10%, are markedly lower.

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Denmark: Growth Impulse from North Sea Gas?

The Danes were awaiting the formation of a new government last month following the Dec. 8 early parliamentary elections, which were largely inconclusive in their results. Anker Jörgensen's governing Social Democrats sustained sizeable losses, but other leftist parties made compensating gains, so that a change of government was not a foregone conclusion, though still possible. Because of the standoff situation, yet another election in the new year has not been ruled out, although observers agree that it would do little to solve Denmark's difficult economic problems.

The country's net foreign debt, already at 25% of GNP in 1980, continued to rise in 1981 as a result of the chronic payments deficit. The latter reached DKr 13.5 billion in 1981 and threatens to rise to DKr 25.3 billion by 1985, according to independent estimates. Both industry and agriculture, suffering from long-term interest rates as high as 19%, seem likely to remain in the doldrums, and unemployment is expected to rise from the current 9.3% to 10% this year. The main growth impulse in 1982, according to the Council of Economic Advisers, is likely to come from rapid development of Denmark's recently discovered North Sea natural gas reserves. This impetus could lead to a 5.7% increase in real-term investment this year and an economic growth rate of 2.8% (the government is forecasting 4%). A predicted fall in the annual inflation rate to a possible 9%, from the current 12%, may help boost domestic purchasing power somewhat.

France: Socialists to Maintain Pace of Reforms

Despite growing unrest within the business community following France's first half-year of Socialist-Communist rule, President François Mitterrand and Prime Minister Pierre Mauroy seem determined not to slacken the pace of reform legislation. The coming year is unlikely, however, to see changes as far-reaching and controversial as the nationalization of major industries and banks and the 40% increase in planned budget expenditures - measures that already have been before Parliament and are close to implementation. The government hopes for a growth rate of 3.3% in 1982 as a result of the creation of 55,000 new public-sector jobs and legislation reducing the workweek to 39 hours. The inflation rate is officially forecast to fall from the current 14% to 10% in annual terms.

Whether these economic targets will actually be realized, however, depends partially on how soon unemployment (currently at about 2 million) can be reduced and whether the trade unions can be convinced to restrain their wage demands. Mitterrand recently warned that unemployment will not begin to decline before 1983, and business organizations point to the long list of na-

tionalizations as one factor likely to dissuade industry from raising investment above the level of 1975 near which it has hovered for the past five years. One consequence of this stagnation is the rise in the share of imported goods in the domestic market, from 21.7% in 1976 to 28.4% in 1980. The 4% share of imports in France's national product is far higher than in other major industrial countries.

One of the major themes of the coming year and one likely to be most contentious should be the government's social policy reform. A start has been made with the attempted reorganization of the social security system, which by the end of 1982 is expected to be once again in deficit, to the tune of FF 36 billion, after a short-lived attempt in 1980 at reaching financial equilibrium.

The only government decision greeted with satisfaction by both business and labor last year was the decision to restart work on six nuclear power reactors despite the protests of the anti-nuclear lobby within Mitterrand's own Socialist party. By all indications, France's A-power program will thus remain the most ambitious in the world in relation to the size of the economy.

Germany: Economy Hurt by Serious Recession

For two decades Europe was able to use a strong German economy to pull the other economies along, but in 1981 the situation changed. Postwar Germany has had recessions before, with declines in the GNP, but the decline in '81 (an estimated 1.5%) is due to many causes and has had unprecedented negative consequences. It is doubtful whether some of the problems can be remedied, and others may take a long time to solve, so to most economists the outlook remains gloomy. Unemployment stood at 1.5 million at the end of 1981, or 5.7%, the highest jobless rate since 1952, and it is expected to rise even more. Inflation climbed to 6.6% in November, still far below the Community average but enough to stir bad memories from the 1920s and late 1940s. The number of bankruptcies in Germany increased substantially to an estimated 10,000, as against 6,000 in 1980.

Major causes for the recession, now in its second year, were higher interest rates (the Bundesbank is committed to keeping inflation down and preventing the exodus of capital), increased competition from abroad, and high labor costs (some 20% higher than in the U.S.). Wage settlements, social benefits legislation, and rising energy costs have squeezed business profits, discouraging new investments. The reduced chance for a reasonable return is said to have caused many German investors to take their money to more favorable investment climates.

The welfare system, unique in the world, has reached proportions that are overwhelming federal, state, and local bud-

gets. In the Bundesbank's view, Germans are living beyond their means. The administration's economic, tax, and social policies have contributed to widespread discontent in business circles. Federal spending on social security, education, and housing, among other things, and government expenditures in general, including generous pay to an enlarged civil service, have increased the budget deficits at all levels of government.

The economic situation, marked by rising unemployment and reduced tax revenue, moved the Schmidt administration to propose cutbacks in government spending. Severe criticism from the Bundesbank and the Opposition had made it clear that to go deeper into debt would mean economic ruin. Even the government's own economists advised that cutting spending was the only solution.

There was one positive side to the economic picture. Exports rose in 1981 by an estimated 11% (exporters have benefited from the D-mark's weakness) and have not only prevented the economy from a further setback but also helped improve the balance of payments deficit. Most economists predict an upswing during the second half of 1982, but the business community remains skeptical.

Greece: Year Highlighted by EC Accession, Socialist Takeover

The year 1981 was of special significance for Greece in that it marked the accession to the European Communities and the election of the country's first Socialist government last October. The takeover by Andreas Papandreou's Pan Hellenic Socialist Movement (PASOK) caused fears and apprehensions in the business community and elsewhere as to the new administration's political and economic reform plans. In fact, Parliament has meanwhile approved a government policy program calling for the "socialization" of much of domestic industry, including shipbuilding, steel, and pharmaceuticals but also banking and insurance, mass transport, and communications. Papandreou has demanded a "better deal" for Greece in the EEC, and the country's future role in NATO is also under review. (On the other hand, it became apparent soon after the elections that the premier was willing to compromise on some of his more radical positions expounded during the campaign.) In 1982, the government plans measures to curb inflation and stimulate economic activity. Lower incomes are being adjusted in step with the consumer price index as of Jan. 1, farm pensions are being raised, and the tax burden is to be spread more equitably.

Ireland: Economic Problems Continue Unabated

Contrary to what many observers had anticipated, Ireland's Fine Gael-Labour coalition government under Garret FitzGerald was

still in office half a year after the elections last June, despite its minute parliamentary majority. Nevertheless, it is now widely anticipated that new elections will be held in 1982.

Ireland's economic picture is far from encouraging at the turn of the year, with public borrowings heading for 20% of the gross national product, or Ł2 billion (Irish). The current-account payments deficit has mounted to about 14% of GNP. Unemployment continues to rise, with some 13.5% of the national labor force out of work. The inflation rate is in excess of 20%. Ireland's membership in the European Monetary System and the resultant break with the U.K.'s pound sterling has caused problems, leaving the Irish pound at a marked discount in relation to sterling.

It appears that, for the first time in 11 years, there is to be free collective bargaining, following the failure of the government, the employers, and trade unions to come up with a national wage agreement. Originally, a 9.5% pay norm was proposed, later reduced to 6.5%, at which stage the unions terminated negotiations. In free collective bargaining, a figure in the region of 12.5% seems probable, but many employers will find it difficult to meet such claims, and the Confederation of Irish Industry has emphasized that anything above 6.5% will damage Irish competitiveness.

Italy: New Premier Battling Familiar Problems

Italian politics saw its first significant change of pattern in decades in mid-1981, when Arnaldo Forlani was replaced as prime minister by Republican Giovanni Spadolini - the first premier not to be a Christian Democrat since the second World War. The change resulted from a big political scandal involving influence peddling by a secret masonic society. Opinions differ in Rome as to whether Spadolini is merely serving in a stop-gap role while other, more prominent politicians such as Socialist leader Bettino Craxi prepare to take over, or whether he can actually succeed in his efforts to bring order and stability to the government.

Early measures undertaken by the new administration cut public spending by 9,700 billion lire in an attempt to place a 50,000-billion-lire lid on the 1982 budget deficit (47,000 billion lire in 1981). A voluntary price freeze on major food commodities was one of the measures seeking to reduce inflation to a target level of 16%, while a stringent system of import cash deposits aimed at preventing renewed speculation against the lira. In the medium term, Rome wants a pact on social policy and the reform of the wage indexation system with the trade unions. A breakthrough of some kind came late in the year, when the Communist-dominated CGIL labor federation voted to allow its leaders to negotiate on the indexing issue. Even so, the conditions attached have been rejected as unacceptable by Spadolini.

Luxembourg: Economic Policy With a Sense of Realism

With a characteristic sense of realism, the government and the industrial partners in Luxembourg cooperated last year in seeking to protect the small economy from serious damage. It was agreed, for instance, to suspend pay raises for some 21,000 steel workers for a length of time in order to give Arbed, the country's leading employer, a chance to cope with its financial problems. Also, the government acted within a "national solidarity" framework to push for price moderation and reduce the impact of wage indexation. In the important banking area, Luxembourg's Euromarket has entered a period of consolidation, and attempts are now being made to boost its attractiveness - for instance, by easing conditions for fiduciary business and permitting the launching of money market funds.

Netherlands: Tough Job Ahead for Van Agt's Team

A protracted cabinet crisis between Holland's Christian Socialists and Social Democrats accounted for the fact that the Van Agt government could not really get down to work until seven months after the parliamentary elections last spring. However, the administration did act promptly following the breakdown of national wage moderation talks last month, when it sought and received parliamentary approval for a decree that effectively limits wage cost increases to 6% this year. A heated debate is continuing, though, over other austerity measures proposed by The Hague in connection with a large-scale employment program. The government had to be told by its own Central Planning Bureau that the program's impact would be minimal and that unemployment should actually rise this year from the current 430,000 to 475,000, i.e., from about 10% to 11.5%. Bureau experts also calculated that the average tax relief this year of 0.4% will be offset by a 0.5% rise in social insurance contributions. Thus, taxes and contributions would account for 60.6% of the national income, a figure generally agreed as approaching the limit of what any welfare state can impose on its citizens.

The most positive official forecasts on the Dutch economy for 1982 extend to the growth rate (plus 1%) and business investment, which is predicted not to continue its downward slide. The balance of payments returned to positive figures in 1981 for the first time in four years and is expected to improve further in 1982, mainly as a result of lower imports due to reduced domestic demand and of higher export prices for gas. Private consumption is to drop by 1.5%, and the loss of purchasing power is to vary between 1% and 2%, depending on income levels.

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Community: Parliament Again on Budget Confrontation Course

The European Parliament again went on a course of confrontation with the Council of Ministers when it ignored a plea from the Council for a new conciliation effort and added 224 million EUA to the 1982 draft budget during the final reading. Most of the 224 million EUA is supposed to be spent in the Community's poor regions and for social policy measures. On Dec. 20, EP President Simone Veil declared the 1982 budget to be approved; in December 1980 she had done the same with respect to both the 1980 supplementary budget and the 1981 budget. Most legal experts felt at the time that the EP president acted unlawfully when she signed the 1980 supplementary budget. But the European Court of Justice never got a chance to say whether the act was indeed illegal because the Commission refrained from suing Belgium, France, and Germany, which had at first withheld part of the payments they owed the Community.

The latest budget quarrel boils down to a power struggle between the EP and the Council, according to Brussels observers, who suggest that each institution is striving to shape the budget according to its political beliefs. However, while the

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Council is autonomous in deciding on compulsory Community expenditures, which account for about 77% of the budget, the EP can influence only the noncompulsory expenditures, and these only to a limited extent. (Noncompulsory expenditures are those costs that do not result from the Treaty or from acts adopted in accordance with the Treaty; typical examples are outlays in the regional, social, and energy fields - *Common Market Reports, Pars. 5021, 5022.*) When Parliament tries to expand the volume of noncompulsory expenditures, the Council seeks to keep these outlays down.

CAP Reform, Budget - Immediate Tasks for Community

The European Economic Community is facing many tasks in 1982, and most Brussels observers agree that efforts will concentrate on a strategy to combat unemployment (around 10 million) and inflation and to achieve some degree of alignment in the Member States' economic policies. Emphasis will lie on the promotion of new investments. Whatever the Community can contribute in terms of financing this strategy largely depends upon a successful conclusion of the efforts to reform the common agricultural policy, which accounts for roughly two-thirds of the EC budget. Commission officials fear that the annual springtime price-setting rounds for agricultural commodities will interfere with the CAP reform drive.

In January the foreign ministers of the ten Member States will tackle four important issues - dairy policy, support levels for Mediterranean-area farmers, the growth limit on total agricultural spending, and the effects of CAP on the overall budget. At the same time the ten industry ministers will be looking for ways that would allow Europe's steel mills to make further progress in their restructuring process. A tightened steel aid code could even accelerate this process. An expansion of the European Monetary System and the role of the European unit of account in international transactions are on the agenda of the finance and economics ministers of the Ten in the second half of January.

In the external relations sector, the dispute with the United States over low-priced imports of steel from the Common Market and trade relations with Japan will occupy Community officials this month and also in the months ahead.

In Brief ...

The signing of the EEC-Canada fisheries agreement means that Community trawlers and fish-processing ships have access to Canadian waters within the 200-mile zone. (The current season ends on March 1.) The agreement, which was concluded by the Commission in 1980 but blocked by Britain because it grants improved access for Canadian processed fish to the Common Mar-

ket, is expected to benefit the German fishing industry most. Brussels observers now count on progress in putting the agreements with Spain, Norway, and Iceland into effect + + + The Commission has submitted to the Council major amendments to its 1973 merger control proposal. The draft regulation would empower the Commission to void mergers that hinder effective competition within the Common Market. Years back the measure was stalled in the Council, and the proposed amendments largely reflect the States' criticism. The original 200-million-EUA turnover criterion for mergers would be raised to 500 million EUA. Member State governments would play a bigger role in the decision-making process *(Common Market Reports, Pars. 9586, 9779, 9845, 10,245).*

Britain: Safeguards Against U.S. 'Infringements'

The U.K. government has indicated its determination to safeguard British companies against any U.S. measures that would affect the U.K.'s trading interests and infringe on its sovereignty. Trade Minister Peter Rees said in Parliament that talks have been launched with Washington officials over attempts to exercise jurisdiction outside U.S. territorial limits over some companies that are actually incorporated in the U.K. and which have only a minority U.S. shareholding. The government asserts that such U.S. claims have no justification in international law and says that if the U.S. will not relax its attitude, there would be no hesitation to invoke the provisions of the Protection of Trading Interests Act 1980.

The Act was specifically passed with this contingency in mind and is intended to "provide protection from requirements, prohibitions and judgments imposed or given under the laws of countries outside the United Kingdom," when measures are taken by a foreign country to regulate or control international trade and when these "threaten to damage the trading interests of the U.K." Trade Secretary John Biffen, also speaking in Parliament, emphasized that the Act gave him wide discretionary powers to prevent the appearance of U.K. citizens in foreign courts or "the provision of relevant documentation." Biffen said he would employ these powers in any case that came to his attention involving foreign proceedings "against a person in the U.K., on account of his conduct within the U.K., and outside the proper jurisdiction of that overseas body."

The Act prevents U.K. courts from giving effect to requests with regard to evidence issued by an overseas court or tribunal if that would be "prejudicial to the sovereignty of the U.K." Similarly, there are restrictions on enforcing certain foreign judgments against a U.K. citizen, a company incorporated in the U.K., or a person carrying on business there, where an amount was arrived at by "doubling, trebling, or otherwise multiplying a sum assessed as compensation for the loss or damage

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sustained." In the discussions to be continued with U.S. authorities in the near future it is hoped to reach some measure of compromise in order to obviate the need to invoke the 1980 Act.

Ireland: Withdrawal of Tax Relief Promise; Budget Due

Irish Prime Minister Garret FitzGerald has announced that his government will not, after all, be able to fulfill the pledge it made during the election campaign last year to reduce the standard rate of income tax by 10%, from 35% to 25% *(Doing Business in Europe, Par. 25,326)*. In fact, taxpayers in the middle and upper income brackets may well be taxed more heavily, since FitzGerald indicated that the former would have to be prepared to accept an "inevitable" decline in their standard of living over the next two years, while the latter would have to make the largest sacrifices.

The premier's hand has been forced by fears over the escalating budget deficit, which, according to the government, stood at £950 million (Irish) when it came to office last July - a considerably higher figure than had been anticipated. A reduction in this deficit is now the overriding consideration, and this could not be combined with a lowering of direct taxes. If Dublin had gone ahead with its proposals (while at the same time reducing the deficit) by imposing much heavier indirect taxation, then this would have had a serious effect on the inflation rate, which is already in excess of 20% and still rising.

The government still intends to proceed with its plans to replace the current system of tax allowances with a new system of tax credits and to give a weekly allowance of £9.60 to spouses who do not work outside the home. However, this amount would be deducted from the tax allowance of the other, working spouse, a proposal that has met with considerable criticism.

This year's budget will be announced on Jan. 27, and marked cuts in public expenditure are forecast. However, FitzGerald will have to tread carefully if he is not to upset the frail coalition with the Labour Party (which would, however, welcome the imposition of higher taxes on the richer sectors of society).

In formulating its budget proposals, the administration will no doubt be influenced by the breakdown last November in the tripartite talks between the government, the employers, and trade unions, and the resultant failure to conclude a centralized pay agreement for the first time since 1970. Some observers believe that this will lead to more realistic levels of wage bargaining, after the total public sector salary bill in 1980 rose by more than 30%, and many employers were committed to paying more than they could afford. The employers have proposed a long-term bargaining framework, but this has met with a cool reception from the unions so far, and a period of considerable uncertainty on the wage front is in view.

Germany: Rising Pressure for State Spending Program

With unemployment in Germany at 1.7 million in early January and still rising, the Schmidt administration is facing increasing pressure from union leaders and members of the ruling Social Democratic Party to launch a government spending program to create new jobs. So far Chancellor Helmut Schmidt and virtually all members of his cabinet have resisted the pressure, and the Bundesbank, independent economists, and business leaders have counseled against such a program. Their main argument is that such action would merely treat the symptoms and not the cause of the current severe recession. Also, the money needed to finance such a program could not come from increased taxes but from borrowing, and this would worsen the government's present financial situation.

The Bundesbank twice in recent months rejected the idea of a new state spending program. In a gloomy message issued just before Christmas, the central bank pointed out that in 1981 businesses experienced the greatest decline in profits since the end of World War II. Rising energy costs, more expensive raw material imports (largely because of a weaker D-mark), and high labor costs are blamed for the drastic decline. The Bundesbank predicted even fewer investments for this year than were made in 1981. Low wage settlements are the key to new investments and thus new jobs, according to Bundesbank officials.

Meanwhile, the proponents of a state spending program have received backing from the most unlikely corner: the government's Council of Economic Advisers has recommended a DM 7-billion program to fight unemployment and stimulate medium-term investments. Half of the program would be financed through borrowing. The Bundesbank says additional borrowing would weaken confidence in the D-mark even further, resulting in a continued decline in the mark's value on international money markets, the exodus of capital, and high interest rates to combat that exodus.

Italy: Increase in Special Levies; Credit Curbs

Just before Christmas, the Italian cabinet approved another tax package by decree, this one being designed to improve government revenues by about 2,000 billion lire. The decree law was detached from the 1982 finance bill because it was clear that the bill would have no chance of passing Parliament by the end of 1981. Critics have complained of the "arbitrary" nature of the latest tax measures, pointing out that they concentrate on increases in "temporary" and extraordinary levies and that the government is evidently willing to tolerate further "distortions" in its revenue system in order to limit the 1982 budget deficit to 50,000 billion lire.

Motorists are once again the victims of Rome's fiscal mea-

sures: the temporary traffic tax introduced in 1980 was raised by another 30%, after having been put up by 50% only recently. Other changes include a 30% rise in fees for government concessions as well as an 8% surcharge on corporate income tax *(IRPEG)* and local income tax *(ILOR) - Doing Business in Europe, Pars. 25,825, 25,835.* The tax on interest income from bank deposits has been increased from 20% to 21.6%, and electricity rates will be raised this year by 2% every two months. In addition, the cabinet passed a decree law that will permit local governments to raise their revenues by 1,065 billion lire in 1983.

In other news, the Banca d'Italia has announced that total 1982 credit volume will be restricted to an expansion from 112 to 125 points (end of December 1980 = 100). At 12%, last year's increase was already well below the inflation rate, which currently stands at 18%-19%. As in the past, the central bank will impose harsh penalties on commercial banks that exceed quotas. For non-authorized lending overflows up to 2%, a bank must deposit 20% of the overflow interest-free with the central bank. Up to an excess 4%, the deposit requirement rises to 40%, and up to 6%, it reaches 75%.

Denmark: Jörgensen's Return; Farm Bankruptcies

Three weeks after Denmark's inconclusive early elections on Dec. 8, Social Democratic party leader Anker Jörgensen formed yet another minority government, his fifth in ten years. This time, however, his party, which now controls only 59 of the 175 seats in Parliament, has no firm voting agreements with other parties, and most observers believe that a new government crisis will be inevitable, possibly as soon as the budget debate this month. Jörgensen is known to have wanted to go into opposition but was dissuaded by his parliamentary faction. He has made virtually no changes in his cabinet. Among the major portfolios, only Svend Jakobsen, elected president of the Folketing at the end of 1981, has been replaced as finance minister by Knud Heinesen, who has held that post once before.

The failure of the center-right parties (Conservatives, Liberals, Center Democrats, and Christian People's Party) to form a coalition can be explained by the fact that, although the Social Democrats lost nine seats in the elections, their rivals further to the left, the People's Socialists, gained ten, giving the left-of-center parties a majority of 88 seats over the 82 controlled by the center-right parties. The nine Radical Liberals who stand in the middle are anxious to prevent the emergence of a Conservative-dominated government, but they have been unable to join into an alliance with the Social Democrats and People's Socialists because of the latter's extreme economic demands. As a result, while the Left as a whole seems to have strengthened its position, it has become unable to form a stable government, which makes the Social Democrats increasingly vulnerable.

In other news, the president of the Danish farmers' federation, H.O.A. Kjeldsen, has set the tone for upcoming negotiations between farmers' representatives, the government, and credit institutes by warning that, without a radical solution by the end of March for the country's financially overburdened farming sector, 4,000 farms could go bankrupt and another 15,000 (12.5% of all farms) would be critically endangered. According to Kjeldsen, billions of kroners will be required to avert a catastrophe. In 1981 there were already 1,500 farming bankruptcies; another 1,500 farms were saved as a result of the moratorium on foreclosures until the end of March agreed between the parties to the upcoming talks.

France: Some Easing of Credit Curbs; State Bond Issue

Following publication of a new monetary growth (M2) target for 1982 of between 12.5% and 13.5% by the Bank of France, French banks have now been informed of higher credit ceilings for equipment purchases, exports, and construction. The package as a whole is intended to relax selectively the tight credit squeeze of the past two years. In the first half of 1982, banks will be permitted to increase loan volumes for exports and equipment purchase by 7% over the same period of 1981. They may raise the level of construction lending by a formula of 7% plus 80% of the total increase in such lending between 1980 and '81. All other loan categories will be restricted to a level only 1.5% above that of the same period of 1981, except for consumer installment loans, which will be allowed to increase by 3.5%. The banks expect that the eased conditions will add FF 15-17 billion to the economy, with total credit expansion amounting to some FF 60-80 billion.

The treasury has also chosen the beginning of the year to announce the Mitterrand government's second state bond issue. Opening for subscription on Jan. 13, it aims to bring in FF 10 billion at 16.2% interest on bonds with a maturity of eight years. The Socialist government's first bond issue last September, at 16.75% interest, had been increased from FF 8 billion to FF 15 billion in response to massive demand.

Switzerland: Sales Tax on Gold Deals Partially Dropped

As of Jan. 1, the Swiss government is no longer imposing turnover tax on gold transactions by central banks in Switzerland. However, private gold transactions by residents and nonresidents, so far as they involve actual deliveries, continue to be subject to the tax, at the rate of 6.2% as of this year (previously 5.6%) - *Doing Business in Europe, Par. 40,270.*

Two years ago, on Jan. 1, 1980, Switzerland suddenly introduced turnover tax on gold coin and bullion sales, a move that coincided with the introduction of value-added tax on gold trans-

actions in Germany. However, Bern's decision consequently had decidedly negative effects on the Swiss finance market, as had been predicted by the domestic banking community. A fair share of the lucrative gold business - South Africa and the Soviet Union as major sellers and the central banks as major buyers - was lost to London, where foreign gold transactions are tax-free. The finance ministry in Bern apparently has now acceded to pressure by the big Swiss gold trading banks to pave the way fiscally for Switzerland's regaining of lost market shares. The decision to drop the tax on central bank transactions should not have been too difficult for Bern: revenues from this source have remained disappointingly low, and only SF 50 million are estimated to have been collected last year.

EURO COMPANY SCENE

Italy's San Paolo Bank of Brescia will acquire from American Express International Banking Corp. the share majority of the Italy-domiciled American Express Bank SpA. Not affected by the deal will be the American Express banking branch in Milan, which will be renamed American Express International Banking Corp. As part of the transaction, the value of which was not disclosed, San Paolo will take over the bank branches in Rome, Florence, Naples, Venice, and Mestre and will rename them American Service Bank SpA. San Paolo reported total deposits of 2,300 billion lire at the end of 1980 and ranks as Italy's 40th-largest credit institution.

In related developments, First Los Angeles Bank earlier signed an agreement for the purchase of 85% of its share capital by Istituto Bancario San Paolo of Turin. The price was given at between $36.50 and $38.50 a share. At last report, the merger was still subject to the approval of First Los Angeles shareholders and the U.S. and Italian regulatory authorities.

Chemlink, the international cash management system of the United States' Chemical Bank, has linked up with the Luxembourg-based Eurobond clearing house Cedel. Reports said that the deal will give Cedel much better market penetration in the U.S., especially among regional banks, while offering Chemlink customers access to the Cedel clearing and reporting facilities.

Germany's Pampus GmbH, producer of plastic products on the basis of fluor polymers, has been taken over by Norton Co., Worcester, Mass., as of the first of the year.

Florida Power Corp. reportedly plans to join two Dutch companies in building a Rotterdam plant for the production of a composite mixture of oil and coal. The plant is to have an output of 10,000 barrels a day by the end of this year or early 1983. It would be the first plant of this type in Europe. Florida Power recently completed a plant with a capacity of 3,000 barrels a day.

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Community: EEC's Adherence to MFA Subject to Conditions

The renewal of the Multifiber Arrangement (MFA) last month in Geneva has removed the uncertainty about its continuation, but the pact's usefulness for the EEC has yet to be proved, according to Commission officials. The MFA, on the basis of which 80% of world trade in textiles and garments is conducted, is a legal framework that the importing and exporting countries may use to negotiate a year's trade volume.

The EEC has bilateral agreements with 28 textile exporting countries, which expire at the end of 1982. In the MFA compromise agreement reached last Dec. 22, the EEC delegation made the stipulation that the Community would adhere to the renewed MFA only if it succeeded in negotiating new agreements with the 28 countries by the end of September 1982. Although the Commission will do its best to bring the trade talks to a successful conclusion, there is no guarantee that it will succeed in each individual case when it comes to agreeing to levels of trade acceptable to both sides. In the past decade the Common

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Market's textile industry eliminated about one million jobs, and the Commission is under pressure to extract more concessions to protect the remaining jobs.

The EC executive is going to recommend to the Council of Ministers that the Community accede to the protocol extending the MFA until July 31, 1986, according to Commissioner Etienne Davignon. The Commission will also propose that the EEC's continued MFA membership be made dependent on a satisfactory outcome of the negotiations with the principal supplier countries, such as Hong Kong, South Korea, and Macao. Should these negotiations fail to produce the desired results by the end of September, Davignon indicated, the Commission would have no choice but to propose to the Council of Ministers that the EEC withdraw from the MFA as of 1983.

Commission Withdraws Proposed Drug Import Amendment

The Commission has withdrawn its 1980 draft directive relating to parallel imports of proprietary medicinal products. The proposal was to amend the Council's 1965 and 1975 directives approximating national rules on pharmaceuticals in order to settle the status of imports by businesses other than distributors authorized by a drug manufacturer to import into a particular Member State *(Common Market Reports, Pars. 3502, 3508)*. Importers not authorized by drug manufacturers have been taking advantage of the substantial price differences in various States for the same drug, and the European Court of Justice has declared that laws and regulations barring parallel imports on grounds other than protecting human health are contrary to the EEC Treaty.

What prompted the Commission to propose the amendments was its belief that not all Member States had drawn the same conclusions from the Court of Justice's ruling in the De Peijper case (judgment of May 20, 1976, Case No. 104/75). At that time the Court held that national rules or practices which have the effect of channeling imports so that only certain traders can import while others are excluded are tantamount to quantitative restrictions banned by Treaty Article 30 *(Common Market Reports, Par. 8353)*. Following this judgment, several Member States amended their legislation on parallel imports; others simply raised no objections to the importation and marketing of the drugs.

Both the Economic and Social Committee and the European Parliament had raised objections to the Commission's proposal. These objections, and the fact that chances of adoption by the Council of Ministers are nil at the present time, prompted the Commission to withdraw the proposal. Although the EP supports free movement of goods, a majority thought that the proposal was superfluous. There was a general belief that the Member States have complied with the Court's judgment in Case No. 104/75. This was demonstrated by the fact that no trader has since

brought a similar suit against a Member State except in the special case of registration fees (the Court ruled in favor of that State - judgment of Jan. 20, 1981, Case No. 32/80). Parliament pointed out, moreover, that the task of ensuring that national laws and practices conform to the interpretation of the EEC Treaty as contained in the Court of Justice's case law is a matter for the States and does not require approximation of national laws. If a Member State does not comply with a judgment, either the injured party or the Commission could bring suit, according to the EP.

In Brief...

The Commission has taken Ireland to the European Court of Justice over its animal health regulations, which allegedly keep out poultry and eggs from other EEC Member States. Although the regulations are long-standing and Ireland is not a significant importer of these products, the Commission felt it had to bring action after it took the U.K. to court over similar legislation in effect since last September + + + The Commission has approved the plans of the Belgian, French, and Italian governments to give financial help to several steel mills, so that these can modernize production facilities and, at the same time, cut back capacity. Critics allege that the planned aids are no more than financial injections to keep afloat Belgium's Cockerill-Sambre, France's Usinor and Sacilor, and Italy's Finsider, because without help these steel mills would have to close down. In the negotiations preceding authorization, the Commission used its powers granted under the Coal and Steel Treaty and last year's steel aids code in imposing several conditions on the aids. Among these conditions are substantially higher production cutbacks than envisaged by the three governments and tightened curbs as to the volume, timing, and type of aid.

France: Concerted Campaign to Bring Down Prices

The new French Socialist government this year seems determined to devote at least as much effort to curbing inflation as it has given to its fight against unemployment. Voluntary price stops and moderation agreements are to help bring down the inflation rate from 14% overall in 1981 to about 10% by the end of this year. The new prices strategy, announced after a cabinet session on Jan. 6, modifies and replaces the obligatory three-month freeze imposed last Oct. 7 on a number of basic foodstuffs (milk, bread, coffee, and sugar) as well as the obligatory six-month freeze on prices in the private services sector.

In the retail trade, prices for mass-consumer products in 24 categories are being frozen at current levels from Jan. 15 to April 15. Retailers are free to select the products given price protection, provided these items account for at least 30% of

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turnover in their respective categories. Included in the diverse range of products are such items as baby foods, frozen foods, beverages, soaps and detergents, household appliances, batteries, furniture, textiles, stationery and writing instruments, music records and cassettes, etc. Most of France's 400,000 retail establishments, especially the large ones, have agreed to participate in this three-month "price truce," which is being heavily promoted on government-controlled national radio and television.

In the services sector, the obligatory price freeze originally was to have lasted until April 15. However, it will be suspended immediately if the individual sector branches sign moderation agreements *(contrats de modération)* in which they pledge not to raise prices by more than 10% this year. Agreements signed so far cover laundries and dry cleaners, auto repairers, movie theaters, and beverage dispensers, among others. In the contract with the hotel and gastronomy sector, it is additionally provided that restaurant prices will be freed from controls as of April 1. Beverage prices in restaurants also will be liberalized, as of Jan. 1, 1983, with minor exceptions; the same is true of hotel accommodation prices. In the past, only the prices of luxury-class hotels were not regulated.

The government's campaign, masterminded by Finance Minister Jacques Delors, does not touch on the price liberalization for the manufacturing sector, which had been granted in mid-1981 at the instigation of the previous Raymond Barre administration. However, the government is exhorting manufacturers to watch their production costs carefully.

The state itself is willing to set a good example by pledging not to raise its tariffs and rates by more than 10% this year.

Two-Month Grace Period Granted to 'Capital Smugglers'

The French economics and finance ministry has announced that citizens who hold illegal assets abroad will not be prosecuted and will not face additional fiscal consequences if they repatriate these assets to France by March 1. For assets that are difficult to repatriate within two months, the grace period would be extended to June 1. In either case, the government would merely impose a flat penalty tax of 25% of the assets' value.

The primary purpose of this action, authorization for which is found in recent budget legislation, is to draw back into the country capital that was clandestinely transferred to numbered accounts in Switzerland in anticipation of the wealth tax, which the Mitterrand administration introduced as of Jan. 1. The ministry warned that individuals who choose to ignore the amnesty offer will face heavy penalties.

Germany: Abusive Practices by Competition Watchdogs

Germany's national organizations of industry and trade and the national chamber of commerce and trade have drafted a checklist to help businesses protect themselves against *Abmahnvereine*, associations that, in the guise of fighting violations of unfair competition rules, commit questionable acts of their own. The associations, which reportedly have become a nuisance to businesses all over the country, send letters to businesses pointing out breaches of unfair competition rules in newspaper ads or display windows. Typically, an association may demand that the practice be stopped immediately and that the business pay as much as DM 150 to cover the association's expenses.

Under the Law Against Unfair Competition (UWG), business associations and consumer organizations may fight violations of unfair competition rules in court, if necessary *(Doing Business in Europe, Par. 23,536)*. But, before going to court, the association or organization must ask the violator to remedy the situation on its own and, according to the Supreme Civil Court, may ask for a lump sum to cover the cost of writing and postage. What the Supreme Court intended was to allow associations that combat unfair trade practices to be adequately compensated for their efforts. What the Court did not say, because it was self-understood, was that the associations must act within the law. A business that is allegedly violating unfair trade rules must be given at least five working days to remedy the situation and may not be asked to do it "immediately."

The national organizations of industry and trade and the chamber of commerce are advising their members simply to ignore requests for immediate action. They are also cautioning against payment, because often what the associations term illegal is in fact not unlawful. In the meantime, states' attorneys are looking into the questionable practices of the *Abmahnvereine*, and so is the government.

Italy: Drive on Tax Evasion; Eased Currency Rules

Finance Minister Rino Formica has revealed that the Italian fiscal authorities uncovered tax evasions totaling 1,300 billion lire in 1980. This year the powers of the *Guardia di finanza*, the fiscal police, are to be extended considerably so as to combat more effectively evasion practiced by organized crime. Also stepped up will be Rome's drive against bribery in the public administrations. Formica said that the burden on taxpayers can hardly be increased much further, so that the state is forced to take an uncompromising stand on evasion in order to protect its existing revenue sources.

According to official statistics, tax evasion and avoidance in Italy is most prevalent in the oil sector, in the wholesale trade, and among the thousands of small businesses that are part

of the country's dynamic "underground economy." The latter, however, make a significant contribution to the overall economy, and here the government is confronted with certain limitations in its fiscal zeal.

In other news, Rome has relaxed the currency regulations pertaining to the import and export of goods of low value as of Jan. 1. Rules covering goods valued at less than 5 million lire (about $ 4,100) were removed entirely, while those covering transactions of up to 50 million lire were eased. Previously, only imports and exports of goods valued at less than 1 million lire were exempt from the stringent foreign exchange requirements imposed by Law No. 159 of April 30, 1976. Under the same amendments, business and tourist travelers are now allowed to take out of Italy undeclared foreign currency in the equivalent of up to 300,000 lire (previously 200,000). Not changed was the 200,000-lire limit on undeclared foreign currency brought into the country.

Belgium: Discount Rate Cut by One Point

With effect on Jan. 7, the Belgian National Bank lowered its discount rate by one point, to 14%, and the Lombard rate by two points, to 15%. Thus, the central bank removed part of the increases of last Dec. 11, when both rates had been boosted by two points in the face of strong speculation on a devaluation of the Belgian franc. The latest move was officially explained with eased conditions on the domestic money market, where interbank rates had gone down by about 1.5 percentage points within the previous three weeks. Another reason, according to financial observers, was to aid the floating on Jan. 20 of a new state bond issue, which was to have a coupon of 14.25%.

Netherlands: Cuts in Health Sector, Other Areas

The present Dutch government's most extensive set of austerity measures to date calls for the cost of employee sickness benefits to be trimmed back and partially transferred to the employers. Worked out by social affairs minister and Labor Party leader Joop den Uyl and soon to be presented to Parliament, the bill has provoked a storm of protest from both trade unions and employers.

The government expects to save 1.4 billion guilders annually by reducing benefits from 100% to 80% of net wages, in line with unemployment benefits, and another 1.2 billion guilders by shifting the cost of the first five days of sickness payments to the employer. Since specific guarantees of full earnings during sickness are contained in many wage and salary contracts, The Hague intends to outlaw such provisions and also to prevent companies from reinsuring themselves for the difference between

80% and 100% with the national health insurance funds. Firms would still be able to insure themselves privately, however.

The government hopes that the bill, which would work towards its aim of cutting incomes by 1.5%, will be passed by Parliament by April 1. Previous austerity measures have trimmed 1 billion guilders off child benefits and a further 1 billion guilders off various other social welfare payments.

The need to reduce public spending has also drastically affected other areas of government activity. Aid levels to the shipbuilding industry are to be cut back in the next four years by more than originally intended, and Economics Minister Jan Terlouw hopes that shipbuilders will be able to "stand on their own legs" by 1985. After the 248 million guilders spent on this sector in 1980, only 80% of this amount is to be retroactively provided in 1981, 55% in 1982, 30% in 1983, and 20% in 1984. Another area affected by financial stringency will be the development aid program, on which the Netherlands spent 3.6 billion guilders (0.99% of GNP) in 1980, taking over first place in the international league from Sweden. The government is to tighten up financial controls on aid projects, following the discovery of considerable laxity in some areas.

Greece: Few Details in Papandreou Policy Speech

Economic observers hope that Greece's minister of coordination will soon provide more concrete information as to the government's policies affecting business, following a second TV speech in which Premier Andreas Papandreou appeared to avoid definite commitments.

The prime minister said that the Bank of Greece is to gain a greater degree of centralized control over the banking sector once the currency commission is abolished. He indicated that this control would be used to direct credit "qualitatively" into areas considered appropriate. The government also intends to rework the investment incentive legislation (Law No. 1116/81) passed only last year, in an attempt to rectify "inadequate procedures" for the evaluation of investment proposals. In the future, the criteria used would include stimulation of employment, export promotion and import substitution, energy conservation, technology development, enviromental protection and, last but presumably not least, profitability. Also contemplated, according to Papandreou, is some form of price and cost control system, covering various vital products as well as a few raw materials and semi-finished goods, in an attempt to eliminate the practice of invoicing imports and exports above or below their real value.

Papandreou offered some further clues as to the extent of his "socialization" program, which will cover three major areas. First, businesses in the transport, energy, banking, and insur-

ance sectors already under state control are to be placed under the jurisdiction of administrative councils representing local and central governments as well as employees. Secondly, about 100 heavily indebted medium-sized and large companies will be surveyed, the aim being to select the viable ones and have their bank debt capitalized in shares vested in a new special institution. Finally, other major industrial firms in the private sector are to be brought under the control of "supervisory councils" made up of representatives of employees, local governments, and the state. However, there are apparently no plans for outright nationalization of these firms.

In other news, the national federation of industries, the chambers of commerce of Athens and Piraeus, and representatives of the self-employed have protested vigorously a labor ministry proposal to raise minimum wages and salaries by 37.5% and 42.5%, respectively and retroactively, as of Jan. 1. The employers accused the government of interfering in wage contract autonomy.

Luxembourg: Further Growth in Banking Business

Last year saw a continuing consolidation in the total number of banks operating in Luxembourg, with an increase of only two, to 113. However, the size of the banks' combined balance sheets rose by over 30%, for the first time breaking through the LF 5,000-billion barrier, following the LF 3,743 billion recorded in 1980. The dominant group remained the German banks (29), which controlled 40% of turnover. Scandinavian and Swiss banks also continued to show a rapid increase in business.

The Luxembourg government is planning to introduce legislation in the course of 1982 to protect the Grand Duchy's attractiveness as a financial center. Included would be a new law to regulate the activity of investment funds. This year is also expected to see the signing of double taxation agreements with Finland, Norway, and Sweden, while negotiations with Greece, Korea, Portugal, and Spain are continuing. In the longer term, agreements are also hoped for with Japan, Singapore, and Switzerland.

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Community: 'Butter Boats' Must Stop on March 31

The Commission has decided that the "butter boats" must cease operations as of March 31. Last year the European Court of Justice ruled that the butter boat excursions, which allow participants to buy certain quantities of food, liquor, and cigarettes duty-free at sea, are incompatible with Community rules. Specifically, the Court held that the German rules allowing such purchases violated Council Regulation No. 169/69 and subsequent amendments and that Council Reg. No. 1544/69, which exempts from customs duties the goods contained in the personal luggage of travelers coming from a non-EEC country, does not permit Member States to grant exemptions beyond those provided in that regulation. The exemption applies only to travelers who actually are coming from a country outside the EEC, the Court ruled (judgment of July 7, 1981, Case No. 158/80).

The Court's decision was a blow to some 130 boat operators who launch the butter boat cruises from Germany's North Sea and Baltic ports. Each year around 8 million people have taken part

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in the day-long cruises. The German government loses an estimated DM 200 million in revenue annually, but at the same time it recognizes the economic advantages, since some 3,500 jobs are involved.

Germany's finance ministry originally had envisaged a ban for the butter boat cruises as of April 1, 1982, but the cabinet rejected the plan. Instead, the government made its compliance with the ruling dependent on a common arrangement among Member States on all duty-free sales - not just on boats but also in duty-free shops at airports. The Commission reportedly will propose such an arrangement to the effect that goods on sale in duty-free shops and produced outside the Common Market should be subject to the EEC's usual duties. This would mean, for example, that Japanese-made cameras and pocket calculators, Soviet-made watches, and U.S.-made bourbon would then sell at roughly 9-14% more.

Parliamentary Committee Urges Ban on Blue Asbestos

The European Parliament's environmental committee has urged a total ban on the sale and use of blue asbestos, and the full house is expected to adopt a resolution to this effect along with its opinion on a 1980 Commission proposal. The proposal sets forth amendments to Council Directive 76/769/EEC approximating national rules restricting the sale and use of certain dangerous substances *(Common Market Reports, Par. 3450.41).*

Blue asbestos is the name commonly given to an asbestos fiber called crocodolite, which is widely considered to be especially dangerous to health. The fiber, which takes up to 3-5% of the asbestos market, is used, among other things, in making large-diameter pipes as well as acid-resistant seals and gaskets. The Commission wants the continued sale and use of blue asbestos to be permissible for these purposes, "provided that the harmful release of the fibers is prevented."

Committee members recognize the significance that asbestos has for industry because of the material's nonflammability and tensile strength, but a majority of them believe that safer substitutes do exist, and medical research indicates that a complete ban on the use of crocodolite is both justified and desirable. The committee maintains that the list of prohibited applications for all other forms of asbestos needs revision. Since the proposed amendments are also meant to cover the do-it-yourself market as well as industry, they should also prohibit fillers for spraying and spraying itself, according to the committee. Spraying of asbestos, which has proved to be very hazardous because large amounts of fine asbestos are released and inhaled, was widely used in the United States during World War II for insulation in shipbuilding. Thereafter it was employed for fire protection of steel frames in construction, and it is now generally banned.

In Brief...

In preliminary steps taken under Treaty Article 169 before launching legal action, the Commission has sent reasoned opinions to six Member State governments for failure to comply with the Council's equal treatment directive *(Common Market Reports, Par. 3910.123)*. Belgium is alleged to be at fault for not granting women equal access to vocational training. France's civil service regulations contain exemptions from the equal access principle. Ireland's act implementing the directive provides for exemptions from the principle in all sectors of employment. The U.K.'s act does not have a provision that would render void any collective agreement that breaches the equal treatment rule of the directive. Luxembourg's parliament passed complying legislation one month after the Commission sent its reasoned opinion to the Luxembourg government; however, the Commission is still in the process of checking whether the legislation, which took effect in the meantime, conforms with the directive. The Commission is still pondering whether it should also take preliminary steps against several other Member States for similar violations + + + On Jan. 8, France lifted its reservations about the 1980 fisheries agreement between the Community and Norway. Norwegian boats and trawlers from EEC Member States have resumed fishing again in one another's territorial waters.

Germany: Job Safety Draft Code Criticized

The German government's preliminary draft of a comprehensive job safety code has come under heavy criticism from the national employers' association. The measure would combine provisions of a number of laws and extend their scope of application to include farming and the public sector. There would be additional obligations for employers and more rights for employees. Employers, already required to take steps to prevent accidents, would also have to see to it that the job environment corresponds to what scientists say is necessary to preserve employees' physical and mental health. Management would have to appoint an employee or contract an outsider to see to it that each working place is conducive for work.

Although the national employers' association also objects to the envisaged rules because of the cost involved, it is most critical about the provisions on overtime and the working hours permissible per week. According to the draft, an eight-hour day would be the rule, and a 48-hour workweek would be the maximum. An employee would be allowed to work overtime only two hours per day and not more than 30 days during the year. Only seasonal workers and those employed in restaurants, the transport sector, and the news media would be allowed to work more than ten hours per day.

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Many business executives also criticize the proposal; in their opinion the measure would unreasonably interfere with plant operations. Although most employees work only 40 hours or less, there are situations where overtime of more than two hours daily may be necessary, and it may be impossible to hire qualified people to avoid overtime, according to the executives. They say that the government has a perfect opportunity to carry out its declared policy of improving the competitive standing of German industry in the current recession by retracting some of the most objectionable amendments proposed.

Italy: Reform Plans for Ailing Social Insurance System

The very critical financial state of Italy's old-age pension insurance system (INPS) is forcing the government to work on a reform plan, probably to be implemented this year. According to unofficial reports from Rome, it is considering raising employees' contribution rates and moving up retirement age limits, even though early-retirement provisions (now 55 years for men and 50 years for women) have just been modified.

In preparing for a reform, a treasury ministry commission has compiled and evaluated data showing that Italy had spent 10.8% of its social product on retirement benefits in 1980 and that 4.2% was required to cover the deficits alone (as compared with only 1.7% in 1960). For the current year, the treasury ministry is anticipating an INPS deficit of about 27,000 billion lire.

Accounting for much of the shortfall is the fact that the state has been assuming a considerable part of the employers' contribution burden in order to improve industry's wage cost competitiveness. Italian industry considers this an equitable arrangement, since the employers in Italy are contributing 90% toward social insurance obligations, while the employees are putting in only 5-10%. (In Germany, by comparison, the contribution ratio is 50:50.)

Another reason for steeply rising INPS costs is the generous early-retirement system, particularly in the public service where it is not unusual for schoolteachers to retire at the age of 40 with a guaranteed state pension. Also, at least in the statistics, Italy is the European country with the highest number of invalids and disabled persons. However, it is well known that this is the most abused part of the national social pension system: according to the latest review, each old-age pensioner was in 1980, statistically, also a disabled person. These obvious discrepancies were even more blatant for farmers and farm workers, among whom there were 350 disabled persons for every 100 pensioners. As a result of these abuses, Italian disability pension benefits are below the minimum subsistence level, which works particularly to the disadvantage of individuals who are truly disabled.

Britain: Inland Revenue Paper on Tax Avoidance

The U.K.'s Inland Revenue has published a further discussion paper, "International Tax Avoidance," which incorporates much of its thinking in earlier proposals and follows representations by the U.K. accounting bodies and other interested parties. About a year ago, the Revenue had put out two consultative documents, on the definition of a company's place of residence and the use of tax havens by the corporate sector. The new document suggests a new yardstick, more "in keeping with present-day commercial reality," for deciding whether a company is to be regarded as resident in the U.K. for tax purposes. Thus, a company would be considered as based in that country where its affairs as a whole are transacted and where the day-to-day management decisions are made.

At present, residence is defined as the place where the highest functions of management and control are exercised, i.e., where the actual board meetings are convened. This can lead to anomalies when most of a company's business is carried out in the U.K. but the board meets elsewhere. However, the Inland Revenue does not envisage that this will alter the status of many companies and stresses that an overseas company which has only a branch in the U.K. will not be regarded as resident there for tax purposes.

As forecast in the earlier paper, Section 482 of the Income & Corporation Taxes Act 1970 is to be abolished as being no longer appropriate following the removal of exchange controls by the present government. This section required Treasury consent to transmit funds abroad and to transfer companies overseas and was backed by stiff sanctions.

As regards tax havens, the Inland Revenue wants to prevent companies from avoiding corporation tax by using overseas earnings for investments abroad in low-taxed areas. Accordingly, any U.K. company with a direct or indirect interest of at least 10% in an overseas company would be liable for a proportionate share of corporation tax, as if the profits had been remitted to the U.K. However, the Revenue would have to prove that the profits were being kept abroad for purposes of tax avoidance and not for sound commercial reasons. Therefore, there would be an exemption where a U.K. company, involved in genuine trading activities, remitted a substantial proportion of its commercial profits to the U.K. and where tax avoidance was not one of the principal objectives.

It is also proposed that an overseas subsidiary should no longer be able to derive a tax advantage by remitting profits to the U.K. parent company as an "upstream loan" rather than a dividend. The Inland Revenue intends to treat as income, and tax accordingly, any such loan except where the profits from which the loan was made have been taxed under other pertinent provisions. (See also *Doing Business in Europe, Pars. 23,804, 23,825, and 40,139.*)

Ireland: Devaluation Hint; Foreign Debt; Tax Revenues

The Irish finance minister has made what some observers believe to be a veiled reference to the possible devaluation of the Irish pound in the not-too-distant future. He said that the government's accumulated foreign debts now total £3.67 billion and that Dublin "could indeed, with long-term foreign loans, end up paying back twice as much...as we originally borrowed." Ireland's direct foreign borrowing in 1981 more than doubled the previous year's figures, totaling £1.285 billion, compared with £566 million in 1980.

The government's room for maneuver in the budget at the end of this month has been reduced by its failure to keep the public borrowing requirement and last year's current budget deficit within the limits envisaged in the supplementary budget of last July, following the elections. At £1.722 billion, the borrowing requirement was £85 million higher than expected, while the budget deficit, at £823 million, exceeded the projected July target by £36 million and the January 1981 budget estimate by more than £300 million. The government will therefore have to either impose higher taxes or introduce spending cuts.

The largest individual source of revenue last year was income tax, amounting to £1.243 billion, a rise of 22.6% over 1980. The major part of that revenue, 87.7%, was contributed by employees (withholding taxes), while the amount paid by farmers was almost halved, which has been the cause of increased friction. In 1981, there were also a 25% revenue increase from excise duties and a 31% rise in value-added tax receipts.

France: New Terms for Nationalization Compensation

Just days before the French government was due to announce the names of new general directors for many of the companies scheduled for nationalization, the country's Constitutional Council handed down a 30-page ruling declaring six articles and one paragraph of the nationalization bill to be unconstitutional. Since there is no appeal against this decision, the final transfer of the companies to state ownership may now be delayed for weeks, if not months, while the government works out new arrangements consistent with the Council's arguments. As soon as the decision became known, the cabinet met in emergency sessions, and a special session of Parliament may be called to pass a modified bill.

The main aspects of the bill to be affected are those concerning compensation; as a result, the cost of the nationalizations may double from its previously calculated $5.6 billion. The main targets of the Council's criticism were the method of calculating share values without taking into account the value of subsidiaries or the effect of inflation and the government's refusal to pay a dividend for 1981.

The opponents of the bill received little comfort, however, from the Council's ruling on matters of principle. The only aspects criticized concern relatively minor questions. The Council rejected the powers given to the management of nationalized firms to sell off foreign holdings and activities, on the grounds that such powers are a legislative prerogative. The criteria for nationalization laid down by the government were accepted, but the exclusion of the cooperative banks was rejected. As a result, the number of banks to be nationalized would increase from 36 to 39, although the big cooperative banks such as Crédit Agricole remain unaffected because of special statutes.

Paris Reduces Workweek, Eases Early Retirement

The French government has issued decrees reducing the workweek from 40 to 39 hours and easing voluntary early retirement at 55 years of age and at 70% of regular wages. The workweek cut is the first phase of the implementation of a 35-hour week by 1985 and the introduction of a fifth week of annual leave. So far 3 million of the 11 million workers affected by negotiations between unions and the CNPF employers' federation have reached agreement on the disposition of their working hours under the new legislation.

The easing of voluntary retirement is intended to free workplaces for the young and unemployed. Companies are to be offered special "solidarity contracts" whereby they would receive rebates on social security payments if they pledged to fill the workplaces freed by early retirement. So far, more than 500 such contracts have been concluded, creating 8,000 new jobs.

The labor ministry believes that by the end of 1982 the two measures could result in making available a total of 50,000 to 100,000 workplaces.

Denmark: Priority for Measures Against Unemployment

Emphasizing the fight against unemployment as the most important national task, Danish premier Anker Jörgensen has presented to the Folketing a set of measures designed to help Denmark's 300,000 jobless. One-third of the unemployed are under 25, and the government has promised that by the end of 1983 every person in this age group will have a job or a training place.

Among other measures, it is planned to introduce a voluntary version of the plan for investment agreements with pension funds and insurance companies which led to the government's fall last year. A part of the increase in the companies' assets would be invested in index-linked bonds at low interest rates, providing funds for industrial and agricultural investment. Jörgensen hopes that the Radical Party, on whose parliamentary

support he depends, will accept the modified version of the draft legislation.

Fiscal policy is to be redesigned to provide investment incentives to companies that create additional workplaces. Job-sharing and paid time-off for attending training courses would be used as methods to limit overtime work. If the leftist Socialist People's Party can be persuaded to support the measure, tax regulations would be changed to permit depreciation at replacement values. The government is also to take steps to relieve the crisis in the agricultural sector by introducing a negative income tax for farmers and by preparing new debt-refinancing measures.

Sweden: Record Deficit Despite Spending Cutbacks

According to the Center-Liberal government's budget plans as recently presented in Parliament, Sweden's deficit on public spending will rise from SKr 78.2 billion in 1981-82 to a record SKr 82.6 billion in 1982-83. Total expenditures will grow by only 1% to SKr 242.4 billion, but the cost of servicing SKr 300 billion in state debt will rise from SKr 26.3 billion to 39.4 billion. As a result, Sweden will have to borrow SKr 10-14 billion abroad this year, and the deficit will remain unchanged at 13% of GNP despite government promises to reduce it by 1% annually.

So far, SKr 9.7 billion in reductions in local authority spending, sickness benefits, unemployment relief, and education and housing grants have been incorporated into the budget, and further cuts to a total of SKr 12 billion are planned. Finance Minister Rolf Wirten says this will save SKr 13.4 billion in the calender year 1983. According to Wirten, the budget strategy is to stimulate exports and reduce public expenditure and private domestic consumption. The government hopes that the 10% kronor devaluation of last September will bring about a 7% rise in exports and hold imports steady. Nevertheless, the same calculations show the current-account deficit on foreign payments as falling only marginally from SKr 14.1 billion in 1981 to 13.6 billion in '82. GNP is expected to rise by 1% in 1982, after falling 0.8% in 1981. Sweden has scored a success on the inflation front, with the rate of increase of the cost of living falling from 15% to 10% in the course of last year.