Common Market Reports

EUROMARKET NEWS

Issue No. 701 *Report No. 451, June 24, 1982*

IN THIS ISSUE

Community: Confrontation Over Steel Exports to U.S.?

The U.S. Commerce Dept.'s decision to impose provisional countervailing duties on a number of steel products imported from the Community has produced sharp reactions from the European Commission in Brussels and several Member State capitals. Although the decision is not a final one, it does indicate that the United States and the EEC are possibly heading toward a course of confrontation in trade relations. The U.S. now requires deposits from individual West European exporters equal to the level of alleged government subsidies.

In Brussels, Commissioner Etienne Davignon maintained that the U.S. government did not ponder the political consequences of its decision when it gave in to pressure from domestic steelmakers. Direct retaliatory action against U.S. agricultural commodities, which make up the bulk of American exports to the Community, is not foreseen, Davignon said. The Commissioner believes that a trade partner may not unilaterally interpret the rules of GATT. The Commission is going to look into the purely legal aspects of the U.S. government's action and report to the Council of Ministers.

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

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Washington had claimed that foreign governments, including those of seven EEC States, provide substantial subsidies to help their national steel industries sell at low prices in the United States and that these subsidies have done material damage to the U.S. steel industry. Denying these allegations, Davignon said that the American market share of Common Market-based steel exporters is so small that there could not possibly have been any damage. On the other hand, exports of steelmakers from non-EEC states such as Spain, Romania, South Africa, and Brazil, which account for a higher percentage of steel imports into the United States, could have had a negative effect. Davignon stressed that the subsidies granted by several Member States are not given to undercut U.S. steel prices but to enable European steelmakers to restructure and reduce capacities. The subsidies would be phased out by the end of 1984, he said.

Negotiations between officials of the Commission and the U.S. government are expected to be resumed shortly, and there is still hope in Brussels that they will end in a compromise. Such a compromise could come in the form of self-restraint by Community steel exporters. Talks on such a deal had foundered prior to the U.S. Commerce Dept.'s decision to impose duties. The Commission had insisted on an export volume of around 6 million tons of steel, or some 6% of the U.S. market. Washington had offered to accept around 4.5 million tons, or 4.3% of the market.

Setback to Advance Consultation on Tax Bills

The Commission's proposal that would require each Member State to inform the EC executive and the other States about planned tax legislation is meeting increased criticism in the national capitals, although the Council's working group has not yet taken up the measure. The latest blow came from Bonn, when the Bundestag's tax committee unanimously voted to recommend that the government reject the proposal. In the past, the German government has almost always followed the committee's recommendations.

The object of the proposal is not only to prevent setbacks to the slow process of harmonizing national tax rules but also to stimulate it. Under the draft directive, a Member State would have to inform the Commission and the other States about its tax legislation plans; within two months, the Commission would tell the State what it thinks about the plan and what it would change; this information would also go to the other States. The draft directive would still permit Member States to enact legislation in emergency situations and to inform the Commission and the other States thereafter.

The German lawmakers do not share the Commission's view that the proposal would help reduce the still-substantial differences in the States' tax laws. A system of consultation and information exchange already exists, the tax committee pointed out, one aspect of which is the Value-Added Tax Advisory Committee composed of national tax experts and headed by a Commission official *(Common Market Reports, Par. 3166D)*. Also, the States have informally agreed to consult each other on planned changes in excise tax legislation. Moreover, ranking officials of the ten governments' major tax divisions meet regularly with Commission officials in Brussels. Any positive results that might be forthcoming from an institutionalized procedure would not outweigh the drawbacks, the tax committee said, and more red tape would be only one of the negative aspects.

In Brief...

A realignment of the exchange rates of four of the eight Member State currencies linked in the European Monetary System (EMS) was announced on June 12. The French franc was devalued by 5.75% and the Italian lira by 2.75%; the German mark and the Dutch guilder were revalued by 4.25% each. This latest adjustment is the sixth since the EMS's establishment on March 13, 1979. There had been speculation about an alignment of the exchange rates ever since the French franc came under pressure on international money markets because of high inflation (14%), a high balance of payments deficit, and a rising government debt. Many monetary experts feel that the 5.75% devaluation of the French franc is not enough and that the French government's four-month wage and price freeze plus spending cutbacks (see story Page 5) may only temporarily relieve the pressure on the franc + + + The European Commission has advised the Member State governments to remain adamant in denying Greece special arrangements. Last March Athens demanded such arrangements, arguing that the EEC's existing rules and policies fail to meet Greece's social and economic needs. The Commission believes that these demands can be dealt with under existing procedures or through proposals that it would submit to the Council of Ministers.

Germany: Second Bill to Combat White-Collar Crime

Keeping its promise to continue the drive against white-collar crime, the German government has proposed to Parliament its second bill on the matter. While a 1976 law introduced statutes to prosecute perpetrators of credit fraud and fraud to obtain subsidies, the new bill would provide for penal sanctions against individuals committing crimes that, for the most part, involve the use of computers.

At the present time, an individual who feeds a bank computer the code number and other data necessary to withdraw funds from another person's account cannot be brought to trial for fraud because a conviction under the criminal code's current fraud statute requires that a person, not a computer, be deceived by the fraudulent behavior. Under the proposal, an individual who manipulates a computer for gain could be sent to jail for up to five years.

A person who, in order to retain his driver's license or to help someone else retain his, manipulates the tapes that record major traffic offenses cannot be prosecuted under present law because the manipulated tapes are not damaged - the second criterion that must be proven to obtain a conviction for fraud. The fraud statute would be amended so that these persons could be convicted.

A new statute would help curb fraudulent behavior on the part of individuals who seek to promote investments on the basis of false information; under the proposal, a violator could be sent to jail or fined. Buyers of commodity futures would be better protected by an amendment that would limit the activities of brokers trading in futures.

Britain: Higher Outside Investments in Stockbroker Firms

The Stock Exchange Council in London has approved a substantial change in its rules, which will now allow an outside investor to acquire a shareholding of up to 29.9% in a stockbroking or stockjobbing firm. Previously, the limit on an external holding was 10%.

It would, in theory, be feasible for a number of outside investors to hold the majority of a firm's capital, but the Council has stated that members of the Stock Exchange must continue to hold at least a 51% stake in a firm. An outside investor might be either an individual or an associated group of investors but must not be responsible for more than 20% of the firm's annual commission income.

The reason for the change is the Council's desire to see that firms have sufficient financial resources available both to participate in overseas markets and to ensure an efficient securities market in the U.K. However, the Council stresses that it is "imperative" that moves of this nature not be allowed to have a harmful effect on the quality of the market, which could happen if an investment institution were to gain "an undue influence over a member firm." If the Council believes that an undue or harmful influence is being exerted by an outside investor, it could reserve the right to require the partial sale of that holding.

As a result of this change, Security Pacific Corp., which controls the tenth largest U.S. bank, Security Pacific National, is acquiring a 29.9% holding in a leading stockbroking firm, Hoare Govett, to broaden its U.K. financial activities. Observers believe that there will now be other increased foreign investment in member firms of the London Stock Exchange.

U.K. Banking Union Resists Saturday Openings

Proposals by one of the U.K.'s largest banks to operate some of its branches on Saturday mornings have been turned down by the Banking, Insurance and Finance Trade Union. Barclays Bank had wanted some 400 of its branches to open for business on Saturdays, in direct reaction, in the opinion of observers, to increasing competition from the building societies. Compared with the U.S. and other West European countries, a relatively small proportion of people in Britain have bank accounts, and a frequent criticism of the clearing banks has been their restricted opening hours, which tend to favor white-collar workers.

The general secretary of the Banking Union, Leif Mills, said his executive board felt that the proposals were "unfair, unnecessary, and unworkable" and in complete conflict with the intention in the rest of industry to reduce the workweek. Mills said that Barclays should be pressing the government to ensure fiscal neutrality between the banks and the building societies which, he argued, have unfair tax advantages.

Barclays's management is still optimistic that the union can be persuaded to cooperate and is offering some £5 million to bank employees in additional pay for working on Saturdays. Should the bank eventually be successful with its proposal, then other clearing banks will have to follow suit, observers believe.

France: Four-Month Freeze of Prices, Wages

As one of the supplemental measures to the 5.75% franc devaluation, the French government has imposed a general price and wage freeze for the next four months, through October. Following a special cabinet session, Prime Minister Pierre Mauroy said the move is intended to slow inflation, currently at 14% in annual terms, to below 10% by the end of this year and to 8% in 1983. France must bring its price structures in line with those of its major industrial competitors if it wants to avoid renewed speculation against the franc, which has taken its toll of currency reserves during the past few months, Mauroy stated.

The price freeze fixes at the level of June 11 all industrial and retail prices as well as rents and service charges. Also affected are profit margins, dividend distributions, and professional fees. Exempted are fuel prices (but probably not electric power rates), fruit and vegetable prices, and agricultural production prices, which are governed by EEC agreements. Furthermore, Paris has suspended wage indexation agreements for both the private and public sectors in order to enforce the general pay freeze. It is expected that this will result in purchasing power losses for most individuals, since the government anticipates a 3% rise in inflation (in annual terms) even during the price freeze. Still inflation indexed will be the legal minimum wage as well as family allowances; the latter, in fact, will benefit from a 6% increase on July 1.

The government itself plans to implement austerity measures in order to limit its budget deficit this year and in 1983 to about FF 100 billion, or just below 3% of GNP. Employers and employees are called upon to carry jointly the burden of the health and unemployment insurance deficits (more than FF 40 billion annually) by way of higher contributions as well as reduced benefits for the insured. The country's civil servants, who enjoy full job protection themselves, are expected for the first time to contribute to supporting the unemployed. They will also have to do without the next pay raise, normally scheduled for July 1.

The Socialist administration hopes for an improvement of the French trade balance in the region of FF 30 billion this year as a result of the freezing of domestic production costs and higher import prices in the wake of the devaluation. Apparently Paris intends to concentrate on the trade margins of importers and not, as has usually been the case in the past, on the import prices themselves.

Paris Aids Steel, Newsprint Industries

The French government's newly published plans for financial aid to the domestic steel industry indicate that this sector will receive a substantial proportion of the total investment outlay earmarked for state industries this year. A total of FF 26.6 billion is to go to the newly nationalized steel firms to cover the costs of a four-year reconstruction plan. The aim is to eradicate by 1986 losses which reached FF 6 billion last year and to raise nominal capacity to 24 million metric tons per year. Successful implementation of the plan would require a significant number of layoffs, estimated unofficially by industry sources at 10,000-12,000. Since this is certain to cause difficulties with the trade unions, specific numbers of jobs to be cut have been left out of the plan. Some 30,000 workplaces have been lost since 1978.

The financial aid is to be divided into three broad categories. The first category, amounting to FF 17.5 billion, is for plant modernization to be completed by the end of 1985 in order to comply with the EEC deadline. The actual proportion of grants and loans is not certain yet, but the total amount corresponds roughly to the industry's request for FF 20 billion in investments. Part of the total, FF 2 billion, will be set aside to fund job reclassification for steel workers and early-retirement programs. The second category of aid, corresponding to a total of FF 3.2 billion, will be reserved for diversification plans of the subsidiaries of the two steel giants Sacilor and Usinor. The main aim will be to fund industrial conversions in the depressed steel regions. The third aid category, finally, will result in equity injections of FF 2.4 billion this year and FF 3.5 billion next year for Sacilor and Usinor to reduce their heavy burden of financial charges.

In related news, the government has agreed on plans to ensure the survival of the domestic newsprint industry. An arrangement proposed by the Swedish firm Stora Kopparberg, which acted as consultants, calls for the expenditure of FF 400 million to expand one major plant's capacity from 120,000 metric tons per year to 140,000 tons. The funds would be provided by a consortium of recently nationalized French banks, while the plant (Grand Couronne) would be brought under the control of a new company with government majority control. Paris hopes to make the newsprint industry a profitable enterprise and save foreign exchange by using waste paper and domestic raw materials.

Netherlands: Elections; Supplemental Budget; Steel Aid

The date of the next Dutch general elections has been set for Sept. 8, although Premier Andries van Agt would have preferred Sept. 21, the day after the parliamentary year begins. This would have given the newly elected government an extra year in office and made the budget now being prepared partially binding on the new cabinet.

In a policy statement on June 8, Van Agt announced that the main tasks of his minority cabinet of Christian Democrats and Democrats '66 will be the preparation of the elections and of a draft budget, rather than any major economic initiatives. However, to deal with the immediate economic situation, the government will introduce a supplementary budget, which had already been agreed upon with the Labor party before the latter left the coalition. Under this budget, 1% of the salaries of civil servants and other public employees will be deducted to help finance an employment fund and reduce family allowances. There will be a freeze as of July 1 on all social welfare benefits above a certain level. In addition, efforts will be made to improve industrial profitability by providing businesses with a number of tax reliefs backdated to Jan. 1 and reducing electricity rates for industry to levels similar to those of main foreign competitors.

In other news, Holland's largest steelmaker, Hoogovens, has asked the government for 1 billion guilders in financial aid to help cover the cost of a 3.2-billion-guilder reconstruction plan. The balance is planned to come from the corporation's own resources and from the capital market. There is to be no replacement of some 2,000 workers expected to be lost by attrition, which would cut the workforce to 18,000. The plan sets a target for steel production in 1985 of 5.3 million metric tons, rising to 6 million tons by 1989.

Greece: Parity Changes for Drachma; Investment Law Passed

The Greek central bank has devalued the drachma by 3.2% against the dollar and by 2.2% against the German mark. Against the French franc, the currency was revalued by 3.6%. The parity changes take account of the most recent adjustments within the European Monetary System (see Page 3) and reflect the recovery of the U.S. dollar.

In other news, Parliament has passed the Socialist government's new investment law providing "incentives for promotion of the country's economic and regional development." The legislation's main feature provides for state grants, the extent of which depends on the kind of investment projects and their location. As previously reported, grants will be offered in the form of state participations where individual investments exceed the level of 400 million drachmas.

Switzerland: Banks' Duties in Accepting Funds

The Swiss National Bank intends to insist on tightened procedures for domestic and foreign banks in Switzerland as concerns their duty "to take due care" *(Sorgfaltspfliet)* in accepting funds from customers and in preventing abuses of bank secrecy rules. An existing agreement on this matter took effect on July 1, 1977, in the wake of the "Chiasso scandal" involving the Crédit Suisse bank. It will expire at the end of this month, unless both sides consent to an extension, which is expected.

The central bank authorities are interested mainly in establishing clear and accepted procedures for the direct acceptance of funds for deposit or investment. The principal issue is whether, and to what extent, depositors need to identify themselves to the bank. Reportedly, there is agreement in principle that certain procedures should be applied to normal deposit acceptance, but opinions differ on what constitutes "normal" and on setting limits for the funds involved. Current discussions between the National Bank and representatives of the Swiss banking community also touch on the role of lawyers, fiduciaries, and others in acting as go-betweens in such financial transactions. Apparently it is the "frontman" function of many of these individuals that has created the most obvious loopholes in abusing bank secrecy provisions.

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Issue No. 702 *June 29, 1982*

IN THIS ISSUE

Community: Modified Approach to Protecting Breeders' Rights

The European Court of Justice has ruled that plant breeders' rights are not different enough from other industrial property rights to require that they be treated differently in the application of EEC competition rules as practiced by the Commission with regard to patents, trademarks, and copyrights and confirmed by the Community tribunal in case law *(Common Market Reports, Pars. 8351, 8467)*. However, in applying Treaty Article 85(1), the Court said, it is nevertheless necessary to take into account the specific nature of plant varieties that are protected by law. The Court considered the specific aspects of plant breeding and then invalidated part of a decision in which the Commission failed to make that differentiation.

It was the opinion of the Commission that all exclusive licenses involving exploitation of plant breeders' rights are incompatible with EEC competition rules. The Court, however, made a distinction between licenses that are confined to establishing rules governing production and sale of particular seeds and licenses that also contain clauses designed to restrict competition. The first type, the open exclusive license, is permissible; the second, the license with absolute territorial protec-

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tion, is not, the Court ruled (judgment of June 8, 1982, *Nungesser and Eisele v. Commission*, Case No. 258/78). The test case judgment, which will necessitate some redrafting of the proposed patent licensing regulation *(Common Market Reports, Par. 10,118)*, winds up one of the oldest competition cases on the Court's docket.

The case involved Kurt Eisele and his company, Nungesser KG, Darmstadt, and a French research institute that had successfully developed hybrid corn for cooler climates. In 1960, this organization, Institut national de la recherche agronomique (INRA), had appointed Eisele to act as its representative for the registration of seeds in Germany. In the following year, INRA transferred to Eisele and Nungesser breeding rights in Germany for four varieties of corn seed that Eisele had registered in his name. A new agreement, concluded in 1965, made Eisele the exclusive distributor of six hybrid corn varieties. Eisele agreed both to refrain from distributing corn seed of another origin and to import from France at least two-thirds of the quantity required for the German market. He was authorized to produce the rest and to use the INRA trademark; INRA promised to prevent exports from France to Germany by third parties. Eisele agreed to use his exclusive contractual rights and his own breeder's rights to prevent imports into Germany. He had also the right to export the particular seeds to other Member States.

These agreements were notified to the Commission in 1965, and the parties asked for an exemption from the ban of Treaty Article 85(1). In 1974, the Commission received a complaint from a French company which had been threatened with legal action by Eisele if it were to engage in parallel seed exports. In September 1978, the Commission prohibited the agreements under Treaty Article 85(1) and denied an exemption under Article 85(3). The EC executive objected to the agreements for two reasons: (a) they allowed Eisele and Nungesser to oppose parallel imports of INRA seeds into Germany, and (b) they granted Eisele an exclusive license for the propagation and sale of certain officially certified INRA seeds *(Common Market Reports, Par. 10,083)*. The appeal of Eisele and his company to the European Court of Justice was supported by the governments of France, Germany, and the U.K.

The EC tribunal invalidated the part of the Commission's decision that prohibited the clause granting Eisele and Nungesser an exclusive license for propagation and sale of certain varieties, but let the other parts of the decision stand. The Court accepted the argument of the interveners, especially that of Germany, concerning the hybridization of corn. Hybrids, which can produce abundant harvests in cooler climates, must be produced by fresh crossing of basic varieties. Since the development of basic varieties suitable for hybridization takes many years, often up to 15, and the whole process of seed breeding involves considerable planning and investment, the German government thought it should be permissible to protect the licensee over a limited period of time so that nobody else is allowed to produce or sell the developed seeds in his licensed territory; this protection would encourage research and development of new plant varieties. The Court accepted this argument.

In Brief...

The Council of Ministers has extended the Community's mandatory steel production quota system until July 1, 1983, and also has expanded its coverage. The new quota system that will take effect on July 1, 1982, also includes wire rod production, and this means that about 80% of the Community's steel output will be covered by mandatory controls. The number of small steel producers eligible for special quota treatment was increased by an increment in the production limitation from 60,000 to 100,000 tons per year + + + The Community made headway with its common transport policy when the Council reached agreement on several measures on June 14. These include an extension of the liberalized system introduced in 1975 for certain types of combined road-rail transportation of goods and the transport of containers on inland waterways. Member States will be required to ease access of businesses to road-rail transport and to grant tax relief to operators of vehicles used in combined transport. Another directive would lay down common technical and safety standards for ships and barges carrying freight on the States' inland waterways.

Germany: Accord on Increased Use of Returnable Bottles

An agreement between the German government and representatives of the country's beverage and container industry associations on the increased use of returnable bottles and improved recycling of one-way containers has removed the threat of the administration taking unilateral action. Under the 1972 Waste Disposal Act, the government is empowered to restrict production and use of one-way containers through regulations that merely require the approval of the upper house of Parliament *(Doing Business in Europe, Par. 23,546F)*.

Consumption of alcoholic beverages and soft drinks in Germany reached a new record high of 16 billion liters last year. The basic raw materials used in container manufacturing totaled some 2 millions tons in 1981, and one-way containers currently make up about 10% of household garbage. The use of one-way containers has risen steadily over the years, and the percentage of returnable bottles has declined.

Under the recent agreement, industry agrees to label clearly and prominently all returnable containers that are put on the market starting in 1983. Consumers would be asked to do their part by buying beverages in returnable bottles, thus saving not only raw materials but also energy. (Bottle manufacturers that process used glass containers can save up to 60% of the energy normally needed for production.) Breweries and soft drink manufacturers have agreed to discontinue promoting and advertising one-way containers. Container manufacturers and the beverage industry acknowledge the need for standardizing the many sizes of containers now in use.

Also part of the agreement is that all branches of the container industry commit themselves to substantially increasing the recycling of one-way containers in the coming years. For example, bottle manufacturers will see to it that in the next three to five years more than half of all new bottles are made from returned glass containers. Right now only about one-third are made from reused materials.

Britain: Sweeping Reform of Insolvency Law Urged

The long-awaited report of the committee reviewing insolvency procedures in the U.K. has now been published after five years of study. Entitled "Insolvency Law and Practice" (Cmnd. 8558), it advocates radical changes in the present law and calls the need for a reform "urgent and imperative," pointing to the "entirely justified" dissatisfaction with the current situation.

At present, when a company becomes insolvent, the Inland Revenue and the Customs & Excise authorities have first claim to the company's assets. The report says that this priority for any unpaid tax cannot be supported by principle or expediency and "cannot stand against the powerful tide calling for fairness and reform." Salary payments to employees should have preferential status, up to a statutory limit, but otherwise should be regarded as ordinary, unsecured debts.

There has been much criticism in the U.K. that unsecured creditors often are unfairly treated and receive nothing from the insolvent company's assets. The committee proposes that 10% of the company's realizable assets be apportioned among such creditors. The report also recommends significant changes in directors' personal liabilities. If a company that was already insolvent continued to incur new liabilities with no reasonable prospect of meeting them, it would be operating wrongfully. Directors who were party to such activities could be sued individually in a civil action and would be liable with regard to their personal assets, if the committee had its way.

In appropriate circumstances, which were not precisely specified in the report, an official or "administrator" could be appointed by the courts. (Here, the committee appears to have been influenced by U.S. bankruptcy procedures.) The administrator would have the power to suspend a creditor's rights and direct that there be a 12-month prohibition on certain secured creditors realizing their security, "except by agreement or with the leave of the court." Suppliers to the company would also be barred for 12 months from reclaiming goods only partly paid for and delivered with reservation of title.

The committee is critical of parent companies that allow their subsidiaries to be liquidated without incurring any liability themselves, saying it was "unreal" to allow commercial realities to be disregarded because of legal technicalities. However, it feels that this is a field for company law reform, in view of its "enormous complexity."

Sir Kenneth Cork, the committee's chairman, emphasized that the report has been constructed as a package. It would not be feasible to implement some of the recommendations while ignoring the counterbalancing ones. In his view, Sir Kenneth said, the government would be ill-advised not to put his committee's proposals into effect.

Any changes in the current insolvency law will not be immediate, however. Gerard Vaughan, government minister for consumer affairs, said there will be full consultations with interested bodies before any action is taken on the report, and observers believe that any new legislation will not be introduced until 1984, at the earliest.

CBI Rejects EEC Proposals on Employee Participation

The Confederation of British Industry, the U.K.'s employer organization, has strongly condemned EEC proposals for greater employee participation in the management of companies. During a recent visit to Brussels for discussions with the European Commission, the chairman of the CBI's European Committee, John Raisman, said that the fifth EC draft directive on employee participation *(Common Market Reports, Par. 1401)* was "totally unworkable" in its present form. However, if more effectively drafted, it could open up a broad range of welcome options and could be influential in officially recognizing the different social structures in the various Member States.

Raisman also expressed particular concern about the "Vredeling proposals" providing for consultation of a company's employees before important policy decisions are made *(Common Market Reports, Par. 10,265)*. Describing the proposals as "totally misguided," Raisman felt that they, together with the fifth draft directive measures, held a considerable threat in their present form to the overall effectiveness of industry. He said he trusted that the pertinent EEC bodies would take "great care" before giving their final approval.

Since the recommendations of the Bullock Committee in the mid-1970s on industrial democracy met with an almost universal hostile reception, there has been little progress in Britain in the area of employee participation.

U.K. Tax Concessions for North Sea Oil Companies

The Chancellor of the Exchequer, Sir Geoffrey Howe, is offering various tax concessions to encourage investment in the North Sea oil fields and to improve returns from the less profitable fields. The amounts offered would be some £35 million in the current financial year and £20 million in 1983-84. Sir Geoffrey said the concessions are targeted at places where the budget measures "otherwise might bite too hard." In the Budget, he has raised petroleum revenue tax (PRT) from 70% to 75% and introduced a new system of advanced tax payments.

The changes will mean that no oil field companies will pay the new advanced PRT for more than five years and that those subject to tax will benefit more fully from the special reliefs before they begin to pay tax. There will be transitional relief to ease the introduction of the accelerated payment system, and proposals to provide speedier corporation tax relief for some losses will be backdated for two years.

A cautious welcome has been given to the changes by the oil companies, but it is generally felt that the changes do not go far enough. (See also *Doing Business in Europe, Par. 40,341.*)

Ireland: Central Bank Calls for Tax Boosts, Spending Cuts

The Irish central bank, in its annual report, emphasizes that the government will have to introduce significant additional taxation or marked cuts in spending in order to meet its financial targets for this year in view of the recent fiscal concessions. The bank sees little likelihood for a fall in interest rates, which at present exceed 20%, and even envisages a possible rise in the rates, with the brunt of such an increase being on the personal rather than the corporate sector. A tightening of current monetary policy, which aims for credit growth of 14% this year, also seems probable, according to the bank.

Although some improvement in Ireland's foreign trade balance has been confidently predicted for this year, the central bank forecasts that the trade deficit will be much the same as the 1981 figure of £1.3 billion (Irish), or about 11% of GNP. However, while there is likely to be a small rise in the country's gross domestic product, a decline in GNP seems equally probable. The bank is more optimistic about the annual rate of inflation, which is currently running at 20%, and predicts a decrease to about 14% by the beginning of 1983.

France: Heavy Resistance to Government's Austerity Plan

The Socialist French government is facing considerable difficulties in implementing its new economic austerity plan, which is to supplement the franc devaluation of June 12. Some of the proposed measures require parliamentary approval, so that the entire program could not be fully in force until the end of next month, at the earliest. (The part of the four-month price freeze that has already been enacted is based on regulations dating back to 1945.) Even when the remaining legislative procedures are completed, Paris still must cope with the huge task of enforcing controls on some 4-5 million different prices.

Problems arise particularly with the four-month freeze on incomes, which affects not only wages and salaries but also dividends. The legal basis for implementing the freeze remains unclear. Special legislation will be required, for instance, to suspend free collective bargaining, which is guaranteed by law. Premier Pierre Mauroy has expressed hope for a "voluntary" consensus with the labor unions, but reactions have been less than encouraging. The leaders of the Communist-led CGT, the country's largest labor federation, said that the freeze, or any measure reducing the purchasing powers of workers, was "not acceptable." The Socialist CFDT has hinted that a compromise would be possible only if the government were prepared to further broaden workers' rights.

The unions generally welcome the introduction of the price freeze, even though they question the government's ability to enforce it since the previous administration had successfully removed a deeply entrenched system of price controls. The French industrial federation CNPF (Patronat), on the other hand, has vehemently criticized the price stop, charging that such a step merely combats the symptoms and not the causes of inflation. "A price freeze is unacceptable for a modern economy and unbearable for French enterprises which are already seriously weakened," said a communique issued by the CNPF, which also called for a "basic change" in economic and social policies. Such a change should involve as a priority a "stop on state expenditures, especially with regard to incomes transfers, which have become too costly."

Luxembourg: Review of Monetary Union With Belgium

Following the latest parity adjustments within the European Monetary System, Luxembourg's Premier Pierre Werner has called for a reexamination of the country's monetary union with Belgium. A group of experts has been appointed to study possible alternatives to the existing arrangement. The latest EMS adjustments did not affect the exchange rate of the Belgian-Luxembourg franc; nevertheless, there is continued concern in the Grand Duchy over the possibility of "surprise" adjustments following Belgium's failure last February to consult the Luxembourg government prior to the 8.5% devaluation of the franc on Feb. 22.

Luxembourg Finance Minister Jacques Santer has acknowledged that there have been political discussions over this issue, but he stressed that they are aimed more at an improvement of monetary cooperation with Belgium than at a termination of the partnership. In reference to proposals by the Social Democratic opposition to base the parity of the Luxembourg franc on a currency "basket" of the German mark, the Dutch guilder, and the Belgian franc, Santer said such a step would require Luxembourg to pursue an economic policy similar to that of the hard-currency countries. Among other things, this would mean that the Grand Duchy give up its system of wage indexation - a step that could have serious internal social and political consequences.

Portugal: Austerity Measures to Follow Devaluation?

A day after the Portuguese escudo was devalued by 9.5% against the currencies of the country's major trading partners, Finance Minister Joao Salgueiro indicated that the government may follow up with an economic recovery program, including a possible wage and price freeze as well as energy saving measures. Salgueiro emphasized, however, that the government did not intend to use currency devaluations as an economic policy tool. The minister spoke of a "selective" price freeze to be imposed if necessary and that Lisbon would not allow any "abnormal" wage raises.

The escudo devaluation on June 16 was considered unavoidable after the French franc was devalued the weekend before as part of the currency alignments in the European Monetary System. Lisbon depends heavily on the money transfers of Portuguese workers abroad, of which about 1 million live in France. In fact, these remittances constitute Portugal's second-largest source of revenue, after trade and before tourism.

The devaluation was welcomed by the exporters, although many of them joined in the Socialist opposition's complaint that it had come too late, was too low, and should have been closer to 15%. Exports last year dropped by 1.5%, and tourism also has been stagnating, an area where the devaluation should be of help as well. Economists, however, are concerned about what the parity change will do to Portugal's current-account payments balance, for which a 1982 deficit of $2 billion had been forecast prior to the devaluation. A $5.6-billion foreign trade shortfall was largely responsible for last year's payments deficit of $2.7 billion, the worst ever. One of Lisbon's most nagging problems is servicing an accumulated $10-billion foreign debt, a task that should now be even more difficult. Portugal is forced to import about 75% of its foodstuffs and virtually all of its oil fuel.

Common Market Reports

EURO MARKET NEWS

Issue No. 703 *Report No. 452, July 8, 1982*

IN THIS ISSUE

Community: OECD Agreement on Export Credit Rates Has Expired

France's refusal to support the Council of Ministers' compromise on export credit rates and to accept the OECD's latest proposal in this area has increased the threat of a serious credit war among the world's industrialized nations. Negotiations on interest rates for government-backed export credits broke down at the OECD in Paris in May when the EEC Member States disagreed with each other and with the United States and Japan. The 1976 OECD gentlemen's agreement expired on May 15 but was extended twice; the latest deadline expired on June 25.

France remains opposed to the proposed increases in the minimum credit charges, which are far less than what the United States originally wanted (around 2%) and what the other Member States thought prudent. Under the latest OECD proposal, countries in Category I would have to pay 12.5% interest instead of the current 11%, and countries in Category II (intermediate or relatively developed) would be required to pay 10.85% instead of the current 10.5%.

Greece and Ireland are against the OECD formula that would

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

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put them into Category I, comprising the relatively rich countries, and thus subject them to less favorable subsidized interest rates. France was originally against reclassifying the Soviet Union, Czechoslovakia, and East Germany into Category I, with its correspondingly higher interest rates. Eventually, Paris relented, however, thus allowing the Community to close ranks with the United States on this issue. Under the OECD proposal, Israel and Spain would also be moved into the Category I group.

There is nothing in the OECD proposal about granting an interest reduction to any country. The EEC thought that the less prosperous countries (Category III) should be granted a reduction from 10% to 9.5%. There is also nothing in the proposal about a two-stage transition period before certain Category III countries are moved into Category II. These countries include, among others, Singapore, Hong Kong, and South Korea.

New Proposals on Fisheries Policy Could Bring Agreement

The Commission's latest proposals to establish a comprehensive fisheries policy for the Community have been welcomed by Britain, France, and Germany, the EEC's main fishing countries, as a basis for an agreement in the near future. Only Denmark remains opposed, especially to the suggested quotas. Not counting Denmark's opposition, there are still other issues, however, that need to be resolved before completion of the common fisheries policy, which has been negotiated for the last five years. These issues concern differences among the Member States on national quotas for various types of fish and the level of access to fishing zones.

Progress has been held up, for instance, by a quarrel between Britain and France over access to British coastal waters. In one of its proposals, the Commission went a long way toward resolving this dispute by proposing a 20-year agreement under which Britain, with the most lucrative fishing grounds, would retain exclusive fishing rights within the first six-mile zone, while in the U.K.'s next six-mile zone other Member States' catches would be limited to what they had previously caught (so-called historic levels). Britain would also be given a wider preferential zone off the east coast of Scotland, where large trawlers from other Member States would be allowed to fish only with a license. Under the proposals, Britain's quota would amount to 35.5% of the most valuable species. The other proposed quotas would be 23.4% for Denmark, 15% for Germany, 13% for France, 7% for the Netherlands, 3.8% for Ireland, and 2% for Belgium.

In Brief...

On June 21 the Council of Ministers lifted the embargo on imports from Argentina. For Denmark, Ireland, and Italy, the

Council's decision was of no importance because these countries had refused to go along with the May 25 extension of the Community ban enacted on April 16 out of solidarity with the United Kingdom over the Falklands conflict. The ban was not considered very effective because it exempted contracts concluded before April 16 as well as goods en route to Europe on that date + + + U.S. President Reagan's embargo on U.S. technology for the trans-Siberian gas pipeline is expected to be challenged in court and also under GATT and in the OECD. Commission and Council lawyers reportedly consider Washington's decision to extend the ban to Common Market-based subsidiaries of U.S. parent companies and European companies holding licensing agreements with U.S. firms an extraterritorial extension of U.S. jurisdiction, which they believe is contrary to the principles of international law + + + The Commission has submitted several proposals to the Council that would speed delivery of merchandise in intra-Community trade. For example, the numerous customs documents would be replaced by a single form, and the cost of imposing and collecting VAT at frontiers would be cut by allowing businesses involved in inter-Member State trade to file periodic returns and make corresponding payments, just as businesses are allowed to do for purely domestic transactions.

Greece: Finance Minister Quits Over Property Tax Turnabout

Manolis Drettakis, the Greek finance minister, has resigned from his post in reaction to the decision by Prime Minister Andreas Papandreou to override a law on real property taxation that had been sponsored by Drettakis and had already been passed by Parliament. In a surprise announcement, Papandreou declared that real estate owners did not need to file tax declarations on their properties if they valued such properties at less than 20 million drachmas. The fiscal authorities were instructed not to verify the accuracy of declarations already filed if the stated property value was below this limit.

In invalidating the legislation, which had been promoted by his own PASOK party, Papandreou evidently had to bow to popular pressure. Drettakis chose to leave the cabinet after having become increasingly unpopular recently because of his extremely tough attitude on taxation.

Actually, the government had earlier assured real estate owners that no taxes would be levied on properties valued at less than 20 million drachmas. However, the fiscal authorities had reserved the right to make their own assessment of property values. With his decision, which neutralizes this right, Papandreou is said to be granting "tax absolution" to property owners, including those who have not yet filed a declaration, even though their property's value exceeds the stated limit. In practical terms, observers said, the Socialist government thus has made a complete about-face in this particular area.

Real property ownership is relatively common in Greece, even among the lower-income groups. The public majority therefore did not welcome the Socialists' legislation requiring the filing of a declaration of real property assets. The law is also said to have had a negative effect on the country's property markets and construction activity and thus on the economy in general.

Athens Ready to Implement New Investment Law

Following recent parliamentary passage of its new investment law, the Greek government now stands ready to process domestic and foreign investment applications and to extend appropriate incentives in the form of state grants, interest subsidies, tax reliefs, and increased depreciation allowances. This announcement was made at a press conference by Coordination Minister Apostolis Lazaris.

Lazaris's ministry meanwhile has established a special directorate for private investments. This office will initially deal with applications for projects with a total value of 48 billion drachmas that had been approved under the previous investment law (No. 1116) but were then suspended in order to be reviewed under the new government's investment policy. In addition, there is a backlog of about 3,500 unprocessed applications for projects with a total value of 350 billion drachmas. Furthermore, Lazaris said, domestic as well as foreign companies had expressed interest in additional investments.

Lazaris emphasized that Athens, in assessing applications, will want to ensure that any financial incentives given by the state are compatible with the government's socio-economic policy aims. With this in mind, strict controls have been devised. The new law favors a decentralization of investments, and provincial commissions will have preliminary approval powers for investments up to 200 million drachmas.

For eligible investments ranging between 400 and 600 million drachmas, 50% of the grant will be in the form of a state participation in the project. For investments above 600 million, the grant will constitute a state participation in the full amount. Grants will be graduated from 10% to 50% of the total investment sum depending on in which of the four investment zones the project is located. The less developed the zone and the closer the investment project to the government's economic policy aims, the higher the grants will be, Lazaris said.

Germany: Air Pollution Standards to Be Tightened

In the face of opposition from industry and some unions, the German government has made certain concessions in its first draft of an air pollution control proposal. However, the changes are minor, so the comments that interested parties will be asked to make on the revised proposal may still not be favorable.

The proposal would establish new principles for the licensing of industrial plants and lower currently permissible emission levels for certain air pollutants *(Doing Business in Europe, Par. 23,544A)*. Standards for stationary sources emitting nitrogen dioxide would be tightened from 100 to 80 milligrams per cubic meter. The maximum permissible emission of carcinogenic substances such as asbestos would be drastically reduced from the current 20 mg to 0.1 mg. For the first time, plants would have to meet emission standards for cadmium and lead. Licensing authorities would be given stricter guidelines to use when companies apply for new plant licenses.

Interior Minister Gerhart Baum pointed to the success that the government's legislation has had so far in improving air quality. Baum cited the Law to Limit Lead Content in Gasoline and the regulations restricting the sulfur content in heating and diesel fuels *(Doing Business in Europe, Pars. 23,544B-C)*. Conceding that a great deal remains to be done, Baum stressed that the latest proposal does not attempt to cope with the widespread problem of forests dying because of acid rain. The cause is sulfur dioxide emitted from industrial and household chimneys; the accumulated gases are pushed by winds for sometimes hundreds of kilometers and then fall in rain with a high concentration of sulfuric acid, upsetting the chemical balance of the soil. Scientists have established that the destruction of forests in the border triangle of Germany, Austria, and Czechoslovakia affected by acid rain is caused by the sulfur dioxide emissions from the heavily industrialized area of Munich. Parts of the Black Forest are suffering from pollution stemming from France's Alsace-Lorraine industrial basin. The Interior Ministry is preparing regulations that would lower emission levels of heating units in industrial plants and large buildings, Baum noted.

Belgium: Borrowing Limit; Depreciations; 1983 Budget

Prior to leaving for the U.S. to settle final details of the $600-million tranche of Belgium's latest Euroloan, Finance Minister Willy de Clercq referred to an official communique stating that the Belgian government intends to end its foreign borrowing "within four years." De Clercq made it clear, however, that his country at present "cannot do without financing support from abroad." The declaration putting a time limit on Belgium's future borrowing, commentators said, apparently was to offer reassurances to the country's international creditors, which have been most concerned about the rapid proliferation of the Belgian public debt. At the end of 1981, Belgium's foreign indebtedness stood at the equivalent of BF 388 billion, or 11% of GNP.

In other news, the government has agreed to a proposal submitted by De Clercq which offers improved depreciation terms for investments and which is soon to be published in the form of a royal decree. According to the proposal, applicable to new investments only, the standard deductible depreciation allowances would be raised by 13%. For investments involving research projects or energy savings, the additional depreciation would rise to 20% and 25%, respectively.

Meanwhile, there has been some disagreement within the coalition government over the preparation of the 1983 budget. Budget Minister Philippe Maystadt told Premier Wilfried Martens that the administration should assess the impact of its austerity measures on the economy *(Doing Business in Europe, Par. 40,376)* before committing itself to the renewal of tax exemptions and other fiscal relief. Also, Maystadt said, budget plans had been received from only four ministries, making it virtually impossible to complete the draft by the end of July, as is customary.

Italy: Export Credit Curbs Eased; Millions Heed Strike Call

The Italian government has relaxed the controls on export credit that had been introduced in April 1981 in conjunction with the cash deposit requirement for foreign trade transactions *(Doing Business in Europe, Par. 40,331)*. According to a Trade Ministry spokesman, the administration is preparing a decree extending the settlement deadline for export bills from 60 to 90 days; this decree is expected to take effect in the near future.

Furthermore, the Ministry has sent a circular to the country's commercial banks, informing them that they may issue lire-denominated export credits of up to 18 months if the exporters involved cover at least 80% of the export value with a foreign currency loan. The prior rule was that such credits could not be given for more than 360 days. For exporters who cover at least 90% of their outstanding bills with a foreign currency loan, the settlement deadline has been extended from 60 days to 18 months. In addition, the government is easing rules for smaller export transactions, which do not require the approval of the authorities.

In other news, millions of workers went on a one-day general strike on June 25 to force the private employers to return to the bargaining table. The country's three major labor federations had called the strike, which they described subsequently as the largest since 1969, after the employers served notice to cancel the seven-year-old wage indexation agreement and refused to start talks on new three-year collective contracts for key industrial sectors. Despite these protests, the public-sector employers' federation, Intersind, followed the example of the private sector on June 29 and also cancelled its commitment to wage indexation. This could make it very difficult for Rome to avoid a further escalation of the conflict.

France: Investors Ignore Stabilization Efforts

The French government's introduction of a price and wage freeze caused domestic stock prices to decline by about 12% in the first two weeks following the announcement on June 13. Only enterprises with a high export volume were generally able to do better than average, since the recent franc devaluation could have a positive effect on their profitability.

Financial commentators said that the declining market showed that investors' confidence in the French currency was still shaky, even though Parliament meanwhile has passed the government's economic stabilization program and the unions have stopped short of a general strike despite their disapproval of the wage freeze. A sure indicator of this lack of confidence, they said, is the surcharge French investors are willing to pay for the purchase of foreign securities. In the week beginning June 28, such purchases were made at the rate of FF 8.50 to the dollar, which represents a surcharge of nearly 23% on the regular exchange rate (FF 6.29).

French currency controls prohibit the purchase of foreign securities at stock exchanges abroad, but the government does permit such purchases from existing portfolios held in France, so no illegal capital flight is involved. French investors are attracted to foreign stocks and bonds because they offer protection against future franc devaluations and because the inflation rate continues to rise in France (currently at 14%), while it is dropping in all other major industrialized countries.

Sweden: Price Freeze Lifted; Cuts in Personal Income Tax

The Swedish center-liberal minority government on June 23 lifted the price freeze that had been imposed last fall in the wake of a currency devaluation as well as all other remaining price controls, except those on milk. Trade Minister Björn Molin said the price regulations, introduced in the early 1970s and successively tightened by former Social Democratic governments, had proven ineffective in combating inflation. Under the control system, some 2,400 Swedish enterprises had to give the state Price and Cartel Board one month's notice of any planned price changes. In the future, the companies will merely need to notify price changes within one week, and the price office will no longer have the power to intervene against increases. Thus, the new situation is similar to that before 1972, when the agency merely monitored price development and acted as a consumer information office.

The country's labor unions and the Social Democratic opposition criticized Stockholm's decision, charging that it will lead to unjustified price increases on a broad front. Some observers said the price liberalization may perhaps last only until the fall, when new general elections are scheduled (Sept. 19) and the Social Democrats may be returned to power.

In other news, the Swedish parliament earlier last month approved sharp reductions in personal income tax following a compromise on this issue by the coalition government and the Social Democrats. The cuts will benefit some 90% of Swedish taxpayers, who will have the top rate payable on their incomes reduced to 50% by 1985. The reductions will be effected in three annual stages, beginning next year. As of the current tax year, the 50% limit will affect anyone earning up to SKr 116,800, and this income ceiling will be moved up by 5.5% annually over the next three years. Also included in the fiscal amendments are limits on the deduction of interest payments on loans, particularly housing loans.

For Swedish taxpayers, the gradual reduction of the top tax rate to 50% represents major relief, since even a manual worker with average earnings is now paying up to 80% (via the so-called marginal rate) on the top portion of his income. The government is making up the loss of revenue by raising employer contributions by the equivalent of 2% of payroll. It is hoped that the new income tax concessions will persuade the unions to hold down wage claims, so that labor costs will remain stable despite the rise in employer contributions. The tax reform now enacted has been a controversial political issue for some time: last year, in May, the previous three-party coalition was reduced to a minority administration when the Conservative members of the cabinet quit in protest over the government's tax plans.

Switzerland: Parliament OKs Car Sticker, Truck Tax Bills

The Swiss upper house (Ständerat) has passed a bill submitted by the lower house (Nationalrat) providing for the introduction of a levy on the use of the country's freeways *(Autobahnen)*. The bill would form the legal basis for allowing both domestic and foreign motor vehicles up to a total weight of 3.5 metric tons to use the freeways only after an annual fee of SF 30 has been paid for a car sticker. Also approved by the upper house was a bill that would introduce a tax on heavy trucks, both domestic and foreign.

In passing these bills, Parliament has overridden the federal government. Transport Minister Leon Schlumpf had argued against the levies, saying that they would not be compatible with the existing system of financing road construction. He also predicted administrative difficulties in levying the taxes. In any case, both bills are subject to approval by the voters in a national constitutional referendum.

Common Market Reports

EUROMARKET NEWS

Issue No. 704 *July 13, 1982*

IN THIS ISSUE

Community: EEC-Swiss Insurance Agreement Initialed

The EEC-Swiss draft agreement on nonlife insurance, initialed in Brussels on June 25, would guarantee nondiscriminatory treatment of indemnity insurance carriers incorporated in any EEC Member State or in Switzerland in the establishment and operation of branches and agencies in each other's territories. The agreement would be the first of its kind.

Discriminatory treatment of insurance companies established in different Member States was abolished by two Council directives adopted in 1973 and by subsequent national follow-up legislation. One directive removed restrictions on the freedom of establishment and the other coordinated the extent of control, but the measures did not touch on the Member States' conditions for establishment and operation of branches and agencies of carriers based in third countries. However, the coordination directive contains rules empowering the Community to negotiate reciprocal arrangements with non-EEC countries, such as Switzerland *(Common Market Reports, Par. 1349.35)*.

Discrimination in the EEC against third-country insurance

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companies, observers point out, manifests itself in three major ways; first, in contrast to national insurance companies established in any Member State, third-country carriers have no enforceable claim against a Member State to establish a branch or agency in the territory of that State even if they meet all the conditions; secondly, while there is no discrimination against EEC-based carriers with respect to the reserves they must set aside to cover foreseeable risks, the States are free to require higher reserves for third-country carriers that want to establish a branch or agency in their territories; third, a discriminatory element for third-country carriers lies in the computation of the solvency margin that every Member State insurance company must maintain, because, while companies in the EEC are able to base this calculation on their funds worldwide, third-country carriers operating in several EEC States must maintain a margin for each State on the basis of funds located in the territory of that State, and a third-country carrier must keep part of the funds reflected in the solvency margin in the particular State where it is doing business, which is not required of EEC-based carriers.

For Swiss carriers, any such discimination would be ruled out if the agreement is ratified. Commission and Swiss officials hope that the agreement, which must be ratified by the Member States' legislatures and the Swiss parliament, will open the road to other accords.

Setbacks in Talks With Textile-Exporting Nations

The Commission's talks with Third World countries over bilateral agreements restricting textile imports into the EEC have fallen behind schedule because of several setbacks. The negotiations are provided for under the renewed Multi-Fiber Arrangement (MFA), which lays down guidelines for textile trade agreements between Third World producers and the industrial nations. The EEC acceded to the MFA on the condition that the talks with 28 Third World countries be successfully concluded by the end of the year. The agreements with these countries will expire at the end of 1982, and the Commission is charged with negotiating new accords for the 1983-86 period.

The Commission has been able to wind up negotiations with only three countries so far - Pakistan, Sri Lanka, and Peru. After initial talks last June, negotiators from Czechoslovakia, Hungary, and Romania returned to their home capitals to obtain new instructions from their governments. Negotiations with other countries, including Latin American textile producing countries, are under way.

Commission officials anticipated setbacks because, under the restrictive mandate given by the Council of Ministers, the EC executive must seek to restrict the growth of textile imports to about 1% to protect the Common Market's textile manufacturers, who have been hurt by fierce competition and the recession. More than half a million textile workers in the Common Market have lost their jobs in the past decade. In the case of the three major exporting nations (Hong Kong, Macao, South Korea), the Commission must seek cutbacks of up to 12%. It was these proposed reductions that caused the breakdown of talks with the three Asian countries.

The Commission is insisting that an anti-surge clause be put into each agreement to prevent the Common Market from being flooded by a sudden surge of textile imports, which could happen if one or several countries that previously had made little or no use of the quotas allotted to them suddenly started exporting to the EEC. The Commission wants to have the legal means to meet any contingency. Brussels officials do not foresee that the Commission will ask the Council for a less restrictive mandate at this time.

In Brief...

The risk of a "credit war" between the EEC, the United States, and Japan was reduced when the Council of Ministers on June 30 reached agreement on a proposal that contains two modifications of the OECD's latest compromise on a new international pact governing credit terms. The changes concern the length of time for the extension of credit as well as Athens's and Dublin's insistence on receiving credit terms granted to countries in Category II (intermediate), even though Greece and Ireland would be moved into Category I (relatively rich). It is uncertain, however, whether the U.S. and other parties to the expired gentlemen's agreement will accept these two conditions + + + The Council has formally adopted the directive on major hazards of certain industrial activities. After the measure is incorporated into national law, manufacturers will be required to notify the authorities of hazardous substances produced or used in their plants and to inform their employees about these hazards in order to prevent major accidents. The Member State governments and the Commission will exchange any knowledge gained that might be useful in the prevention of accidents.

Germany: Compromise Reached on 1983 Draft Budget

The DM 250.5-billion draft budget for 1983 just agreed on by Bonn's coalition government projects a growth rate of only 2%, (the lowest ever), further cutbacks in social sector spending, the elimination of (or cuts in) tax deduction privileges, and a higher unemployment insurance contribution rate. In agreeing on the compromise, which possibly prevented a breakup of the government, both the Social Democrats and the Free Democrats retreated from their original positions. There is nothing in the compromise about abolishing the deduction of expenses for business lunches or imposing a surtax on individuals in the high income brackets, which the Social Democrats wanted, nor did the Free Democrats realize their hope of making deep cuts in the cost of the social security system.

Important for businesses would be an increase in the unemployment insurance contribution rate by half a percentage point. The contribution, shared equally by employee and employer, would go up from 4% to 4.5% as of Jan. 1, 1983. It would be the second increment within one year (the rate rose from 3% to 4% last Jan. 1 - *Doing Business in Europe, Par. 23,456)* and would be expected to yield an estimated DM 3 billion. The extra funds would help make up the deficit that the government's Labor Office is likely to run up again in 1983 because of high unemployment. Cars used for both company and private purposes would be subject to a higher assessment on private usage. The transfer of profits of multinational companies would come under even greater scrutiny by the tax authorities, but there is no word on how much this would yield in additional revenue.

Married taxpayers assessed jointly and entitled to income splitting are now saving substantially on income tax; for those with a combined annual income of DM 90,000-260,000, this saving may be as much as DM 14,000 a year. The new tax legislation would reduce the maximum saving to DM 10,000 annually.

Cutbacks in government expenditures in the social security sector would affect recipients of old-age pensions, the unemployed, and the sick. Pensioners would be required as of Jan. 1, 1983, to contribute 1% of their social security benefits to the health insurance funds that cover their drug, hospital, and medical bills. These contributions would go up by 1% each year until 1986. The government's own contributions to the old-age pension funds and health insurance funds on behalf of the unemployed would be lowered: they would be based on 70% of the unemployed individual's last gross wages or salary, instead of the present 100%. Hospital patients would have to pay DM 5 for each of the first seven days of confinement. Patients at a spa would have to pay DM 10 for each day of treatment.

Denmark: Government Stops Foundation's Capital Transfer

The Danish central bank has stopped the attempt by the country's largest corporation to transfer part of its capital to Liechtenstein. The company in question is the A.P. Möller conglomerate, whose chief executive, Maersk McKinney Möller, last year registered the family foundation in Vaduz, Liechtenstein, and was about to transfer the foundation's capital to the principality. The central bank, however, put a hold on the foundation's account, while the government threatened to take legal action against the group, which employs more than 20,000.

The attempt to transfer the assets has caused a major political stir in Denmark, despite the fact that less than 10% of the Möller share capital is tied up in the family foundation. The remainder is held by a second, general foundation, which is not involved in the controversy.

The dispute does not come as a surprise to most observers, who view it as a continuation of the disagreement between Möller and the government over oil and gas exploration and production rights in Denmark's North Sea oil fields. In March 1981, the two sides had negotiated a settlement under which A.P. Möller reluctantly relinquished its 50-year exclusive right of access to oil and gas reserves in the Danish continental shelf and agreed to give up 99% of the area concerned by 1986. (The company was, however, allowed to keep concession areas already producing oil.) Copenhagen added to the frustration of McKinney Möller when it subsequently introduced a special levy on offshore oil and gas production and announced that the profits of private foundations would be taxable as of 1983.

In a statement released by A.P. Möller, the company said it was the government's intention to impose "limitations, taxes, and supervisory regulations on private foundations" that had prompted the change of domicile to Liechtenstein. The return to Denmark meant paying tax on dividend income and made it impossible to fulfill the foundation's purpose. The government's argument, in turn, was that the change of domicile was incompatible with the foundation's articles. However, commentators said that there is no Danish law that prohibits a private foundation from changing its domicile if this is in its best interests, and Möller may still decide to sue the Danish authorities on these grounds.

France: Two 'Super Ministers' After Cabinet Reshuffle

In time for the coming municipal elections, the French Socialist government has had its first cabinet reshuffle since coming to power over a year ago. The shifts affected the important social affairs and industrial policy portfolios.

Pierre Bérégovoy, previously President François Mitterrand's chief of staff at the Elysée Palace, was named to head a new ministry combining the Social Affairs and National Solidarity departments. Bérégovoy's appointment followed the resignation of National Solidarity Minister Nicole Questiaux, who apparently was removed after being unable to cope with the mounting crisis of the deficit-ridden *Securité sociale*, the national health insurance and social security system. Her successor not only inherits these problems but also will have a key role in trying to defuse the conflict threatening with the unions and the Communist members of the government over the administration's four-month wage and price freeze. Bérégovoy's high rank in the cabinet is underscored by the fact that Labor Minister Jean Auroux will report directly to him.

A second "super minister" appointment is that of Jean-Pierre Chevènement, who continues to head the Research Ministry but was additionally given the Industry Ministry. The latter was vacated by Pierre Dreyfus, the 74-year-old ex-boss of Renault, who had been expected to resign for some time because of health problems.

Netherlands: Commission Urges End of Pay Indexation

A commission appointed by the government to report on the future development of Dutch industrial policy has recommended a number of sweeping changes in Holland's social security and welfare system, including the abolition of pay indexation. The report of the Wagner Commission, named after its chairman Gerrit Wagner, formerly board chairman of Shell, has been welcomed by the country's employer organizations but was sharply criticized by the unions. Prime Minister Andries Van Agt said that the study would be a useful guideline for the preparation of the next budget and could have an influence on the formation of the next coalition government after the Sept. 8 general elections.

The Wagner Commission is of the opinion that the principle of supply and demand should again be given more weight on the Dutch labor market. For this reason, it would be necessary to do away with the government's right to intervene in collective bargaining as well as a number of rules rooted in social policy considerations. These include, among others, automatic pay adjustments, linking civil servants' pay to that of private industry, and coupling social welfare benefits to the minimum wage. The incomes of the nonactive part of the population in relation to those of the employed should not be determined solely by social policy considerations but also by economic factors, such as the financial burden on the state. The commission came out very strongly against pay indexation; in fact, the report urges not only a discontinuation of indexation but its outright prohibition. The national labor market can function, the report said, only if pay decreases as well as increases are possible.

1984 Start for Postbank; Post Office Independence Urged

The Dutch government has revealed that the state-owned Postbank is to be launched as of Jan. 1, 1984. It will offer both consumer banking services and complete credit facilities to industry in direct competition with the private commercial banking sector and thus will also operate within the national giro (clearing) system.

The plan for the establishment of the bank, which will be an agency of the Dutch Post Office, was first submitted in 1977 by Willem Duisenberg, then Socialist finance minister and now governor of the central bank. The country's major banks are concerned that the Postbank will have an unfair competitive advantage since it could do business outside normal banking hours, particularly on Saturday mornings, when Dutch post offices are open.

In related news, a government-appointed commission has presented Parliament with a report recommending that the Post Office cease to be an agency of the Transport Ministry and instead be operated as a state-owned limited company. Having this status, the Post Office would be politically independent and responsible for its own finance and investment policies. The commission, which is headed by the chairman of the Fokker aircraft company, Frans Swarttouw, further recommended that the Post Office relinquish its monopoly over the supply of telecommunications equipment in Holland. Private industry should be allowed to supply peripheral equipment as well, even though the Post Office should remain in control of the country's telephone and telex systems, the commission concluded.

Britain: CBI Chief Backs Inflation Accounting Principle

In anticipation of the special meeting of the Institute of Chartered Accountants in England and Wales on July 29, influential support for the current-cost method of accounting has come from Sir Terence Beckett, director general of the Confederation of British Industry. Acting as a spokesman for leading U.K. companies, Sir Terence came out strongly for the Statement of Accounting Practice 16 *(Doing Business in Europe, Par. 40,037)* in what he foresaw would be a "battle royal" among accountants. He said that the principle of historic-cost accounting, which made no allowance for inflationary effects, was no more than "a heady delusion" so far as companies were concerned and it would be wrong to rely solely on this method. Sir Terence felt that the new principle, which was introduced in March 1980 on a three-year trial basis, should at least run the full course of its trial.

The Accounting Standards Committee, which was responsible for the change in the first place, meanwhile has published a guide by Prof. Bryan Carsberg entitled "The Usefulness of Current-Cost Accounting," which seeks to clarify the issues involved.

Greece: Cabinet Shift Affects Economic, Financial Areas

In what was officially described as a "restructuring" move, Greek Prime Minister Andreas Papandreou on July 4 announced a number of key changes in his cabinet, which he has expanded to 50 members, including deputy ministers and state secretaries. In all, eight members were dismissed and six ministers and 13 deputies were appointed. The emphasis of the personnel shifts was on the economic and financial portfolios, which were all put into the hands of former banking officials.

Gerasimos Arsenis, previously governor of the Bank of Greece, took over the newly established Ministry of National Economy, which replaces the Coordination Ministry and also encompasses the government departments of industry and foreign trade. Among Arsenis's deputies will be Constantine Vaitsos, previously president of the Commercial Bank of Greece. The new chief of the Finance Ministry is Dimitrious Koulourianos, previously governor of the Hellenic Industrial Development Bank. He succeeds Manolis Drettakis, who resigned the week before in a disagreement with Papandreou over real property taxation. Finally, George A. Manghakis, a well-known lawyer and former governor of the National Bank of Greece, the country's largest commercial bank, was appointed to head the Justice Ministry.

Other major changes in the government involved the creation of a Ministry for Research and Technology and the splitting of the Health Ministry into two new ministries (health and social insurance). Also established was an undersecretariat in the prime minister's office that will be specifically concerned with the 4.5 million Greeks living abroad..

Belgium/Luxembourg: Closer Monetary Consultations

Consultations on July 5 between the prime ministers of Belgium and Luxembourg ended with the announcement that both countries intend to continue their 60-year-old monetary union and that there will be closer consultations prior to currency adjustments within the European Monetary System (EMS). In the event of such adjustments, both countries will seek to have their currency, the Belgium-Luxembourg franc, follow the lead of the strong European currencies. The discussions over possible administrative and practical modifications of the monetary union are to be continued in September.

The Luxembourg government had insisted on the high-level discussions with Belgium to cushion the Grand Duchy against any unilateral Belgian devaluations in the future; Luxembourg had not been consulted prior to the 8.5% franc devaluation last February. In commenting on the July 5 meeting, observers noted, however, that Belgium apparently is not prepared to meet all demands made by Luxembourg in its quest for more monetary independence. For instance, Belgium will continue managing the two countries' currency affairs from Brussels, and it has cited technical reasons for not consenting to a separate valuation of Luxembourg's assets, which are administered by the Belgian central bank.

Common Market Reports

EUROMARKET NEWS

Issue No. 705 *Report No. 453, July 22, 1982*

IN THIS ISSUE

Community: EC Court Upholds Transparency Directive

The Commission has emerged as the winner before the European Court of Justice in its defense against three Member State suits aimed at voiding its 1980 directive on the transparency of financial relations between governments and public enterprises (judgment of July 6, 1982, Joined Cases 188-190/80). Adopted under EEC Treaty Article 90(3), Directive No. 80/723/EEC of July 25, 1980, obligates the Member States to monitor financial support of any kind to public enterprises; they must retain the records for five years and supply the relevant information upon the Commission's request (Articles 1 and 5). The deadline for compliance was Dec. 31, 1981.

The transparency directive enables the Commission to fulfill its watchdog function in that it helps to prevent Member States from granting to public businesses aids that are incompatible with Common Market regulations. Financial support to public enterprises may occur in round-about ways, as the Commission, Germany, and the Netherlands (as interveners) demonstrated to the Court of Justice.

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

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The three suits against the Commission challenged the validity of the directive on several grounds. Principally it was alleged that the Commission lacked the power to adopt the measure, that there was no need for adopting it, and that, if a need did exist, the principle of proportionality was violated. The plaintiffs also alleged discrimination against public enterprises.

Britain argued that under the EEC Treaty all original lawmaking power is vested in the Council of Ministers, and the Commission has powers only of surveillance and implementation. The Court rejected this argument, pointing out that Treaty Article 4 puts the Commission on equal footing with the other institutions in carrying out the tasks entrusted to the Community. In terms almost identical to those used in Article 145 describing the Council's functions, Article 155 provides that the Commission is to have its own power of decision in the manner provided in the Treaty, the Court said. The EC tribunal did not accept the distinction made by Britain between directives with general application and those that order the States to act. The U. K. sought to use this argument to support its allegation that the Commission lacked the power to issue directives of a general nature, such as the transparency directive.

France and Italy contended that the directive need not have been adopted in the first place because there is a complete legal separation between a State and any public enterprises so far as finances are concerned. Any funds made available appear in the particular budget as well as in the financial statements and annual reports of public companies, the States maintained. These and other sources of information are not sufficient, the Court found, because the financial relations between governments and public enterprises are so complex. The Commission has an undeniable need for additional information on these relations, the Court decided.

There was no discrimination against public enterprises in the directive, in the Court's opinion, because the principle of equal treatment presupposes that private and public companies are in a comparable situation. However, they are not, according to the Court, because the goal of private companies is to make profits, while the decisions of public enterprises ought to be guided by the public interest.

Members Toughen Attitude on Spain's Accession

The negotiations over Spain's accession to the three Communities have been difficult all along because of differing views on the conditions for joining. Spain's hopes of becoming a member at the start of 1984 may not materialize because of the toughened attitude that emerged from two recent moves by the ten member governments.

At their two-day summit on June 28-29 in Brussels, the Member States asked the Commission to examine all consequences of

Spain's and Portugal's accessions to the EEC. French President François Mitterrand's insistence at a late stage in the negotiations on a thorough review of the EC's enlargement was supported by all Member States except Britain, the Netherlands, and Belgium. France fears that Spain's entry, and to a lesser extent Portugal's as well, would present stiff competition for its Mediterranean producers of fruit, vegetables, wine, and edible oils.

Member State negotiators also took a tougher stand in last month's ministerial-level negotiations, again largely at France's insistence. While the Commission had recommended a five-year transition period for the full dismantling of Spanish tariffs on industrial products imported from the Community, the EEC governments insist on a three-year period. Madrid wants ten years because it believes that only after a long adjustment period will Spanish manufacturers be able to compete with their counterparts in the Community.

France is also seeking support from its Common Market partners to persuade the Spanish government to refrain from asking for further concessions on value-added tax issues. Madrid wanted small businesses exempted from VAT for a certain period, but the ten Member State governments granted a grace period only for very small businesses, such as craftsmen. Because of anticipated heavy opposition in Parliament over the planned introduction of the VAT system, the Spanish government is seeking further concessions in other VAT areas.

Italy: Austerity Program Due by End of Month

Premier Giovanni Spadolini succeeded once again in averting a possible collapse of his government when his five-party coalition won a 164-108 vote of confidence in the Italian senate on July 10. The balloting, which had been unscheduled, came at the end of the parliamentary debate on the administration's economic policies. In his address to the senate, Spadolini painted a gloomy picture of the present state of the Italian economy and demanded support for an uncompromising austerity program. He stressed the government's determination to find a way of weakening the impact of the wage escalator *(scala mobile)* on labor costs, but he also said that it would be a mistake to abolish the system entirely at this time. It was the issue of pay indexation that recently had caused a deep rift between the Socialist and the Christian Democrat cabinet ministers, and there had been fears that the government might not survive the conflict.

Spadolini announced that the administration would present the 1983 draft finance law by July 31, two months earlier than constitutionally required. Part of the draft would be an economic austerity package featuring an infusion of some 8,000-

10,000 billion lire for public-sector finances. Money could be raised, Spadolini said, by way of increases in value-added and production taxes; higher levies on gasoline, cigarettes, and alcoholic beverages; and boosted public rates and tariffs (utilities, fares, etc.). On the spending side, the premier forecast cutbacks in public-sector expenditure, most of all in the social welfare and health sectors, with some larger contributions by the beneficiaries. The government hopes to gain additional savings by reducing its transfers to the regional authorities. In real terms, government spending would be brought down by 1%.

To achieve a compromise between the conflicting positions of Christian Democrats and Socialists in his coalition over the *scala mobile* issue, Spadolini wants to neutralize the impact of the proposed increase in indirect taxes on the price basket making up the wage index, a move he hopes will persuade Intersind, the organization of public-sector employers, to withdraw its decision to follow the private-sector employers in terminating the *scala mobile* contract when it expires next February.

Rome's Tax Probe Decree Seen as Bank Secrecy Threat

To make its fight against tax evasion more effective, the Italian government has issued a controversial ministerial decree that, under certain circumstances, enables the fiscal police to extend its investigations to bank accounts, mainly to trace value-added tax violations. As part of such investigations, the tax authorities can insist on direct access to any bank account records and need not depend on the voluntary cooperation of the banks. However, the decree is of temporary validity only; Parliament needs to act on it and approve it within 60 days if it is to become permanent legislation.

The new regulations permit the fiscal authorities to request from banks copies of personal or corporate bank account statements in the course of a tax audit or investigation. In addition, the tax offices may submit questionnaires in order to obtain additional information from the banks. Tax officials are even authorized to conduct personally controls and investigations on bank premises.

To forestall abuses, the government has limited the decree to tax investigations only, and third parties are not allowed access to any data obtained. An individual or business taxpayer may refuse to identify a recipient of payments made, but will then have to pay tax on the amounts involved. Penal proceedings will commence only if such amounts exceed certain limits.

The new decree has been passed at the urging of the Socialist finance minister, Rino Formica, and his party, with the principal aim of closing remaining loopholes for evaders of value-added tax. The most powerful opposition comes from the Christian Democrats and the Liberals, who fear that the new regulation will have the effect of totally piercing the principle of bank secrecy in Italy. Under these circumstances, observers do not want to venture predictions on the results of the forthcoming parliamentary debate on the issue.

Germany: Ways Sought to Induce Aliens' Departure

Both the German government coalition parties and the Opposition parties have called on the Schmidt administration to seek new ways of encouraging the return of aliens to their home countries. Despite the 1973 ban on immigration of workers from non-EEC countries, the alien population has grown since then because many Turks and Yugoslavs, the two main groups, were joined by their dependents. In 1973, there were 3.1 million aliens in West Germany; today there are 4.1 million.

The political parties represented in the Bundestag want the administration especially to discuss with the Turkish government improved conditions for capital transfers by Turks to their home country. The objective is to encourage more Turks to invest in small and medium-size businesses at home and also to promote the establishment of Turkish companies owned by Turks now employed in Germany, who would later go back to Turkey.

Members of Parliament and government leaders have cautioned against the widespread belief that the suggested measures (possibly even including a premium or a refund of paid-in social security taxes to every foreigner who agrees to return) could produce a mass exodus of aliens. Such a mass return would be undesirable, according to government officials and business executives, because without the aliens many industries, especially the auto industry, would experience labor shortages. Also, garbage collection in most large cities would be disrupted because many aliens work as garbage collectors.

The move by the political parties has come, observers point out, at a time when anti-alien sentiments among Germans appear to be on the rise. Germany is now experiencing the highest level of unemployment in the last 30 years, an increased influx of refugees seeking political asylum, and a rise in assaults, including murder, of aliens by right-wing extremists.

Under just-approved legislation, aliens who register as political refugees but actually left their home country for economic reasons will face accelerated processing of their applications for political asylum. They could face early deportation, the intention being to relieve local governments, which are paying for housing and food.

Britain: Government Emphasizes Pay Moderation

Chancellor of the Exchequer Sir Geoffrey Howe has given a foretaste of the U.K. government's strategy when annual negotiations with the employers begin in the fall over the new limits on pay raises for 1982-83. In a speech to industrial correspondents, Sir Geoffrey said that there would have to be "substantially lower" pay increases than in the past year in order to protect present jobs and provide new ones. The rise in earnings would have to be less than that of the U.K.'s main competitors, such as the U.S., Germany, and Japan, and wage settlements would have to take into account the fall in inflation. Indeed, the Chancellor said, "in an ideal world," the need to contain inflation might well mean no increases at all, and employers should not ignore the fact that lower pay settlements over the past two years had not meant a fall in real earnings because of the decline in inflation.

Sir Geoffrey said that in the past, a majority of working people had never gone without an annual pay rise. For them, the pay round was expected to provide an automatic increase, "delivered, as it were, with the milk." As a result, they had come to feel there was no connection between their performance and their pay, and they could not be blamed for this attitude.

Last September, the Chancellor had announced a cash limit of 4% on pay raises for the public sector. Although this limit has been somewhat exceeded, wage increases in the past year generally have been comfortably within single figures. From the tone of Sir Geoffrey's speech, observers believe that he will not lay down such a limit this year, since employees have tended to regard it as a minimum acceptable figure. In fact, the Chancellor seemed to be saying that employees should not automatically anticipate any pay increases in the next 12 months - a view unlikely to be welcomed by the trade unions.

France: Government Modifies Price Freeze Rules

Following continuing heavy criticism by businesses of the price freeze component of the French government's economic austerity package announced last month, some provisions of the freeze have now been modified. The system of client-by-client control of adherence to the freeze has been dropped. This system would have required prices to be fixed at the level of the previous supplier-customer contract even in cases where the commercial relationship has been interrupted for several years and thus would have resulted in completely unrealistic prices. Now the reference point for the freeze is to be the price that prevailed on July 11 this year. Secondly, companies that were promoting specially reduced prices at the time of the freeze's announcement may change the prices back to their previous, higher level before stocks run out, contrary to rules initially published. Finally, users of precious metals will be allowed to pass on price increases on the international markets to their customers.

Despite these adjustments, criticism of the freeze is continuing unabated. Citing the accelerated erosion of company profits to be expected, the French employers' association, the Patronat, has condemned the freeze as "an economic disaster." The ensuing fall in dividends is expected to cause an even greater disincentive to investment than already exists. The reduction in the parity of the franc has so far not brought about the hoped-for fall in interest rates, which might otherwise have encouraged some recovery in investment, Patronat spokesmen say.

Other aspects of the government's austerity package are also under heavy attack from industry. The 1% increase in value-added tax is expected to add FF 4 billion to costs over the course of the four-month period of the freeze, and the 3.2% increase in the legal minimum wage will add FF 480 million in extra social security costs to the wage bill every month. In addition, the first payment of the new tax on business expenses became due on July 15, costing a total of about FF 3-5 billion. Indeed, commentators say, it is becoming more and more apparent that,even when the four-month period of the total freeze comes to an end in November, the government is unlikely to return to the price freedom established by the previous administration. Cabinet ministers are already talking of a system of price-regulation agreements with different sectors of industry.

Communist-Led Union Blocks Steel Plan

Hopes for the smooth implementation of the French government's plan to restructure the nationalized steel industry were dimmed this month when the most powerful steelworkers' union, the metal industry section of the Communist-led CGT, called for a government reevaluation of the plan. The four Communist ministers in the cabinet are closely allied with the CGT, and the general secretary of the CGT metalworkers' union has called for an urgent meeting with Industry Minister Jean-Pierre Chevènement. The rationalization plan foresees the expenditure of FF 20 billion on new investments over the next five years but also the loss of a large, unspecified number of jobs in old plants, mainly in economically depressed areas.

The government, in effect the steel industry's sole shareholder, now has to decide whether to give in to labor opposition to the closures (at the price of massively higher subsidies for unproductive workplaces) or to face a possible showdown with the CGT and four members of its own cabinet.

Belgium: Regional Dispute Over Steel Subsidies

Belgian steel restructuring plans are not progressing because of a regional dispute over the use of government funds for industry. The Walloon regional executive has vetoed the extension of a BF 10-billion credit line for Flemish industry which was intended to provide regional compensation for government funds supplied to Wallonia to cover the losses of the steel giant Cockerill-Sambre. This is the first time the veto system laid down in the 1980 regional government law has been used, and disentangling the consequences is expected to take a long time. Premier Wilfried Martens has set up an arbitration committee to deal with the dispute, as called for in the system. Nevertheless, most decisions on the use of government funds for industry are now expected to be delayed for at least one or two months.

The reason for the Walloons' veto appears to be distrust of the Flemish intentions. Representatives of the depressed south fear that the economically more advanced northerners will use the funds to diversify their own industry, thus further enlarging the gap in industrial productivity between the two regions. Instead, say the Wallonians, the funds should be used solely to support financially ailing enterprises like their own Cockerill-Sambre.

Denmark: Foundation to File Suit Against Central Bank

The legal counsel for the family foundation which, together with another general foundation, controls Denmark's A.P. Möller shipping and industrial group, said that it has been decided to sue the central bank for return of the foundation's assets, which comprise less than 10% of the shares. The bank had placed a hold on the assets as they were about to be transferred to Liechtenstein. As reported earlier, the company's chief executive, Maersk McKinney Möller, had registered the family foundation in Vaduz, Liechtenstein, in anticipation of the Danish government's move to impose (wealth) taxes and other curbs on foundations.

Reports from Copenhagen referred to estimates that the government's tax plans would affect about 15,000 so-called self-owning foundations in Denmark, with total assets estimated at anywhere between DKr 50,000 and 100,000 billion. Should Möller win its suit, the government will probably find it necessary to introduce legislation prohibiting foundations from shifting their domiciles abroad, according to a parliamentary spokesman of the governing Social Democrats.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Economic Policy Program Shelved

The Council of Ministers has for all practical purposes shelved the Commission's proposal for a Fifth Medium-Term Economic Policy Program for the 1981-85 period. In its proposal, a 180-page document submitted in July 1981, the Commission had suggested guidelines that the Member States were supposed to follow in drafting their medium-term economic policies. Emphasis was placed on control of inflation and structural adjustment of industries. Both were considered prerequisites for the creation of new jobs in order to bring down unemployment, now standing at 11 million in the Community. Effective inflation control would bring a revival of investments and a return of economic growth, in the Commission's view; tight monetary policies alone would not reduce inflation unless they were accompanied by wage moderation and control over public sector deficits.

There is still agreement among the Member States over the main medium-term economic policy objectives, since the Economic Policy Committee, made up of Commission and Member State economists, had suggested them in its preliminary draft program.

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From the day the program was submitted disagreement developed in the Council over the priorities and the sequence of measures to be adopted to stimulate employment and assure economic stability. Britain, Germany, and the Netherlands believe that unemployment can be brought down over the next three to four years only by a tight monetary policy, fiscal restraint, and modest wage increases. These States take the position that an economic policy aimed at stimulating demand may have a short-term positive effect on employment but may jeopardize medium-term goals. Other Member States, especially France, favor selective measures to prop domestic demand in order to encourage investments and create new jobs.

After the Socialists' victory in France, Commission economists soon sensed that the new government would come out in favor of government intervention to cope with unemployment. Anticipating the differences over the methods of pulling economies out of a recession, Commission vice-president François Ortoli added a foreword to the proposal in which he tried to reconcile the two major diverging views, but to no avail. At their July 12 meeting, the Member States' finance and economics ministers agreed to a four-page paper that shows no trace of the high degree of convergence in economic policies to which the Member States committed themselves in 1974 *(Common Market Reports, Par. 3625)*. Instead, the paper presents the Member States' different positions on how sustained economic growth, increased employment, and lower inflation rates might be achieved.

Many Problems in Consolidated Accounts Proposal

Adoption of the seventh draft directive on consolidated accounts is still a long way off, according to Council attorneys. At their July 13 meeting the finance and economics ministers of the ten Member States made no progress whatsoever in solving minor issues, let alone major ones. They did not even talk about the technical details of consolidated accounting because it was thought necessary to first reach an understanding on broader issues, such as the type and size of companies that should be covered. The Permanent Representatives, who have been seeking solutions for more than a year, had hoped the 20 ministers would find a political compromise on some of the issues, but the proposal was sent back to them for further discussion, a routine procedure for complex harmonization measures *(Common Market Reports, Pars. 1350.51, 1407)*.

Four major issues took up most of the discussions. One concerned the power of control: Must the controlling company own 50% of the stock of the controlled entity or would a lower percentage of stock ownership suffice if control is really exercised? Britain and Ireland are against such a broad control criterion. Another issue concerns the directive's scope of application. Luxembourg wants its financial holding companies, which play an important role on international financial markets, to be exempt from coverage. All of the other Member States and the Commission are opposed to such a total exemption and say it would jeopardize the harmonization effort. Eventually the Council will have to settle the difficult issue of whether U.S. parent companies with subsidiaries in any of the Member States will have to draw up special financial statements for the EEC.

Disagreement exists over the legal form of enterprises that would be subject to consolidated accounting. Article 6(4) would require consolidated accounts if at least the parent company or one of its subsidiaries operates under one of the legal forms described in the Fourth Council Directive *(Common Market Reports, Par. 1391).* The Netherlands, Denmark, Italy, Greece, and the Commission take the position that all enterprises of a certain size should be subject to consolidated accounting; Germany wants only stock corporations, limited liability companies, and partnerships limited by shares to be included. There is also a difference of opinion about the proposed authorization that would allow Member States to exempt a parent company whenever two of three criteria are not exceeded. While the majority of States back the criteria proposed by the Commission (a balance sheet total of 4 million EUA, sales of 8 million EUA, or a work force of 250), Germany and Britain favor higher thresholds - for example, a balance sheet total of 16 million EUA, sales of 32 million EUA, or a work force of 800.

In Brief...

The European Court of Justice has held the U.K. in default of her EEC Treaty obligations in that British legislation falls short of Council Directive 75/117 requiring equal pay for work of equal value *(Common Market Reports, Par. 3942.15)*. U.K. legislation on the matter is inadequate, the Court ruled, inasmuch as it provides neither for the recognition of equivalent work nor for the application of the equal pay principle in situations where no job classification existed (judgment of July 6, 1982, Case No. 61/81) + + + Commission officials and negotiators from Thailand and Poland initialed four-year agreements on textile exports to the EEC on July 7 in Brussels. The agreements were negotiated on the basis of the Multifiber Agreement and its Dec. 22, 1981, Protocol of Extension, and include new provisions to prevent fraud and a sudden rise in exports. Since bilateral negotiations started in mid-May 1982, agreements have been concluded with the following seven exporting countries: Sri Lanka, Pakistan, Peru, Uruguay, Bulgaria, Poland, and Thailand + + + On July 14, Commission officials met with executives of eight major European plastics and petrochemicals manufacturers to discuss an exemption from the cartel ban of Article 85(1) of a planned agreement to control production and keep a watch on restructuring. The eight companies represented at the talks were ICI (U.K.), Shell (Holland), Hoechst and BASF (Germany), Montedison and ENI-Chemica (Italy), Solvay (Belgium), and ATO-Chimie (France). Experts estimate that the Common Market's plastics and petrochemicals industries have an excess capacity of 30%, which the agreement would attempt to cut back.

Germany: 1983 Draft Budget Arouses Heavy Criticism

The German government has become the target of massive attacks as more details of its DM 250.5-billion draft budget for 1983 are disclosed. Independent economists, several economic research institutes, business executives, and leaders of the Opposition vehemently disagree with the government's claim that the draft budget is sound and that borrowing will be limited to DM 28.5 billion. The critics charge that the government's calculations depend on the hope that the economy will bounce back this fall and go on to show an increase of 3% in real terms of economic growth next year. Only the OECD supports this optimism by predicting a 3.2% growth rate for next year. Most economic research institutes predict only a slow uptrend some time next year that could culminate in 1.5% economic growth at best, and some institutes anticipate yet another decline for 1983 (0.5% decline in 1981, and little or no growth is foreseen for 1982).

Since high unemployment will probably continue to persist through 1983, by the government's own admission, and perhaps even rise, heavy subsidies will again be necessary to pay for unemployment benefits. Furthermore, since revenue will fall short of government estimates, independent economists foresee that the Schmidt administration will not be able to stick to the DM 28.5-billion borrowing limit set for '83. Additional borrowing will be necessary and will put pressure on the capital market, but it reduce chances for a further cut in interest rates, which are currently hovering around 10%.

Meanwhile, the Opposition parties represented in the Bundestag have filed suit with the Federal Constitutional Court against the government. They want a declaratory judgment from the country's highest court that the Schmidt administration has violated the Constitution with its 1981 budget. Under Article 115, revenue obtained by borrowing may not exceed total expenditures for investments. The Constitution permits exceptions from this restriction only to avert a disturbance of the overall economic equilibrium. Just what these exceptions are is left up to a federal law, but this law has never been enacted. Opposition and government lawyers are awaiting with interest the outcome of the suit.

OECD Predicts Modest Recovery for 1983

The OECD forecasts a modest recovery for the German economy during 1983, although the report admits that the balance of risks is on the down side. The 1% rise in GNP forecast for the current year depends mainly on foreign trade; the volume of exports is expected to rise by 8.5%, followed by 7.75% next year. The

GNP growth of 3.25% predicted for 1983 is based on hopes for a rebound of private consumption in the course of that year, accompanied by a recovery in investments and a continuing high performance in export markets.

The most serious news for the German economy is likely to be that unemployment is forecast to continue rising, reaching 7.25% by the end of 1983, after topping 6.25% in the first half of this year. At the same time, however, inflation may fall as low as 3% in 1983.

Real interest rates are expected to remain in the range of 4-5%, with nominal rates falling slowly. On this basis, gross fixed investment should rise by 2.75% next year, following an anticipated overall decline of 4.75% for this year. In the second half of the current year the fall may be as little as 1.5%. Real disposable income is forecast to stagnate in 1982, but should rise by 2% in 1983.

Britain: Response to U.S. Embargo for Soviet Pipeline

An order made on June 30 by the U.K.'s Department of Trade states that the U.S. export control regulations are measures damaging to the trading interests of the U.K. This order was issued under Section 1 of the 1980 Protection of Trading Interests Act, which was introduced to safeguard British commercial interests when an overseas country extends legislation in an extraterritorial manner unacceptable to the British government.

The order represents Britain's response to the U.S. embargo on the export of equipment for the trans-Siberian gas pipeline made under U.S. license or by overseas subsidiaries of U.S. companies. The effect of the order is that a minister may ask firms doing business in the U.K. not to comply with the particular overseas legislation, but, as yet, there has been no such ministerial intervention. About a dozen major U.K. companies are affected by the U.S. embargo.

The U.K. minister for trade, Peter Rees, has emphasized to officials in the U.S. Department of Commerce that the U.K. government could "go to the point of directing not only British companies but the subsidiaries of U.S. companies to disregard the American regulations." He has delivered what he described as a "clear and robust" message to the U.S. authorities and has stressed the damage that these policies could do to U.S. companies. He said it was obvious that in similar future situations "British companies might well have to reflect on their use of American technology or parts."

U.K. Committee Favors Disclosure of Hidden Reserves

The U.K. minister for consumer affairs, Gerard Vaughan, has told a House of Commons committee concerned with European affairs that the government would be in favor of full disclosure by all U.K. financial institutions of their hidden reserves unless very cogent arguments could be put forward against such a view.

At present, about 95 such institutions, including merchant banks and various foreign banks, are exempt from revealing hidden reserves. There has been criticism of the fact that the accounts of such banks do not need to give a true and fair view of their performance, as other corporate bodies are required to do under the 1948 Companies Act. These financial institutions do not show their reserves separately in their balance sheets and Vaughan has emphasized that "it will be for those who believe that undisclosed reserves should be allowed to continue, to prove their case," in response to the EEC proposed directive on the harmonization of national rules governing banks' annual accounts *(Common Market Reports, Par. 1394)*.

Vaughan said it was "very significant" that banks in the U.S. and Canada were required to reveal their reserves, and in the U.K. there appeared to be "a general ground swell of opinion" in favor of full disclosure.

France: Lower Unemployment Insurance Costs Sought

An expected FF 12-billion deficit this year in France's unemployment insurance fund and an estimated FF 37-billion deficit for next year has prompted the government to look for ways to pay the debt. Unemployment now stands at 2 million. Legislating an increase in unemployment insurance contribution rates would be one solution, but the government is reluctant at this point to propose such legislation because of heavy opposition from employers and the unions. Union leaders are against any rate increase, at least during the wage and price freeze decreed by the government for the July 1-Oct. 31 period. Industry leaders are opposed to this plan because employers are already burdened by high income and social security taxes.

Right now employers contribute 2.76% and employees pay 0.84% of assessable wages to the unemployment insurance fund *(Doing Business in Europe, Par. 22,833)*. With their contributions, employers finance about 50% of the program's cost and employees pay for about 20%. This still leaves the government with 30%, which has to come out of general tax revenue. The rate increase of 1.5% that the government has in mind for 1983 would yield only around FF 10 billion. Since the unemployment insurance system is administered by UNEDIC *(Union nationale interprofessionnelle pour l'emploi dans l'industrie et le commerce)*, and in effect run by the national union federation and the employers' association, union and industry leaders have been given until Oct. 31 to develop ideas on how to cut expenditures. One plan being considered would deny an unemployed person benefits for two to eight weeks, depending on the amount of compensation the person received from the employer when laid off. Between FF 2-4.5 billion would be saved in unemployment benefits.

Meanwhile, government officials are drafting legislation that would require the country's 3 million civil servants to pay unemployment insurance contributions. If this legislation is approved by the National Assembly, it would be a novelty in Western Europe, where civil servants generally may not be fired and thus cannot become unemployed.

Paris Plans Post-Freeze Consolidation Period

Following a meeting with the trade unions and employers, Prime Minister Pierre Mauroy revealed some of his government's plans for an 18-month period of consolidation following the present four-month freeze on wages and prices. In a statement apparently aimed at mollifying leaders of the Communist-oriented CGT labor union, who oppose the freeze, Mauroy indicated that additional taxes will be imposed next year on higher levels of income and wealth. Mauroy also promised an undefined system of price controls when the freeze ends on Oct. 31, a system probably involving commitments from the various branches of industry and commerce to adhere to the government's annual price targets (8% for 1983).

On the wages side of the policy, Mauroy announced that the government is to undertake a thorough study of the entire French wage indexation system, while talks continue throughout the summer between the administration and the trade unions on phased wage increases for the rest of 1983. It is hoped that by the end of August negotiations will begin between unions and employers of various industries on settlements after the freeze ends. In mid-October, there is to be a further tripartite meeting to assess the situation once the inflation figures for the third quarter are available. Figures now available for June show that the freeze slowed inflation by 0.7% in that month, giving a 6% level of price increases for the first six months. The government hopes that the freeze will keep inflation down to 3-4% in the second half, giving a 10% overall figure for the year.

Netherlands: Increased Sales of Natural Gas Planned

Recent government statements point to an increase in Dutch sales of natural gas to both European customers and domestic power plants. Revenue from natural gas exports fell by 10% in 1981 and sales fell another 13% in the first quarter of this year. Increased gas exports could reverse this trend. At the same time, another 8 billion cubic meters of natural gas per year is to be released to supply fuel for domestic power stations. This would allow Economics Minister Jan Terlouw to go ahead with his promise to cut electricity prices for about 50 large energy users in industry to a level closer to that charged to their competitors in neighboring West Germany and France. The price for electricity would fall for such firms by 4 cents from its present price range of between 13 and 15 cents.

Austria: Parliament OKs Bankruptcy Law Modification

Austria's lower house of Parliament has approved modifications of bankruptcy legislation *(Ausgleichs- und Konkursordnung)* dating back to 1914. The changes are designed to better protect the interests of creditors without necessarily encouraging the dissolution of a financially troubled business. In fact, the basic concept aims at preserving essentially viable enterprises by way of modernizing legal and financial procedures.

The need for a reform became pressing in view of the rising number of business failures in Austria. During the first six months of this year, the number of insolvencies rose by 18.3% compared with the same period in 1981. They involved 319 settlements *(Vergleiche)*, approximately comparable to Chapter XI arrangements contained in the U.S. 1978 Bankruptcy Reform Act, and 547 outright bankruptcies. The two most noteworthy failures were those of Bauknecht, the Austrian subsidiary of a German household appliance manufacturer (about 2.8 billion schillings in losses) and a regional home building cooperative (about 2 billion schillings).

The new law no longer recognizes privileged claims by government or other public-sector creditors (concerning, for instance, outstanding taxes, social insurance contributions, etc.), and it effectively abolishes "categories" of creditors. The emphasis is on encouraging the launching of any financial rescue operation earlier than in the past. A new aspect is the possibility for a debtor to apply to the courts for pre-bankruptcy proceedings, limited to five weeks at most, which would be ended either by a successful rescue effort or by being turned into regular bankruptcy proceedings. Furthermore, the new law provides for a 90-day period during which creditors may not take possession of separate assets to which they still hold title (for instance, suppliers seeking to recover goods). In this way, it is hoped to improve a business's chances of continuing operations after all or of facilitating its acquisition by another company. A company law change, finally, puts greater responsibilities on members of supervisory boards with regard to monitoring the financial health of corporations.

Common Market Reports

EUROMARKET NEWS

Issue No. 707 *Report No. 454, August 3, 1982*

IN THIS ISSUE

Community: Conditions for Group Exemptions of Agreements

When the Commission recently published the three draft regulations dealing with exemption of agreements on exclusive distributorships, exclusive purchasing, and specialization, it also published notices asking interested parties for their comments; Sept. 6, 1982, is the deadline *(Common Market Reports, Pars. 10,406, 10,407)*. Commission lawyers expect comments from the Member States' national industry associations and their European organization, UNICE. National business leaders had earlier aired criticism to their governments when the preliminary drafts were presented, and some changes were made via the Advisory Committee on Restrictive Practices. This committee, made up of senior national officials and presided over by the Commission, will be consulted again prior to adoption in accordance with Reg. No. 19/65 *(Common Market Reports, Pars. 2717, 2723)*.

The purpose of the draft regulations is to grant group exemptions under Treaty Article 85(3) for certain agreements that industry and commerce conclude to conduct their business more efficiently but actually are banned by Treaty Article 85(1). Processing individual applications for exemption takes a

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

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long time, so in 1967 the Commission issued Reg. No. 67/67, which sets forth the conditions for exemption of certain categories of exclusive dealing agreements *(Common Market Reports, Par. 2727)*. This regulation would be replaced as of Jan. 1, 1983, by two regulations: the Commission believes that exclusive distributorship and exclusive purchasing agreements should be dealt with in separate regulations. Both draft regulations incorporate the body of Reg. 67/67 and Commission policy developed over the years in many decisions and European Court of Justice case law.

The scope of the proposal concerning exclusive distributorship agreements would be widened: the group exemption would also apply to agreements covering the entire territory of the Common Market and not just a defined area, as provided in Reg. 67/67. On the other hand, the proposed regulation would increase the obstacles for competing businesses when concluding agreements that would qualify for a group exemption. Nonreciprocal agreements would qualify for exemption only if at least one of the two parties is a small or medium-size company with annual sales below ECU 100 million ($94.8 million). Nor would an agreement qualify if it puts any obstacles in the way of parallel imports or if one or both parties make it difficult for intermediaries or consumers to obtain the goods from other dealers, either inside or outside the territory covered by the agreement. The parties would have to refrain from exercising industrial property rights such as patents, trademarks, or copyrights to prevent parallel importers from importing the product from another Member State.

As to the conditions for exemption of exclusive purchasing agreements, the draft regulation would exempt only contracts of up to three years' duration, except for agreements between breweries and restaurants and those between oil companies and gasoline stations; these contracts could be concluded for periods of up to ten years.

Additional conditions are proposed for specialization agreements, under which companies divide among themselves the manufacture of different products or agree to produce certain products jointly. A specialization agreement would qualify for exemption only if combined sales of all parties do not exceed ECU 300 million and if the products represent not more than 15% of the market of such goods in a substantial part of the Common Market, which could even be a part of a Member State. The proposal would supersede Reg. No. 2779/72, which, after a one-time extension in 1977, expires at the end of 1982 *(Common Market Reports, Par. 2731)*.

Commission Seeks to Enlist GATT Against U.S.

Apart from continuing efforts to settle the U.S.-EEC steel dispute and to defuse the tensions heightened by the U.S. government's embargo on components for the Siberian gas pipeline, the

Commission is trying to apply pressure on the United States through other channels. The main channel is the General Agreement on Tariffs and Trade. On July 20, the foreign ministers of the ten Member States approved the Commission's plan to demand, via GATT, compensation for an estimated $3 billion worth of export subsidies that Washington allegedly makes available to U.S. exporters through the so-called Domestic International Sales Corp. (DISC), a system that allows U.S. exporters to defer tax payments. In addition, the Council of Ministers asked the Commission to consider further retaliatory moves. The Commission is already looking into the U.S. copyright system, which allegedly protects the American printing industry in addition to authors.

An authorization by GATT would not allow the Community to take measures immediately. The particular GATT committee would first have to estimate the value of damage caused, and then the Council of Ministers would have to decide if, and in which trade sectors, countervailing duties should be imposed. But the EEC could also seek reductions in GATT quotas for U.S. products.

Commission officials point out that nearly a decade ago the EEC secured a ruling under GATT that the DISC system amounted to a form of subsidy. At the time, the Community did not take the necessary next step of assessing the actual damage done to Common Market industries because it did not want to hurt U.S.-EEC trade relations, which were relatively good at that time. This is quite different today, according to the officials, because, in addition to the dispute over EEC steel exports to the U.S. and the embargo on components for the Soviet pipeline, relations are also strained by the U.S. government's continued attacks on the EEC's export subsidies for agricultural commodities.

In Brief...

The Council of Ministers has formally adopted the directive concerning measures aimed at promoting the effective exercise of freedom of establishment and freedom to supply services by self-employed individuals engaged in transport-related activities, travel agents, and warehousemen. The directive compels the Member States to lift restrictions and stop discriminatory treatment of nonnationals so that as of Jan. 1, 1984, brokers, forwarding agents, customs agents, travel agents, and warehousemen could move to other States to start a business or provide services there (Official Journal L 213, July 21, 1982, page 1; *Common Market Reports, Par. 1349.88)* + + + The European Court of Justice has ruled that Britain's regulation barring the import of poultry and eggs from abroad, including other EEC States, is illegal because it violates Treaty Article 30. The Court asked the British government to take all steps necessary to restore free movement of these products within the Community (judgment of July 15, 1982, *Commission v. U.K.*, Case No. 40/82). Britain imposed the ban on Sept. 1, 1981, several days after announcing that to combat fowl pest it was switching from vaccination to slaughtering as a way of controlling the disease. The ban was imposed on the ground that it was designed to protect animal health and, therefore, was justified by Treaty Article 36. The Court disagreed, saying that the measure was excessive for the objective pursued and that "the real aim was to block, for commercial and economic reasons, imports of poultry products from other Member States, in particular France."

Germany: Utility Agrees to Reductions in Emissions

While officials in Bonn's Interior Ministry are still drafting rules to tighten air pollution standards, a unique agreement was concluded between the state government of North Rhine-Westphalia and the Rheinisch-Westfälische Elektrizitäts AG (RWE), Essen, Germany's largest utility company, to reduce sulfur dioxide emissions from power plants. RWE undertakes to install antipollution devices by 1987 in most of its power plants consuming lignite. Sulfur dioxide emissions would thereby be reduced to the technically feasible minimum. State officials hope that the agreement will be a pacesetting example for public utilities in other states (environmental legislation is enforced by the states - *Doing Business in Europe, Par. 23,544)*. Sulfur dioxide emissions (half of the estimated 3.8 million tons of pollutants emitted annually in Germany comes from power plants, the other half from heating units of plants, buildings, and homes) are largely blamed for the dying forests.

In the region between Aachen and Cologne, RWE operates six major power plants with a combined 13,000-megawatt capacity. These plants use between 90 and 100 million tons of lignite annually and in the process of burning emit some 400,000 tons of sulfur dioxide. Under the agreement, RWE commits itself to reducing annual emissions by 60,000 tons; this will be achieved by blowing powdered lime into the burning chambers. Lime binds sulfur dioxide, and the dust is pushed through electrostatic filters to clean the air.

RWE's commitment will cost a one-time DM 100 million and a further DM 30 million each year in operating expenses. The utility company's executives believe the overall costs will be less than filtering emissions from a single hard-coal-fed power plant with a 700-megawatt capacity to achieve the same result: DM 150 million would be spent just on installing antipollution devices, and operating costs would be DM 50 million per year.

Britain: Public Accountability of Pension Funds Urged

The Accounting Standards Committee has published a report entitled "Pension Scheme Accounts," which advocates a much greater degree of public accountability by the various pension funds. These funds now control very sizeable investments and are extremely influential in the day-to-day operations of the U.K. stock market. The report states that the funds themselves have a responsibility not only to the limited circle of members and the employers, but also to the public as well, because "the possession of power carries with it a responsibility to be accountable."

At present, there is no legal or other formal requirement for pension funds to prepare or file annual reports, and the committee proposes that annual reports should be published by the trustees. It would be "absolutely essential" to have a two-tier information system, with sufficiently detailed figures for specialist advisers to ascertain the source of the funds and the uses to which they are put. There should also be an abbreviated and simplified version for members of the pension funds. Even in the case of relatively small funds, there is a need for fuller reporting, according to the report, and the extra cost involved would be counterbalanced by the benefits obtained from preparing the requisite information.

The Committee regrets that the present trust law governing these funds does not even require that relevant information be communicated to "interested parties." It believes that members should have an annual report on the fund's investment performance over the previous 12 months, and on the amount of additional assets accumulated as well as the future prospects for retirement pensions.

In recent months, trade unions have been calling for an increasing say in the way pension systems are administered, and observers believe some changes are overdue, so that members can have a clearer picture of what is happening to "their" money.

France: Record Trade Deficit; Aid for Industry

The Ministry of External Trade has announced France's worst set of monthly trade figures since 1968, when the country's external trade collapsed during the political general strike in May of that year. The seasonally adjusted trade balance for June this year shows a FF 13.3 billion deficit, four times more than in May, and well above the FF 10 billion deficit recorded in April. The June figure brings the deficit for the first half of 1982 to FF 43.2 billion, compared to FF 22.3 billion for the same period last year. The government has now revised its forecast for this year's overall trade balance to between FF 85 billion and FF 90 billion, compared with FF 59 billion in 1981.

The major adverse factor in June is thought to have been the effect of the increased cost of imports, especially oil, resulting from the second franc devaluation on June 12 as well as the rise in the parity of the dollar. Observers point to the longer-term consequences of the stagnation of exports since last September. The first devaluation of the franc last fall did not produce the desired effect of making French goods more competitive abroad. The French trade surplus for automobiles and their components has shrunk from FF 14 billion in the first half of 1981 to FF 11 billion in the equivalent period of this year, while foreign automobile sales in France in the first five months of the current year are up 19% over the same period of 1981. In two years foreign automobile manufacturers increased their share of the market from 23% to 32.5%.

In other news, Industry Minister Jean-Pierre Chevènement has announced the distribution of investment funds for nationalized industries totaling FF 10 billion this year. Both the government and the Société Nationale d'Investissement will provide FF 3 billion each in new equity capital, and the newly nationalized banks will put forward FF 3 billion in loans. An additional FF 910 million will be raised by selling stock of nationalized industries to other firms. The bulk of the funds will go to chemicals manufacturers and steel mills, and will be used to cover the operating deficits of the companies. Only two nationalized corporations made a profit last year, Saint Gobain and CGE.

Italy: New Efforts to Cut State Deficit

The broad outlines of a package of measures to curb Italy's mounting state budget deficit have been agreed upon among the five parties that make up the coalition government. Current predictions suggest that this year's state shortfall could reach 65,000 billion lire without the planned curbs on spending and increased taxes, which it is hoped will suffice to bring the revenue shortfall down to the 50,000 billion lire target set at the beginning of the year.

The government plans to bring in an extra 5,000 billion lire in tax revenue and 1,000 billion lire in social security contributions later this year. Since income tax levels are already above the European average, the bulk of the additional revenue will probably come from a 2% increase in the value-added tax rate, but excluding essential foodstuffs. Taxes on gasoline, diesel and heating oil will rise, and there will be increases in public service tariffs. Rail fares went up by 10% on Aug. 1, and telephone charges for businesses went up 5% immediately and will go up another 15% in the fall. Employers' contributions to pension, health and unemployment insurance funds are to rise.

Unions Facing Deadline Over Indexation Change

Italian Prime Minister Giovanni Spadolini has given the national union organizations until the end of August to come up with suggestions of their own on how the *scala mobile*, the system of tie-ing wage increases to the rise of inflation, should be changed. Spadolini hopes to see changes in the rigid index-linked wage escalator system, which allegedly pushes up production costs and has been one of several factors contributing to the rising wave of business failures; an all-time high is expected this year.

The Italian unions have responded to the prime minister's request by saying they first want to find out how employers' associations and large individual employers feel about any changes. There is little doubt that indexation has helped settle wage disputes and prevent labor unrest, but these short-range advantages have failed to compensate for the long-range drawbacks. The system is said to have driven many Italian manufacturers from foreign markets because their products were too expensive, despite two devaluations of the lira since the beginning of the European Monetary System in March 1979.

Last May the Italian government agreed on a proposal that would modify the indexation system to the extent that it would set 16% as an upper limit for any pay increases. Independent economists believe realization of the proposal would mean little in terms of limiting the rise of wages and thus production costs. Some experts would like to see the limit at 10%, which reportedly would help lower production costs.

In the fall of 1981, the European Commission told the Member State governments about the fallacies of wage indexation and suggested abolishment or at least modifications. All States except Germany apply some form of indexing employment incomes to the cost of living - Belgium, Luxembourg, and Italy do it automatically; Denmark and the Netherlands do it on a semi-annual basis. In the other States, indexing is limited.

Norway: Government Favors Most of Industry's Plan

The Conservative Norwegian government under Prime Minister Kaare Willoch reportedly is sympathetic to most of the suggestions recently made by the national employers' organization to get the economy going again (a 0.7% decline in GNP is forecast for 1982), but observers feel Parliament may never see most of the organization's ideas for political reasons.

Repeal of the statute on the investment levy was one of the suggestions; the organization considers the levy, unique in the industrialized nations, to be a penalty on the expansion of businesses. A tax cut for all individual taxpayers and a reduction of the employers' social security taxes by three percentage points were also suggested. If the association's plans were realized, it would mean a revenue loss of around 10 billion kroner. According to the association, this sum should be made up by cuts in government aid to money-losing businesses, increased real estate taxes, less government support for staple food prices, and curbs on continued pay for employees who report in sick.

The unions reacted sharply to the final suggestion denying employees two days' pay when they are away from the job due to sickness. Current legislation requires the employer to pay full wages for four weeks from the day the employee gets sick. At this point, Prime Minister Willoch rules out any move toward amending this sick-pay legislation.

Switzerland: Tougher Code of Conduct for Banks

The Swiss National Bank and the national bankers' association have extended for another five years their agreement concerning the banks' duties "to take due care" in accepting customers' funds and preventing abuses of bank secrecy rules. The revised code of conduct, which takes effect on Oct. 1, 1982, considerably expands and tightens provisions of the previous five-year pact, which expired on June 30. Both sides apparently wanted to mute foreign criticism of bank secrecy abuses, such as "compensation transactions" or the "laundering" of crime-linked money. As before, the code bars banks from assisting capital flight and tax evasion.

The new rules effectively prevent "anonymous" investment of assets by requiring prospective customers to identify themselves as part of the "internal relationship between bank and client." The legally guaranteed bank secrecy rules continue to apply in dealings with the Swiss and foreign authorities. In practical terms, this secrecy is somewhat diminished by bilateral administrative assistance agreements with foreign governments, including Washington, so far as it concerns "criminal deeds" (not "simple tax evasion").

Banks may not accept and maintain deposits without first verifying with "reasonable care" the customer's identity. They also must check whether the customer or someone else is actually the "economic beneficiary" *(wirtschaftlich Berechtigter)*. Identity checks are required in connection with all cash transactions involving more than SF 500,000, i.e., changing money, cashing checks, purchasing or selling precious metals, buying securities as well as for the opening of safe deposit boxes. The National Bank would have preferred a lower limit, but practical considerations led to the agreement on the SF 500,000 threshold.

The code restricts the group of those who may invoke professional secrecy in testifying about the true beneficiaries of funds without revealing their identities. These persons can only be Swiss lawyers, notaries, and members of professional bodies associated with the Swiss fiduciary and audit board association. Alleged violations in the future will be handled by an arbitration commission under the auspices of the Federal Court.

Common Market Reports

EUROMARKET NEWS

Issue No. 708 *August 10, 1982*

IN THIS ISSUE

Community: Council Approves Expanded Wine Market System

The Council of Ministers on July 26 approved several wine market regulations designed mainly to promote the distillation of excess wine into industrial alcohol, thus removing the surplus from the wine market. In adopting the measures, the Council largely followed the Commission's proposals. It is hoped that the move will help prevent further violence between French wine growers and importers of low-priced Italian wines. Germany voted against the measures but did not invoke the so-called Luxembourg compromise, under which a Member State may veto a measure when important interests are at stake. Bonn objected to widening the wine market regulations to include subsidiary grape products, which results in additional costs.

The EEC's wine surplus totals about 7 million hectoliters yearly, and future developments (the accession of Spain and improved cultivation methods) could possibly worsen this situation. Output is rising and consumption is falling in the traditional wine-making countries, and demand is rising only slowly in other countries. Controls on cultivation have improved the quality of grapes and wine, but the distillation measures in the

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years after the 1974-75 "wine crisis" were insufficient to cope with the surplus *(Common Market Reports, Par. 525.18)*. Preventive distillation no longer has any real effect because it is applied to only slightly more than half of the low-priced grapes.

One regulation expands the distillation program to include voluntary distillation in addition to the compulsory distillation already practiced. Winegrowers and wine merchants will be given the opportunity to sell surplus wine in September, prior to the next harvest, to the national intervention agency at a guaranteed minimum price; the price will be 70% of the guide price *(Common Market Reports, Par. 515B)*. In years with abundant grape harvests, the national agency will be required to take off the market additional quantities of grape must in December, at 65% of the guide price, and turn it into alcohol. Should prices for table wines continue to drop, the Commission is empowered to buy up still more surplus wine at 82% of the guide price. The cost of the distillation program, now running at $340 million a year, would go up by an estimated $25 million.

Britain, France, Italy to Defy U.S. Pipeline Embargo

President Reagan's ban on supplying technology and equipment for a natural gas pipeline from the Soviet Union to Western Europe has produced a strong protest from the Community and negative reactions from the four Member States affected by the ban. Initially applied to U.S. firms only, the embargo was extended in June to subsidiaries of U.S. parent companies in Western Europe and to European companies licensed by U.S. firms to manufacture components for turbines and pumping stations.

In Western Europe, companies from the U.K., Germany, France, and Italy are affected because they signed contracts with the Soviet Union for the delivery of equipment, mainly pipes, turbines, and pumping stations. The response of the British, French, and Italian governments has been that the companies involved must fulfill their contracts with the USSR even if it means defiance of the embargo and violation of licensing agreements. The German government is hoping for an amicable settlement, although in the absence of such a settlement it would not intervene (it lacks the statutory powers) and thus would leave it to the companies to decide.

In its protest note to Washington, the Community criticized the Reagan administration for attempting to apply U.S. law to European companies and, in effect, to nullify contracts signed half a year ago. This action is not warranted by international law and could have only damaging effects on U.S.-EEC relations, the note stated.

Commission and Council attorneys have been studying the ban and its legal ramifications under international law and conflicts of law principles. Most experts are convinced the ban is contrary to international law. They say it violates the sovereignty of the Member States by seeking to compel Common Market subsidiaries of U.S. parent companies to abide by President Reagan's policy. A particular source of irritation, according to the experts, is that the ban was extended to European firms that had entered into contracts with the USSR before the embargo.

However, Community lawyers also see the weak legal position of those European companies that hold licenses from U.S. firms: some of the agreements contain a clause in which the licensee agrees to abide by export restrictions that the U.S. government might impose. Furthermore, Council lawyers foresee complications for American nationals serving on the boards of subsidiaries of U.S. parent companies. These subsidiaries could be forced by the respective national governments to ignore the embargo and deliver the equipment as the contract promised; the Americans could be prosecuted upon their return to the U.S. Some of the European firms affected by the ban have subsidiaries in the U.S., and noncompliance could bring retaliatory action by the U.S. government.

Community lawyers are still hoping that the top-level study ordered by President Reagan to assess the legal and political implications of the ban's extension will culminate in conclusions that might prompt Washington to retract the embargo.

In Brief...

As of Jan. 1, 1982, the administrative and other personnel working for the European Commission numbered 9,113, according to the latest statistics. At the end of 1972, the EC of the Six employed 5,952, a number that rose to 8,753 (Jan. 1, 1978) with the accession of Britain, Denmark, and Ireland + + + The Council of Ministers has rejected a request by the European Parliament to use 500 million ECU in surplus agricultural budget funds to combat unemployment and raise Third World aid. In line with that request, the Commission had proposed that 215 million ECU be spent on social welfare programs, 200 million on developing countries, and 35 million on research projects. The proposal was opposed by Belgium, France, Germany, and the Netherlands, whose finance ministers wanted the funds to be returned to the Member States. The Commission will now work out a compromise formula under which some of the social programs would receive extra funding and some of the unspent budget funds would be returned + + + The EEC has agreed to make a new offer to cut its steel exports to the U.S., volunteering to reduce its share of the U.S. market from 6.4% (last year) to 5.8% by 1985. Last month, Washington had rejected an EEC offer of 5.9% and had instead proposed 5.67% for 11 major steel products. The Community's chief negotiator, Industrial Commissioner Etienne Davignon, was facing an Aug. 9 deadline, after which the U.S. government planned to launch countervailing suits and antidumping proceedings.

Britain: Record Unemployment, But Drop in Inflation

Unemployment in the U.K. in June was the highest on record, with 3.2 million out of a job, or 13.4% of the total work force. This figure represented a rise of 130,000 within a 12-month period and well exceeded the previous highest total of 3 million in January this year. Thus, the U.K. suffers a higher percentage of unemployed than all other EEC countries except Belgium, and higher than the U.S. and Canada.

Particular concern has been expressed over the number of long-term unemployed who have been without work for more than 12 months. This number totals just under one million, at 994,000. Although the rate of increase is declining, with some 25,000 a month newly registering as unemployed, compared with 40,000 a year ago, the government sees little prospect of the total number of jobless declining below 3 million.

Nevertheless, Prime Minister Margaret Thatcher remains opposed to the idea of stimulating the economy, which could reduce unemployment, and embarking on a policy of reflation, despite the urgings of the Confederation of British Industry that £1.8 billion should be injected into the economy as soon as possible.

On the positive side, the annual rate of inflation in the U.K. has dropped to 9.2%, the lowest figure since December 1978 and below the EEC average of 9.4%. In May this year, the rate was 9.5%, so the June figure represents a significant fall. However, it is still much higher than the 5.3% rate in Germany or the 6.7% rate in the U.S.

The latest figure is distinctly encouraging to the government when compared with the 22% inflation rate in 1980 or even the 12% rate at the beginning of this year. In fact, it is expected that the 9% rate forecast in this year's budget will turn out to be too high. The Prime Minister has always given top priority in her financial policies to conquering inflation, and it appears that this policy is succeeding.

Rise in Overseas Investments After Exchange Curbs Fall

Britain's Committee of Invisible Exports, in its annual report, highlights the fact that increased investment overseas by U.K. companies after foreign exchange controls were abolished (in late 1979) led to a record total of £26.47 billion in invisible earnings in 1981, despite intense foreign competition. This was an increase of 13% over 1980 and principally due to additional receipts of profits and dividends from overseas investments.

Particularly significant was the rise in earnings of U.K. financial services by 17% to £1.8 billion and the very marked increase in the earnings of U.K. banks from their borrowing and lending abroad in foreign currencies. The bank earnings almost tripled, from £350 million to £1.01 billion, and there was also a steep rise in overseas earnings from sterling loans.

Belgium: Discount Rate Up; Soviet Gas Deal Delayed

The Belgian central bank on July 29 cut its discount rate by 0.5% to 13.5% following the strengthened position of the Belgian franc in the European Monetary System during the aftermath of the June devaluation against the German mark and the Dutch guilder. The rate was boosted to 14% in April following a run on the currency.

The Belgian National Bank justified the most recent move on the grounds of lower domestic and Euromarket interest rates. Only a few weeks ago, however, an International Monetary Fund report, while commending the government for its new tough austerity program, warned that interest rates should not be cut too soon. The IMF welcomed attempts to impose a partial wage and price freeze and urged greater efforts to reduce the budget deficit. The net borrowing requirement, IMF officials said, should not be allowed to exceed 10% of GDP, an aim which Finance Minister Willy de Clercq immediately claimed as the government's own.

In other news, the government has delayed initialing an agreement to buy between 1 billion and 3 billion cubic meters of natural gas per year from the Soviet Union and is now making alternative arrangements with the Netherlands. Unconfirmed reports said that the Dutch, who currently supply Belgium with 7 billion cubic meters of gas annually, have already offered a supply guarantee should the Soviet deal fall through. The reasons given by the Belgian government for the change of mind include (1) the steep drop in domestic gas consumption from 10.8 billion cubic meters in 1979 to an estimated 7.5 billion this year and (2) the fact that Belgium has been offered no manufacturing contracts in connection with the construction of the Siberia-Europe gas pipeline.

Italy: Government Approves Economic Austerity Decrees

Three decrees approved by the Italian government on Aug. 1 would implement a series of austerity measures aimed at reducing this year's budget deficit to 60,000 billion lire, from the 70,000 billion currently forecast. Before the decrees can become valid, however, they must have the approval of Parliament, which is by no means assured.

At the same time, Treasury Minister Nino Andreatta has prepared an early draft of the 1983 finance bill which specifies heavy curbs on public spending in the health sector and on industrial subsidies as a necessary means of bringing the 1983 deficit down from a level of 90,000 billion lire, as previously projected, to 63,000 billion.

The new decrees cover a 2-3% increase in value-added tax, a 100-lire rise in the price of gasoline (to 1,120 lire per liter), and various increases in employers' social insurance contributions. VAT is to be as high as 38% (up 3%) for certain luxury goods and 18% for most other goods (see also *Doing Business in Europe, Par. 25,886*). Only basic foodstuffs and a few essential commodities are to be excepted. In addition, the basic corporate tax rate is to be raised by 5%, to 30%.

France: More Curbs Urged on Illegal Capital Transfers Abroad

The finance commission of the French National Assembly has presented the government with a report urging closer cooperation between customs and tax authorities, especially at border checkpoints, in order to combat illegal capital exports more effectively. The report cites new figures from the Bank of France according to which the number of bank notes returned to the Bank by foreign banks rose threefold in the second quarter of 1981, when the Socialist government came to power, compared with the same period in 1980. The volume of exported bank notes returned to the central bank rose from FF 7.5 billion in 1980 to FF 17.5 billion last year; however, it is not claimed that these statistics are derived from an accurate method of monitoring "suitcase transfers."

The report readily concedes that "small and medium" types of capital flight, where money is physically smuggled out in suitcases, etc., probably make up no more than 10-15% of the total. The overwhelming proportion of violations is blamed on companies, many with international operations, which can avail themselves of more sophisticated methods of illegally transferring funds out of the country - for instance, by over-invoicing, fictitious transactions, and other manipulations.

Issued after seven months of investigations and hearings, the report cites unnamed Swiss sources whereby FF 7-10 billion in funds left France illegally between January 1981 and May 1981, when the new Socialist-Communist government under François Mitterrand was elected. Since the election, the report says, another FF 30-33 billion was illegally exported. The United States is identified as the most popular destination for such funds but Switzerland is considered the No. 1 transit country, where some 50,000 Frenchmen are estimated to maintain "active" numbered accounts with average deposits of FF 500,000-700,000 each.

The report was compiled by a special seven-member panel installed by the parliamentary finance commission and headed by Christian Goux, a Socialist deputy and a self-described Marxist. The remainder of the panel was made up of three Socialists, one Gaullist, and one Giscardist, of which the latter two disassociated themselves from several findings in the report. "Speculation against the franc, lack of confidence in the country's future, and the attempt to escape taxation" are given as the main reasons for most instances of capital flight.

New Levy to Cover French Unemployment Insurance Deficit

Faced with a probable FF 37-billion deficit in the national unemployment insurance system by the end of 1983 and predictions of shortfalls of between FF 66 billion and FF 86 billion annually in the following years, the French government is resorting to drastic measures to improve the situation. A draft law, to be presented by Social Affairs Minister Pierre Bérégovoy to Parliament next month, is now being examined by the Council of State. It would establish a new "unemployment solidarity tax" on persons not eligible for unemployment benefits. Self-employed persons as well as farmers and civil servants would be expected to pay from 1% to 1.5% of their income if they earn over FF 4,400 per year. Civil servants, who pay no unemployment insurance contributions because they cannot be dismissed, would begin paying the new tax on Nov. 1, while the other groups affected would have to pay from Jan. 1, 1983.

Bérégovoy expects the tax to raise about FF 8 billion by the end of 1983. The levy would be removed as soon as unemployment falls back to more acceptable levels. Meanwhile, other measures are also to be introduced to help deal with the deficit, including cuts in unemployment benefits and family and housing allowances as well as the introduction of additional health service charges.

Some 1.6 million of France's 2 million unemployed are currently receiving insurance benefits. This number is nearly three times higher than in 1977. State expenditures on unemployment have climbed from FF 52 billion to FF 90 billion in the last two years, and further increases are expected. Last year Paris floated a FF 6-billion state bond issue to help reduce the deficits and, in addition, introduced a "one-time" employment support levy, which also brought in FF 6 billion.

Norway: Indirect 3% Devaluation of the Krone

To improve the competitive standing of Norway's exporters, the central bank in Oslo has readjusted the value of the krone by about 3% against a basket of foreign currencies in which the U.S. dollar previously was weighted at 25%. The readjustment, effective Aug. 1, reduced the dollar's weight to 11% in relation to the other 13 currencies in the basket. The leading currencies in the basket are now the D-mark (17.7%), the Swedish krona (15%), and the British pound (14.7%), so that the Norwegian krone in the future should fluctuate more in line with the European currencies.

Finance Minister Rolf Presthus said the relatively strong dollar had recently caused an overvaluation of the krone at the expense of the country's export industries. The "technical adjustment" will bring some relief here, at least in the short term, he said. The Norwegian financial community believes, however, that the dollar will continue to exert a strong influence since it is the dominant currency unit in Norway's important offshore oil and gas transactions. In fact, spokesmen for the mainland industries made it quite clear that they would have preferred a higher direct devaluation.

Before 1978, the Norwegian krone belonged to the European "currency snake," predecessor of the European Monetary System. That year, Oslo followed the Swedish example of weighting its currency against those of the country's leading trade partners.

Yugoslavia: Six-Month Price Freeze; OECD Survey

The Yugoslav government has decreed a six-month price freeze as of July 31. Spokesmen for the Finance Ministry and the Price Commission announced that the measure is designed to contain rapid price expansion which so far this year has resulted in a 21.3% rise in the cost of living. If this trend were to go unchecked, the inflation rate could exceed 30% by the end of the year. The government has now set 27% as a maximum inflation target for 1982.

Accompanying the price freeze are restrictions on consumer credit purchases. For most items costing over 1,000 dinars, down payments of up to 80% are required. Exempted from this rule are coal fuel, food supplies for the winter, and books. No longer available are short-term credit purchases in connection with vacation trips, births, deaths, and illnesses.

The OECD, in its latest survey of the Yugoslav economy, recommended that the government find more effective means of combating the causes of inflation rather than the symptoms. Among other things, it expressed concern over the strong pace of wage increases and urged a further rise in interest rate levels, which still fall considerably short of the inflation rate. Higher interest rates would be the only way to force enterprises to be more disciplined in their investment decisions, the organization noted.

Common Market Reports

EUROMARKET NEWS

Issue No. 709 *Report No. 455, August 17, 1982*

IN THIS ISSUE

Community: Warning on Unilateral Textile Import Quotas

The textile trade negotiations between the Community and 13 textile-exporting nations will move into a critical stage next month as the EEC continues to insist on more restrictive terms to ward off a deluge of unwanted imports. The Community's chief negotiator in these talks, Horst-Günter Krenzler, issued a clear warning on Aug. 4 that the EEC will unilaterally impose import quotas on these 13 countries unless their governments sign the new 1982-86 Multifiber Arrangement (MFA) by Sept. 24. The warning was directed specifically at the "militants" among the exporting countries - Hong Kong, Macao, and South Korea. Together with Taiwan, a non-MFA country, they are the "dominant suppliers" that so far have refused to agree to cutbacks and insisted on second-round negotiations next month.

Krenzler conceded that "great difficulties" were awaiting the EEC negotiating team in September, but he ruled out any softening of the Commission's mandate for the talks, given the worsening economic climate in Europe. The Community now shows a $4-billion deficit in its textile trade. The principal suppliers account for about 40% of EEC imports, and they are being

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

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pressured by Brussels to reduce by 12% their exports to the Common Market of certain "sensitive" products (T-shirts, shirts, blouses, sweaters, and trousers). If these cuts are not accepted, the EEC intends to set unilateral import quotas by invoking the hardship provisions of Article 19 of the General Agreement on Tariffs and Trade (GATT). There is also the possibility that the Community might withdraw from the MFA, which could lead to the arrangement's demise.

Of the 27 developing countries listed as textile suppliers under the extended MFA, 14 concluded their bilateral talks with the EEC by the end of July - Bangladesh, Guatemala, Haiti, Mexico, Pakistan, Peru, Sri Lanka, and Thailand as well as six East European countries. In addition, the EEC signed agreements with seven Mediterranean countries which enjoy a preferential status with the Common Market. Altogether, the completed agreements cover about half of the low-priced textile imports into the EEC, according to the Commission.

Germany: Need Seen for Changes in Old-Age Pensions

All three political parties represented in Parliament reportedly agree on the necessity to legislate changes in Germany's old-age pension system to stave off its financial collapse in the coming years. Modifications would have to be made in the computation of old-age pensions of retiring employees, and Parliament's annual increases in social security benefits for some 6.5 million recipients would have to be lower than those in the past. Without substantive changes, the experts say, a major pillar of Germany's much celebrated social security structure would collapse. None of the political parties is in favor of higher contributions, which are shared by employee and employer *(Doing Business in Europe, Par. 23,453)*. Still, even during economic boom periods, the government has had to use general tax revenue to keep the system financially afloat.

Old-age pensions in Germany are based on the last three years of gross wages or salary and the length of coverage. An individual who has worked 40 years may receive a pension equal to 90% of his last average annual income from employment. At present, three working persons pay for the old-age pension of one recipient. Because of Germany's unfavorable population pattern, by the year 2000 only two working persons will be available to pay for the social security benefits of one person, and the number of recipients will have climbed to about 11 million. The old-age pension funds at one time maintained a three-month reserve in cash or assets. Because of expansion of the program and the economic recession, the reserve has dropped to slightly more than a month's expenditures.

Although there is agreement that the necessary savings will have to be made on the recipient's side, disagreement exists over how to reduce the costs. Leading spokesmen of the governing

Social Democrats have indicated their support for subjecting old-age pensions above a certain threshold to income tax. The opposition Christian Democrats would prefer changes in the base for computing the pensions of retiring individuals. The Free Democrats, junior partners in the coalition government, favor a different change: not gross wages, but net wages should form the basis for computing old-age pensions, they say.

AEG-Telefunken Collapse; Business Failures Up by 40%

The managing board of the second largest German electrical and electronics company, AEG-Telefunken, on Aug. 9 applied in a Frankfurt court for the opening of settlement proceedings with its creditors. The step marked the biggest corporate collapse in Germany since the war and followed years of struggling to keep the giant group afloat. AEG has annual sales revenues of about DM 15 billion; as the country's seventh largest company, it employs 96,100 in Germany and 118,900 worldwide.

The firm's leading creditors are several banks which together are reportedly holding at least DM 5 billion in outstanding debts. With its application for settlement proceedings, AEG's management is seeking to stave off bankruptcy and persuade the creditors to write off at least 60% of their claims.

On the day when AEG announced its financial insolvency, the federal statistical office published the latest figures showing that German business failures in the first half of this year rose by nearly 40%, to 7,462, compared with the same six-month period in 1981. In June, the increase was, at 47.2% (1,317), the second highest monthly rise since the 1948 currency reform. There was a higher increase only last February. The highest rate of insolvencies in the first half of the year was reported for the construction sector (61.7% increase) and the wholesale/retail sectors (57.7%).

Belgium: Higher Savings, Lower Deficit in 1983 Draft Budget

Premier Wilfried Martens on Aug. 3 announced further drastic budget savings and a limit of BF 445 billion on Belgium's budget deficit next year. In introducing the 1983 draft budget, Martens said his government intends to put a ceiling of 10.5% of GNP on public expenditures, following this year's 11.4%, which means that spending may rise by only 7.5%, to BF 1,702 billion. He estimated 1983 revenues at BF 1,277 billion. The government's principal economic targets are a lower social insurance fund deficit, a tax reform, and energetic efforts against unemployment.

The social insurance deficit is to be reduced by cutting down on total expenditures for family allowances, from BF 35.7 billion to 28.3 billion. As part of the tax reform, the government wants to raise revenues from value-added tax by BF 15 billion and those from tobacco taxes by BF 1 billion. Incomes above BF 3 billion annually are to be subjected to a "solidarity levy" of 10%, the revenue from which would be channeled toward job creation measures. Eliminated would be tax-free allowances of up to BF 10,000 annually. On the other hand, the government would ease the fiscal burden on personal incomes ranging between BF 750,000 and BF 1.5 million. Further details still remain to be worked out, Martens said.

In its fight against unemployment, the administration plans to take tougher steps against moonlighting, offer incentives for part-time jobs, and reward employers who offer young people their first job. Unemployment in 1983 is projected at 538,000 on the annual average. During the next three-year period, old-age pension benefits are to be made available to employees who opt for early retirement beginning with the age of 60.

The budget still requires parliamentary approval this fall, but passage is taken for granted on the strength of the government coalition's comfortable majority in both houses. Also, as of last December and until the end of 1982, Martens is working with wide-ranging economic emergency powers. Nevertheless, his administration faces stiff opposition to his austerity policies, particularly from the Socialist labor unions; however, the small Christian unions are said to be seeing a need for the belt-tightening.

Britain: New Company Establishments Outnumber Closures

A comparison of statistics on new company establishments and closures has led the U.K. government to the conclusion that it has succeeded in creating a favorable climate for new business ventures despite the economic recession. According to an Industry Ministry report, some 110,000 companies were taken off the Value-Added Tax Register last year, but 124,800 were newly entered. For every 100 businesses abandoned, 115 were started - a reversal of the situation as it existed a year before. On the basis of 1.336 million businesses operating in Britain last year, 8.2% were discontinued and 9.3% were newly established.

The government conceded that the VAT Register did not offer an absolutely true statistical picture, but it said there was no doubt about the general trend. In keeping with this trend, new company establishments in industry, commerce, services, and agriculture were in the majority in virtually all sectors except retailing, where closures outnumbered new establishments.

France: New Commission to Monitor Imports

The French government has installed a "consultative commission for international trade" which will have the task of watching "abnormal" and excessive imports and unfair import practices and following up on complaints by domestic enterprises and other organizations concerning such practices. The five-member "import commission" has been set up on the initiative of Trade Minister Michel Jobert, who has been looking for new ways of helping domestic industry cope with the challenge of foreign competition. Jobert insists that the establishment of this new body does not conflict with the rules of the EEC and GATT and is not protectionist in nature.

The import commission will be reporting directly to the Trade Ministry, and it is empowered merely to transmit the results of its investigations rather than make actual recommendations. In particular, the commission is charged with determining whether - in considering prices and quantitative and qualitative criteria - "abnormal" imports are damaging, or are threatening to damage, the interests of domestic business sectors. On the basis of the commission's findings, the Trade Ministry may take action either at national government level or at EEC level.

Observers say that Jobert's initiative is directly linked to the government's concern over the accumulating trade deficit, which reached more than FF 40 billion in the first half of 1982. Last May, Jobert indicated that if the deficit continued to grow, France would have to restrict its imports to "essentials." The inauguration of the import commission is seen as a first step in that direction, considering that the June trade deficit was the highest monthly shortfall ever, despite the recent franc devaluation.

The Socialist-Communist administration is under political pressure to make good its pre-election pledge of last year to bring down the foreign trade share (imports) of the domestic product to less than 20% by 1990. This share currently stands at 38%. The government knows that any progress in reducing unemployment will depend to a large degree on having French industry regain domestic market shares now held by foreign competitors. Foreign car sales reportedly passed the 40% mark in July after having made major inroads on the French market in the weeks before. In May 1981, foreign car imports had accounted for 26% of the market.

Price Freeze Deemed Constitutional; Tax Fraud Chase

The French government's four-month price freeze, which is to continue until Oct. 31, does not violate the country's constitution, according to a ruling by the Constitutional Council *(Doing Business in Europe, Par. 22,605)*. Following parliamentary passage on July 20 of the legislation implementing the freeze, 60 deputies of the Opposition directed an urgent appeal to the tribunal, citing technical reasons for the law's unconstitutionality. Previously, the Opposition had had partial success with its appeal against certain parts of the government's nationalization legislation.

The price freeze itself, meanwhile, has become far less encompassing than the government initially intended. It never was to cover EC-determined agricultural producer prices or the prices of oil products and commodities subject to international agreements (coal, steel, scrap, for instance). More recently, Paris agreed to further exemptions for sanitary equipment, precious metals and diamonds, lead, copper, nickel, zinc, pewter, mail-order catalog prices, and travel agencies. The very latest exemptions affect the prices of fruit preserves, syrups, and confectionery (taking account of the present world sugar surplus), sausage products (because of rising pork prices), and certain fats.

In other news, the administration is reporting greater success in tracing instances of tax fraud. Budget Minister Laurent Fabius said additional revenues recovered as the result of fiscal audits and investigations rose to FF 3.8 billion in the first six months of 1982, compared with FF 2.2 billion in the corresponding period of 1981. Fabius attributed the improvement to organizational changes in the tax inspectorate and said that the number of tax agents would be boosted further next year when increased taxes on wealth and high incomes are to take effect. The government is concentrating much of its effort on larger enterprises and on "sophisticated" capital owners.

Italy: Spadolini Government Resigns After 13 Months

On Aug. 7, only one week after presenting his government's first attempt to tackle Italy's economic problems through a systematic austerity policy, Premier Giovanni Spadolini was forced to resign, after 13 months in office. Although the five-party coalition of Christian Democrats, Socialists, Republicans, Liberals, and Social Democrats had been continuously shaken by policy differences and personal rivalries, no single party was willing to accept responsibility for the government's collapse, and all claimed a desire to avoid premature elections at all costs.

Many observers believe, nevertheless, that early general elections may be held about one and a half years before the constitutional deadline, particularly since the Socialists might benefit from early elections. In the elections for the present parliament, the Christian Democrats had received 38.3% of the vote and the Socialists, the third-largest party, 9.8%. President Sandro Pertini, however, appears anxious to avoid an early dissolution of Parliament and is expected to make strenuous efforts to persuade the coalition members to patch up their differences. In consultations held during the week following the government's resignation, Spadolini was expected to be asked to make the first attempt at forming a new cabinet.

Most observers assumed that the crisis was set off by the unwillingness of some coalition partners, particularly the Socialists, to take responsibility for unpopular austerity measures, which would have cut the budget by 57,000 billion lire. The ostensible trigger, however, was a minor tax bill introduced by Finance Minister Rinaldo Formica which would have forced oil companies to accelerate payments of duty on refined petroleum products. The bill was unexpectedly defeated in the Chamber of Deputies after being passed by the Senate. Since voting on such measures is secret, and many Socialist and Christian Democrat deputies were absent on the day in question, the two parties have accused each other of executing a "stab in the back." In the end, seven Socialist cabinet ministers resigned.

The tax and spending measures have already been announced and put into effect through administrative decrees. However, the decrees will be invalid unless they are approved within the constitutionally stipulated 60 days. If Parliament is dissolved in preparation for early elections, observers say, there is little doubt that the entire austerity program will not go through, and state finances will continue to balloon out of control.

Banco Ambrosiano in Compulsory Liquidation

Two months after the central bank first began investigations into dubious foreign financial transactions by Italy's largest private bank, Milan-based Banco Ambrosiano, Treasury Minister Nino Andreatta announced that efforts to rescue the bank had failed and that it had been placed in compulsory liquidation by administrative decree. Three days later, a consortium of banks that had been involved in the rescue attempt managed to reopen the bank's 107 branches in Italy under a new name, Nuovo Banco Ambrosiano.

The Bank of Italy has emphasized that the successor institution will guarantee the interest on both domestic and foreign deposits placed with Banco Ambrosiano. It will take no responsibility, however, for any of the foreign holdings of the old bank, such as Banco Ambrosiano Holding of Luxembourg, which has been declared in default of debts of about $400 million. Some foreign bankers in Milan believe the reconstitution of the bank is a maneuver to put Banco Ambrosiano's assets out of reach of the Luxembourg subsidiary's creditors.

Seven banks have participated in putting up the 600 billion lire starting capital of the successor institution, and the government has urged that the sum be raised to 900 billion lire as soon as possible in conjunction with plans to allow shareholders in the defunct bank to subscribe to privileged shares. This might enable them to reduce their losses on the liquidation. Unconfirmed reports said that the initial shareholding will be divided among Banca Popolare di Milano (20%), three state-controlled banks (Banca Nazionale del Lavoro, IMI, and Istituto Bancario San Paolo di Torino, 16.6% each), and three other private banking institutions (10% each).

An administrative compulsory liquidation differs from a regular bankruptcy in that responsibility for the proceedings rests with the government rather than the courts, and therefore individual creditors are not able to take legal action on their own behalf. However, the autonomy of the management of the institution in question is placed under severe constraints, and some observers believe that creditors stand a better chance of recovering their funds as a result.

Three new liquidators have been sent in to deal with the foreign interests of the old Banco Ambrosiano, and a three-man supervisory committee has been appointed to head the bank, replacing the state commissioners sent in by the central bank. They are expected to investigate ways of satisfying demands by foreign banks for the recovery of an estimated $700 million lent to Banco Ambrosiano's foreign subsidiaries.

The Vatican bank, Istituto per le Opere di Religione (IOR), is said to control or partly control most of the Panamanian financial houses to which Ambrosiano made the bulk of its estimated $1.4 billion in overseas loans. The same bank underwrote many of the loans with letters of patronage. Milanese magistrates have sent a judicial warning to the Vatican bank directors to the effect that the IOR president, Archbishop Paul Marcinkus, and two other Vatican bankers could face fraud charges. According to Treasury Minister Andreatta, if the IOR were to meet its responsibilities for most of Banco Ambrosiano's foreign liabilities, the liquidation might close with a small surplus.

EURO COMPANY SCENE

TRW Mission Ltd., Belfast, is to expand output and almost double its work force following a decision by its U.S. parent company to transfer the entire production of "Duo-Chek" valves from Texas to Northern Ireland. Output is to be stepped up from 11,000 to 40,000 units annually by the end of 1982.

American Monitor International, a joint venture set up in 1980 between the Northern Ireland Development Agency and the United States' American Monitor Corp., has signed a £3-million funding agreement with Denmark's Privatbanken to provide working capital for the company's planned European expansion. American Monitor produces computerized blood-analyzing systems and reagents.

The United States' Norton will shut down its two U.K. plants after two years of heavy losses, transferring most of their activities to Italy and France. The plants affected are producing grinding wheels and sandpaper and are located at Belfast and Welwyn Garden City. Their closure will mean the loss of 420 jobs.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Amended Merger Control Proposal Is Backed

The Economic and Social Committee has given a favorable opinion on the Commission's amended merger control proposal, but it also expressed some reservations and suggested a number of substantive changes. Some of the reservations are identical to those expressed in its 1974 opinion on the EC executive's original proposal, such as the demand that the Commission's power to compel third parties to provide information be limited.

The measure would provide the EC executive with merger control powers. Firms planning large mergers (combined sales exceeding 1 billion units of account) would have to notify the Commission; the Commission could bar any merger if it is liable to affect trade between Member States and the merged entity acquires or enhances its capability of hindering effective competition. Differences of opinion in the Council of Ministers over the scope of the proposed regulation and the Commission's decision-making powers are blamed for the fact that no headway was made in the deliberations on the 1973 proposal *(Common Market Reports, Pars. 9586, 9779)*. In order to break the deadlock, the Commission made concessions on both points: mergers would be subject to Commission controls when combined sales exceed 500 million ECU (200 million ECU in the 1973 proposal), and the Member States would be more closely involved in the decision-making process. Another

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important amendment is that the effects of international competition would have to be considered in deciding whether a merger is incompatible with the Common Market.

The ESC regrets that no solution has been found to the problem of defining the boundary between Community and national laws. It fears that the amended proposal giving the Council of Ministers a say in the Commission's merger control activities will lengthen the period between first examination of the planned merger and the Commission's decision.

The committee welcomes the proposed market share test (not provided in the 1973 measure), since it would give companies planning a merger a rough guideline to work with and also help the Commission assess whether a planned merger would be compatible with the Common Market; whenever the market share of the merged entities is less than 20% of the EEC market, the planned merger would be presumed to be compatible with the Common Market. But the committee points out that incompatibility with the Common Market can still only be "presumed," even if the market share is above the 20% threshold, and the Commission should not see planned mergers in black-and-white terms just because of the market share criterion.

Allowing for currency depreciation, the ESC recommends that the sales criterion for merger controls be lowered from 500 million ECU to 350 million ECU. Above all, the committee feels that the Commission alone should have responsibility in deciding whether a merger is incompatible with the Common Market. It therefore suggests that the words "and shall take account of the policy guidelines which emerged in the Council's deliberations" in Article 19(8) should be deleted. Otherwise the phrase could be construed to mean that the Commission is to be bound by the Council's policy guidelines.

In Brief...

The Community is maintaining pressure on Japan to bring about a real change in the lopsided trade picture (the EEC's 1981 trade deficit with Japan stood at $11 billion). The Commission has recommended further legal moves under the General Agreement on Tariffs and Trade (GATT) that would be aimed at attacking Japan's allegedly "closed door" import policies. The Commission wants a GATT panel to carry out an impartial, multilateral investigation of the complaint. The Japanese Government, denying the allegation that Japan is a closed market, points to the recent establishment of several advisory services to help foreign businessmen and bankers understand Japanese business methods + + + The Commission is toying with the idea once more of proposing to the Council of Ministers an energy import tax as a way of boosting the Community's revenue. Seven years ago, a similar idea proposed with the objective of conserving energy failed to get the support of the majority of the commissioners, but now the concept of a crude oil tax has gained considerable support within the Commission. Stabilization of oil prices would make such a tax politically more attractive. Poor Member States, heavily dependent on crude oil imports, would get a reprieve under the plan. One of the advantages of an oil import tax: it would not affect the U.K. and Germany as much as an increase in the current 1% limit on the Member States' value-added tax payments to the EC *(Common Market Reports, Par. 5012.13)*.

France: Report on Capital Flight Sparks Debate

The report by the tax committee of the National Assembly on the recent flight of French capital and how to cope with it has sparked a lively debate among lawmakers and in the news media and the business community. The report concentrates on the flight of French capital to Switzerland since the Socialists' victory in the May 1981 national elections. Two conservative members of the seven-member committee (the others: four Socialists, one Communist) disagree on several of the report's findings and the conclusions drawn by the majority. Independent economists and financial experts have chided the authors for alleged inaccuracies and assumptions as well as for most of the suggested remedies. The suggestions have received a largely positive response from Socialists and Communists.

According to the report, an estimated FF 30 to 33 billion have gone across the border into Switzerland since late 1981. (This figure is based on information supplied by a member of the Swiss Parliament. The lawmaker reportedly relied on statistics of the Swiss National Bank and, according to observers, made the error of lumping together French franc deposits made by French nationals into numbered accounts and obligations assumed by Swiss nationals,also expressed in French francs.)

The committee's majority reports that,ever since customs controls on the French-Swiss border were intensified, a great deal of French capital has escaped to Switzerland via Luxembourg. As a result, Luxembourg nationals (individuals, companies, and banks) now hold an exceptionally high Sfr. 24 billion in trustees' accounts, the report states. But here,too,the critics say that the committee's majority took the information supplied by the Swiss lawmaker at face value; they believe that the informer made the mistake of confusing Swiss trustees' accounts in Luxembourg with Luxembourg trustees' accounts in Switzerland. Not disputed is the fact that last year French customs confiscated FF 175 million from individuals who tried to smuggle the money out of the country.

The authors of the report favor retention of the existing controls and suggest that in any future tax treaty negotiations the government should deny any wishes to widen lawful channels for the repatriation of capital and dividends. Most important, the majority recommends expanded application of the rule governing the burden of guilt in exchange and customs rules violations. The report also suggests extending from two to four years the statute of limitations for prosecuting violations of transfer restrictions. Individuals who carry large amounts in bank notes in border regions should bear a government certificate stating that there is nothing questionable about carrying the money, the report recommends. Customs should have experts on payments made to patent and trademark holders abroad, and a customs division should be attached to the National Bank, the committee says.

One suggestion appears to have little chance for realization, even by the committee's own admission - getting Switzerland to cooperate in combating capital flight by threatening trade restrictions. The reason: France has a traditional trade surplus with Switzerland (1981: FF 9 billion).

Italy: Ambrosiano Affair Has Widespread Repercussions

The compulsory liquidation of the Banco Ambrosiano by the Italian authorities as a result of the insolvency of its foreign operations has led to a tightening up of regulations governing the establishment of foreign holding companies by Italian firms. In addition, Luxembourg banking authorities have forced Italy's central bank to indirectly provide guarantees for some Italian banking business in the Grand Duchy. Also, the president of the Milan bourse supervisory commission has resigned.

The new Italian regulations concern the establishment of Italian-owned holding companies abroad. By Nov. 8, companies with controlling shares in such companies will have to present Rome with detailed balance sheets certified by qualified accountants covering the holding company as well as its subsidiaries. The foreign trade minister is to be informed about how profits in such companies are used, and he must be asked for permission for the use of profits when the holding company is over 50% Italian-owned. Changes in shareholding structure involving Italian residents must also be reported, and any Italian individual or company must notify the foreign exchange office about any interest in a foreign holding company greater than 10% for purposes of registration in a new computerized index.

The announcement of the new regulations did not prevent the Luxembourg banking commissioner Pierre Jaans from taking unprecedented, drastic action to force the Italian central bank to give guarantees for banking operations conducted by subsidiaries of Italian-owned holding companies in the Grand Duchy. Observers believe that the tough action was provoked by the refusal of the Italian authorities to act as effective "lender of last resort" in taking responsibility for the liabilities of the Banco Ambrosiano Luxembourg holding, which were in fact the main cause of the liquidation of the parent company, but were excluded from the transfer of assets and liabilities to the Nuovo Banco Ambrosiano.

Jaans sent telex messages to the Italian head offices of the Banca Nazionale del Lavoro, the Banco di Roma, the Banco di Santo Spirito, the Banco di Napoli, three other banks which together control one Luxembourg holding, and the Banco Popolare di Milano, demanding of all of them that they provide within 48 hours full credit guarantees for their holdings in Luxembourg. All but the last named are state-owned banks. Since the banks' activities involved foreign exchange transactions, the guarantee had to be accepted by the Italian central bank. Under threat of revocation of their licenses to operate in Luxembourg, all of the banks are believed to have complied, but not without considerable resentment, it was reported. The Luxembourg authorities also demanded that the Italian banks liquidate their holding companies as soon as possible and return shareholdings in their subsidiaries directly to the parent company. The banks have pointed out that they have in fact already been doing precisely that since a corresponding Jan. 1981 decision of the Italian government committee on credit.

A further effect of Rome's decision to put Banco Ambrosiano into liquidation was the surprise resignation of the president of the Milan bourse supervisory commission (Consob), Prof. Guido Rossi, who according to experts has done more than anyone to tighten up regulatory practices on the Italian capital market. Before leaving his position, Rossi submitted a report to a magistrate complaining of irregularities on the part of the Bank of Italy in the procedure followed in putting Ambrosiano into liquidation. The exact substance of the complaint is not known, but Rossi is reported to have been instrumental in forcing the bank to accept a bourse listing a few months before its collapse as one means of obtaining more information about its activities.

Denmark: Jörgensen Searches for New Coalition Majority

Following the rejection by the radical liberals of his coalition offer, Danish Social Democratic Prime Minister Anker Jörgensen is to continue his efforts to find a parliamentary basis for his minority government in September. Since the last election, Jörgensen has governed with center-left parliamentary support, but with increasing difficulty as economic conditions steadily worsened. The critical point appears to have been reached with the publication of draft figures for the 1983 budget, according to reports. Unless drastic changes are made, experts say, the deficit is expected to climb from DKr 51 billion this year to DKr 75 billion in 1983, equivalent to 15% of the GNP. Debt service will rise by 90% in 12 months to reach DKr 31 billion, while interest rates on Danish government bonds remain as high as 23%.

Radical liberal leaders rejected Jörgensen's offer of a coalition because the Social Democrats still refused to commit themselves to a modification of the wage-indexation system, and in any case such a coalition would not command a majority in the

Folketing. The Socialist People's party, on which Jörgensen had also relied previously for a majority, has meanwhile begun to voice demands for new elections as a consequence of the Social Democrats' alleged shift toward support for a tough austerity program. In September the premier hopes to be able to work out a compromise among all the major parties of the center-right on how to reduce the budget deficit.

Luxembourg: Modest Expansion in 1983 Draft Budget

Luxembourg's 1983 draft budget, approved by the cabinet just before the summer recess, emphasizes more government intervention in consolidating and diversifying the Grand Duchy's economic structure. On the other hand, no tax increases are planned; in fact, there would be some tax relief. For instance, the "solidarity levy" for the financing of the unemployment insurance fund would be lowered by half, to 2.5% of the standard income tax debt. Furthermore, the income tax rate schedules would be linked to the cost-of-living index. Additional fiscal measures would include more generous writeoff terms for interest debts, an increase of certain individual tax allowances by 20% to LF 18,000, tax freedom for extra pay earned for night work, and harmonization of interest charges on late tax payments.

The regular draft budget for 1983 projects expenditures of LF 51.9 billion, an increase of 7.2% over the current year. According to Finance Minister Jacques Santer, this means that the growth of public spending next year would remain below the inflation rate. However, this would also be true for the revenues, which are expected to rise by 8.7% to LF 57.2 billion. The revenue surplus would largely finance the extraordinary (investment) budget, which provides for expenditures of LF 7.8 billion (in 1982, LF 7.7 billion). A remaining LF 2.4-billion deficit would be financed on the domestic capital market, as was done this year, as well as from existing budgetary reserves, which currently amount to LF 2.7 billion.

Portugal: Compensation Plans for Nationalized Firms

The former owners of banks, insurance companies, and industry nationalized during the Portuguese revolution in 1975 may finally get compensation, but not necessarily in the form they want. The papers to be given out, with a total value of 200 billion escudos, will be valid only for use in new investment or in financing the restructuring of existing firms. The first stage of the compensation process will involve payments of almost 10 billion escudos.

In related news, the government is attempting once again to push through legislation to reprivatize to a greater or lesser degree parts of the state-owned corporate sector. Discussion centers around the new constitutional system due to come into force this fall. Last month, however, ministers failed to persuade Parliament to give the necessary majority to a motion which would have altered the clause in the Constitution guaranteeing the irreversibility of the 1975 nationalizations.

Switzerland: Truck Levy Bill Remains Controversial

Swiss lawmakers are scheduled to resume deliberations on the government's controversial truck levy bill in late fall. The measure would empower the government to impose a levy on heavy domestic and foreign trucks in order to generate additional income needed for road maintenance and construction of new roads and highways.

For over two years both houses of Parliament have debated the wisdom of such a levy because of its ramifications for international trade, but eventually they narrowed their differences among themselves and with the government and were prepared to consent to an amendment to the Constitution and to support the government's bill in principle. However, both houses made a major change in the original bill to the effect that,over a transitional period, trucks would be subject to an annual lump-sum levy ranging from Sfr. 500 to Sfr. 3,000, depending on axle weight. After that period, the levy would be based on truck weight and kilometers traveled per year.

Deliberations in Parliament came to a sudden stop when an independent commission discovered last spring that the government had made an error: in calculating how much truck owners already contribute to the maintenance of existing roads and the construction of new roads and highways through the vehicle tax, which is based on weight and engine displacement, the government disregarded an estimated Sfr. 200 million in road vehicle tax revenue. Many lawmakers were annoyed because they had relied on the government's figures in writing the levy figures into the bill. According to the government's calculations, the levy should be high enough to generate some Sfr. 350 million in revenue each year. Since the error was discovered, an increasing number of Swiss lawmakers once again are having second thoughts about the wisdom of the proposed levy.

The European Commission is now hoping that the levy will be shelved or at least delayed. Ever since the government presented the proposal, the EC executive has attacked it using two arguments: after Austria's unilateral action in 1978, a similar move by Switzerland would make it difficult to arrive at a European solution; also, the measure violates the EEC-Swiss free trade agreement *(Common Market Reports, Par. 3863.01)*, Article 18 of which prohibits the parties from taking measures or resorting to practices of international taxation that discriminate against the other party's products. A road levy would increase prices of goods imported by truck, according to the Commission.

EURO COMPANY SCENE

On August 16, the management of Küppersbusch AG, Gelsenkirchen, a subsidiary of insolvent AEG-Telefunken, applied in court for the opening of compulsory settlement proceedings with its creditors. Thus, Küppersbusch, a manufacturer of household appliances employing 2,000 people, became the first subsidiary of Germany's No. 2 electrical and electronics holding to be drawn into the financial collapse of its parent company. The legal move became necessary after the court-appointed trustee of AEG refused to approve the planned transfer of some DM 20 million to the subsidiary.

International Telephone & Telegraph Corp. (ITT) has accepted the offer of the French government to take over the company's four French subsidiaries for FF 350 million. At the same time, ITT has pledged to cover any operating losses above FF 100 million that the subsidiaries might incur in the period from Jan. 1 to Sept. 30, 1982. The ITT subsidiaries were the last four firms scheduled to be nationalized by the Socialist government; they are Cie. Générale de Construction Téléphonique (CGCT), Pouyet, La Signalisation, and Laboratoire Général de Télécommunication.

Continental Illinois Bank (Switzerland), Zurich, has converted its existing subsidiary, Continental Illinois Investment Advisory Corp., into a regular banking branch at Geneva.

As part of an international reorganization, Chemical Bank is putting its 12 European subsidiaries under the control of new administrative headquarters in London. The U.K. operations center will be moved from London to Cardiff, South Wales. A second Spanish branch is to be opened in Barcelona.

Aetna Life & Casualty, the leading U.S. nonmutual insurance company, has agreed in principle to pay £66.1 million for a 40% stake in Samuel Montagu & Co., the London merchant bank, which is owned by Midland Bank. The agreement further provides that Aetna and Midland make available £40 million in additional capital to Samuel Montagu over the next five years to expand the bank's activities.

Ford Motor Co. is proposing to invest up to $1 billion in an assembly plant in Portugal that eventually would turn out 200,000 cars a year. The plant would be located at Sines, a deep-water port and important industrial and petrochemical center south of Lisbon; it would employ some 5,000. The final decision on the project is to be made by the end of the year, and, if given the green light, the project would be the largest foreign investment ever undertaken in Portugal. Production would begin in late 1986 or early '87, and 95% of output would go into export.

Common Market Reports

EUROMARKET NEWS

Issue No. 711 *Report No. 456, September 1, 1982*

IN THIS ISSUE

Community: Commission Moves Against Ford's Sales Policy

The Commission has ordered Ford AG, Cologne, to reinstate its earlier sales policy and resume supplying right-hand-drive models to continental dealers. Under the terms of the interim order (proceedings aimed at a final decision will be initiated soon), the company must immediately reverse its April decision withholding right-hand-drive cars from its German dealers and must supply them at once with 1,000 models to fill current orders. There is a 1,000-ECU penalty ($1,000) for each day of noncompliance.

With its order the Commission reaffirms its philosophy, based on EEC competition rules, that, for the sake of free competition, customers must be in a position to buy anywhere in the Common Market to take advantage of the best offers *(Common Market Reports, Pars. 2005, 2011, 2422, 2551)*. The price of Ford models in Germany is roughly 20% lower than in Britain and Ireland. Soldiers of the British army, but also others, have bought right-hand-drive cars in Germany and taken them to the U.K. and Ireland at a considerable saving. British and Irish dealers complained to Ford's management, which told its German dealers to stop selling right-hand-drive models as of May 1, 1982. German sales of such cars represent only a fraction of a mushrooming trade that developed from a few thousand in 1979 to around 50,000 last year, or about 3.5% of total U.K. sales of new models.

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

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The action against Ford AG is expected to be followed by similar moves against British Leyland, Bayerische Motoren-Werke, and Fiat. All four were named in a complaint lodged last May by the Member States' national consumer groups'organization, BEUC. Refusal to supply continental European dealers with right-hand-drive models was one of several points made in the complaint. Not all automakers have gone so far as to stop sales of such models altogether. For example, BMW raised prices for right-hand models in all markets but the U.K. in an attempt to remove the price advantage on the Continent.

Council to Face Suit Over Transport Issues

The European Parliament's transport policy committee has overwhelmingly recommended suing the Council of Ministers for inaction in the transport policy field; the full house is scheduled to vote on a motion to this effect on September 15. If the motion is carried, which observers in Strasbourg expect, it will be the first time that the European Parliament has sued another Community institution for failure to act.

EEC Treaty Article 175 allows the Member States and Community institutions to sue the Council or the Commission before the Court of Justice for inaction, which is contrary to the Treaty of Rome, but there has been no instance where such a case has come to court. The Council would have two months to answer if the EP decides to sue. If no reaction is forthcoming or the Council reacts negatively, the EP would have to wait two more months before the suit could be filed with the Court of Justice *(Common Market Reports, Par. 4646.01)*.

Members of the European Parliament have been complaining that the Member States' national transport policies hamper intra-Community trade, hinder the creation of conditions similar to those of an internal market, and thus prevent the proper functioning of the Common Market. Lack of progress in the long run could put the customs union in jeopardy, according to the transport policy committee. EP members believe that the national rules on vehicle and gasoline excise taxes should be harmonized. (Harmonization plans exist, but the Commission sees no chance of realizing them and therefore has not presented the proposals, already drafted.) Parliament wants the Council to act on many pending proposals designed to align national technical standards, especially those on maximum weights and measurements of trucks *(Common Market Reports, Par. 1812.35)*. The EP insists that further progress be made in the alignment of national social provisions for all personnel working in all modes of transport, and not just for truckers *(Common Market Reports, Par. 1812.33)*.

The Treaty of Rome does not establish a deadline for implementing a common transport policy, in contrast to other areas such as the customs union and right of establishment. The Commission and the Council have discretion in establishing deadlines *(Common Market Reports, Par. 1811)*, but 25 years have passed since the Treaty of Rome was signed, and a deadline still has not been set, EP lawyers point out. They are convinced that the Court of Justice will establish that the Council failed to act, but they doubt whether a victory will bring about a change in the situation.

Many observers believe that the object of the European Parliament's move against the Council is not only to achieve progress in the development of the common transport policy but also to improve its image in the eyes of the general public. Polls show that Parliament ranks last in public esteem of all the Community institutions. In 1984 some 150 million voters in the ten Member States will be called to the polls again to elect, for the second time in direct elections, their 434 representatives to the European Parliament. It is hoped there will be a larger voter turnout than in the first direct elections held in June 1979 (ranging from 31% participation in the U.K. to 81% in Italy).

In Brief . . .

The record grape harvest expected for most of the Common Market's wine-producing regions, especially in France, will put the EEC's wine market organization to the test. Considerably expanded last July to cope with wine surpluses and to prevent new violence in France over imported cheap Italian wines, the system raises reference prices for wine and promotes distillation of excess wine into industrial alcohol. Observers anticipate that the costs of the distillation program, now running at $340 million a year, could reach the $400-million mark for the 1982-83 harvest year + + + West Germany's economic significance within the Common Market has remained the same over the past two decades, while that of the U.K. declined. A recent Commission survey comparing the Member States' gross national products and expressing economic achievements in terms of purchasing power rather than in ECUs or dollars shows that the German economy's contribution to the Community's overall economic performance remained constant at 26.1% between 1960 and 1980, while the U.K.'s contribution dropped from 25.5% to 19.2% during the same period. Other Member States showing increases were France (from 18.9% to 21.9%), Italy (from 16.4% to 18.5%), the Netherlands (from 5% to 5.5%), Belgium (from 3.7% to 3.9%), and Greece (from 1.3% to 2%). Ireland's economic significance remained the same, at 0.8%, and so did Luxembourg's, with 0.2%. Denmark's share dropped from 2.3% to 2.1%.

Germany: Outcome of AEG Crisis Hinges on Many Factors

On Aug. 9, AEG-Telefunken instituted court proceedings *(Vergleich)* seeking a compulsory settlement with its creditors. The crisis produced by the insolvent manufacturer, Germany's second largest producer of electrical appliances and electronic equipment, is having repercussions, and many of AEG's subsidiaries and suppliers may be dragged into insolvency or bankruptcy. The extent of the economic consequences and effects for AEG-Telefunken, its subsidiaries, and tens of thousands of suppliers depends first of all on the AEG managing board's efforts to secure enough credit from its house banks and other financial institutions to continue production and to pay wages and salaries. On Aug. 19 a bank consortium led by the Dresdner Bank and the Deutsche Bank granted AEG a DM 1.1 billion credit, DM 600 million of which must be backed up by the government. Additional credit will be necessary, however, and so will financial support promised by the federal government and several state legislatures. So far government support is confined to giving guarantees to back up loans provided by banks, but several financial experts say that this is not sufficient. A number of economists believe that AEG's survival will also depend on the closure of many more money-losing subsidiaries and the elimination of at least 30,000 jobs. Equally important, AEG's fate also hinges on the reaction of customers and suppliers. In similar situations, a supplier often no longer extends credit to the manufacturer or may simply stop delivering raw materials.

There were many reasons for AEG-Telefunken's insolvency, and questionable management practices are only one, according to economists, who also see weak points in an otherwise good management control system provided by the Stock Corporation Act. They criticize a widespread practice, also applied by AEG, under which retiring managing board members are given a seat on the supervisory board, which is supposed to control the managing board. In the economists' opinion, shared by many corporate executives, the supervisory board failed in many instances to use its statutory power to deny approval of policy decisions (for example, buying up financially weak companies) proposed by AEG's managing board or to exert its influence to reverse decisions that later turned out to be wrong *(Doing Business in Europe, Pars. 23,222, 23,223)*.

High production costs, caused primarily by high wages, and greater competition from its major German competitor, Siemens, and Japanese products, especially in the electronics sector, are among other reasons for AEG's insolvency. AEG did a lot of pioneer work in the development of nuclear power plants, and it lost huge sums of money when the antinuclear movement and prohibitive costs delayed completion or the start of A-plant construction. AEG management failed to transfer some of the production lines to low-cost countries abroad, as its competitors did. High costs and the burden of high taxes and social security contributions left little to invest, and high interest rates have been a barrier to borrowing. The general recession besetting the entire economy reduced buying power, and sales of kitchen appliances, one of AEG's main production lines, were especially affected. Critics suggest that the unions have done nothing for the survival of AEG: wage cuts or forgoing raises for a year or so would have been appropriate, they say.

Despite the uncertain future of AEG-Telefunken and its subsidiaries, the pensions and pension rights of the employees are secure. No matter how many thousands of employees may lose their jobs as a result of the planned restructuring of the industrial giant, their rights are secured by the *Pensions-Sicherungs-Verein*. Established under a 1974 statute, this private organization, with 34,000 contributing members, guarantees continued payment of company pensions in the event the employer becomes insolvent or goes bankrupt; it also secures three months' back pay *(Doing Business in Europe, Par. 23,433D)*. Right now the contributions are 0.2% of the reserves set aside by employers for pension purposes. The Cologne-based organization has told its members that the rise in bankruptcies this year, and now AEG-Telefunken's insolvency, will necessitate a substantial increase in the contribution rate, which could bring it to 1%. A company with 300 employees and a DM 3-million pension reserve may have to pay DM 30,000 annually instead of the DM 6,000 it paid in 1981.

Italy: No Significant Changes in New Government

The new Italian government is expected to be again based on a five-party coalition under Prime Minister Giovanni Spadolini. There will be only minor changes in the list of cabinet ministers made up of Christian Democrats, Socialists, Republicans, Liberals, and Social Democrats. Spadolini, a Republican, resigned on Aug. 7 after his government suffered a defeat in the lower house of Parliament over a minor tax bill that had received the Senate's approval earlier. Several Socialist deputies voted against the measure out of opposition to the government's planned austerity program involving a budget cut of 57,000 billion lire.

Many observers predict a longer life for the second Spadolini administration than the first one, which lasted 13 months. This optimism is based on the way Spadolini handled the recent crisis, the institutional reforms he planned, and the selective support he received from the Communists, especially for the way he chose his cabinet. Under the Constitution, the designated prime minister alone selects candidates, but Spadolini instead asked the five parties to come forward with choices of their own.

Virtually all observers agree that the survival of the new government will depend on the success or failure of the planned austerity program. A major issue in the 10-point program concerns fighting inflation, and the government hopes that this year's rate of inflation will not exceed 16%. The projected figure for 1983 is 13%, and 10% for 1984. Spadolini wants to revive the dialogue between the unions and management and hopes that both sides keep in mind the government's inflation control goals when negotiating new union contracts.

Individual taxpayers are promised relief from the increased tax burden, brought about by creeping inflation that moved them into higher tax brackets. Businesses may count on help in borrowing to overcome the hurdles of high interest. But the government also plans to step up its drive against tax evasion. Additional investments by the government throughout the country and increased engagement in the Mezzogiorno are supposed to secure existing jobs and create new ones.

Sweden: Bill Would Remove Barriers to Foreign Banks

The Swedish government is preparing amendments to existing legislation that would allow foreign banks to establish branches in Sweden. An 1886 statute denies aliens this right and allows only resident Swedish nationals to act as bankers and to create and run a banking establishment. Since 1973, foreigners have been able to act as representatives for banks abroad, and major American, French, and British banks are represented in the Swedish capital. But these representatives are still restricted in their banking activities: they may not do more than offer their bank services to individuals and the Swedish business community.

Subject to the principle of reciprocity, the amendments would entitle foreign banks to establish financial institutions in the country. No decision has been reached as yet on whether foreign banking institutions would be put on an equal footing with domestic banks in all respects. A commission of experts is expected shortly to advise the government on allowing foreign banks to trade in foreign exchange and to engage in branch banking. Also still open is whether foreign banks should be required to buy government bonds, as Swedish banks must, when asked to do so by the government.

For many decades, Swedish bankers were opposed to any change in the 1886 statute, but they began to think otherwise in the years after 1973. Since then representatives of the 16 foreign banks in Sweden have been active in establishing connections between major Swedish manufacturing companies and foreign banks. Many Swedish bankers allege that these representatives are trying to pick the raisins from the financial cake, and that the foreign banks have many advantages apt to distort competition. For example, foreign banks need not establish mandatory reserves and need not buy government bonds; they also are not required to set aside reserves to cover credit risks. Swedish bankers believe that these advantages will disappear when foreign banks are admitted to Sweden and put on equal terms with domestic banks. Moreover, abolishment of restrictions on foreign banks would allow Swedish banks to go abroad.

Austria: Government to Propose Bill on Special Industrial Waste

The Austrian government has asked industry associations, local governments, and environmental groups to comment on a preliminary bill designed to control special industrial wastes that present a hazard to man and his environment. Of the 250,000 tons of these wastes produced by industry each year, only about 50,000 tons are treated and disposed of in a manner that meets recognized environmental standards applied in countries like Sweden, Denmark, and Switzerland.

There is only one facility in all of Austria that is equipped to treat industrial wastes such as chemicals, paints, and plastics. Often industrial wastes are dumped together with household garbage on designated sites. Since two-thirds of the estimated 1.5 million tons of garbage are dumped untreated each year, the hazards to human health are considered very serious. The situation has led to a number of scandals in recent years, primarily involving pollution of groundwater in several areas of the country. At present it is left to manufacturers themselves to dispose of special industrial wastes. Only in a few instances have local governments stepped in and issued ordinances on the disposal of such wastes. There are no state laws on the matter because the states lack the power to enact them. Austria's Constitution also lacks a clause that would give the federation the power to legislate, and there are no moves as yet to amend the Constitution. The bill is therefore based on other federal laws, which in turn are based on the Constitution's commerce clause.

The bill would require manufacturers to keep account of the type and quantity of special wastes produced or stored on their premises. A manufacturer would have to hand the waste over as soon as possible to a specially licensed disposal business, which would transport the waste to disposal facilities. Both the transporting firm and the disposal facility would have to keep a record of the type of waste and how much was transported or received on a particular day. Government officials would be authorized to enter at any time the premises of the manufacturer, transporting business, and disposal facility.

Critics see several shortcomings in the bill. They believe that the measure would hardly change the situation because nothing is said about what should be done with the remaining 200,000 tons of industrial waste that is not treated at the moment. Even the second disposal facility, still in the construction stage, could handle at the most only 40,000 tons annually. The critics support the polluter-pays principle, but they are skeptical about the free-enterprise approach envisaged by the government in the bill (waste treatment and disposal would be handled by private companies). Treatment is technically complicated and rather costly, critics say.

Environmental groups have attacked the government over the proposed exemption from the bill of sludge, a by-product of sewage plants which contains heavy metals such as cadmium and chromium in high concentrations and is used by farmers as fertilizer. There is a danger that the concentration of these chemicals in human blood rises with the consumption of vegetables grown in soil fertilized by sludge, sometimes repeatedly.

Environmentalists also point to the absence of any professional qualifications for individuals running a disposal facility. In their view, such a person should have a basic knowledge of chemistry.

Switzerland: Bern Determined to Lower Car Exhaust Levels

The Swiss government reportedly remains steadfast against criticism of its plan to tighten standards on automotive exhausts and noise levels. Regulations reducing permissible levels of carbon monoxide, hydrocarbon, and nitrogen oxide emissions are scheduled to take effect on Oct. 1, 1982; further restrictions would take effect on Oct. 1, 1986. Tightened noise abatement rules would also become effective on Oct. 1, 1982.

Swiss experts estimate that approximately one-third of the roughly 100 automobile models now imported (Switzerland has no car industry of its own) could no longer be sold on the Swiss market. All European car makers would be affected by the new standards, which incorporate the rules applied in the United States, Japan, and to some extent also in Sweden. Because of the adverse effects on European manufacturers, the European Commission intervened several times on behalf of Common Market-based auto manufacturers,and so did Switzerland's car importers' association, but neither succeeded. Some of the present models could no longer be imported because they fail to meet the tightened exhaust standards, while others will be barred because they are too noisy under future noise abatement rules. The present maximum noise level for cars is 78 decibels (db(A)); 77 db(A) will be the maximum allowed after Oct. 1, 1982 *(Doing Business in Europe, Par. 29,546A)*. Under the automotive exhaust restrictions, also to take effect on Oct. 1, engines of cars imported into Switzerland may not emit more than 24.2 grams of carbon monoxide, 2.1 grams of hydrocarbons, and 1.9 grams of nitrogen oxide per traveled kilometer *(Doing Business in Europe, Par. 29,545A)*.

EURO COMPANY SCENE

Neff-Werke GmbH in Bretten and Zanker GmbH & Co. KG in Tübingen, two subsidiaries of the insolvent AEG-Telefunken firm, went to court on Aug. 17 to apply for liquidation proceedings. The closure would affect only the production companies and not the independent sales entities. Around 2,700 jobs will be eliminated. The kitchen appliance manufacturers Neff and Zanker have been in the red for years. Their closure is part of the AEG-Telefunken restructuring plan aimed at cutting back the parent company's sprawling household appliances division, which ran up losses of more than DM 100 million in 1981; the figure is expected to double in 1982.

Nabisco Brands, New York, has reached a tentative agreement with Whitbread, the British brewing company, to sell its wines and spirits division (Julius Wile, Fleischmann Distilling) to Whitbread for about $155 million. Nabisco's takeover bid for the British biscuit manufacturer Huntley & Palmer is still pending before the U.K. Monopolies and Mergers Commission.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Details of Published 'Seveso Directive'

The recent publication of the Council directive on major accident hazards of certain industrial activities provides businesses with the details of one of the Community's most important pieces of environmental legislation (Official Journal, No. L230, Aug. 5, 1982, pages 1-18). The Member States have until Jan. 8, 1984, to comply with what is generally referred to as the Seveso Directive. The purpose of the measure is to reduce the risk of Seveso-type disasters by establishing broad reporting requirements for manufacturers engaged in certain hazardous industrial activities. Once the States have enacted pertinent legislation, manufacturers will have to notify the authorities if they use, produce, or store the nine gases and chemicals listed in Annex II or any of the 178 dangerous substances listed in the directive's Annex III.

Manufacturers' reports will have to contain data about the substances, such as the chemical name and composition, as well as information on methods and precautions for handling and storage and on emergency measures to prevent accidental dispersion. Manufacturers also will have to furnish information on possible

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dangers arising from the location of the site, general descriptions of the processes used, the number of people working on the site, potential sources of major accidents, and a description of preventive measures. Finally, manufacturers will have to give details about emergency plans, alarm systems, and available resources to cope with accidents. The authorities will have to be furnished with information needed to meet contingencies in emergency situations.

The employers will have to inform employees about potential hazards involved in the production and storage of dangerous substances and flammable gases. The Member States will be required to inform the Commission without delay about major accidents that occur in their territory, including details about the types of accidents, their causes, nature, and extent of damage.

The 1976 disaster in the north Italian town of Seveso involved the accidental escape of a poisonous gas, causing severe injuries and evacuation of the entire population. It prompted the Commission to take the legislative initiative to reduce risks of this kind in the future *(Common Market Reports, Par. 10,158)*. The Commission needed three years to prepare the proposal. One of the difficulties was that the Treaty of Rome fails to give the EEC legislative powers to protect the environment. Article 235 was used as a basis to fill this statutory gap *(Common Market Reports, Pars. 5325-5326)*.

Environmental groups from several Member States have expressed their disappointment over the fact that the measure was watered down during Council deliberations. Commission officials say that concessions had to be made in order to obtain the consent of all Member States.

Farm Policy Expenditures Dropped in 1981

Expenditures of the EEC's common agricultural policy were lower in 1981 than in 1980, which was the first time this happened in 18 years. Since 1974, farm spending had increased steadily at an annual rate of 2.7% to 8.4%.

In its report on the European Agricultural Guidance and Guarantee Fund (EAGGF) covering 1981, the Commission says the drop is attributable to several reasons: reduced production of several commodities (especially milk), more efficient management of the individual market organizations by the national intervention agencies and the EC executive, and steady world market prices for a number of products. The report also describes the efforts made to detect fraud, such as that committed in obtaining export subsidies. Around 150 cases of fraud were reported to the Commission by the national authorities; they involved a total of 15 million ECU (roughly $15 million), of which 1.4 million ECU was recovered.

Expenditures of the Guarantee Section totaled 10.9 billion ECU in 1981, compared with 11.3 billion ECU in 1980. Most of the money was spent to guarantee farm produce prices, buy and store surplus commodities, and compensate exporters for differences between Community and world market prices *(Common Market Reports, Pars. 901, 911)*. Actual 1981 expenditures fell well short of the original appropriations of 12.8 billion ECU. The savings recently prompted the European Parliament to propose to the Council of Ministers allocation of some 400 million ECU for research projects in the Common Market and for aid to developing countries. However, the Council rejected the proposal.

According to the report, the most substantial savings were achieved for milk and milk products (3.3 billion ECU spent, compared with 4.7 billion ECU in 1980). The percentage of expenditures in this sector dropped to 30.4%, from 42% in 1980, which was due to slower expansion of milk production (here the producer's levy showed effects). Furthermore, consumption of fresh milk products increased without expensive promotion campaigns. World market trends were favorable (prices for some products rose), so that exporters could sell more outside the EEC and yet needed fewer export refunds.

Lower Bank Rates in Germany, Italy, Holland, Switzerland

In keeping with the international downward trend of interest rates, the central banks of four European countries reduced their rates during the last week of August.

The first move was made by Italy on Aug. 24, following the installation of the latest Spadolini government, when the Banca d'Italia reduced its discount rate by 1%, to 18%. It was the first change in the rate since the last increase 17 months ago which had driven up commercial bank rates to between 25% and 30%. Observers interpreted the step as confirming suspicions that Rome will give up Premier Spadolini's earlier commitment to tough economic austerity measures, the implementation of which was attempted in a series of decrees published shortly before the government crisis. It remains to be seen, commentators said, whether the "new" administration will succeed in getting Parliament to approve the decrees within the required 60 days.

In Germany, the Bundesbank on Aug. 27 cut its discount rate from 7.5% to 7% and its Lombard rate from 9% to 8%. Most major commercial banks followed suit by dropping their own rates by similar percentages. Central bank president Karl-Otto Pöhl expressed hopes that the decision would ease financing problems for businesses and improve conditions in the home construction sector. In Bonn, Finance Minister Manfred Lahnstein termed the reduction "a clear interest rate signal" which will be to the benefit of an "urgently needed" economic upturn.

The Dutch central bank reduced its three official rates: the discount rate was brought down from 8% to 7%, the Lombard rate from 8.5% to 7.5%, and the Sola bill rate (on which the commercial banks' credit rates are based) from 9% to 8%.

Finally, in Switzerland, where lower rates have been prevailing all along, the central bank cut its discount rate by half a point to 5% and the Lombard rate by an equal percentage, to 6.5%.

Britain: Clearing Banks Also Cut Base Rates

In Britain, following consistent pressure by the Bank of England through its operations in the U.K. money markets, the clearing banks have again brought down their base lending rates by 0.5%, to 10.5% - the lowest level for almost four years. This latest cut, the fourth within six weeks, comes in the wake of the reduction to 10% in the key discount rate of the U.S. Federal Reserve Board and is in marked contrast to the record 16% rate of last fall.

The downturn in interest rates has been welcomed by the Confederation of British Industry, which has long been advocating the need for cheaper overdrafts to help U.K. companies affected by the economic recession. The CBI's deputy director-general, Kenneth Edwards, said the reduction would ease the cost burden on companies, which has made it difficult for them to compete effectively in the world markets. Edwards emphasized, however, that it is essential that this trend continue.

The CBI has estimated that, in a full year, a 1% cut in the base lending rates saves U.K. industry £250 million on its total borrowings of some £50 billion.

France: Dresser Ordered to Fulfill Pipeline Contract

On the same day that the French government issued instructions to the Dresser Industries subsidiary in France to fulfill its contract to deliver 21 compressors for the Siberia-Europe oil pipeline, three of the machines were loaded onto a Soviet freighter at Le Havre, bound for Riga. The French requisition law activated for this purpose dates back to 1938 but was modified in 1950 and 1959 to apply to situations of national urgency. In addition to Dresser, Creusot-Loire, which is also involved in the manufacture of the compressors, received similar notification. The companies were thought to have been waiting for the requisition orders in order to have a legal basis for ignoring the U.S. ban on high-technology exports to the Soviet Union. The U.S. sanctions, intended to "advance reconciliation in Poland", according to Reagan administration statements, were extended in June to include the subsidiaries and licensees of U.S. corporations abroad. This move was seen in Europe as another attempt at extraterritorial extension of U.S. legal jurisdiction.

Reactions in the United States to the French government's move were muted. The Commerce Department undertook what it described as a "measured response" and ordered a temporary ban on the export of all U.S. products, services, and technology to the two French companies concerned. No direct action was taken against the American parent company, Dresser Industries, Inc. The firm's management in Dallas, meanwhile. said that Dresser's French subsidiary has the means to build any machinery independently of supplies from the U.S. Nevertheless, Dresser France did file a protest with the Commerce Department against Washington's denial orders, saying they were unconstitutional and not in keeping with international law.

Paris Wants Savings to Benefit Securities Markets

The French cabinet has approved and sent to Parliament various measures that would encourage long-term savings and generate new funds for the stock and bond markets. The latest proposals are in effect supplementing or improving savings incentives enacted under the previous Giscard d'Estaing administration.

The tax-free allowance on income from fixed-interest securities (bonds) is to be lifted from FF 3,000 to 5,000, with the tax rate itself remaining at 25%. Also, savers would receive a 20% tax credit for any share investments of up to FF 10,000 annually, and each household could maintain two such share savings accounts. This new arrangement would replace provisions of the 1978 "Monory law" under which taxpayers are allowed to deduct from their taxable incomes FF 5,000 in share investments in each of four subsequent years; the deductions are higher for those with children.

The government furthermore proposes to eliminate the 50% tax credit on net dividends *(avoir fiscal)*. This arrangement is to be replaced by a system of graduated tax credits, which, however, would remain advantageous to both individual and corporate taxpayers.

To strengthen their equity capital base, companies would be authorized to issue nonvoting but dividend-preferred shares, while public and nationalized enterprises could gain access to savings funds by issuing investment certificates and share-linked savings certificates.

According to a recent study, the French tend to keep their savings in short-term deposits or even cash. Only 20% of savings go into long-term investments, as opposed to 56% in Germany.

Germany: No Shopping After Regular Closing Hours

Two high court rulings are affecting shoppers in two major German cities where they could buy after regular closing hours. The Supreme Civil Court has held as unfair certain practices of a chain clothing store with a major outlet at Frankfurt's Rhein-Main Airport. The Supreme Administrative Court has ruled that the City of Stuttgart broke the law by granting licenses to sell until 10 p.m. to some 80 businesses in an underground shopping mall linked with the main railroad station.

Under heavy union pressure and ignoring the protests of the business community, Parliament adopted a law in 1956 *(Ladenschlussgesetz)* that limits store business hours from 7 a.m. to 6:30 p.m. on Mondays through Fridays and from 7 a.m. until 2 p.m. on Saturdays; on the first Saturday of the month, stores may stay open until 6 p.m. There are some exceptions: filling stations may stay open around the clock, newsstands may sell until 7 p.m. on weekdays and between 11 a.m. and 1 p.m. on Sundays and holidays. Pastry shops and stores selling milk and milk products may stay open on Sundays. Outlets in railroad stations and at airports may stay open every day of the year to sell what a traveler normally needs.

A Frankfurt-based organization promoting fair practices objected to the broad range of products the clothing store at the airport offered and brought suit. In court there was some disagreement about what a traveler's normal requirements might be. There was also discussion about how to limit sales to travelers, although in none of the establishments at train stations and airports are buyers ever asked whether they are travelers. The Frankfurt Court of Appeals decided that the clothing store's practices, considering the product range and unlimited access to the store, violated the Law on Unfair Competition *(Doing Business in Europe, Par. 23,526)*. The Supreme Court followed this reasoning, which means that the store will have to reduce its range and will also have to restrict sales to travelers only, which could be done by asking to see shoppers' travel tickets.

In the case involving Stuttgart's underground shopping area, the city had justified the permits with the argument that, with earlier closing hours and thus fewer customers, the mall would soon become a target for criminals. The Supreme Administrative Court said that the 1956 law does not allow public order considerations to affect the granting of licenses. Meanwhile, the city administration has told the shop owners that licenses will have to be revoked as of 1984. Having succeeded in administrative court, the retailers above the underground shopping area are now considering bringing damage suits against the city in civil court.

Ireland: OECD Predicts Marginal Growth for 1983

According to the most recent OECD economic survey on Ireland, that country's economy will experience a marginal increase of 2.75% in real-term GDP growth in 1983, following 1.75% recorded in 1981 and again expected in the current year. The last two years are seen as having been marked by considerable economic deterioration, with unemployment having risen to over 12% and inflation to over 20%. The external deficit increased to the equivalent of 13% of GDP in 1981. The OECD regards the present situation as unsustainable, particularly since Ireland's external debt is expected to reach over 40% of GDP this year, with interest payments approximately equivalent to 4% of GDP. Including repayments of principal, the total amount due in 1982 will be 7% of GDP, compared to 4% in 1981.

A major problem is seen to be the size of the public-sector borrowing requirement, which rose from 13% of GNP in 1977 to over 21.5% in 1981. One reason for this expansion has been an adjustment in the taxation system after 1975 which resulted in the growth of revenues falling behind that of expenditures. Dublin took action in July 1981 and March 1982 to reduce government borrowing and at the same time tightened monetary policy. It may, however, prove difficult to keep to the new stringent budget targets without better control of spending and increases in taxation. Nevertheless, some progress is expected over the next 18 months in reversing adverse trends.

According to the OECD, domestic demand will remain weak and the terms of trade will improve, so that Ireland's current-account deficit should decline, relative to GDP. At the same time, a fall in the inflation rate to about 14% is predicted for 1983, but this would be due entirely to a moderation of the rise in import prices.

Sweden: Improved Outlook for Trade Balance

In its latest survey on Sweden, the OECD says that prospects for the Swedish economy will generally improve during the remainder of 1982 and in 1983 as world markets begin to recover and the results of recent wage moderation agreements enhance industry's competitiveness abroad. The September 1981 devaluation of the kronor had been expected to give a considerable boost to exports, but slack order books suggest that the impact may be less than anticipated at the time. The OECD survey now projects exports of manufactured goods to rise by 5.5-6% in 1982 and by 7.5% in 1983. Because exports of raw materials and invisibles (services) will lag behind, total exports are forecast to expand by 5.25% this year and 6.5% in 1983. Overall, the OECD predicts a significant improvement for Sweden's trade balance, with the current-account deficit expected to decline to SKr 11 billion in 1983, from SKr 15 billion in 1981.

The economy as a whole is expected to grow by only 0.75% this year, though the rate should reach 2.5% in 1983, according to the OECD. The main factor holding back output is seen in the continuing stagnation and even decline in public consumption, not least because of waning fixed investments by the state. The story is similar for private consumption, which is forecast to decline by 1% this year and show only marginal growth in 1983. The unemployment rate is predicted to hover at around 3% this year and rise marginally next year. One positive note concerns the inflation rate, now at 8.5%, which the OECD predicts will fall to 5.5% in 1983.

Spain: Early Elections Scheduled for Oct. 28

Following a long period of uncertainty, the Spanish prime minister, Leopoldo Calvo-Satelo, has scheduled early elections for Oct. 28. King Juan Carlos on Aug. 27 approved the dissolution of Parliament, whose current four-year session normally would have lasted until next March.

The political crisis was brought on by the gradual disintegration of Calvo-Satelo's governing Democratic Center Union (UCD) and its resultant loss of a parliamentary majority. Originally with 176 seats in the 350-seat Parliament, the UCD has been deserted by MPs representing both its left and right wings, so that the party has been left with only about 120 mandates. Commentators said the prime minister's decision to call early elections (after months of hesitation) was motivated chiefly by a concern not to leave much time for the consolidation of newly formed political parties. The foremost among these is the Centro Democratico y Social (CDS), constituted last July by Adolfo Suarez, the ex-premier and ex-UCD leader.

The best chances for winning the elections are currently given to the Socialist PSOE and its secretary-general, Felipe Gonzales. In fact, Gonzales himself is convinced that the PSOE will be able to gain the minimum 176 seats needed for an absolute majority. This would be a 45% improvement over the 1979 election results, when the party won 121 mandates. According to the latest opinion polls, the PSOE probably would wind up with 168 seats if the elections were held now.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Thorn to Visit Capitals Over EC Enlargement

Commission president Gaston Thorn will travel to each of the ten Member State capitals in the coming weeks to talk with government leaders about problems that will confront the Community if Spain and Portugal become the eleventh and twelfth Members, as planned for Jan. 1, 1984. Thorn's journeys are prompted by the European Council's request in June for a Commission report on these problems for the next meeting of the Member States' government leaders in December. In July, Thorn had asked the leaders to put in writing their views on specific aspects of Community enlargement, and so the Commission is now informed about the States' positions on what the EC's enlargement would entail in additional burdens, financial and otherwise.

To some Brussels observers, the European Council's request for another report looks like a further move to "save face" and not honor the scheduled admission date. In their view, the request reflects the hardened line that several States have adopted over the last year or so as they seriously considered the consequences of admitting Spain and Portugal. Not only would wine and citrus growers be affected, but also the added financial burden would be considerable.

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

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The French government has been concerned the most, as President François Mitterrand implied when he visited Madrid in June. Adhering to the Jan. 1, 1984, admission deadline would mean that negotiations would have to be wound up by February 1983, at the latest, to allow enough time for ratification by the national legislatures prior to the 1983 summer recess. Mitterrand reportedly is concerned over the prospect of French National Assembly debates on the ratification bill at a time when regional elections are to be held. Observers point out that many Socialist candidates in the wine and fruit growing regions won in the May 1981 national elections because Mitterrand promised to help fight low-priced imports.

Commission officials indicate that the responses by the national governments were to be expected because the problems of admission had already been a major concern in the 1978 opinions given by the Commission on Spain's and Portugal's applications *(Common Market Reports, Pars. 9934, 9965)*. These problems have been the subject of several additional papers in which the Commission further elaborated on the consequences of admitting the two countries, and which also brought out the implications for the entire Mediterranean region and the administrative burden for the EC executive.

Uniform Rules on Outward Processing of Clothing

New rules went into effect on Sept. 1 establishing an outward processing system applicable to certain textile and clothing products reimported into the Common Market after being processed in certain third countries (Council Reg. No. 636/82, Official Journal No. L76, March 20, 1982). The rules create, for the first time, a uniform legal framework for the outward processing of textiles, the object of which is to save production costs so that consumers can buy reasonably priced products of good quality. Previous rules left Member States more room for legal and economic maneuvering because the Council's 1975 directive provided for harmonization of some, but not all, provisions on outward processing *(Common Market Reports, Par. 313.46)*. Regulation No. 636/82 has a broader scope because it relies on the Multifiber Arrangement (MFA) in setting the conditions for approving outward processing arrangements and promotes greater uniformity in the Member States' industrial cooperation with third countries.

Outward processing in the textile sector developed in the early 1970s in response to fast-growing, low-priced imports from the Far East. (Fabrics are sent to third countries, where clothing is sewn to the manufacturer's specifications and then reimported into the EEC.) Since wages in West Germany in the '70s rose faster than in any other Member State, German clothing manufacturers were the first to look for ways of holding down costs. Some relocated production to Mediterranean countries, but a far greater number chose cooperation with state-owned enterprises in East Bloc countries. Last year, West Germany's trade in outward-processed textiles amounted to 14.5% (DM 3 billion) of all clothing imports. Manufacturers from the Benelux countries and France also ventured into outward processing, though to a lesser extent.

One of the principles behind the new rules is that of maintaining production lines and preserving as many jobs as possible. Hence, a Common Market clothing manufacturer cannot close down production entirely and shift it to an East Bloc country. Another principle is that outward processing must as a rule be restricted to the textile industry. However, the German government successfully fought in the Council to allow enterprises other than clothing manufacturers to take advantage of outward processing so as to offer textile products at lower prices. Several department store chains and mail-order houses which have cooperation agreements with East Bloc enterprises may therefore continue this practice. But any outward processing contract now requires the Member State government's permission, and only semi-finished goods of EEC origin may be used.

In Brief...

Despite the U.S. Commerce Dept.'s Aug. 26 ruling that six European countries unfairly subsidized steel exports to the United States, Community officials still believe that the export limitation accord reached on Aug. 4 remains valid until the U.S. government says otherwise. The accord limits Community exports of 11 steel products to 5.75% of the U.S. market and will be in effect from Oct. 1, 1982, until the end of 1985. In 1981, European steel exports to the U.S. amounted to 6.4% of the market there + + + One amendment to the German Wine Law violates Community rules: Section 6(2) of the *Weingesetz* allows winegrowers in the Mosel, Saar, Middle Rhine, and Ahr valleys to add more sugar than is permissible under Article 32(1) of EEC Reg. No. 337/79 *(Common Market Reports, Par. 516G)*. The government did not become fully aware of the implications until after the amendment, sponsored by an MP representing a wine-growing district, had been rushed through prior to the summer recess. Rather than refuse to sign the bill, which would have required new legislation, Chancellor Helmut Schmidt resorted to a unique step: a footnote to Sec. 6(2) of the Wine Law published in the Official Gazette states that the amendment is contrary to Reg. No. 337/79 *(Bundesgesetzblatt,* Part I, Aug. 31, 1982, page 1200). Messages sent to the 11 German state governments said the same. Despite these efforts, the German government could still face legal action by the Commission.

Germany: Aiming for Tighter Air Pollution Standards

Chancellor Helmut Schmidt's cabinet has approved the strategy of Interior Minister Gerhart Baum emphasizing further progress in improving the quality of the air in Germany in the coming years, especially by lowering emissions of sulfur dioxide and nitrogen oxide. Economics Minister Otto Lambsdorff has cautioned against this strategy because of the implications for the economy.

A major objective is to reduce by 1995 sulfur dioxide and nitrogen oxide emissions by one-third. An estimated 3.5 million tons of sulfur dioxide are emitted in Germany each year; the country's 1,500 power plants and public utility heating plants account for roughly 85% of total emissions, while industry, households, and cars are responsible for the remainder. Sulfur dioxide and nitrogen oxide emissions are the main cause of the forest blight that is affecting an estimated 2.5 million of the country's 17.2 million acres of woodlands.

A draft regulation now being prepared and expected to be submitted next spring would drastically tighten emission standards for sulfur dioxide and nitrogen oxide, the total annual pollution from which amounts to 3.1 million tons. The cost of complying with the stricter standards is estimated to be DM 8 billion, and the utility companies are expected to pass on these costs to their customers. For this reason, Lambsdorff is against the plan.

Amendments to a 1974 regulation that are to be submitted to Parliament in October or November would contain new rules for the licensing of new industrial plants and would also tighten air pollution standards for industrial plants *(Doing Business in Europe, Pars. 23,543, 23,544A)*. The amendments would bring about lower sulfur dioxide emission levels for about 90% of the country's area. A business applying for a license for a new plant to be located in low-pollution regions would get the license only if operation of the plant would not raise sulfur dioxide pollution above the proposed lower levels. A license for a new plant in high-pollution regions (10% of the country) would be granted only if the most modern pollution control devices were installed and any additional pollution was more than compensated for by a reduction of emissions in other ways (for example, by closing down a plant or installing improved pollution control devices).

Also planned in the amendments are much stricter emission standards for 15 carcinogenic chemicals: the levels are to be reduced from 20 to 5 milligrams or less per cubic meter (for asbestos, to 0.1 milligrams). For fluor hydrogen, the permissible level would be lowered from 2 to 1 micrograms per cubic meter.

Denmark: Conservative Heads Four-Party Minority Government

For the first time this century, a Conservative is heading a Danish government: Poul Schlüter, 53, succeeded on Sept. 7 in forming a four-party coalition administration which included his own party, the Liberals (Venstre), Center Democrats, and Christian People's Party. The "four-leaf clover" cabinet, as it has been called, took over from the Social Democratic minority government of Anker Jørgensen, who had served as premier for nearly ten years. Jørgensen was forced to resign on Sept. 3 when all of the parliamentary opposition parties refused to support his proposed program of drastic budget cutting and higher taxes.

Schlüter's four-party coalition commands only 66 of the 179 seats in the Folketing. However, for the time being, it can also count on the support of the Progress Party (16 seats) and the Radicals (9), so that the government would have a majority of 91 mandates, under the best of circumstances.

The leader of the right-liberal Venstre party, Henning Christophersen, takes over as deputy prime minister and finance minister and therefore assumes responsibility for Denmark's ailing state finances. The budget deficit this year has been projected at 56 billion kroner, which corresponds to nearly 12% of GNP. Next year, according to Finance Ministry forecasts, the shortfall will rise to almost 74 billion kroner, or 14% of GNP. Christophersen believes that it is necessary not only to cut down state expenditures but also to pursue a tight incomes policy. When the next collective bargaining rounds start this fall, the finance minister wants the government to allow no more than 3-4% in pay increases for the public sector in 1983, compared with about 10% this year. The private sector must follow this lead, Christophersen argues, if Denmark is to reduce its inflation and unemployment rates, both currently around 10%.

The economic austerity plan proposed by the outgoing government projected expenditure cuts and tax increases that were to relieve the 1983 budget by 10 billion kroner and the 1984 budget by 20 billion. The most controversial issue with the nonsocialist opposition in Parliament was the government's insistence on taxing the interest incomes of insurance companies and pension funds which, because of the wide spread between the inflation rate and the extremely high interest rates, tends to be substantial. On the other side of the political spectrum, the labor unions protested the government's intentions to whittle down social welfare expenditures as well as public consumption and investment. Union leaders argued that a 10 billion-kroner reduction in public spending would lead to a loss of 40,000 jobs and raise unemployment to 11%. This, in turn, would mean that the net budget savings would total merely one-fifth of the government's intended target, they said.

France: Budget Moderation for 1983; New Jumbo Issue

An austerity-oriented draft budget for 1983 has been passed to the finance committee of the French National Assembly following cabinet agreement on proposals presented by Budget Minister Laurent Fabius. Total expenditure is to rise to FF 880 billion, a 12% increase over the expected results in the current year. This reflects the government's intention to bring down the rate of inflation to 10% by the end of this year and to 8% in 1983. Cuts in the administrative sector of government activity are expected to permit spending in this area to be kept to the same nominal level as in 1982, which would mean an effective reduction.

The only areas in which spending would rise are those where economic returns are expected in the form of higher employment. The Ministry of Research and Technology is to receive 21% more funding next year, bringing it up to FF 22.5 billion, and the Ministry of Industry would benefit from a 24% increase, to FF 11.5 billion. The bulk of Industry Ministry funds would go to the newly nationalized industries in the form of investment funding. In the medium term, Industry Minister Pierre Chevènement hopes to boost investment, which reached FF 62 billion last year but is stagnating at present, to FF 100 billion.

(In this connection, Economics Minister Jacques Delors warned board members of nationalized firms at a recent meeting that the treasury should not be regarded as a source of rescue funds for lame and bankrupt firms. In the future, he said, the state will expect public corporations not only to provide extra employment through top performance in technology and foreign trade but also to generate profits. Management failures and financial losses will not simply be covered by the government, Delors said, but lead to sanctions against those responsible as well.)

Reflecting the fact that the total tax burden in the draft budget remains at 18.3% of GDP, the budget deficit shows a nominal increase to FF 118 billion. Personal income taxes are not to change, with the exception of a new 65% tax bracket affecting persons who earn over FF 541,000 per year, which will supplement the present highest bracket of 60%.

In related news, the French treasury is floating a new FF 10-billion state bond for subscription as of Sept. 14. The bond will have a maturity of seven years and a nominal interest rate of 15.75%, reflecting hopes of a steady downward trend in interest rates. A similar bond issued in June was set at 16%. The bank managing the new issue, the state-owned Société Générale, is denominating the bond in FF 2,000 units; the proceeds are to be used to cover the government's budget deficit.

Surveillance System to Follow Price, Wage Freeze

French Premier Pierre Mauroy, in a radio interview, has revealed details about his government's future strategy in following up on the current four-month price and wage freeze, which was imposed in July. As of Nov. 1, Mauroy said, the freeze is to be replaced by a price surveillance system on the basis of framework agreements with the various industrial and commercial sectors. The government will negotiate price guidelines this month and next and seek to establish approximate price targets covering the period through 1983. Sectors that do not enter into such price moderation agreements will continue to be subject to the existing freeze.

In the industrial area, enterprises will be called upon to make their own contributions toward reducing inflation, which it is hoped would enable the government to remove all price curbs on certain industrial products beginning in mid-1983. However, the administration has no intention of interfering with the regular collective bargaining process in the private sector, Mauroy said. He indicated that public rates and tariffs, such as gas and electricity rates, will be moved up gradually over the whole year, with the total increases not exceeding 8%, the targeted inflation rate.

Italy: U.S. Embargo Broken; Spadolini Wins Confidence Vote

Following the precedents set by French and British companies, the Italian state energy holding, ENI, has also decided to break the U.S. embargo on technology and equipment delivered to the Soviet Union. On Sept. 5, a Soviet freighter left the port of Livorno with two turbo compressors built by Nuovo Pignone, an ENI subsidiary. The rotors for this equipment had been supplied by the United States' General Electric. The Italians based their decision on the fact that the rotors had been delivered prior to President Reagan's embargo.

Washington's reaction was to blacklist both Nuovo Pignone and a subsidiary, Inso, which will prevent these two companies from being supplied with U.S. components. Nevertheless, there were hopes in Italy of a softening of the embargo in the next few weeks, otherwise there would be problems in delivering all of the 19 pumping stations to the Soviets that Nuovo Pignone had contracted for.

In other news, newly reaffirmed Premier Giovanni Spadolini has won a parliamentary vote of confidence following a two-day debate on his government's policy program. The vote was 357-247, with all members of the five-party coalition voting in favor. Spadolini's statement hardly differed in its details from that presented 14 months ago: the premier again underscored Italy's precarious economic situation, which could be improved only by forcefully combating inflation and rigorously slashing public expenditure.

Switzerland: Agreement With U.S. on Insider Trading

Several months of intermittent consultations between representatives of the U.S. and Swiss governments have ended with a bilateral agreement concerning insider trading on the U.S. securities markets handled through Swiss banks. The memorandum of understanding, signed in Washington, is supplementing a convention worked out by the Swiss Bankers' Association. The convention's provisions will enable Swiss banks to furnish information in certain cases to the U.S. Securities & Exchange Commission without running the risk of violating Swiss banking secrecy rules. The memorandum and the convention cover only transactions involving mergers or the acquisition of a substantial equity in a company (at least 10%). Under the agreement, prior to any such transaction, the Swiss banks are obligated to ask a customer dealing on the U.S. securities markets for permission to reveal his name should there later be a suspicion of insider trading.

The legal difficulties surrounding the entire issue arose mainly from the fact that, in contrast to the United States, Switzerland has no law against insider trading. The memorandum of understanding represents a "provisional" solution only; eventually it is to be superseded by permanent rules based on amendments to the Swiss penal code which would outlaw insider trading in Switzerland as well. Because of the absence of Swiss penalty provisions, insider trading is not covered by the Swiss-U.S. agreement on mutual legal aid in penal matters dating from May 1973.

In practical terms, a request by the SEC for certain information would be transmitted by the U.S. Justice Dept. to the Swiss judicial authorities, who in turn would relay the request to a three-member expert commission appointed by the Swiss Bankers' Association. This commission would ask the bank involved for a detailed report on the pertinent transactions. At this point, the bank would block the deposits of the customer affected to the extent of any profits realized from the insider transaction. The bank would advise the customer of the situation and give him an opportunity to reply before sending its report to the expert commission.

Norway: Another 3% Devaluation of Krone

Only five weeks after devaluing the krone by 3%, the Norwegian government decided on another devaluation by the same percentage, effective on Sept. 6. Oslo again justified the move with the need to improve the competitiveness of the traditional Norwegian export industries, which are suffering from the price pressures created by the booming offshore oil business. Finance Minister Rolf Presthus described the latest devaluation as "a small but important step" in the government's overall economic strategy for the next 15 months.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Court Suspends Interim Order Against Ford

The European Court of Justice has granted Ford Werke AG, Cologne, a temporary injunction suspending the Commission's interim order to the car manufacturer to resume normal supplies of right-hand-drive models to continental automobile dealers. The Commission had also ordered Ford to deliver immediately 1,000 models to fill standing orders. A $1,000 fine had been set for each day of noncompliance.

The EC executive had issued the order after receiving a complaint from BEUC, a Brussels-based umbrella organization of European consumer groups, that several Common Market car manufacturers had attempted to suppress parallel car imports. Ford AG, which discontinued delivery of right-hand-drive cars to continental dealers as of May 1, has denied the Commission's allegations that it was infringing EEC competition rules *(Common Market Reports, Pars. 2005, 2021.08, 2021.11)*. A first formal hearing of Ford AG's appeal against the Commission order is scheduled for Sept. 24.

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The Commission's interim order against Ford was the first issued in the antitrust field. The case has drawn much attention and is being watched closely by experts on EEC competition law. The Treaty of Rome does not grant the Commission this administrative instrument to be used to end violations of EEC competition rules; under Treaty Article 186, only the Court of Justice may take interim measures *(Common Market Reports, Pars. 4705, 4706)*. In 1979, the Commission refused to issue an interim order even for the sake of testing its powers. In the same year, the Court of Justice said the Commission has the power to take interim measures in order to enforce EEC competition rules *(Common Market Reports, Par. 8645)*. The Court said it is essential that the Commission, which has the right to terminate infringements under Article 3 of Reg. No. 17, also be able to exercise this right in the most efficacious manner by taking any preliminary measures that might be necessary. The EC tribunal added that the powers granted under Article 3(1) of Reg. No. 17 include the right to take interim measures, which are essential for the effective exercise of the Commission's functions and especially for ensuring the effectiveness of any decisions requiring a business to end a violation. But the Court of Justice also established the conditions for using the new administrative instrument: the Commission may issue an interim order only in urgent cases and with regard for the legitimate interests of the business concerned, one of which is the right of the company to be heard before an interim order is issued.

Economic Sanctions Usually Unsuccessful, EP Committee Says

The European Parliament's external trade committee has come to the conclusion that economic sanctions do not bring the results hoped for. In a detailed study on boycotts and embargoes, the committee says that such sanctions are often counter-productive because they force the country affected to reduce its dependence on international trade and thereby often create public support for an otherwise unpopular government. In a draft resolution, the committee calls on the European Commission and the Council of Ministers to refrain from imposing general or unenforceable economic sanctions and to draw up guidelines for a commercial policy against states with "unacceptable" political systems.

The Community is considerably more dependent on foreign trade than either of the two world superpowers, the EP report stresses, so it should not be too eager to impose sanctions. If the EC does decide to impose sanctions, they should be confined to areas where it is in a strong position, such as the export of specialized technology or the granting of export credits. The report notes the failure of most of the sanctions in which the EC has participated in the past (for example, the 1962 steel pipe embargo against the Soviet Union) or through which it was affected (for example, the Arab countries' boycott against companies doing business with Israeli firms). The grain embargo imposed on the Soviet Union in early 1980, after the invasion of Afghanistan, was a failure because the Kremlin had strategic reserves and was able to buy large quantities from Argentina, the report says.

The study offers no comment on the extension of President Reagan's ban on the export of know-how and equipment for the Siberian gas pipeline because the report was completed in early April and the ban was extended in June. But the document does take a stand on the United Nations' boycott against South Africa and expresses doubt that the boycott will be more successful than previous measures (the EC is dependent on South Africa for 80% of its platinum, 90% of its manganese, and 91% of its chromium needs).

In Brief...

The Common Market's bumper grain harvest of 124 million tons expected by the Commission would have mixed implications for the common agricultural policy. Since the yield would be 20% above the Community's needs, exporters would be forced to sell more abroad and thus would be entitled to larger export refunds. The volume of these refunds would be relatively high because the world's other major grain producing countries, such as the United States, Argentina, and Australia, are also expecting excellent harvests, which, in turn, would bring down world market prices. Community exporters would be able to sell only if the EEC's refunds were correspondingly higher. Commissioner Poul Dalsager fears that the funds allocated in the 1983 draft budget for farm policy expenditures are too low + + + The Commission has initiated proceedings under Treaty Article 169 against Denmark over the latter's refusal to let German trawlers enter fishing grounds west of Greenland. The Commission had granted West Germany a quota of 2,100 tons of cod off Greenland. The Danish government maintains that access to these grounds should be reserved exclusively for trawlers from Greenland.

Netherlands: General Elections Result in Polarization

The Dutch parliamentary elections on Sept. 8 have resulted in a general polarization of party representation in Parliament, setbacks for the parties represented in the outgoing coalition, and a considerable success for the right-wing liberal party VVD and its young leader, Ed Nijpels. Unexpectedly, the PvdA Labor party has replaced the Christian Democratic CDA as the largest party represented in Parliament; as a result, Queen Beatrix has asked PvdA leader Joop den Uyl to try to form a new government. Most observers believe, however, that a coalition of the CDA and VVD has the best chances of making up the next administration, given the solid majority that such an alliance would have. Whatever government results, the left-liberal Democrats '66, who played a significant role in the previous Parliament, are unlikely to be represented; they suffered a drastic setback, losing 11 of their previous 17 seats. The CDA wound up with 45 seats (48), the PvdA with 47 (44), and the VVD with 36 (26).

One possible reason why both the Christian Democrats and the Democrats '66 suffered at the polls is the uncompromising way in which the government coalition of the two parties announced a commitment, just one week before the elections, to persist with rigorous austerity policies. Finance Minister Van der Stee said that public-sector wages and salaries, statutory social benefits, and the legal minimum wage would all be frozen as of Jan. 1, 1983, which would result in a 5% drop in real-term incomes next year for those affected. (The labor unions responded with anger and accused the government of turning civil servants into "second-class citizens.")

Belgium: Discount, Lombard Rates Drop by Half a Point

The Belgian National Bank on Sept. 8 lowered its discount rate from 13% to 12.5% and the Lombard rate by a half point as well, to 13.5%. The rates for one-month and two-month treasury certificates now stand at 13.15% and 13.25%, respectively. It was the third round of interest rate reductions within six weeks, but currency dealers did not expect negative implications for the Belgian franc.

Denmark: Central Bank Action But No Devaluation

The new government in Copenhagen has acted immediately to attempt to stem the growing pressure for a change in the parity of the Danish krone. The central bank has claimed to have spent between DKr 1.5 billion and 2 billion in support operations in the first few days of September alone, and it has taken strong steps to block the commercial banks' participation in forward currency operations. The banks' right to borrow from the central bank up to 20% of their own equity capital has been suspended, and the overnight money rate has been set at a minimum of 21%. As a result, the cost of forward currency operations has become prohibitive. On Sept. 10, Prime Minister Poul Schlüter and Finance Minister Henning Christophersen issued joint statements stressing that devaluation has no part in the new government's policy objectives.

Pressure for a change in the krone's parity built up following the change in government, amid general skepticism that budget austerity alone would succeed in getting the nation's economy moving once more. One member of the Council of Economic Advisers publicly called for a 10% devaluation in order to boost trade competitiveness, while foreign exchange dealers pointed to the fact that, although Denmark had requested a 7% devaluation within the European Monetary System, the currency was adjusted by only 3.5% last March. Observers are divided as to whether the central bank measures undertaken so far will succeed in stemming the speculation.

Germany: Bonn No Longer Optimistic About Recovery

The Schmidt administration has somewhat diminished its hopes for a recovery of the German economy, which is plagued by sluggish investments, declining production, an upsurge in the number of bankruptcies, and the highest unemployment since 1950. The government now reportedly accepts what nearly all economic research institutes in Germany have predicted for this and next year: no economic growth at all or, at best, an 0.5% increase for 1982 and slightly more than 1% for 1983. Last March, the institutes also predicted that unemployment would rise to 2 million during the coming winter (now at 1.8 million, or 7.4% of total employment).

For the moment, the government is waiting to see whether a special report due from its Council of Economic Advisers will confirm the bleak picture. If the advisers arrive at the same conclusions as the research institutes, the figures in the 1983 draft budget will have to be revised on two major points: there will be less tax revenue than expected and expenditures for unemployment benefits will be higher. Government officials no longer rule out the possibility that the new deficit could be as high as DM 10 billion.

Observers in Bonn say that finding ways to cover the additional deficit will put the coalition government to its most crucial test of survival. Many political analysts predict a breakup of the coalition this year. The governing Social Democrats are against further cutbacks in expenditures for social services and are favoring a surcharge on individuals in high income brackets. The leaders of the Free Democrats, junior partner in the coalition, say that a surcharge would put a damper on investments and yield only DM 1 billion at best, hardly enough to make a dent in the deficit.

Meanwhile, the lower house of Parliament has sent to committee tax legislation that would generate more revenue to cover the smaller deficit calculated last May in the first 1983 draft budget.

Britain: TUC Unity on Employment Bill, Hospital Workers

At the annual meeting of the U.K.'s Trades Union Congress in Brighton, which concluded on Sept. 10, the 1,160 delegates demonstrated near-unanimity on two major issues: resistance to the

Thatcher government's controversial Employment Bill and support for the country's hospital workers, who are campaigning for higher wages.

The TUC unions vowed to continue their opposition, not excluding strikes, to the pending Employment Bill, which would weaken the closed-shop system and could make the unions subject to civil suits for damages *(Doing Business in Europe, Par. 40,283)*. Sponsored by Employment Minister Norman Tebbit, the draft legislation is scheduled to receive Royal Assent and become law in November. Among the TUC speakers calling for strong action against the bill was Arthur Scargill, president of the mineworkers' union, who told the delegates that "faced with this legislation, we must say that we will defy the law." Scargill said that, if the National Coal Board attempts to bring in nonorganized labor, the mineworkers will go on strike.

The TUC delegates also voted to exhort their members to stage nationwide and local "sympathy strikes" on Sept. 22, when the hospital workers are scheduled to walk out for 24 hours. The hospital workers are demanding pay raises of 12%, while the government has limited its offer to 7.5%.

Ireland: Businesses Hurt by VAT on Imports, CII Says

The government's imposition of value-added tax on imported goods at the point of entry - a new system that took effect at the beginning of this month - is severely affecting both large and small companies and eventually may even lead to business closures, according to the Confederation of Irish Industry. CII Secretary Gerard Sheehy described as "far too late and far too little" the financial assistance being made available to smaller firms to help them meet their VAT liabilities. To qualify, companies must have an annual turnover of less than £2.5 million (Irish) and a work force of less than 100. The aid is extended by the Industrial Credit Co. (partly government-controlled) to smaller firms that do not have the banking facilities to make immediate VAT payments on imports.

Severe difficulties remain for larger companies, which are not benefiting from these measures, Sheehy claimed. He said it is essential that the government "take immediate steps" to ensure the availability of loans to those enterprises that are already operating at maximum credit levels and cannot obtain additional credit from the banks. Sheehy predicted reductions "in the scale of operation and consequential redundancies (layoffs)" unless these problems are solved as soon as possible.

As part of its latest tax measures, the government has also imposed value-added tax, at the rate of 18%, on professional fees charged by accountants, auditors, lawyers, management consultants, and auctioneers; previously, such fees had been exempt from VAT.

France: Employers, Unions Meet on Unemployment Insurance

Representatives of the French employers' federation (Patronat) and the major labor unions have met again in Paris to discuss ways of restoring the financial viability of the national unemployment insurance system. The series of talks on this issue started in June and will continue until the end of this month, when Social Affairs Minister Pierre Bérégovoy expects from both sides proposals on how to raise FF 35-37 billion to cover the deficit in the unemployment insurance system by the end of next year. Unemployment benefits are financed in France from contributions by the employers (about 48.4%), employees (14.8%), and the state (36.4%) *(Doing Business in Europe, Par. 22,833).*

The most recent round of talks brought no concrete results, and observers are convinced that Bérégovoy does not seriously expect the employers and unions to present workable solutions. In fact, the most recent meeting was devoted to the problems of early retirement: the lowering of the voluntary retirement age to 60 years as of April 1, 1983, will also require special financing efforts.

The industrial partners apparently are in no great rush to come up with their own recommendations on how to deal with the unemployment insurance deficit, both for substantive and strategic reasons. For one thing, the government has pledged to advance funds to the system until the end of October, and employers and unions are hoping for an extension of these payments until the end of the year. An extension would spare both sides from having to make drastic financial revisions. Secondly, the French labor court elections are scheduled for December, and the unions - which are competing among themselves during the election campaign - would rather not get into any further controversy.

Eventually, however, France's labor unions will no longer be able to avoid deciding to what extent they are willing to make sacrifices to the economic austerity policies of the Socialist-Communist government, which they are ostensibly supporting. They are directly affected by the administration's intention to suspend the inflation indexation of wages as well as by the proposal to have civil servants and the self-employed contribute to the unemployment insurance system. Commentators say that for the unions much will depend on what will happen to workers' purchasing power when, at the end of October, the wage and price freeze will give way to a new system of price surveillance by the government.

Italy: Bank Secrecy Eased; Agreement on Cashpoints

Finance Minister Rino Formica and Treasury Minister Nino Andreatta on Sept. 9 signed the implementing rules of a presidential decree that will considerably ease Italy's bank secrecy provisions. Following publication of the decree in the official gazette, which is expected within days, the fiscal police will be empowered to conduct on-the-spot investigations at banks and post offices concerning individuals suspected of tax and other financial violations. Previously, the authorities had to have court warrants for such investigations. The new decree is designed to help combat organized crime, currency speculation, and tax evasion.

In other news, the major Italian commercial banks - of which Banca Nazionale de Lavoro and Banca Commerciale Italiana are the largest - have agreed on a uniform system of cashpoints, or automatic teller machines (ATMs). Known as Bancomat, the system will begin to operate in March next year. It will enable customers of one bank to draw cash from another via some 1,000-plus ATMs to be installed outside bank branches. The ATMs system will represent a major innovation for retail banking in Italy, where most bills are settled in cash and where check guarantee cards and credit cards are rarely accepted away from tourist centers.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Parliament to Approve Employee Information Proposal

Commission lawyers expect a positive opinion from the European Parliament on the controversial draft directive on employees' information and consultation after voting on 284 amendments to the proposal is completed next month. (On Sept. 15, Parliament voted 168 to 161 to delay a decision on the amendments.) Observers believe that a large majority of the Christian Democrats in the EP favor the principle of imposing a statutory obligation on multinationals and groups of affiliated companies to inform and consult employees of their subsidiaries. However, there is disagreement within the Christian Democrats over a number of key amendments, especially those on the scope of application. (The Christian Democrats and the Conservatives represent the strongest political groups in the EP.)

Proposed by the Commission in October 1980, the draft directive would commit the Member States to adopting legislation requiring management of multinational companies and groups of affiliated companies to inform employees' representatives at least twice a year of the details of corporate policies and activities. The directive would cover multinationals with at

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

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least one subsidiary in the Common Market and groups of affiliated companies established in any Common Market state. The details would have to include the economic, financial, and employment situations, anticipated developments in production and sales, investment programs, rationalization plans, introduction of new working methods, and all procedures and plans liable to have a substantial effect on employees' interests. Consultation would have to take place at least 40 days prior to the actual decision, and employees' representatives would have at least 30 days to give their views on the planned measures *(Common Market Reports, Par. 10,265).*

Called the Vredeling directive, after former Dutch Commissioner Henk Vredeling, the proposal has been the subject of controversy ever since the Commission submitted it. While the trade unions in all Member States back the proposal, the European organization of the national employers' associations (UNICE) opposes it. American business executives are concerned primarily about the volume of information to be disclosed and the sanctions against multinationals incorporated in a third country but with subsidiaries in the EEC. Their main concern is that business secrets could wind up in competitors' hands despite the proposed obligation of secrecy. Several amendments proposed by the EP's legal and labor affairs committees would tighten the secrecy requirement.

One of the most important issues reflected in the proposed amendments that were discussed in the EP's recent debate is that on the size of subsidiaries to be covered by the directive. While the Socialists want the proposed work force criterion lowered to 50 employees, the Christian Democrats want to retain the proposed 100-man threshold for subsidiaries and to add yet another: only multinationals or groups of affiliated companies with a total work force of at least 1,000 employees should be covered. The Christian Democrats also want to remove the extraterritorial effect of the proposal: the legal obligation to inform and consult employees should be imposed on the Common Market subsidiary and not on the parent company established outside the EEC.

Commissioner Ivor Richard told the EP that he plans to take up these and the other remaining issues in talks with labor and employer organizations in the coming weeks. The outcome of these talks and the EP's opinion on the measure will determine the extent of changes in the proposal that is ultimately sent to the Council. *(Common Market Reports, Par. 10,421.)*

In Brief...

The European Parliament has approved a resolution to take the Council of Ministers to court for its inaction in the transport policy field. The EP would be suing the Council under EEC Treaty Article 175 for its failure to take up 27 proposals aimed at forging a common transport policy in intra-Community road, rail, waterway, and air transport. Commissioner Georges Kontogeorgis, in charge of transport policy matters, welcomed the move because he believes that it will bring momentum to the stagnating transport policy sector + + + Denmark and Germany have resolved their dispute over cod fishing. Under an agreement between the Danish and German governments, West German trawlers will be allowed to catch 5,000 tons of cod off West Greenland until Nov. 1. The dispute developed when the Danish government threatened to have German trawler operators arrested if they started fishing for cod, part of the 10,000-ton quota awarded Germany by the Commission in the summer fisheries negotiations. By granting the license, the Commission followed the compromise approved by all Member States except Denmark.

Germany: Government Falls Over Policy Differences

The breakup of the governing coalition of Social Democrats and Free Democrats has been welcomed by the German business community and broad segments of the public. The stock market reacted enthusiastically, with some shares gaining up to 10 points within hours after the announcement. The administration had become immobilized because of disagreements between the coalition partners over social, economic, tax, and budget policies. Thirteen years of joint rule ended, in the final analysis, over irreconcilable differences in these areas and over the role of government. The presentation of a paper by Economics Minister Otto Lambsdorff, a Free Democrat, suggesting deep cuts in social expenditures, less bureaucracy, tax relief, and investment incentives for businesses to cope with rising unemployment was the last in a series of events demonstrating the different positions of the two parties. Lambsdorff was one of the four Free Democrat cabinet ministers who resigned this month.

While the Social Democrats believe that the government must take a strong hand in running an economy, the Free Democrats believe that business can do far better if the government intervenes as little as possible. At their party convention last May, the Social Democrats passed resolutions favoring investment controls, additional government intervention for the creation of new jobs, and higher taxes on high incomes. Although none of these suggestions entered legislative proposals, they reflected the change of sentiment in the Social Democratic party. On the day the coalition broke up, the departing foreign minister and Free Democrat party leader, Hans-Dietrich Genscher, said that the Social Democrats had become prisoners of the policies introduced at their May convention.

With such divergent views, it became difficult for the two parties to find common solutions to cope with the problems facing the government, most of which centered around declining revenue and rising expenditures. Tax legislation passed in 1981 to reduce government spending and borrowing underlined these differences *(Doing Business in Europe, Par. 40,353)*. The much heralded social security system had to assume additional burdens, such as expanded maternity and early-retirement benefits *(Doing Business in Europe, Pars. 23,433C, 23,451)*. Economists agree that it was the expansion of the social security system under the Brandt and Schmidt administrations that brought the pension funds close to bankruptcy in 1976. Rising expenditures in the social security sector and other areas, especially for the pay of civil servants and other public employees, forced the government to borrow more. The DM 28.4 billion that Bonn planned to borrow next year would have been just enough to pay the interest on the DM 300-billion debt accumulated by the federal government so far.

France: Wealth Tax Exemption of Business Capital

In a move to encourage flagging investment activity, the French cabinet on Sept. 15 announced its decision to virtually exempt capital tied up in private businesses from wealth tax; this step goes even further than the broad exemptions previously written into the legislation *(Doing Business in Europe, Par. 40,358)*. The news, further bolstered by the government's announced determination to defend the franc (see story below), triggered a minor rally on the Paris Bourse and was welcomed by the employers' federation; the reactions of the Communists and the Socialist radicals were less enthusiastic.

The lastest formula worked out by the government would allow business owners not to pay wealth tax on their working capital until at least 1985. The exemption would be continued in subsequent years, provided capital investments in the business were equivalent to, or higher than, the tax debt. In fact, there would be a tax credit if investments were higher than the taxes due.

Coming into effect this year, wealth tax is payable at a maximum rate of 1.5%, beginning at a threshold of FF 5.2 million (with the inclusion of business capital). Even under existing conditions, any investments this year would have earned wealth tax credits.

With its decision, the Mitterrand administration is apparently taking notice of the fact that the investment climate in France continues to be very poor and that the wealth tax could be a genuine hardship for companies with strained financial resources. The government may also be concerned over its steadily rising unpopularity with the country's business community following the sweeping nationalizations, increases in the social insurance burden and value-added tax, introduction of the wealth tax, and, more recently, the temporary price freeze.

A recent survey cosponsored by the federation of small and medium-sized enterprises *(Confédération générale des petites et* *moyennes entreprises)* showed that 88% of the businesses questioned gave a negative rating to the administration's economic and social policies. Nearly 80% opposed the current price freeze, and 20% even considered it a threat to their survival. About 53% of the *petits patrons* surveyed anticipated layoffs and other personnel reductions over the next six months.

$4-Billion Euroloan in Defense of Franc

As the franc fell to a new low against the deutschmark, the French government on Sept. 15 surprised the international capital markets with the announcement that it was raising a $4-billion, ten-year loan in order to bolster the national currency reserves and prevent a third devaluation within a year. The issue is the first direct loan by the French Republic since 1974, when a $1.5-billion standby credit was floated under the Giscard d'Estaing administration. (French public-sector enterprises have been active in the Euromarket, however - most recently in June with a $600-million, eight-year credit raised by Crédit National, the state financing institution.) Proceeds from the loan should more than double the French currency reserves, which reportedly have dwindled from FF 33 billion to 22 billion since mid-August as a result of heavy central bank intervention on behalf of the franc.

Syndicated under the lead management of Société Générale, the Euroloan carries a margin of 0.5% over Libor (London interbank offered rate), currently at 13.25%, which bankers described as "tight" but probably realistic under current market conditions. One-third of the issue is to be drawn, while the other two-thirds will be available as standby facilities. Leading French and Japanese banks are expected to underwrite about two-thirds, while the remainder will be left to syndication by smaller participants. The banking community feels that the issue constitutes a tough test for the Euromarket's ability to accommodate major loans in the wake of the Mexican and Argentine financial crises.

Italy: Commercial Banks Accused of 'Profiteering'

Confindustria, the Italian industrial association, and other business groups have complained that interest rate levels in Italy are governed more by the needs and wants of the treasury and the commercial banks than the general economic climate. The critics are accusing the banks of "extreme profiteering" by exploiting the abnormal conditions prevailing on the domestic capital market. However, at the very root of the problem, they charge, are the insatiable capital needs of the state, which absorb an increasingly large share of savings funds. Lack of bank liquidity and the tight curbs on lending have led to less competition among the banks and a stagnant market, they say, and yet the banks generally report very high earnings in their annual reports.

The Italian business community was particularly incensed about the banks' attitude after the discount rate was lowered on Aug. 24. Despite the urging of the private bankers' association three days later, the banks only reluctantly and fractionally reduced their prime rate and other rates, and some of them did not react at all. Because of such practices, the critics say, the spread between deposit and lending rates reached a record 11.6% in July. The bankers' association itself is estimating the median level of lending rates at 25%; in a few cases, particularly for small companies, the 30% mark has been touched.

Banking representatives claim the financial institutions are severely handicapped by the special conditions imposed on them as part of the official credit limitations. For instance, the banks have to place the equivalent of 20% of new deposits with the central bank, at a rate of only 5.5% (while inflation stands at 17%). Also, they are legally required to commit themselves to certain mandatory investments, such as the purchase of state papers. With regard to their deposit rates, the banks claim that any lowering of the rates would compel savers to put their money into treasury bills and other, more attractive, forms of investment.

Nevertheless, observers are convinced that the generous profits currently earned by the Italian banks offer little incentive to reduce interest margins and effect cost-saving and rationalization measures within the banking system. The major victims of this situation are mainly small and medium-sized businesses which are suffering a tremendous credit squeeze and are forced to hold up on new investments, a situation that also has its effects on employment.

Rome Extends Period for Export Settlements

A government decree on Sept. 15 extended from 70 to 90 days the period allowed in settling export payments. (To counteract currency speculation against the lira, the settlement period last April had been reduced from 120 to 70 days.) At the same time, the Foreign Trade Ministry announced the easing of currency restrictions for foreigners who have been working in Italy for more than ten years; these individuals are now permitted to take out of the country 10 million lire annually. A regulation dating from 1977 had previously put a ceiling of 5 million lire on such capital exports.

Netherlands: Cost Limit Upheld on Drug Prescriptions

A court in The Hague has refused to grant a temporary injunction that would have prevented the Dutch government from enforcing a new regulation putting a cost limit on drug prescriptions billed to the national health system. The injunction had been sought by the national pharmaceutical industry association. The court agreed, however, to have the European Court of Justice rule on certain aspects of the plaintiffs' complaint.

The Dutch Health Minister had issued a "blacklist" of some 300 relatively expensive prescription drugs and 120 non-prescription drugs which, as of Oct. 1, may no longer be prescribed by physicians for patients whose medical costs are billed to the national insurance system. For another 400 drug preparations, the health insurance funds must give approval prior to a prescription. With this regulation, Health Minister Til Gardenier hopes to save millions of guilders annually and thus help reduce the deficits of the national health insurance system. Originally, introduction of a prescription fee had been considered. Gardenier also has proposed closing about 30 hospitals by 1990 and having hospitals reduce their wards by an approximate total of 8,000 beds.

In its court action, the pharmaceutical industry association claimed that the government's blacklisting of drugs is in violation of the Treaty of Rome's free trade provisions. It was further argued that the decree would be to the detriment of patients dependent on the national health system, inasmuch as their doctors would no longer be free to prescribe drugs considered most appropriate, regardless of cost.

In related news, the government several weeks ago published "income norms" for dentists, oral surgeons, physicians in general practice, and pharmacists. This was a first step in trying to put restrictions on self-employment incomes, in line with The Hague's general curbs on wage and salary increases. According to the published norms, a dentist with his own practice should have an income of no more than 140,000 guilders a year,and a general practitioner or pharmacist,one of 154,000 guilders. Oral surgeons and other dental specialists would be allowed a higher limit, of about 229,000 guilders.

Luxembourg: Deposits by Aliens Limited to Belgian Francs

To discourage speculation by Belgians and other foreigners on a possible higher valuation of the Luxembourg franc, the Luxembourg banking control commissariat has decreed that, as of Sept. 17, deposits by aliens may be effected only in Belgian francs, not in Luxembourg francs. Even though the two countries are joined in a monetary union, the Luxembourg authorities evidently have taken this precaution in case of yet another devaluation of the Belgian franc. In such an event, they would reserve the right to detach the national currency from the Belgian franc. Officially, however, the commissariat justified its most recent measure by the need to maintain "the symmetry of the relative position of the two currencies."

Sweden: Voters Return Social Democrats to Power

Sweden's Social Democrats, under Olof Palme, will return to power next month after six years in political opposition following their resounding victory in the Sept. 19 general elections. The party will hold 166 seats, a gain of 12, in the 349-seat Parliament, which is short of the absolute majority but more than the mandates of all nonsocialist parties together. Palme can count, moreover, on the support of the Communists, who maintained their previous strength by keeping the 20 seats they had held before. The new government is expected to present its policy statement on Oct. 8.

Palme, 55, has pledged his administration to an "expansive" economic policy aimed primarily at combating unemployment and securing the country's social welfare achievements. He has offered "broad cooperation" to both the political opposition and the private business community in searching for a solution to Sweden's serious economic problems. The new government intends to raise additional billions to finance job creation programs and state investments and also higher family allowances and unemployment benefits. The extra revenue for these projects is to come from an increase in value-added tax (probably of 2%) and higher employer contributions. One of the major proposals in the Social Democrats' policy program remains the introduction of compulsory employee profit-sharing funds, which would be financed by payroll and excess-profit taxes. However, being mindful of the extremely controversial nature of this issue, Palme has promised to give careful consideration to the objections of the employers and the nonsocialist opposition.

The two parties that had formed the outgoing coalition government, the Center and the Liberals, suffered substantial losses in the elections. The Liberals, led by outgoing Foreign Minister Ullsten, in fact relinquished 17 of their previous 38 mandates. In the six-year period since the 1976 elections, when the center-right parties had displaced the governing Social Democrats for the first time in 44 years, the combined share of the vote for the Center and the Liberals has dropped from 35.2% to 21.4%. Outgoing Premier Thorbjörn Fälldin, of the Center, blamed his administration's defeat on the country's economic difficulties which had necessitated unpopular expenditure cutbacks.

One interesting development in the elections was the advance of the Moderates (Conservatives), under their young leader Ulf Adelsohn, 41, who increased their number of seats from 73 to 86. The success of the Moderates, the leading party of the right, was explained by the mounting polarization of public opinion in Sweden.

Common Market Reports

EUROMARKET NEWS

Issue No. 716 *October 5, 1982*

IN THIS ISSUE

Community: Commission Accepts EP Suggestions on Fifth Directive

The amendments to the fifth draft directive on board structures of stock corporations and workers' participation in corporate decision-making will largely follow the recommendations made by the European Parliament last May. Commissioner Karl-Heinz Narjes has announced that the amended draft, which is expected to be sent to the Council of Ministers before the end of the year, will no longer seek to impose on the Member States a single board model or a uniform workers' participation system. The States would have several legislative options. Stock corporations could have a managing board and a supervisory board or just one single board. Employees could be represented on either the managing board or the supervisory board, depending on the board system provided by national law. A works council could be another alternative to board-level representation. Management and employees could also come to terms in a separate contract on the issues of workers' participation and access to information.

Commission lawyers stress that the amended proposal would ensure that, in any case, the legislative options left to the Member States have an equivalent impact on decision-making in

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large stock corporations. Thus, works council members would have access to the same kind of information (planned shutdowns, relocation of production facilities, new investments) as employee representatives on managing or supervisory boards.

In accepting most of the European Parliament's suggestions, the Commission hopes to accommodate critics of the proposal in a number of national capitals and in the business community. Controversy developed over the Commission's original 1972 draft for a rigid and uniform approach in the EEC to board structures and workers' participation *(Common Market Reports, Par. 1401)*. The first draft was, for the most part, patterned after the German model, which requires all companies with more than 500 employees to have one-third employee representation on the supervisory board *(Doing Business in Europe, Par. 23,222B)*, and it would have required companies to have a managing board and a supervisory board.

European Investment Bank Loans Created 175,000 Jobs

The European Investment Bank (EIB) helped finance several thousand new projects in the ten Member States during the 1976-1981 period and thereby created roughly 175,000 new jobs and secured 400,000 others. According to the EIB's recent report covering that period, loans totaling 15.5 billion ECU were granted. Around 13.3 billion ECU were provided for private and public investments in the Member States' poor regions, such as France's depressed areas in the west and southwest, Great Britain's north and northwest, Ireland, and Italy's Mezzogiorno, and also, since 1981, for new industrial plants in Greece.

Roughly 5.3 billion ECU of the loans granted went to finance the construction of coal-fueled and nuclear power stations during the six-year period. This support has enabled the EEC to reduce its crude-oil imports by an estimated 80 million tons annually. Roughly 2.3 billion ECU went as loans to developing countries, primarily for investments in regional development, energy, and communications.

Set up under the EEC Treaty, the EIB operates on a nonprofit basis and is intended to contribute to the balanced and steady development of the Common Market *(Common Market Reports, Pars. 4102, 4112)*. The bank grants long-term loans and provides guarantees to firms, public authorities, and financial institutions for financing investments that help to reduce economic disparities within and among the Member States. The EIB is endowed with a capital of 14.4 billion ECU subscribed by the Member States and has its own decision-making powers. The bank raises money on capital markets to provide loans for a great variety of projects, but priority is given to investments that promote regional development. Normally no more than half the cost of a project is financed by the EIB. Loans are granted with maturities set in accordance with the nature of the projects and with normal depreciation periods.

The EIB is not the only Community institution, however, that aids in fighting unemployment. The loans granted by the Commission to the coal and steel sector (388 million ECU in 1981), nuclear energy development (364 million ECU), and infrastructure and energy investments (540 million ECU) also helped to retain several thousand jobs. Current unemployment in the EEC stands at 11 million.

Belgium: Cockerill Steel's Future Again in Doubt

Belgium's steel industry, largely consolidated in one company, Cockerill-Sambre, continues to have severe financial problems, and the group's future is once more in doubt. Cockerill has been dependent on government support for the past six years, and in May 1981 it again was granted standby credits of BF 22 billion until 1985. However, the company's management has now revealed that BF 20 billion of this sum probably will be spent by the end of the current year, mostly as the result of unexpectedly poor sales during the third quarter. On an annual basis, production has dropped to 5 million tons. In the restructuring plan submitted to the European Commission last May, the company's viability was based on an annual output of 6 million tons. The director-general, Van de Strick, said in the most recent announcement that Cockerill will not survive unless the 6 million ton target is met. However, if the goal is indeed reached, operating results would improve by BF 4 billion, and personnel cutbacks and the modernization of production facilities would bring further savings of BF 1.6 billion.

Should Cockerill's losses continue into 1984 and result in the company's bankruptcy, the impact on Belgium's already strained employment situation would be disastrous, observers say, since none of the various subsidiaries could survive on their own. Some 200,000 jobs are at stake. In mid-summer, the Belgian unemployment rate stood at 11.1% of the national work force.

Netherlands: Draft Budget Projects Social Welfare Cuts

The new parliamentary session opened in Holland last month with the traditional Queen's speech and the presentation of the 1983 draft budget by the caretaker government. Meanwhile, however, negotiations were still continuing over the formation of a new government coalition following the Sept. 15 early elections, while the country's economic situation appeared as gloomy as ever.

The draft budget submitted by Finance Minister Fons van der Stee relies mainly on cutbacks in social security benefits to produce the some 13 billion guilders in savings projected for

1983. In view of the steep tax increases of previous years, the government does not have much maneuvering room in this area, except for a proposed 1% increase in value-added tax and a boost in natural gas prices for consumers. Instead, the paring knife is to be applied mainly to the social welfare system, where costs have been rising even more rapidly than elsewhere. Here, the government plans to detach old-age pension benefits from the indexation mechanism of the legal minimum wage and to raise contributions across the board. The latter move should have a particularly harsh impact, considering that contributions have already reached 63.7% of gross employment incomes (up to an annual ceiling of 57,000 guilders), with employers accounting for 34.7% and employees for 29%. Also planned is a freeze of civil service salaries, accompanied by hopes that this would have a moderating influence on private-sector wage development as well.

A major headache for The Hague in the monetary area remains the rising deficit in state financing, which this year is expected to reach more than 11% of national net income rather than the 7.8% originally projected. For next year, the experts forecast a rise to above 12%. In the past, the state was often able to fall back on its natural gas reserves, but energy savings and slumping gas exports are now severely cutting into revenues from this source (15% of total government revenues). Since 1980, exports have declined by nearly 40%, and regular price increases have not been able to make up the revenue loss entirely.

In commenting on the draft budget, Van der Stee expressed grave concern over the fact that Dutch investments are lagging in comparison with those of other western industrialized countries and that this is negatively affecting economic growth. The finance minister said additional funds for investments could be freed only with the help of wage restraint and reduced government borrowing on the capital markets.

First Dutch Contract Toward 36-Hour Workweek

Holland's tenth-largest employer, the Vroom & Dreesmann department store chain, has negotiated with the FNV labor federation a new collective contract that foresees the gradual introduction of a 36-hour workweek. The agreement is expected to have a pilot effect on upcoming bargaining rounds in other Dutch sectors.

The new contract sets a target of 36 work hours by 1986, which would be achieved by an annual work time reduction of one hour and be financed by corresponding pay cuts of 2.5%. At the same time, the company and the FNV agreed on the layoff of 950 employees who are older than 57.5 years. It was not yet certain whether this reduction would be offset by new personnel hired because of the work time cuts. On the other hand, the contract ensures the retention of 1,200 jobs that otherwise would have been eliminated.

The Social Affairs Ministry has not yet sanctioned the agreement because it will have to pay support to the workers who are to be dismissed. The unions are arguing that there will be no additional net costs to the state since it would "save" unemployment insurance benefits now paid to individuals who are to be newly hired by Vroom & Dreesmann.

The company's management apparently intended to create a model for work time reductions; it has criticized the government for constantly demanding new sacrifices of businesses, while failing to bring its own financial house in order.

Germany: Jurists Urge Reform of Bankruptcy Law

Participants at the recent German lawyers' convention (bar association) who specialize in bankruptcies and insolvencies have called on Parliament to reform the Composition Law and the 105-year-old Bankruptcy Law. A major objective of the reform would be to salvage more businesses than the present law allows and thereby to save jobs. In 1981 only 1% of the 12,000 businesses that filed for bankruptcy or initiated proceedings aimed at a compulsory debt settlement, called composition, were rescued. An estimated 300,000 jobs were lost as a result of these business failures. A reform, as envisaged by the lawyers' convention, might save as many as 10% of insolvent businesses, and some experts suggest that under optimum circumstances even 25% could be saved.

Most of the ideas recommended by the lawyers are in line with a reform that the Justice Ministry has been working on since 1978. This plan would see the initiation of insolvency proceedings handled by a special court. There would be a uniform procedure to allow an insolvent business to reorganize to such an extent that it could still continue functioning. If there were sufficient assets, the court could appoint an outside expert to be the insolvency administrator. The administrator would have broad powers to achieve a successful reorganization. He could close down divisions, negotiate the sale of stock to new investors, and even change the company's legal form of doing business. Reorganization would require the consent of 80% of the creditors and suppliers whose claims are secured through collateral or retention of title as well as the consent of 60% of other creditors, such as employees with back pay claims. There would have to be a social plan for employees to be laid off in the reorganization process.

The reform, which would combine the provisions on composition and bankruptcy, would establish more equity among those affected - employees, creditors, and shareholders - and weaken the present strong position of creditors. Large suppliers usually acquire this position (which is not accorded under the law but developed under case law based on the Civil Code) by furnishing raw materials and products under the condition that they retain title until full payment.

Britain: Unemployment Reaches Record 3.3 Million

Unemployment in the U.K. reached a record level last month of 3.343 million, or 14% of the working population. For the first time, the total number of jobless adults exceeded 3 million, and there was a significant rise in the number of school graduates without work.

The September total was almost 50,000 higher than the August figure. By contrast, the rate of increase was only 20,000 in the first quarter of 1982 and 30,000 in the second quarter. This accelerating trend is causing the government increasing concern, and Employment Secretary Norman Tebbit said it was "not quite clear what is happening or why we have got a higher rate of increase." Tebbit said there was "no immediate prospect" of a drop in unemployment, although lower interest rates, cuts in the National Insurance surcharge, and the sharp drop in the rate of inflation would affect the overall picture eventually. Tebbit conceded, however, that progress was proving "terribly slow."

The industries hardest hit are those concerned with mechanical engineering, construction, transport, and vehicle and motor manufacture, and there is little sign of an upturn in these sectors. The influential Engineering Employers' Federation has said that its members cannot afford wage increases of more than 3.5% in the next annual pay round.

The prosperous southeast of England, which includes London, continues to have the lowest percentage of jobless, at 10.5%, while the highest rate, 22.3%, is reported for Northern Ireland. The other worst affected areas are the north of England (18.1%), the northwest and the West Midlands (16.9% each), and Scotland (15.8%).

Many observers find it surprising that, with so much uncertainty over employment prospects, more working days have already been lost so far this year because of strikes than in the whole of 1981. In fact, last year's total of 4.266 million days has been considerably exceeded. However, most of the walkouts have occurred in the public sector. Private industry was, for instance, hardly affected by the Sept. 22 "sympathy strikes" in support of the country's hospital workers.

Italy: Proposal to Relax Strict Currency Regulations

Treasury Minister Nino Andreatta has proposed relaxing certain provisions of Italy's very strict currency regulations to spare individuals from being prosecuted under criminal law for relatively minor infractions. Under the reform legislation, criminal proceedings would be initiated only in cases where illegal currency exports or imports exceeded 50 million lire. Violations involving smaller amounts would be subject merely to administrative fines. Under another proposed change, the reform law would not prohibit any foreign transactions that are not expressly allowed, as is now the case, but rather would allow all transactions unless they are expressly prohibited. Andreatta also has recommended an amnesty for those who agree to repatriate Italian capital that was illegally exported in the past. The government hopes that this measure will result in the return of substantial funds to Italy.

Furthermore, the reform would do away with the problem of petty currency violations committed unknowingly by tourists or business travelers, who often are not aware of certain currency limits or fail to fill out required documentation when crossing the border.

France: Oversubscription of $4-Billion Euroloan

Contrary to many earlier predictions, the international banking community has readily subscribed to the French government's $4-billion, ten-year Euroloan. In fact, by Sept. 23, the commitments received had raised the underwritten amount to $5.6 billion. The success of the issue, under the lead management of Société Générale, was assured when U.S. and Canadian banks joined the European, Japanese, and Arab banks in the subscription. The initial reluctance of the American banks had been connected to their preference for tieing the Euroloan's interest rate to the prime rather than the London inter-bank offered rate (Libor). Not immediately settled was the question of whether the oversubscription would persuade Paris to raise the loan volume correspondingly. Most financial observers predicted, however, that the subscription commitments would be scaled down, which would leave the issue at $4 billion.

Meanwhile, the French government has announced that it has dropped earlier considerations to raise a large external loan from the European Community. During the summer, the Finance Ministry had planned such an issue, under the EEC's "oil facility" arrangement, in cooperation with other Member States. The issue would have benefited investment projects aimed at reducing trade deficits.

Portugal: New Constitution Boosts Government's Powers

Portugal's new constitution, which is to herald major political, economic, and military changes for the small Iberian country, will come into effect sometime this month, 30 days after the publication of a pertinent decree signed on Sept. 24 by President Antonio Ramalho Eanes. The most important effect of the constitution's revision will be a reduced role for the military and the head of state (president) in favor of expanded powers for the government and Parliament. In the future, the Council of the Revolution, the country's supreme military body, will no longer be able to veto government legislation, as it has often done since the 1974 revolution. Some of the Council's powers will pass to a civilian defense minister.

As a result of the constitutional reform, the government will be able to go ahead with legislation permitting private investment in state industries. Previous attempts in this direction had been defeated by the Council. An upcoming bill will seek initially to open such sectors as banking, insurance, and cement and fertilizer production to private investors. These sectors, among others, had been nationalized in 1975.

EURO COMPANY SCENE

A British consortium led by Charterhouse Japhet, the merchant bank, is bidding for the 53% stake in F.W. Woolworth, London, which is held by the U.S. parent company. It was reported that the members of the consortium, whose identities have not been revealed, are interested not so much in Woolworth's 1,000 British stores as in the valuable city properties occupied by many of the stores. When trading in Woolworth shares was halted on Sept. 21, the share price of 58p put the group's value at £220 million. However, the company's independent directors said that the firm's assets are worth 207p per share at current-cost values.

Tractor production by Canada's Massey-Ferguson, the agricultural machinery manufacturer, is to be shifted from Detroit to Britain, France, and Italy, according to an agreement by the company with its principal banks. The transfer is estimated to cost $20 million but would save MF some $600 million over a period of several years, mainly because of forgiven interest payments on some of the company's debts, which reportedly total $1.27 billion.

United Technologies Corp. (UTC) of the U.S. and Germany's financially ailing AEG-Telefunken AG have signed an agreement for the joint production of electronic components. UTC will acquire a 49% equity in a newly created German subsidiary, Telefunken Elektronische Bauelemente GmbH. AEG will also hold 49% in the company, into which AEG's existing electronic components production will be consolidated. The remaining 2% will be in the hands of a subsidiary of Dresdner Bank, AEG's house bank. To be capitalized at DM 93.75 million, the new company is expected to have an annual turnover of DM 400 million and 5,500 employees worldwide.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Steel Industries Continue Painful Cutbacks

Steel production in the EEC Member States has dropped to a lower level than 31 years ago, and manufacturers all over Europe are continuing painful cutbacks in order to survive the worldwide crisis. Industry Commissioner Etienne Davignon last month announced fourth-quarter production quotas that are up to 26% lower than those of a year ago, and he said that the Commission had asked for and received renewed price discipline commitments from the main European producers although it was proving very difficult for industry to maintain this discipline. The smaller, independent producers have, however, complained to Davignon that their markets are being ruined by the big state-subsidized companies and their aggressive pricing policies, with steel products often sold below cost. "It is indefensible," said a letter signed by more than 60 member firms of the European Independent Steelworks Association, "that public money is still being invested...to produce goods that are made more cheaply by small private companies."

The Commission, for its part, plans to present a strategic paper this month listing the basic requirements for a further

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

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scaling down of the EEC's surplus production capacities until 1990. Brussels estimates that the Community's installed annual capacity is 200 million (metric) tons at present. But fourth-quarter production quotas allow for an output of less than 100 million tons in annual terms, which is less than the actual production in 1951, the year when the European Coal and Steel Community came into being.

In at least five Member States, meanwhile, the ailing steel industries, and various measures taken, are in the news:

In Italy, the country's No. 1 steel producer, Finsider, has announced plans for a temporary 15% reduction of its work force. The minister for state participations, Gianni De Michelis, said the government would fund the costs of putting 12,000 Finsider workers on short time during the fourth quarter. Another 5,000 workers, he said, would be laid off for one week during the quarter.

In France, the two state-controlled steel groups, Sacilor and Usinor, have finalized restructuring plans for the years 1982-86. During this period, the companies intend to invest some FF 8.5 billion each in the modernization of production facilities, while phasing out a total of 10,000 jobs. Several plants are to be closed, though not before 1984. The French steel industry expects output to decline by 10% this year, to the lowest level since the mid-1960s. The total deficits of Sacilor and Usinor are forecast at about FF 6 billion for 1982, about the same shortfall as last year.

In the Netherlands, the government announced on Sept. 26 that it will set aside more than 1 billion guilders in subsidies to prop up the ailing steel industry. The Economics Ministry said the aid will be in the form of share participations and no-interest loans to Hoogovens and Nedstaal, the country's only two steel producers.

In Belgium, the operational survival of Cockerill-Sambre, the national steel group, was ensured beyond Sept. 30 when the cabinet extended the grace period for payment of social insurance contributions due for 10,000 steelworkers. This move staved off virtual insolvency for Cockerill. The state has also agreed to acquire for BF 1.25 billion a 51% stake in the steel distributor Frère-Bourgeois Commerciale.

Finally, in Luxembourg, company management, unions, and the government in late September agreed on a finance and investment plan for Arbed, the steel group, which employs 16,000. Investments are to total LF 36 billion by 1987.

In Brief...

Community and Portuguese officials have made considerable progress in laying down conditions for Portugal's admission in three key areas - textile trade, customs union, and value-added tax. A three-year transitional period would be applied to the trade in textile products. During that period, exports would be allowed to increase gradually. (Textiles account for roughly one-third of Portugal's total exports and sell at prices that are 20-30% lower than EEC-made textiles.) In customs union matters, Portugal would be authorized to retain for a three-year period the import licensing system applied to numerous products and to retain trade agreements with third countries. Lisbon would not have to apply the common customs tariff fully for a period of seven years. On VAT matters, the negotiators agreed that, for a three-year period, small companies with annual sales under 15 million escudos would not have to pay VAT, and sales of food staples would also be exempt + + + The Commission has told the German government that the ban on the export of "Mozartkugeln" by a German chocolate manufacturer is contrary to Treaty Articles 30 and 34, which guarantee free circulation of products within the EEC *(Common Market Reports, Pars. 321, 341)*. The ban, which would bar the manufacturer from exporting the marzipan-chocolate balls to other Member States after a ten-year period, is provided for in a draft treaty negotiated between Austria and Germany. The treaty, already ratified by Vienna, seeks to reserve the name "Mozartkugeln" to chocolate balls made in Austria, birthplace of Wolfgang Amadeus Mozart. Austrian manufacturers of this confectionery feel that they alone should be able to sell under this name. The Commission believes that "Mozartkugeln" is merely a product designation and does not qualify for protection. Bonn sources have indicated that the government will not submit the ratification bill to Parliament + + + The International Steel Commission has postponed until Oct. 15 a ruling on whether European steel exports to the United States have damaged the U.S. steel industry. Settlement of the steel dispute has been delayed until mid-October in the hope that the U.S. steel industry will accept a compromise agreement under which European steel producers would voluntarily curb exports to the U.S. The U.S. government is in favor of the plan, which would limit these exports' share of the U.S. market to 5.75% for 11 product types until the end of 1985. U.S. steelmakers would like to see more products included.

Germany: Kohl Succeeds Schmidt on No-Confidence Vote

A one-point increase in the value-added tax, tax terms to stimulate investments, the obligation of high-income individuals to purchase noninterest-bearing state bonds, and a review and cutback of many social welfare benefits are some of the main features of an economic policy agreement (see next story) concluded between the partners of the new German conservative-liberal coalition government under Chancellor Helmut Kohl. The proposed measures are to be added to the 1983 budget savings previously agreed on by the deposed left-liberal administration of Social Democrats and Free Democrats.

Kohl succeeded Helmut Schmidt as the result of a "constructive no-confidence vote" in Parliament on Oct. 1, with 256 deputies voting for the motion and 235 against it. It was the first time in the 33-year history of West Germany that Parliament replaced a chancellor. As previously reported, the breakup of the Schmidt administration came in the middle of the current four-year term when the liberal Free Democrats, junior partners in the coalition, left the cabinet mainly because of economic policy differences. The majority of the Free Democratic deputies subsequently joined forces with the Christian Democratic Party/Christian Social Union (CDU/CSU), which had been in opposition even though it represented the largest parliamentary faction. The combined votes of the CDU/CSU and the defecting Free Democrats allowed the no-confidence vote against Schmidt to succeed and at the same time gave the chancellorship to Kohl, the CDU party chairman.

Main Revisions in Bonn's 1983 Budget Proposals Listed

The principal features of the Kohl administration's proposed budget modifications, negotiated between the new coalition parties prior to the change of government, are as follows:

(1) The standard VAT rate would be raised from 13% to 14% as of July 1, 1983. The reduced rate would go up from 6.5% to 7%. The resulting extra revenues of about DM 2.2 billion annually are to provide tax relief for new investments, particularly for small and medium-sized businesses. The tax relief provisions would take effect on Jan. 1, 1983.

The Kohl government does not accept the proposal of the Schmidt administration to reduce the tax relief built into the income tax splitting tables for married couples. Instead, it plans to devise by 1984 new splitting schedules for families, favoring households with children, though at no additional costs to the budget. The new government also does not agree with the proposal to raise from 10% to 15% the tax rate on company contributions to employee pension funds.

Purchase of state bonds equivalent to 5% of the tax debt would be obligatory next year and in 1984 for individuals earning DM 50,000 or more annually (DM 100,000 for married couples). Taxpayers who invest at least five times the bond obligation in their businesses would be exempted. The bonds would be repaid between 1987 and 1989, at the latest, but not before three years had elapsed. The revenues from the bond are to be used to promote social housing construction.

(2) The new partners have agreed to slash direct federal subsidies by a total of DM 500 million instead of reducing subsidies generally by 5% or 10%, as proposed by the previous gov-

ernment. This would mean that certain subsidies, especially in the social welfare area, would be reduced more than others. Pay increases in the public sector are to be limited to a 2% ceiling (plus 1.5% resulting from standing commitments) as of July 1.

(3) Inflation adjustments of the old-age pensions would be delayed by half a year, to July 1, 1983. However, the Kohl government goes along with the existing proposal to have retired individuals contribute 1% of their social security benefits toward their health insurance.

(4) Hospital patients insured under the national health system would have to contribute DM 5 per day of hospitalization for 14 instead of seven days. Tougher controls would seek to curb abuses of sick leave.

(5) Increases in the standard rates of social welfare benefits would be limited to 2% and would not apply before July 1. The entire adjustment procedure would be revised next year.

(6) No changes would be made in the proposal to raise contributions to unemployment insurance from 4% to 4.5% on Jan. 1. However, the duration of benefit payments would be determined, more than in the past, by the extent of previous contributions.

(7) The amount of family allowances would be geared to incomes. Allowances paid for a second and third child would be cut by DM 20 and DM 70, respectively, if a family's annual net income exceeded DM 42,000 and DM 49,800, respectively.

(8) Federal grants to needy high school and university students would be limited or curtailed beginning with the 1983-84 school year. In the case of university students, grants would be converted to loans, and tax-free allowances for student support would be halved as of 1984.

Britain: Labour Would Impose Tighter Banking Controls

At the annual U.K. Labour Party conference in Blackpool late last month, the delegates rejected by a small majority a motion that a future Labour administration bring into public ownership all banking institutions resident in the U.K., immediately reintroduce exchange controls, and enforce a six-month pay freeze. However, the conference endorsed the proposals of the party's National Executive Committee that plans be drawn up for the nationalization of one or more of the clearing banks if they failed to cooperate in response to Labour's plans for the supervision and public control of financial institutions.

The proposed reforms would include a requirement that the Bank of England use its powers to exercise closer control over the clearing banks and direct them to lend money "to support industrial planning." There would be a new national investment bank as well as a people's bank, created from a merger of the National Girobank and the National Savings Bank. In addition, a permanent tax would be introduced for the banking sector, on top of corporation tax, and there would be a new Securities Act, under which a commission responsible for the supervision and control of the securities markets would be set up. The NEC's spokesman, Douglas Hoyle, said that the City has to be brought under "democratic control" because its powers over British industry and economic activity are far too great.

It was significant that opposition at the conference to a Labour takeover of the banks was led by the unions representing bank employees. As one union official said, nationalization meant rationalization and the loss of jobs, and it was not democratic to go ahead with policies opposed by the majority of workers in the banking sector.

Financial Futures Exchange Kicks Off in London

The new London Financial Futures Exchange (LIFFE) was launched on Sept. 30 amid considerable fanfare. It is closely modeled on Chicago's International Monetary Market (IMM) and initially is trading in only two kinds of contracts - pounds sterling and short-term Eurodollar interest rates for delivery in December and March. However, operations are to expand quickly to dealing in other currencies as well as short-term and long-term sterling interest rates. The first day of dealing concluded with 3,237 contracts, which was somewhat below expectations.

The startup of LIFFE marks another advance toward the internationalization of financial markets and should bring London market practices closer to those of the U.S., according to financial commentators. On LIFFE, all currency contracts are in dollars, and the London gold futures market also has now changed contracts from sterling to dollar prices.

Denmark: Pay, Profits Freeze in Austerity Program

Four weeks after taking office, Denmark's four-party minority government has presented a package of austerity measures to lead the country out of its economic crisis. Prime Minister Poul Schlüter, a Conservative, included in his policy address opening the new parliamentary session the proposal of an immediate freeze of wages and profit margins until March 1, 1983, when the existing collective pay agreements in both the private and public sectors will expire. In addition, the government plans to suspend automatic indexation of wages, salaries, unemployment benefits, and old-age pensions until 1985.

Unemployment benefits are to be reduced from 90% to 80% of previous wages. There would be no sickness benefits paid for the first day of sickness, and the government would also introduce a prescription charge of DKr 5. Furthermore, Copenhagen is proposing to impose a temporary levy on the tax-free investment incomes of pension funds and life insurers' premium reserve funds. Revenues from this source would total DKr 4 billion next year and somewhat more in 1984. Finally, employer contributions to the unemployment insurance system are to go up, and dividends and bonuses paid to corporate managers would be restricted to the level of 1982.

Schlüter gave assurances that his government does not intend to raise taxes generally. In fact, taxpayers could hope for a DKr 100 reduction in income tax per month should private-sector wage agreements next spring remain within the 4% limit proposed for public-sector pay increases in 1983 and '84. The business community has been promised new investment incentives.

Public-sector expenditures would be reduced by DKr 20 billion in 1983 and DKr 37 billion in 1984. These cuts are necessary, according to Finance Minister Christophersen, in order to reduce the budget deficit, calculated by the new government to be DKr 80.2 billion for 1983 and at least that much for 1984.

France: New Taxes to Cover Social Insurance Deficit

Higher alcohol and tobacco taxes as well as higher contributions by the insured will help reduce the expected FF 30-billion deficit next year in France's social security system, which covers health and pension insurance and family allowances. A cabinet decision to this effect was announced on Sept. 29. As of 1983, excise taxes on cigarettes and alcoholic beverages would be raised, and as of Nov. 1, 1982, civil servants would have to pay a "solidarity contribution" to the unemployment insurance fund. The proposals still have to be approved by Parliament.

Social Affairs Minister Pierre Bêrégovoy said the size of the excise tax boosts would be geared to the budget needs of the social security system. However, it was predicted in Paris that there would be a surcharge of FF 1 per pack of cigarettes and a FF 10 surcharge per bottle of alcohol, which would raise extra revenues of about FF 6 billion. The state is spending more and more money on the treatment of diseases linked to alcohol and tobacco consumption, Bêrégovoy said, and therefore it is entitled to recover some of the expenditures from those responsible.

Paris would exempt from the new solidarity levy for the unemployed those civil servants who earn less than 1.3 times the legal minimum wage (FF 4,425.50 per month). All others would have to contribute 1% of their pay as of Nov. 1, which would raise some FF 4.5 billion. Another FF 4-6 billion is to be collected through a FF 20 charge to be paid by patients for each day of hospitalization. Additional savings are to be gained, the government said, through smaller increases in the minimum old-age pensions in 1983 than in previous years. The increases would total 8% (4% on Jan. 1 and July 1, respectively). Finally, advertising for pharmaceutical products would be subject to a new tax.

Austria: Full Tax Writeoffs for Company Cars to Be Restored

The Austrian Finance Ministry has indicated that full tax writeoffs will be restored next year for the purchase and operating costs of company cars. In 1978, writeoffs were limited to purchase costs of 105,000 schillings, and the depreciation period was extended from five to seven years. The writeoff of operating costs also was restricted. Subsequently, for the 1980 and 1981 tax years, the writeoff limits on car purchases were raised to 133,000 and 175,000 schillings, respectively. These remaining curbs apparently are to be removed as of next year.

The restrictions were imposed in order to slow down automobile imports and thereby reduce the country's payments deficit. The writeoff ceilings have particularly hurt sales of higher priced imported cars. At one point, Germany's Daimler-Benz (Mercedes) even threatened to stop its procurement of components and equipment from Austrian suppliers unless Vienna lifted the "discriminations," as the company called them.

EURO COMPANY SCENE

Alexander & Alexander Services, Inc., the New York insurance brokerage firm, is currently attempting to gain control of Banque du Rhône et de la Tamise SA, Geneva, and its London branch. Eighty-three percent of the small Swiss bank's capital is held by five former officials of Alexander Howden Group, the British insurance broker that was taken over by Alexander & Alexander Services early this year. A&A has filed suit in the U.K. against the five individuals, who are being accused of having used embezzled funds to clandestinely acquire the Swiss bank.

The U.K. finance group taking over a 52.6% stake in the British chain of F.W. Woolworth from the U.S. parent company has now been identified as Paternoster Stores. The group offered 82 p per share, or £163 million, which was accepted by F.W. Woolworth Co.

Common Market Reports

EUROMARKET NEWS

Issue No. 718 *October 19, 1982*

IN THIS ISSUE

Community: 'Butter Boat' Compliance Ruling Expected by Year-End

The Commission is confident that Member State governments will comply with the Court of Justice's "butter boat" ruling by the end of this year. Last year the Court held that the duty-free and tax-free sale of goods on excursions just outside territorial waters is incompatible with Community law. The Community tribunal also held that the sale of third-country goods in duty-free shops is not permissible in intra-Community trade unless EEC customs duties and agricultural levies are paid (judgment of July 7, 1981, Case No. 158/80 - *Common Market Reports, Par. 8766*). In April 1981, the Commission started infringement proceedings under Treaty Article 169 against all Member States to compel them to comply with the butter boat judgment. None of the cases has reached the Court, and the Commission is optimistic that it may not have to bring suit against any of the States.

Because of the economic consequences that the loss of several thousand jobs would have for West Germany's coastal regions, the German government wavered for several months but

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eventually decided to draft the necessary legislation to abolish the butter boat cruises by Jan. 1, 1983. Originally, Germany had made its decision dependent on a common arrangement concerning duty-free shops in airports and ports of the Member States. Such an arrangement, which is still hoped for, is not yet in sight, despite many efforts on the Commission's part.

Most Member States had voiced concern over the Commission's action, which could spell the end of the duty-free shops. The Commission has apparently succeeded in eliminating these fears by pointing out that the States could let duty-free shops continue to sell free of VAT and excise duty any goods that are sold in intra-Community trade. According to the Commission, the inclusion of EEC customs duties and agricultural levies in prices will have a fairly minor effect when compared with the more significant VAT and excise duty exemptions. Moreover, the Commission is not asking for restrictions on sales to travelers bound for third countries; its action, in line with the Court judgment, concerns only third-country goods sold in intra-Community trade. Also, according to the Commission, third-country goods sold in Community duty-free shops do not represent more than 20% of the total sales (mainly cameras, bourbon whiskey, and Cuban cigars).

EP Committee Reports on Trade Problems With East Bloc

It is an unacceptable situation that trade between the Community and individual East bloc countries still is not governed by trade agreements, according to a report by the European Parliament's foreign trade committee on the EEC's trade relations with Comecon and the individual East European countries. This situation can be traced back to the refusal of Comecon members to recognize the Community as a legal entity with the power to conduct trade negotiations for all EEC Member States. There has been only one step made toward recognizing the Community as an entity: in 1980, Romania concluded an agreement with the EEC on trade in industrial products. The Commission has remained steadfast in rejecting the Comecon secretariat's offer to negotiate on behalf of Comecon members. In the Commission's view, the secretariat does not have the kind of powers that the EC executive was granted by the Treaty of Rome.

The foreign trade committee is also disturbed by the rising number of cases involving dumping by East bloc countries. Dumping is not just confined to products affecting economically sensitive sectors but is also increasingly affecting transport. In the draft resolution that it wants the Parliament to adopt, the committee is asking the Commission to publish its findings about the activities of third-country shipping fleets. (A monitoring system was introduced in 1978.)

In conclusion, the committee points to the rising debts of East bloc countries and the problem several countries have in paying interest and principal on loans.

In Brief...

On Sept. 30, the Court of Justice upheld the Commission's interim order asking Ford Werke AG, Cologne, to resume deliveries of right-hand-drive models to German dealers (Case No. 229/82). The Court had suspended the EC executive's order to that effect on Sept. 6. Now the EC tribunal has ruled that Ford should stop its attempts to hamper trade. Residents of Great Britain were importing such models from the Continent, where the prices are lower than in the U.K. + + + The Commission wants the European Regional Development Fund to spend an additional $650 million during the next three to five years to combat unemployment in regions that are hit by layoffs in the steel, textile, and other ailing industries. Around two-thirds of the money would be used to provide interest rate subsidies for new small businesses that offer alternative employment.

Germany: Borrowing May Reach DM 40 Billion This Year

The new German government is facing a greater financial burden than originally anticipated because tax revenue projections made earlier by the Schmidt administration have proven too optimistic. During August, tax revenue rose by only 2.3% instead of the projected 4.3%. As a result, the Kohl administration will have to borrow DM 5.5 billion more than the additional DM 7 billion debt calculated by the previous government in its first supplementary 1982 draft budget. The federal government's total borrowing for 1982 could be as much as DM 40 billion, according to Finance Minister Gerhard Stoltenberg. Most of the DM 5.5 billion provided for in a second supplementary 1982 draft budget will be needed to pay unemployment benefits.

Bonn May Grant Tax Relief for Acquiring Insolvent Businesses

The German federal government hopes to slow the current wave of bankruptcies by granting tax relief to taxpayers who acquire insolvent businesses or those close to insolvency. (Around 12,000 businesses in Germany went bankrupt in 1981, involving the loss of some 350,000 jobs, and this year's figure might reach 16,000, putting 500,000 out of work.) Taxpayers would be entitled to a certain percentage of the purchase price as a tax-free reserve over a five-year period. (The percentage reportedly would be between 25% and 40%.) After this period, the reserve would have to be dissolved and restored to taxable income. The plan would amount to a tax deferment, and the taxpayer would have the additional advantage of not having to borrow (or not borrow as much) because the reserve would reduce taxable income accordingly, thus leaving additional cash.

Experts in the Economics Ministry have yet to define when a business is "close to insolvency." How freedom of competition would be affected by the acquisition of insolvent businesses is another aspect that has to be considered. One solution being discussed would be similar to that provided in Section 6b of the Income Tax Law. Under that provision, a taxpayer may obtain an income tax deferral on gains realized from the sale of certain business properties if the proceeds are reinvested in another business. However, the taxpayer must obtain the approval of the Federal Finance Minister, which is granted only if the investment will benefit the economy *(Doing Business in Europe, Par. 23,325)*. Since the procedure is time-consuming and would involve a lot of work for the ministry, government officials are considering leaving the decision to the state governments.

Belgium: Trying to Hold Down Borrowing Requirement

The Belgian government plans to keep its net borrowing requirement in 1983 below the level of the current year. Finance Minister Willy de Clerq said that public-sector credit needs have been projected at BF 440 billion, which is about BF 20 billion lower than the current year's anticipated total and corresponds to 10.5% of GNP. Thus, it is within the guidelines issued by the European Community.

De Clerq conceded that the government will not succeed in meeting its target of 11.5% of GNP this year (after 12.7% in 1981): an expenditure overhang from last year as well as higher credit costs will probably result in a net borrowing requirement of 13.5% of GNP. Nevertheless, the finance minister described this year's financial results as a success. If debt service costs were excluded, he said, the public-sector budget would be back in black figures next year.

To meet its goal of limiting the rise in public expenditure to 7.5% next year, the government is now considering a number of budget savings measures in addition to those announced previously. Further cutbacks are likely for certain recipients of social welfare and unemployment benefits and in the health and education sectors. Public service charges are to be raised, and income reductions totaling some BF 10 billion are planned for public service employees. The bulk of these austerity measures will be decreed this year, observers predict, since the government intends to take full advantage of its economic emergency powers granted by Parliament, before these powers run out at the end of 1982.

Britain: Legislation Due on 'Employee Involvement'

After consultation with employers' organizations and other bodies, the U.K. government plans to introduce legislation for "employee involvement" in company affairs. The law would be aimed at companies with a minimum work force of 250. The Employment Bill, at present making its passage through Parliament *(Doing Business in Europe, Par. 40,397)*, is to be amended, so that such companies would be required to include in their annual reports a statement of what action they have taken to introduce, maintain, or develop arrangements for employee involvement.

Companies would have to specify to what extent they have systematically provided their workers with information on matters that concern them as employees and have encouraged employees' actual involvement in the company's financial performance through a share plan, or by some other means. They would also need to say what action they have taken to consult employee representatives on a regular basis, so that workers' views could be taken into account when decisions are likely to affect their interests. Finally, companies would have to show how they are going about achieving a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

The Confederation of British Industry (CBI) is apparently quite satisfied with the proposals although previously it had opposed including in the annual reports any material that does not strictly relate to a company's financial position. The influential Engineering Employers' Federation has welcomed the measure, saying it will make a "worthwhile contribution to the further voluntary development of employee involvement, on lines desired by employers and employees." However, the federation does not want to see such consultation with employees made a statutory requirement. In fact, both the U.K. government and the CBI have previously taken a strong stand against implementation of the provisions of the Community's draft Fifth Council Directive on employee participation *(Doing Business in Europe, Par. 40,427)* as well as the "Vredeling proposals" providing for consultation of employees before a company makes important policy decisions *(Common Market Reports, Par. 10,265)*.

Ireland: Opposition to Haughey in His Own Party

Irish Prime Minister Charles Haughey on Oct. 6 survived a vote on a motion of "no confidence" in his leadership by members of his own ruling Fianna Fail party. Haughey defeated the move to oust him by 58 votes to 22, but such a confidence vote was unprecedented in the 56 years of the party's existence. Moreover, the fact that over a quarter of Fianna Fail's MPs demonstrated their opposition to Haughey in an open roll call vote is regarded by observers as a sign that Haughey's days as prime minister are numbered.

Recent political scandals and the government's handling of the economy may have disillusioned many party supporters. Since Haughey came to office, the general economic situation has deteriorated and is causing deep concern. Ireland's budget deficit for the first nine months of this year, at Ł960 million (Irish), is higher than the deficit forecast for the whole year, and incoming revenues have proved lower than anticipated in the 1982 budget. There are increasing threats in the public sector to take strike action, but the government cannot afford larger wage increases. The number of those unemployed continues to grow and now stands at more than 160,000, or 13% of the working population.

At the end of this month, after Parliament reassembles on Oct. 27, Haughey is due to unveil a new economic program for which he has been canvassing national support. Nevertheless, observers feel that another general election cannot be far off, since Haughey may not be able to satisfy those left-wing independent MPs on whom he depends for his very slender parliamentary majority.

France: No Consensus on Bailing Out Unemployment Fund

Weeks of intense negotiations between the French employers' association and the labor federations have failed to produce a consensus on how to cope with the ballooning deficit in the national unemployment insurance fund, which by the end of 1983 will reach more than FF 35 billion unless something is done soon. The government is no longer willing or able to cover the widening finance gap, and the employers are also refusing to make additional payments to the system. (See also *Doing Business in Europe, Par. 22,833.*)

The unions had submitted, for the first time, a joint financial rescue plan providing for net savings of about FF 7 billion and higher employee contributions totaling an additional FF 5 billion. Together with the FF 5 billion in extra revenue expected from the new "solidarity levy" payable by public-sector employees (see following story), these funds would have covered more than half of the projected deficit. The remainder would have had to be made up by the employers and the government, according to the unions' plan.

The employers rejected this proposal with the argument that they can accept no further social insurance burdens. They demanded sweeping cutbacks of FF 20 billion, which would be possible by slashing about 25% of the benefits and services extended by the unemployment insurance fund. The employers reiterated their complaint that French workers are paying only 23.3% of contributions into the system, whereas the employees' contribution rate in Germany, for instance, is 50%. Also, unemployment compensation in France can be as high as 90% of previous pay, a generous arrangement that tends to invite abuses, the employers' representatives said.

Confronted with this stalemate, Social Affairs Minister

Pierre Bérégovoy is expected to make a final attempt at arbitration. Should he fail, which is considered likely, the government will be forced to prepare a decree enforcing obligatory measures necessary to cover the deficit.

Paris to Pursue Tightfisted Public-Sector Pay Policy

The French government has indicated that it intends to pursue a tightfisted public-sector pay policy for 1983 in the hope of setting an example for the private sector as well. The unions affected have reacted by staging and scheduling protest actions. In statements preceding the upcoming pay talks, the Mitterrand administration outlined bargaining guidelines that would result in real-term income losses of 2-3% this year, if the expiring pay freeze is taken into account, and an 8% ceiling on pay rises in 1983. Since the 8% corresponds to the officially projected inflation rate next year, the offer at best would mean maintaining public-sector workers' purchasing power but would bring no compensation for the income losses suffered in the current year. The government, moreover, is opposed to any indexation clauses in the new contract, which means that there would be further income erosion if the 1983 inflation rate were higher than 8%.

The unions are going into the bargaining talks determined to protect the purchasing power of their members, at the very least; from all indications, they are not prepared to accept any compromises on this point. Their leadership has already been angered by not having been consulted on the introduction of a "solidarity levy" payable by public-sector employees, who enjoy more job protection than workers in the private sector. The levy amounts to 1% of gross pay, and the extra revenue from this source is to help reduce the deficit in the national unemployment insurance fund.

Sweden: Social Democrats Start With Devaluation, Price Freeze

Prime Minister Olof Palme, head of Sweden's new Social Democratic government, announced a 16% krona devaluation and a general price freeze in his Oct. 8 policy statement before Parliament. Three days later, the government published an economic crisis plan. Among other things, it proposes a value-added tax increase of about two points to nearly 23.5%, probably as of Dec. 1, as well as higher company contributions to unemployment insurance. Tax relief granted by the outgoing government to private investors in securities is to be partly rescinded, and the 30% tax-free allowance on dividend distributions up to SKr 7,500 would be abolished entirely. Also, the portion of mutual fund investments that may be deducted from taxable income would be reduced from 30% to 20%.

Since the massive devaluation should result in higher earnings for businesses, the Palme administration wants to discuss with both employers and unions ways of neutralizing this effect for the benefit of the workers. An employee profit sharing system, corporation tax changes to stimulate domestic investment, and the creation of special investment funds as an economic tool will be discussed.

The krona devaluation caused consternation among Sweden's neighbors since it will have a major impact on the Scandinavian economies generally. Finland, which had devalued its own currency only two days earlier, by 4%, was forced to follow with another devaluation on Oct. 10, this time by 6%. Norway, which had devaluations totaling 6% in August and September, will now again have to weigh a similar step in order to protect the competitiveness of its industry. As a first move, Oslo on Oct. 11 reduced from NKr 1,100 to 500 the value of goods that may be brought duty-free into Norway from Sweden; the action was designed to help Norwegian retailers in areas near the Swedish border.

Norway: Substantial Tax Relief in 1983 Draft Budget

The Conservative Norwegian minority government on Oct. 6 presented Parliament with a 1983 draft budget that foresees substantial tax relief as a means of overcoming the present stagnation of the economy. Businesses as well as earners of higher incomes would benefit from tax reductions totaling NKr 5 billion. According to Oslo's projections, the budget will result in a surplus of NKr 9.4 billion, principally because of the revenues from offshore oil and gas taxation. Without these revenues, the budget would wind up with a NKr 18.7 billion deficit. To make the budget less dependent on the oil tax revenues, however, the government plans to raise taxes and levies on gasoline and automobiles, alcohol, tobacco, electric power, telephone services, and public transportation.

Finance Minister Rolf Presthus told Parliament that it is the government's intention to reduce the non-oil budget deficit, improve industrial competitiveness, and cut public expenditures "to the bone." Oslo expects the country's GNP to rise by 0.8% next year, after an expected decline of 0.1% in 1982. Unemployment in Norway currently stands at only 2.5% of the national work force, which compares very favorably with the 8% average of all the western industrialized nations.

Common Market Reports

EURO MARKET NEWS

Issue No. 719 *Report No. 460, October 27, 1982*

IN THIS ISSUE

Community: EP Dilutes Proposals on Multinationals' Disclosure

The European Parliament has adopted over a dozen key amendments to the controversial "Vredeling draft directive," named after the former Dutch Commissioner. The proposal would require multinational companies established in at least one Member State (or with a subsidiary or subsidiaries there) as well as other company groups to disclose details of corporate policies and activities to employee representatives *(Common Market Reports, Pars. 10,265, 10,421)*. The physical location of a multinational's headquarters would not be relevant for purposes of the directive.

One significant change recommended by the EP's majority (made up of Christian Democrats, Conservatives, Liberals, and Gaullists) concerns the scope of application. Under this change, the measure would apply to multinationals or groups of affiliated companies with a total work force of at least 1,000 and to subsidiaries employing at least 100. The Vredeling proposal provides only for the 100-employee threshold for subsidiaries.

Management would be required to inform employee representatives when planning or considering (1) the closure or relocation

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

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of the enterprise, (2) restrictions or expansions, (3) major changes in the operational organization, (4) rationalization measures, or (5) job safety and job security measures. The Vredeling proposal goes further: the information would also have to include a report on the company's financial situation and investment programs as well as, generally, all procedures and plans with a considerable effect on employees' interests.

Under another EP amendment, it would suffice to inform employee representatives once a year; the Vredeling proposal specifies twice a year. Information would be given only to employee representatives and not to works council members who are not employees. Management could withhold information if business secrets were involved. Employee representatives would be elected by secret ballot, whereas the Vredeling proposal leaves the election procedure to the States' discretion.

Employee representatives would be prevented from going to the management of the parent company incorporated outside the EEC and seeking information that was withheld by the subsidiary's management. The Vredeling proposal, on the other hand, allows such consultation.

Under another amendment concerning consultation, management would not have to consult employee representatives prior to concluding or cancelling a long-term cooperation agreement. More important, the EP voted to weaken a condition to the proposed consultation requirement for planned shutdowns or production cutbacks: the EP's amendment says that it would be "desirable" for management to consult employee representatives in order to get an agreement on the planned measures, whereas the Vredeling proposal makes such an agreement a prerequisite.

Parliament is scheduled to give its final opinion on the measure in November. Commissioner Ivor Richard believes the Commission will find most of the amendments unacceptable. The Commission does not have to incorporate the amendments in the draft it submits to the Council. However, it cannot send the draft on without the EP's final opinion. If the Commission shows too much opposition to the amendments, Parliament could withhold its final opinion and thereby block the measure.

Both the number and extent of the amendments suggested by the EP have put the Commission in a difficult position. Some observers do not rule out the possibility that the Commission might withdraw the Vredeling proposal entirely and prepare a new one. There is considerable uncertainty about the proposal in any case because the new conservative governments in Denmark, Germany, and the Netherlands might join the U.K. in opposing the proposal or questioning its wisdom.

In Brief...

The European Court of Justice has extended its case law doctrine on trademarks to models and designs. It has held that the owner of a product design may oppose the marketing or importation of a confusingly similar-looking product so long as the product does not originate from the same production source as his own or the two manufacturers are not related enterprises. A Dutch appellate court had asked the Court of Justice for a preliminary ruling on the interpretation of Treaty Articles 30 and 36 with respect to certain provisions of the uniform law annexed to the Benelux Convention on Industrial Designs and Models. Under that law, the person registering a design obtains an exclusive right, which may be challenged only by the designer himself (judgment of Oct. 13, 1982, Case No. 144/81) + + + The Commission has urged the ten Member State governments to sign the Treaty on the International Law of the Sea because the Community will retain an effective voice in next year's negotiations on how the Treaty should be applied only if all the States sign the convention. The treaty contains rules on fish conservation, pollution control, national coastal limits and, most important, deep-sea mining. The Community, which was represented in the negotiations by the Commission, was the only multinational body that took part in the treaty talks. If just one Member State fails to sign the draft treaty, the Community's status in next year's negotiations would drop to that of a nonvoting observer. Last May only France, Denmark, Greece, and Ireland voted for the draft; the Benelux countries, Germany, Italy, and the U.K. abstained because they considered the deep-sea mining rules too restrictive.

Germany: Kohl's Short-Term Program Just a Start

The new German government has announced a short-term program that would encourage private investments, trim welfare expenditures, and curtail immigration. The government's contribution toward reducing unemployment would be substantial investments in the communications sector. Some of the measures, such as tax legislation providing for a reduction in subsidies, partial business tax relief, and welfare cutbacks, are scheduled for adoption prior to the Christmas recess. Others, such as amendments to the Aliens Law, are to be submitted to Parliament early next year.

The program contains many unpopular measures, including the postponement until July 1, 1983, of old-age pension increases, cuts in unemployment benefits and in contributions for hospital stays, and only a small raise for the country's 2.7 million civil servants. However, the new government believes it must move far more forcefully than its predecessor in order to slow the increase in public borrowing. The German electorate will have a chance to express its view on the government's program when new national elections are held, most likely on March 6, 1983.

Most business leaders have found praise for Chancellor Kohl's program, and especially for his frank admission that welfare spending cannot continue in its current pattern because even steadily rising social security taxes cannot pay for the elaborate system. There is also praise for the new government's firm stand against continued heavy borrowing. Kohl has found wide acceptance of his call for a pause in the expansion of the country's generous welfare system as a way of putting government finances and the health insurance and pension funds back on a sound basis. However, the suggestion that housewives are to be credited with several years of old-age pension coverage for raising children, once the social security system has more funds, has been greeted with skepticism.

Although business executives see many positive elements in the new government's program, they are reserving their final opinion until the ideas are put into legislative proposals.

Britain: 'Company Residence, Tax Havens, Upstream Loans'

The U.K.'s influential Institute for Fiscal Studies has produced a report, "Company Residence, Tax Havens and Upstream Loans," in response to the Inland Revenue's proposals last year for new controls on tax loopholes at present available to multinational companies. The report's conclusions are likely to have a considerable effect on government thinking and are being closely studied by the Treasury and the Inland Revenue. Observers believe that the eventual legislation will closely follow the Institute's recommendations.

It was originally intended that this year's Finance Act include measures to close some of the loopholes, but in his Budget speech the Chancellor of the Exchequer, Sir Geoffrey Howe, said that consultations were still continuing. However, legislation could be expected next year, he indicated. The Institute itself stresses that the subject is complicated and unclear and that it would be best to again postpone enacting any changes if a further delay will result in a greater consensus and clarity.

The report proposes fiscal measures to prevent U.K. multinational companies from accumulating profits in low-tax areas when this involves artificially diverting business or trading activities to overseas companies in these areas. However, it advocates exemptions in the case of genuine trading, which would be more liberally interpreted than in the Inland Revenue's proposals.

As regards what are termed upstream loans, where money is lent to a U.K. resident company by a company resident outside the U.K. from its accumulated profits, the Institute advises against any blanket tax being imposed on such loans. At present, a U.K. company does not pay corporation tax on profits earned overseas if these profits are remitted as a loan to the U.K. parent company. Such profits are taxed, however, if they are transferred in the form of dividends.

The Inland Revenue proposed last year to tax any U.K. company with an interest in excess of 10% in a "controlled foreign company" that paid foreign tax of less than half of what it would pay as a U.K. resident company. The report disapproves of the tax authorities' intention to restrict the availability of U.K. tax reliefs (for example, capital allowances) in assessing what fiscal liabilities such a controlled foreign company would have incurred had it been subject to U.K. tax. The Institute does, however, accept the Inland Revenue's view that a company's place of residence should be determined by the location of the company's day-to-day management rather than the meeting place of its board of directors.

France: No Indexation in Future Wage Contracts

Determined to pursue a tough economic stability policy "until the end of the present crisis," the French government will modify the current four-month pay (and price) freeze rather than terminate it entirely at the end of this month. Labor Minister Jean Auroux has issued a decree prohibiting inflation indexation clauses in future wage contracts, basing his action on a regulation issued in February 1959 under the De Gaulle administration. Only the legal minimum wage will continue to be protected by automatic indexation.

Following the expiration of the total pay freeze, collective bargaining will commence in some 70 French industrial and commercial sectors as well as in numerous individual enterprises. In the mining and metalworking sectors, the employers already have refused to agree to a purchasing power guarantee in the new contracts. State-controlled Renault, usually a generous employer in terms of pay and benefit increases, this time is cutting in half the 8% raise that it had granted to its auto workers for 1982. For the public sector workers, government experts are anticipating purchasing power losses of 3-5% this year and a similar percentage for 1983.

The Mitterrand government's overall wage strategy is to have businesses freeze the remuneration of their top earners and most other wages at a level at which, at best, purchasing power is just being maintained. Only minimum wages are encouraged to be raised above the average. This approach, the administration believes, should help cut wage cost increases in half, lower the domestic inflation rate to the approximate level of the German rate, and improve the competitiveness of French export industries.

Despite this uncompromising stand, the Socialist government apparently does not have to be fearful of major social unrest, such as lengthy general strikes. While the voters supporting the political left may be somewhat disillusioned, commentators say, they still support their government. There have been some smaller protest demonstrations, but these have not caused any production problems anywhere.

Paris Relents on Loan Clause; A-Power Cutbacks Seen

The threatened withdrawal of seven major international banks from the French government's $4-billion Euroloan issue has been averted through the intervention of Economics and Finance Minister Jacques Delors, who brushed aside Treasury objections by accepting the guarantee demands made by the consortium banks. The banks had insisted on a *pari passu* clause in the loan agreement, which assures creditor banks of benefiting from any bettered guarantee terms that might be negotiated by the creditors of any subsequent loan issues. The Socialist government initially had resisted inclusion of the clause in the loan agreement, on the ground that it could impair France's international credit rating. In the end, Paris accepted not only the special clause but also the obligation to repay the loan immediately in the event it misses payment deadlines on other international loans.

In other news, the government apparently is considering a major cutback of the French nuclear power program. On the basis of figures anticipating a slower growth of future national energy requirements, the administration may decide to reduce the number of A-power plants originally planned for the 1984-85 period from six to three. For political reasons, the Mitterrand government in the fall of 1981 had already trimmed the 1981-82 nuclear program from nine to six projects. The newest cutbacks would be based wholly on economic considerations: aside from the recession's effects on energy demand, the state-controlled electric utility Electricité de France (EdF) is also wrestling with considerable financial problems. Already burdened by an accumulated deficit of FF 120 billion, EdF this year is expected to wind up with additional net losses of FF 8.5 billion.

Denmark: New Government Succeeds With Austerity Plan

Despite nationwide protest actions and in the face of stiff parliamentary opposition, the new Danish right-center coalition has succeeded in putting its economic austerity program through the Folketing. Following a dramatic session, the crucial vote on Oct. 16 was 90-85 for Premier Poul Schlüter's crisis measures, with four abstentions. Mogens Glistrup, the head of the anti-tax Progress Party, was forced by his parliamentary faction to vote with the government after Schlüter threatened to call for new elections, which would see Glistrup emerge as a certain loser. Schlüter's four-party coalition makes up a minority administration, which holds only 66 mandates out of 179 in Parliament.

The government's political victory, five weeks after Schlüter's installation as the new Conservative premier, will mean considerable belt-tightening for the country. (Schlüter's predecessor, Social Democratic party leader Anker Jörgensen, had failed with a similarly tough proposal and was forced to resign in September.) The bulk of the austerity program is made up of incomes policy measures - a five-month freeze of wages and profit margins, pay raise limits of 4% from 1983 until 1985, and the suspension of wage indexation. The government also succeeded with nearly all of its budget saving proposals: its program foresees DKr 18 billion, instead of DKr 20 billion, in public-sector spending reductions, most of them in the social welfare areas.

Prior to the debate and vote on these measures, some 100,000 workers had demonstrated before the parliament building against the government's intentions. Tens of thousands participated in similar protests in other parts of the country, interrupting or obstructing public transport and causing the temporary closure of public facilities. Nevertheless, opinion polls have shown that most Danes see the need for the austerity measures.

Greece: PASOK Losses in First-Round Communal Elections

In the first round of the Greek communal elections on Oct. 17, the governing Socialist PASOK party of Prime Minister Andreas Papandreou suffered losses of 5-10% nationwide and 15-20% in the major cities, compared with the 1981 general election results. Political observers predicted that the party will now depend, more than in the past, on the cooperation of the Moscow-aligned Communist KKE party. The Communists scored some gains, as did the opposition New Democracy party. Nevertheless, PASOK was expected to retain the mayoralties in the country's four biggest urban centers (Athens, Piraeus, Salonika, and Patras) in the second round of voting a week later, if only with the help of the Communists' supporters. Nationwide, PASOK was predicted to win 160-190 of a total of 276 mayoralties because of the cumulative effect of the vote for the "united left," which includes the Communists.

Belgium: Liberals, 'Greens' Win Municipal Elections

The right-of-center Liberals, who are represented in the government coalition, and the "Greens," the environmentalists, came out best in Belgium's municipal elections on Oct. 10. The balloting did not result in the setbacks for the governing parties that the Martens administration had feared and the opposition had hoped for, although the prime minister's Christian Democratic party has lost some ground since the previous municipal elections in 1976. Overall, however, the government parties held their own, despite pursuing a tough, and often unpopular, economic austerity course. In Flanders, the Christian Democrats were able to make up some of the losses suffered in the last parliamentary elections a year ago, while in French-speaking

Wallonia they had to accept further losses. Last November, the Christian Democrats had lost 10% of their previous vote.

The election campaign was dominated by local political issues, mostly centering on the often perilous financial plight of Belgium's communities. Last spring, for instance, the city of Liège had to be saved from bankruptcy by the central government when it was unable to pay its civil servants and maintain certain public services. The situation is not much different in many other of Belgium's 590 communities. Just before the elections, in fact, mayors threatened to withhold revenues collected by their local governments on behalf of "Brussels." The central government generally sets aside 7% of its revenue income for the communities, but these funds are far from sufficient and are being constantly cut back. Thus, most municipalities must generate substantial supplemental revenues, which has led to a tangle of nearly 120 different communal taxes, among them such curiosities as levies on driveways, balconies, and roof antennas.

Yugoslavia: Currency Curbs, Fuel Rationing Announced

Badly dependent on new international loans to meet current commitments, the Yugoslav government has announced a series of economic austerity measures that include currency restrictions for Yugoslavs traveling abroad and gasoline rationing. Burdened with a foreign debt approaching $20 billion, Belgrade must pay $5.35 billion in principal and interest to its foreign creditors this year and an estimated $7 billion in 1983. The government has started negotiations with the International Monetary Fund to obtain the third $600-million tranche of its previously negotiated $2-billion credit line.

Yugoslavs intending to travel abroad must now deposit 5,000 dinars (about $100) for any first foreign trip within a calendar year. For each additional trip, the amount is raised by 2,000 dinars. The deposits will be refunded, but not before one year has elapsed. The new deposit rule does not affect Yugoslavs working abroad nor those visiting relatives abroad. The government also has limited hard-currency withdrawals from private bank accounts to $250 per month. Owners of private cars are now restricted to 40 liters (about 10 gallons) of gasoline per month.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Steel Export Agreement Averts Crisis

The new German government's consent to the steel export agreement in order to ward off U.S. duties has helped prevent further deterioration of the already strained EC-U.S. relations. The consensus came after Eurofer, the European steel producers' organization, and the Commission gave assurances of an equitable distribution of individual quotas. The final agreement ends eight months of EC-U.S. negotiations.

Under the agreement negotiated last August and amended since then by both sides under pressure from the U.S. government, EEC exports of all major steel products to the U.S. will be limited from Nov. 1, 1982, until Dec. 31, 1985. In 1981, Community exports accounted for 6.3% of the U.S. steel market; this percentage will now be reduced to 5.75%. EEC exports of steel products in the 11 main categories will be cut by 8% from last year's levels, thus making the market share closer to 5%. Pipe and tube exports will be brought down from last year's 10.9% of the U.S. market by a monitoring system that imposes a 5.9% limit.

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It was the cutbacks in pipe and tube exports that had made Bonn reluctant to approve the agreement because the German steel producer Mannesmann accounts for 70% of these exports. (In a U.S. Commerce Dept. ruling, it was said that Germany's steel industry was among the least guilty of EEC producers accused of steel dumping.) A commitment from Eurofer and the Commission that the individual quotas will not hurt German steel manufacturers, who receive few or no subsidies, enabled Bonn to withdraw its objections two hours prior to the expiration of the deadline on Oct. 21.

Parliament Debates Deterioration of EC-U.S. Relations

The deterioration of relations between the Community and the United States was the topic of a debate in a day-long session of the European Parliament last month. Some 30 members of Parliament expressed their concern that the United States does not understand the European points of view on agricultural trade or on the gas pipeline from the Soviet Union.

Several questions put to the Commission and the Council of Ministers during the debate were answered by Commission Vice-President Etienne Davignon and Danish foreign minister Uffe Ellemann-Jensen. Davignon believes it is important for Parliament to continue discussing EC-U.S. relations, and he pointed to what the EP has done to get Europe's viewpoints across by sending delegations to Washington to meet members of the U.S. Congress.

Several members of the EP took up the U.S. government's objections to subsidized EEC agricultural exports and its threat to subsidize exports of U.S. surplus commodities. They referred to the Community's growing deficit in agricultural trade ($6.8 billion in 1980) and the fact that Europe is the U.S.'s best customer for farm commodities. Several MPs reminded the House that during the last GATT negotiations the United States accepted the EEC policy of subsidizing agricultural exports from the Common Market. Answering on behalf of the Council, Ellemann-Jensen said export refunds for agricultural products are compatible with GATT so long as they do not account for an unfair percentage of the world market.

Many members of the EP were highly critical of the stance taken by the Reagan administration on the Siberian gas pipeline. One member, speaking for the Socialists, found Washington's attitude unacceptable. Davignon stressed that the United States had been unwilling to discuss Europe's gas supplies earlier, despite repeated attempts by the Commission to do so. Davignon added that the U.S. does not face the same problem since it has ample supplies of its own and that it is too simplistic to say Europe can rely on Norway's resources and increased production from the North Sea.

Parliament will return to the subject of EC-U.S. relations next month, when it is expected to vote on a resolution calling for an increased exchange of information, consultation, and working contacts between MPs and members of Congress.

Bundesbank Spearheads Further Cuts in Interest Rates

The international decline of interest rate levels continued in Europe last month, when the central banks of the Netherlands, Belgium, Germany, and Austria announced further reductions in their respective bank rates. The most decisive cut was made by Germany's Bundesbank as of Oct. 22, when it lowered the discount and Lombard rates by one full point each to 6% and 7%, respectively. Thus, within a one-year period, the Bundesbank reduced its discount rate twice (the last time in February) and its Lombard rate seven times. During the same period, the German money market rates declined by about 5% and the capital market rates by 4%. Except for Switzerland, Germany now boasts the lowest interest rate levels of any of the western industrialized nations.

After a second 0.5% cut in eight days, the Dutch discount rate stands at 6% (Oct. 22). Earlier, on Oct. 20, the Belgium National Bank lowered its rate by 0.5% to 13%. In Austria, the central bank authorities fixed the discount rate at 5.75% and the Lombard rate at 6.25% (Oct. 22) but for only 70% of the refinancing framework available to the commercial banks; above that limit, the rates continue to be one point higher.

Germany: Repeal of Certificate Requirement for Part-Time Help?

Chancellor Helmut Kohl's promise of "less government and more freedom" in his policy address last month could result, to start with, in less red tape for one aspect of German taxation: Finance Minister Gerhard Stoltenberg has announced a bill repealing the requirement that individuals holding part-time jobs present their employers with a certificate entitling them to lump-sum treatment in individual income tax withholding. Legislation providing for this certificate was passed in 1981 by the former coalition of Social Democrats and Free Democrats and took effect on Jan. 1 of this year. Difficulties in drawing up administrative instructions and providing local governments with certificate forms forced the Schmidt administration to postpone compliance twice; the last deadline expired on Oct. 31.

Few pieces of recent tax legislation have caused as much concern in the business community as the certificate requirement *(Doing Business in Europe, Par. 40,323)*. Industry representatives testifying before the Bundestag's tax committee cautioned lawmakers about the most likely consequences of the bill. They told the committee that many businesses at one time or another have to hire part-time help. They feared that individuals without the certificate would turn down a part-time job when told by the prospective employer that income tax would be withheld at the highest rate applicable to wages earned in full employment. Owners of restaurants and hotels, which often depend on part-time help, expressed the fear that, even with a certificate, many individuals would not feel inclined to take on a part-time job at all.

The massive criticism prompted the upper house last May to sponsor a bill aimed at dropping the certificate requirement and increasing withholding from 10% to 15%. The bill did not get very far because of the political differences between the two coalition partners, which later led to the breakup of the government.

Finance Minister Stoltenberg has not specified whether the new bill would retain the 10% rate or provide for 15% withholding. Under previous legislation, an employer did not have to ask for a certificate when hiring part-time help; his obligation to the government was fulfilled by withholding 10% of the individual's pay. The Schmidt administration sought to justify its proposal at the time by pointing out that an individual holding several part-time jobs pays less income tax than an employee earning the same in full-time employment.

Denmark: Economic Advice From Brussels; Fisheries Policy

The Danish government has been exhorted to pursue a rigorous budget discipline next year, especially by reducing social transfer payments and public-sector wage increases. These recommendations were made in the European Commission's annual economic report for 1982-83, which also urged an increase in public tariffs and rates. These measures, if realized, should help to reduce the budget deficit, originally projected at DKr 11 billion, from 15.5% to 13% of GNP.

In other news, the other EC Member States have been stepping up pressure on Copenhagen to make the political concessions necessary for a common fisheries policy (CFP) next year. Final agreement virtually hinges on Denmark, Brussels reports said, but the new center-right minority government apparently does not have the political clout to overcome the country's powerful fishing industry lobby.

Greece: Government Party Wins Communal Elections

With the inclusion of the results from the Oct. 24 runoff vote, the governing Socialist PASOK party of Premier Andreas Papandreou emerged from the Greek communal elections with 175 mayoralties out of 276. (In the last previous communal elections of 1978, it had wound up with 75.) The conservative New Democracy opposition parties gained 49 mayoralties (1978 = 128), and the pro-Moscow Communists, 43 (43). PASOK's success came with Communist support, since it won only 39 "city halls" outright.

France: Companies Offered Grants for Work Time Cuts

As of 1983 and for the next two or three years, the French government will grant FF 1,000 per employee per hour of work time reduction to those companies that cut work hours while maintaining production levels or boosting their work forces. Employment Minister Jean Le Garrec said the objectives are a gradual reduction of the workweek from 39 to 35 hours and a boost in competitiveness. Estimated to cost the state FF 1.2 billion next year, the new plan has been described as a kind of "solidarity contract" between government and industry, superseding some 12,000 similar agreements negotiated with private and public businesses since the Mitterrand administration came to power. It has been pointed out, however, that the contracts concluded so far have resulted not so much in work time cuts as in a sharp rise in early retirements, at a high cost to the state budget.

Paris Moves to Cut Trade Deficit, Stimulate Exports

Alarmed by the certain prospect of a record FF 100-billion trade deficit this year, the French cabinet on Oct. 20 announced various measures aimed at slowing imports, stimulating exports, and reducing the country's energy bill. Outlined by Jacques Attali, President Mitterrand's chief of staff, the package was criticized by some observers as containing non-tariff trade barriers of the type that France in the past has found objectionable on the part of other countries.

According to new rules that will take effect in six weeks, all imported products in the future must bear a label showing the country of origin, and documents accompanying imported products through French customs must be written in French. The customs authorities have been instructed to step up controls on "certain import practices" - for instance, on Asian-made textiles brought in via other Common Market countries as EEC-made products. By the end of the year, state-controlled enterprises will have to prepare a "trade balance sheet" reflecting their foreign and domestic trade patterns as well as their foreign exchange expenditures.

"Strict controls" have been announced, moreover, on the patent and license exchange of French businesses with foreign partners. No further explanation was given, but sources in the French Patent Office indicated that the government is concerned about the "technology flight" caused by French firms setting up foreign branches that act as owners of French patents but fail to repatriate to France license fees collected for the exploitation of such patents. (According to OECD statistics for 1980, France showed a deficit of FF 1.53 billion in its patent and license exchange with OECD countries that year.)

To boost industry's export efforts, the government as of 1983 will allow pro-rata reductions of the 30% tax on business entertainment expenses incurred in connection with export operations. The rate of reduction will depend on the relative success of a company's export drive. Furthermore, export credit insurance rates are to be lowered, and state subsidies are to be offered to small and medium-sized companies establishing distribution facilities abroad.

To reduce the national oil bill, Paris plans to better enforce existing restrictions pertaining to the nighttime illumination of streets, public buildings, and display windows as well as room temperatures. Some FF 1 billion in extra funds is to be set aside to finance these controls and to help public-sector industries and the social housing sector cut energy costs.

Italy: Unions Agree on Partial Pay Indexation Reform

Following one and a half years of sometimes bitter internal disputes, Italy's three major labor federations have finally reached a consensus among themselves on a partial reform of the automatic pay indexation system *(scala mobile)*, which continues to be one of the prime causes of the country's extremely high inflation rate, currently at 17%. Still to be sanctioned by the rank and file, the unions' proposal involves a 10% reduction in the inflation adjustments and the pledge not to let wage costs rise above 13% in 1983 and 10% in 1984.

The labor federations are calling on the government to support these sacrifices by agreeing to income tax reductions and increases in tax-free allowances and family allowances. In addition, the unions are again seeking the creation of a solidarity fund to be financed by a 0.5% levy on wages and salaries, with the revenues to be used for financing new jobs.

Commentators said that labor's proposal for a reformed *scala mobile* constitutes, in effect, the breaking of a longstanding taboo which has had extremely negative effects on the Italian economy in general and on the international competitiveness of industry. Their consensus should put the unions in a stronger position than before for the upcoming talks with the private-sector and public-sector employers on a framework agreement on wage costs and collective bargaining. The Spadolini administration has set a Nov. 30 deadline for the successful conclusion of these negotiations; otherwise, it is committed to harsh measures of its own.

Electronic Pool Formed by Public-Sector Companies

In order to have a better chance against international competition, four state-controlled electronics companies have formed a pool venture which aims to have a market-dominating position in Italy, also in exports. The firms involved are Selenia, San Giorgio/Elsag, Vitroselenia, and Selenia Spazio. The combined group has annual sales of 600 billion lire, an order volume of

2,600 billion lire, and 9,500 employees. It is being financed by the two state holdings of the telephone and mechanical engineering sectors (Stet and Finmeccanica).

As a first joint investment, the group plans the construction of a production plant at L'Aquila for 50 billion lire. Some 200 billion lire will be set aside for the expansion of existing plants in the Mezzogiorno, the southern regions. Another 360 billion lire has been allocated for research and development.

In related news, the Ministry of Industry and the state Institute for Industrial Reconstruction (IRI) have jointly initiated the establishment of a new electronics group. Ristrutturazione elettronica SpA (REL) will gradually absorb the electronics activities of four companies - Zanussi, Voxon, Indesit, and Europhon. The state has contributed 95% of the starting capital of 1 billion lire. By providing 240 billion lire in financing over the next five years, IRI will become a minority shareholder in the companies involved.

Yugoslavia: 20% Devaluation Part of Austerity Program

In conjunction with previously reported economic crisis measures, the Yugoslav government on Oct. 22 also devalued the dinar by 20%, which changed the dollar exchange rate from 52 to 63.50 dinars. The devaluation is expected to worsen the rate of inflation, currently above 30%, but it should strengthen the country's competitiveness both in exports and tourism, which has suffered severe setbacks this year.

Belgrade imposed a price freeze as of Aug. 1 and last month followed up with some 30 decrees and laws putting currency restrictions on foreign travel, limiting hard-currency consumer goods purchases, and rationing gasoline for motorists.

EURO COMPANY SCENE

The U.K. government on Oct. 19 announced the "final rundown" of the production plant of De Lorean Motor Cars Ltd., Belfast, Northern Ireland. The announcement came after the company's joint receivers informed the government that promised fresh funds to keep the company afloat had not been forthcoming by the agreed deadline. (Meanwhile, Consolidated International, an Ohio-based financing company, has made a cash offer to acquire the Belfast plant.)

The ambitious project had been established a few years ago by former General Motors vice-president John Z. De Lorean with the help of U.K. state grants and loans totaling nearly £75 million. At one time during its short-lived existence, the plant employed 2,600 workers in the assembly of luxury sports cars, mainly for the U.S. market. Continuing financial problems brought production to a halt last February, when the firm went into voluntary receivership. The company reportedly has accumulated debts of some £90 million. De Lorean himself was arrested on Oct. 19 in Los Angeles on a charge of intending to distribute drugs.

General Motors' sixth-largest European production plant, General Motors Austria, has been officially started up at Vienna-Aspern. Manufacture of 1.2-liter engines and four-gear transmissions had begun in August, and pilot production of 1.3-liter engines and five-gear transmissions has now commenced and will be turned into series production early next year. The plant's labor force of 1,600 is to be raised to 3,000 by the end of 1983, when the last phase of the project will have been completed at a total investment of 7.8 billion schillings. One-third of the cost was funded by the Austrian government and the city of Vienna. The engines and transmissions are being exported to GM car assembly plants in Belgium, Germany, and Spain.

International Telephone & Telegraph's public sales offer of a 40% equity in its U.K. subsidiary Standard Telephones & Cables has been oversubscribed 12 times as 190,000 investors applied for 525 million shares, even though only 40 million shares had been offered. To raise £210 million, ITT had offered the shares at £5.25 each. In allocating the shares, preference is being given to existing STC shareholders, employees, and pensioners. The sale will reduce ITT's stake in STC from 75% to 35%.

ITT's two French communications subsidiaries, Cie. Générale de Construction Téléphonique (CGCT) and Signalisation et Laboratoire Général de Télécommunication, have been acquired by the French government for FF 215 million. The final price resulted from the gross sales price of FF 350 million negotiated last July, minus the losses of FF 135 million incurred in the current business year. Originally, ITT had demanded FF 2.7 billion in compensation for the two nationalized companies.

Wang Laboratories, the U.S. electronics company, plans to invest nearly £38 million in a computer manufacturing plant in Scotland, on the Stirling University campus, some 30 miles from Edinburgh. The first construction phase is to be completed by the end of 1983, according to Wang, with about 700 to be employed within the first five years of operation. The company plans on $100 million in annual exports to continental Europe by 1988, which would be two-thirds of total output. Wang's existing British subsidiary raised its turnover in the past business year by 65% to $60 million.