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Community: Costly Policies Bring EEC to Near Halt

Never before in its 26-year existence has the European Economic Community been in such a gloomy situation as at the end of 1983. Political cooperation, although not provided for in the EEC Treaty, had never been a particular problem in previous years. Thus, the other Member States reacted with shock when Greece refused to support a common resolution condemning the Soviet Union for shooting down a South Korean civilian passenger plane last fall.

For more than a year, the EEC has been working on its budgetary and agricultural reform problems without making any real progress in solving them. The need to come to an agreement was dramatically demonstrated last October when the Commission suspended for the rest of the year advance payments to exporters of agricultural produce and aid to producers of certain crops. The failure of the Athens Summit in December destroyed the hope that a breakthrough would be possible at the political level. There is still hope, however, for a settlement of the farm policy issue in the spring of 1984: all of the national governments agree that there has to be a change in order to control runaway farm policy spending, even though they are divided on how this change

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

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should be brought about. The amounts involved and the effects on the States' farmers are the major stumbling blocks.

Lack of progress in the farm and budgetary reforms and the continuing economic recession in most Member States, causing the highest jobless rate since the EEC's establishment, have spilled over into many other fields. Protectionism has been on the rise, and never before have the Member States been so inventive in attempting to shut out foreign competition by erecting trade barriers disguised as public health and environmental measures. This trend toward more protectionism is also confirmed by the increased number of cases involving free inter-State trade that the Commission investigated in 1983.

The trade dispute between the Community and the United States continued during 1983 over farm export subsidies and European steel exports, although the 1982 export limitation agreement on special steel helped to prevent an escalation. To these major issues was added the problem of unitary taxation, now applied by 12 U.S. states.

The Community's balance sheet for 1983 is not entirely negative, however. The Council established a common fisheries policy after nearly seven years of negotiations. A new directive commits the Member States to informing each other and the Commission about planned new technical standards and regulations. The Community made some progress in speeding up clearance of goods at border crossings, but the impact will not be felt until 1986. Aside from the continuing flow of agricultural regulations, general legislation affecting businesses slowed as a result of the Community's disarray. This was especially true for directives aimed at removing technical barriers. Only a few were adopted, among them two measures easing trade in pharmaceuticals.

There were three major developments of concern to companies. The Council adopted the Seventh Company Law Coordination Directive aligning national rules on annual accounts of groups of companies. The Commission presented a new proposal on the management structure of companies and submitted a revised draft directive on employees' rights to information and consultation.

The European Parliament asserted its role as one of the Community's institutions, although it has few powers, by bringing suit against the Council for allegedly failing to act in the transport policy field. The Court of Justice upheld the EP's decision to hold plenary sessions only in Strasbourg.

Among the important decisions handed down by the European Court of Justice was the judgment ruling that the Court has the power to interpret GATT and subsequent acts (Case Nos. 290 & 291/81). The Court continued to back the Commission in its drive against violators of EEC competition rules (Case No. 107/82). Fines imposed in several cases were reduced because the Court felt that the EC Executive had not done its homework (Case Nos. 100/80-103/80).

Belgium: Some Progress in Reducing Public Sector Borrowing

At the end of the past year, the Belgian government was able to say that its unpopular austerity policies had begun to show some effect on the economy, even though the signs of a recovery were much weaker than in neighboring countries. Finance Minister Willy de Clercq said the greatest progress was made in containing the rapid rise in public sector borrowing, which not too long ago had strained the state's financial health to the limit. Foreign borrowing, for instance, totaled BF 110 billion through October 1983, which compared with BF 203.5 billion a year earlier. The current account payments deficit was expected to shrink to BF 60 billion in 1983, which would be less than half that in 1982 (BF 122 billion).

For 1984, the government expects a modest 0.5% rate of economic growth, following three straight years of decline (minus 0.7% in 1983). To boost investment activity, it has taken the unusual step of offering a tax amnesty covering refuge capital that is repatriated for reinvestment in Belgian industry. The amnesty is just one of several fiscal measures taken to stimulate private investment and the stock market.

Britain: Encouraging News on Employment, Prices

Economic conditions in the U.K. are expected to be more favorable in the coming year than in 1983, although the Thatcher administration generally takes a more optimistic line than some economic forecasters. In particular, the government's growth prediction of 3% in 1984 is not echoed by most other experts, who regard half this rate as more probable. However, the current annual inflation rate, standing at just over 5%, seems unlikely to rise very much in the year ahead.

A further encouraging sign is the slight drop in the number of persons out of work. November marked the second successive monthly drop, at a time of year when unemployment is normally expected to rise. The total of jobless went down by about 9,500 to 3.085 million, or 12.9% of the country's work force, which may indicate that the trend in unemployment is now leveling off or starting to edge down. In the first ten months of 1983, some 3.1 million working days were lost through strikes or other industrial stoppages, a much lower figure than for the equivalent 1982 period, when about 5 million days were lost, or the ten-year average of 9 million. Pay settlements have been averaging around 5%, and the government has set a 3% guideline for future negotiations. (However, the 44,500 Ford workers have just settled for a 7.5% increase, and Ford pay deals are often regarded as an indicator for the private sector generally.) Official estimates of the country's current account payments surplus for the first nine months of 1983 have nearly doubled. The surplus through September was £1.2 billion.

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Denmark: Steady Advances in Healing Economic Ills

Despite its parliamentary budget defeat in December and the decision to hold early general elections next week, Denmark's Conservative-led government can look back with some satisfaction to a year of steady progress in healing the economic ills that have been plaguing the country. Although his four-party coalition has no majority in Parliament, Conservative party leader and Prime Minister Poul Schlüter proved to be a good tactician. His job was also eased by the labor unions' recognition of the need for the government's austerity policies and the inability of the opposition Social Democrats to offer any workable alternatives. The most recent opinion polls indicate that the Conservatives have a very good chance in the forthcoming elections of doubling their present 26 seats, while heavy losses are expected for the Social Democrats.

In the 15 months of its existence, the Schlüter administration was able to produce some concrete results: inflation went down from 10% to 6%, the discount rate was reduced from 11% to 6%, and the payments deficit was halved in the first three quarters of 1983, in comparison with the same 1982 period. The current account deficit for 1983 is expected to total DKr 10.7 billion, or 2.1% of GNP. The government was also able to cut back the budget deficit to DKr 62 billion last year, from the DKr 74 billion record set by the Social Democrats in 1982. It was the "no" votes of the Social Democrats against the DKr 60 billion budget for 1984 that led to Schlüter's defeat on Dec. 15.

France: Little Taste for Socialist Austerity Policies

Another year of Socialist austerity has ended in France, with growing uncertainty as to whether the Communists will continue to participate in the government. Strike activity was once more on the increase in 1983, especially in the auto industry, and the Communist-oriented Left accused the Mitterrand administration of breaking its promise to bring inflation down to 8% in return for the unions' agreement to limit wage rises to the same percentage. (Inflation now stands at about 10%.) On the other side of the fence, the Patronat employers' federation is resisting more and more the continuation of the price control system, which covers more than two-thirds of marketed goods.

The government would like to see inflation come down to 5% in 1984, but the labor unions show no willingness to go along with further wage curbs, citing the administration's "betrayal" on prices and employment. In mid-December, the INSEE statistical institute reported that, with 2 million already unemployed, industry has been trimming manpower at the rate of 30,000 a month. The probability is strong that 500,000 additional jobs will be lost in 1984.

The tightening of President François Mitterrand's austerity

policies following the Socialists' near defeat in the mid-year municipal elections has been a major reason for the current atmosphere of growing confrontation. The ten-point economic program announced at that time aimed at large cutbacks in the deficits of the state budgets, the national health and social security systems, and foreign trade. It was combined with a 2.5% devaluation of the franc. (Further indirect devaluations followed as the dollar rose steadily against the European currencies.) Massive restrictions on foreign exchange allowances for both French tourists and businesses were relaxed only slightly toward the end of the year. The package also included FF 15 billion in spending cuts, obligatory state bond purchases for middle-income and high-income earners, and a 1% surcharge on income taxes to help cover the social security fund deficit.

The 1984 budget has extended the "special" measures into another tax year, but the government can also point to some successes. Spending growth was cut to 6.3% and the budget deficit to 3% of GNP, on the assumption of a 1% rate of economic growth in 1984. Above all, Paris predicts a foreign trade deficit of only FF 7 billion in 1984, following shortfalls of FF 50 billion in 1983 and FF 93 billion in 1982, as a result of big import reductions and aggressive export promotion.

Germany: Accelerating Recovery From Recession

Chancellor Helmut Kohl received a solid mandate from the German electorate in the March 1983 national elections, which allowed his coalition government of Christian Democrats and Free Democrats to continue the course charted after the breakup of the Social Democratic-Free Democratic administration. This course meant cutbacks in government spending, especially in the social security sector, less borrowing to ease credit conditions for businesses, and some modest tax reductions for industry. Trimming some of the vast programs enacted by the previous Brandt and Schmidt governments was alone not sufficient, however, to ensure the financial survival of the social security system, and this is why the Kohl government sought and received Parliament's approval of legislation raising social security taxes.

There were several signs in late 1983 indicating that the German economy is continuing to recover from its worst recession in 30 years. Unemployment was still high at the end of the year (2.2 million, or 8.4%) and is expected to remain at high levels; however, the rate did not rise in November as it had done toward the end of each year since 1979.

The main pacesetters of the economic recovery have been the construction and automobile sectors and, since mid-year, rising exports of capital goods, chemicals, and pharmaceuticals. Business confidence in the new government was reflected in a renewed rise in investments. Domestic orders for capital goods picked up in the spring and gained momentum toward the end of the year,

thus arresting a decline that started in 1981. Orders for consumer goods continued to decline, largely because foreign buyers were still cautious about placing new orders in light of uncertain consumer behavior in their countries, which were also beset by economic recessions.

The picture of economic recovery is marred by the fact that many industries are still operating at reduced capacity. Steel mills and shipyards laid off 20,000 workers in 1983 and will have to let another 30,000 go in 1984-85. The coal mines, forced to cut back production because of reduced steel demand, have also had to lay off employees.

The strength of the U.S. dollar has had a double-pronged effect on the German economy, as it has on all other economies of the Western world. German exports to the United States in 1983 rose by 23% over 1982 levels. Because of the high U.S. interest rates, Germans have found the American investment market more attractive than ever. This situation has prevented the Bundesbank from lowering its discount rate to an extent that would be conducive to additional investments at home.

Greece: Businesses Wary of 'Creeping Socialization'

Aside from having to cope with the undiminished structural and cyclical problems of the economy, the Greek business community is starting the new year with increasing worries over a "creeping socialization" of business and industry. There are fears that the Socialist government is deliberately ignoring the needs of the private sector as it pursues a policy of strengthening local administrations, cooperatives, and employee-controlled businesses. There is concern about the growing tendency of the state to take over "problematic" enterprises that require financial assistance. (The government controls about 80% of the capital of the Greek banks.) Business representatives are also taking issue with official claims that the groundwork has been laid for an economic recovery in 1984. They are pointing to numerous factors that are contradictory to the government's optimism - very high rates of inflation and unemployment (20% and 8%, respectively), mounting public sector deficits, and stagnating industrial investment. In general, the business community is complaining about the Papandreou government's apparent unwillingness to attack these problems in a spirit of cooperation, preferring "socialist experiments" instead.

Ireland: Set for Improvement in 1984

The Irish economy seems set for improvement in 1984. Premier Garret FitzGerald's five-year program to balance the country's finances, introduced after his election victory last year, ap-

pears already to be showing signs of success. The Economic and Social Research Institute in Dublin predicts an economic recovery over the next 12 months and a return to growth with a 2% increase in GNP, compared with a 2% fall over the past two years. The annual rate of inflation is expected to go down further this year from the current level of 11%, to 7.5%. Manufacturing exports have risen in volume by 12% over the past year, and the Institute suggests that the right conditions exist for an export-led recovery, provided there is some stimulus to investment. In 1982, the government's borrowing requirement amounted to Ŀ1.945 billion, with a current budget deficit of Ŀ988 million and a borrowing requirement of Ŀ957 million for capital expenditure. In 1983, the borrowing requirement is likely to total just over Ŀ1.7 billion, but this saving has been achieved by a marked cutback in borrowing for capital investment rather than a reduction of the current budget deficit. The Institute predicts that the overall borrowing figure should fall further, to Ŀ1.15 billion, this year.

However, Ireland's external debt of more than 5% of gross domestic product remains a drain on the economy, and unemployment at the end of October stood at 196,309, or 15.5% of the working population - among the worst of any EEC Member State.

Italy: Continued Wait for Predicted Economic Recovery

When Italy's first Socialist prime minister, Bettino Craxi, took office last summer, he predicted for the next year a real-term growth rate of 2%, a reduction in the public debt by two percentage points based on GNP, and the lowering of the inflation rate to 10%. In the meantime, the government's treasury minister, the central bank governor, and, most recently, the International Monetary Fund have all pointed out that an economic upswing is not in sight for Italy because of the country's continuing structural imbalances. They all concur that any improvements are possible only through urgent measures cutting down further on public spending, containing spiraling wage costs, and stimulating exports. The fact is, however, that very little has been accomplished in these areas during the past half year.

The doubts about the chances for even a modest recovery have been further amplified in a medium-term forecast for the years 1984-86 just published by the economic research institute of Confindustria, the industrial federation. The report warns that manpower-reducing rationalizations in Italian industry are still continuing and that unemployment will therefore rise further (from a current rate of 9.92%). Even under the best of circumstances, the study says, Italy cannot expect to narrow appreciably the gap between its own inflation rate (15.6% at present) and the average rate of the OECD Member States, forecast at 6% for 1984. The Confindustria researchers predict an economic growth rate of 1.87% next year (minus 1.08% in 1983).

Luxembourg: Government Pushes Diversification of Banking

The continuing world steel crisis hit the Arbed steel group, Luxembourg's largest industrial employer, with full force last year and again required the government to step in with large financial aids to ensure the company's survival. The mainstay of the Grand Duchy's economy, the international banking sector, is also experiencing a period of consolidation: growth rates of up to 30% in previous years have given way to much more moderate expansion, and Luxembourg's share of the hotly competitive Euromarket business has now stabilized at about 10%. Aware of this development, the government has been trying to enhance the country's attractiveness as a banking center for private clients as well. For instance, gold trading is still free of value-added tax, the formation of investment funds by holding companies is being encouraged by law, and banks may now accept fiduciary deposits from large customers on an off-balance-sheet basis.

Netherlands: Government Prevails With Austerity Measures

When the Dutch parliament last month passed the budget savings legislation for 1984, this step constituted no small victory for the center-right coalition government of Ruud Lubbers. Just before the vote, the country's labor unions had reluctantly called off public sector strikes and disruptions lasting several weeks, which had been staged in protest of a proposed 3% cut in public sector wages and social welfare benefits. By refusing to budge, the one-year-old administration strengthened its "no nonsense" reputation in matters of economic policy.

Lubbers has the full backing of the Dutch business community in his efforts to trim public spending (12 billion guilders in 1984) and reduce costs. Last year, Holland's industry remained very cautious in its new investments, waiting for The Hague to come forward with fiscal and cost relief measures. Over the second half of 1983, companies reported slowly improving orders and output, mainly as a result of higher foreign demand. On the domestic side, new car registrations rose by 15.3% during the first nine months of the year. In September, unemployment held steady at 827,300 but still at a very high rate of 17.7%. The number of vacancies rose slightly, to 11,100. The most encouraging progress was made in price expansion, the annual inflation rate standing at 3.2% in September. The foreign trade surplus amounted to 8 billion guilders in the first eight months of the year, with imports rising by 3.9% and exports by 3.5% in comparison with the same 1982 period. The number of bankruptcies had dropped by 19% by the end of September, again in comparison with the same nine-month period in 1982.

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Community: Stopgap Measures to Avoid CAP Funding Crisis

The European Commission is taking steps to cut back on expenditures for the common agricultural policy and thus stave off an acute financial crisis for the Community. The moves follow the failure of the EEC heads of government to make any headway on a CAP reform at their Athens summit. Commission officials maintain that unless an agreement is reached by the end of March on the reform proposals submitted by the EC Executive last July *(Common Market Reports, Par. 10,505)* CAP spending this year might exceed the 1984 budget allocations of 16.5 billion ECU ($13.4 billion) by as much as 1.5 billion ECU.

Before Christmas the Commission, acting under its own powers, decided to delay payments to producers of food surpluses. National intervention boards, which buy surplus produce when market prices drop below the levels guaranteed by the EEC, are now delaying payments - by five months in the case of dairy products and by four months for cereals, beef, veal, and olive oil. The Commission claims that the measure will postpone expenditures of up to 1 billion ECU until 1985.

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In addition, the Commission has proposed to the Council of Ministers the complete halt of all farm modernization grants used to increase milk production. Last year's milk surplus cost the Community an estimated 4.7 billion ECU, which was almost one-third of the 1983 agricultural budget of 15.8 billion ECU. Adoption of the proposal would impose a ban on all Community financing for six months, leaving the Commission enough time to draw up proposals for a comprehensive reform of structural aids to farmers. The Commission's proposal has drawn criticism from France and Ireland; both want small dairy farmers exempted from the proposed funding ban.

Commission's Ford Ruling Considered Illegal by AG

The Commission's August 1982 interim decision ordering Germany's Ford Werke AG to resume supplying right-hand-drive cars to its West German dealers is illegal, in the opinion of Advocate General Gordon Slynn. The AG believes that the EC Executive exceeded its powers in issuing the decision, which therefore should be annulled.

In his opinion, read before the European Court of Justice on Dec. 15, 1983 *(Ford of Europe, Inc. and Ford Werke AG v. Commission* - Cases 228 & 229/82), Slynn said that what the Commission orders in an interim decision may not exceed in substance what it could do in a final order. In such a final order, the EC Executive has three possibilities, Slynn said. It could: (a) declare that Ford's distributorship agreement with its German dealers falls under Treaty Article 85(1) and refuse an exemption under Article 85(3), (b) make the granting of an exemption dependent on Ford's resuming the supply of cars, or (c) require Ford not to operate the agreement so long as right-hand-drive models are not supplied. The Commission may not require a party to do something actively, Slynn said, which it did in demanding that Ford resume supplying the cars.

Ford stopped supplying German dealers with right-hand-drive cars in May 1982 to protect British dealers, who were losing sales because customers were buying lower-priced Ford models on the Continent. In its August 1982 interim order, the Commission told Ford Werke to resume supplying right-hand-drive cars to German dealers pending a final decision on whether Article 85(1) had been violated *(Common Market Reports, Par. 10,419)*. Ford of Europe and Ford Werke challenged the interim order before the Court of Justice. The Court suspended the order and, on Sept. 28, 1982, issued an interim order of its own instructing Ford to make 4,800 right-hand-drive cars available for sale in Germany over the following 12 months.

In the *Camera Care* case, the Court said that interim measures should be "indispensable for the effective exercise of its (the Commission's) functions" *(Common Market Reports, Par. 8645)*. Since, in Slynn's view, Ford may not be instructed in a final order to supply these right-hand-drive cars, the AG does

not consider it "indispensable" to require Ford to supply them in the meantime. Furthermore, the Commission violated procedural rules by failing to give British car dealers a hearing prior to taking its interim decision, Slynn pointed out.

The Court's judgment in the Ford case is expected in February or March. (On Nov. 16, the Commission issued a final order prohibiting Ford Werke's distribution system - *Common Market Reports, Par. 10,539.*)

In Brief...

On Jan. 1, emergency measures to stabilize the Community's steel market went into effect. The measures include minimum prices for 40% of all steel mill products, a 15-ECU ($12.20) bank deposit for every ton of steel sold (to be forfeited if minimum prices are not observed), and the monitoring of inter-Member State steel sales, the idea being to keep imports at the levels of the 1981-82 reference period + + + The Community's 1984 budget became law when the president of the European Parliament, Pieter Dankert, signed the 25.36-billion-ECU ($20.4 billion) measure. The EP was able to have the last word, as in previous years: Parliament froze a 750-million-ECU ($640 million) rebate to the U.K. and a 211-million-ECU ($180 million) rebate to Germany to protest the lack of progress in solving the EC's financial crisis. The freeze of the rebates might be challenged in the Court of Justice because the EP had no right to freeze them, Council lawyers say + + + The Commission has proposed a draft directive aimed at reducing sulfur dioxide and nitrogen dioxide emissions from power plants. The overall objective of the proposal is to combat the blight of European forests that is caused by pollution, especially acid rain.

Germany: Flick Case Has Many Intricate Issues

The Flick Corp. has brought suit against the German government, challenging the revocation of two tax breaks granted to Flick with respect to its investments in the United States' W.R. Grace & Co. Flick would have to pay roughly DM 450 million in capital gains taxes if the tax deferral revocation is upheld by the courts.

The Cologne administrative court that will hear Flick's suit will be confronted with some intricate procedural and substantive issues. Flick contends that the deadline for revoking the tax deferral decisions - Nov. 30, 1983 - was not met, and, therefore, the revocation dated Dec. 27, 1983, came too late. The government denies this, arguing that the law allows it to revoke an administrative act favorable to an individual or entity within one year of learning of facts indicating that the act was not justified in the first place. In November 1982 the gov-

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ernment began to have doubts about the justification of the tax breaks after the Bonn prosecutor found notes in documents taken during a raid on Flick's Düsseldorf headquarters. At that time, state attorneys were probing campaign financing in which Flick managers were involved.

Following the sale of 29% of its 40% equity interest in Daimler-Benz AG in 1975, the Flick holding sought to invest its DM 1.9 billion gain in a way that would qualify for tax deferral. Section 4 of the Foreign Investment Law, now repealed, allowed a taxpayer to apply to the government for a tax deferral for gains derived from the sale of stock *(Doing Business in Europe, Par. 23,325)*. (This provision is now in Section 6b of the Income Tax Law.) The deferral could be granted if the gain was reinvested and the reinvestment was in the interest of the German economy. Flick received a tax deferral for several investments, including those in Grace & Co. On Sept. 8, 1976, former economics minister Hans Friderichs granted Flick a deferral for over DM 280 million paid to acquire a 12.1% stake in the U.S. company. On Sept. 28, 1978, Economics Minister Otto Lambsdorff approved a second tax deferral for an additional DM 500 million used to increase the holding in Grace to 29%. Flick secured the tax deferrals on the basis of planned cooperation with Grace, especially in the energy sector. This cooperation did not materialize, according to the government, and this is why the tax breaks have been revoked.

The Cologne court must seek to establish whether Flick misled the government in painting a favorable cooperation picture that was unfounded or whether the energy cooperation plans failed to materialize because of changing world market conditions that neither Flick nor the government could have foreseen.

Italy: Steep Gasoline Price Boost; Budget Passage

Motorists and the oil industry in Italy were shocked by the government's increase of the gasoline retail price to 1,300 lire per liter (premium) at the end of the year. Spokesmen for the oil industry protested the action as being "irresponsible" and pointed out that the total fiscal burden on oil products has now reached 17,000 billion lire in annual terms. The labor unions also criticized the increase of 105 lire per liter, which constitutes a straight tax boost and adds an estimated 100,000 lire per year to the average cost of operating an automobile. The gasoline price in Italy has risen from 200 to 1,300 lire, or by 650%, within ten years and is now among the highest in Western Europe.

The latest price increase for gasoline (and other oil products) is part of the second phase of the coalition government's economic austerity policy, which is expected to rest primarily on decree legislation. With these increases, the treasury plans to raise about 75% of the 2,000 billion lire in extra revenues

decided upon before the year ended. The first phase of the policy measures was largely unsuccessful: one of its key features was a proposed amnesty on illegal construction through which the Craxi administration had hoped to raise 9,000 billion lire in the form of fines, but this proposal was rejected by Parliament.

The cabinet decision of Dec. 28 concerning the price increases followed final parliamentary approval of the 1984 budget and finance law less than a week earlier. Final passage by the Senate marked the first time since 1978 that Parliament has succeeded in approving this tandem piece of legislation prior to its effective date, Jan. 1. However, the compromise version of the budget overshoots Rome's original target of a 90,800 billion lire public sector deficit by 6,000 billion lire. Treasury Minister Giovanni Goria warned that the shortfall is bound to exceed 100,000 billion lire in 1984 unless further stringent austerity measures are taken.

The five-month-old coalition government under Socialist premier Bettino Craxi has committed itself to lowering the deficit below the current 17% of GNP, bringing inflation down to 10% (from the current 13%), and holding labor cost increases to the same margin.

Rome Eases Currency, Permit Rules for Foreign Trade

The Italian foreign trade ministry has issued two decrees which will mean a simplification of the time-consuming approval procedures required for obtaining export and trade payment licenses. The new measures, which were announced by Foreign Trade Minister Nicola Capria and take effect upon publication in the official journal, are part of the proposed gradual revision of the 1976 Law on Capital Transfer Controls (Law No. 159). Under the law, currency violations are treated as penal offenses rather than administrative offenses.

One of the decrees abolishes the need for permits covering payment periods of more than 120 days for Italian exports to other EEC Member States. (Italy conducts 47% of its foreign trade within the European Community.) However, permits are still required if payment periods exceed five years.

Furthermore, the government has abolished the need for permits concerning advance payments for exported goods and delayed payments for imported goods for any transactions taking place within a period of five years. Also, no permits are required for state-subsidized, uninsured export transactions of up to 50 billion lire. In the future, the state financing agency Mediocredito Speciale is authorized to issue all permits, including currency permits. In the past, separate permits had to be obtained from the foreign trade ministry, the UIC currency control office (Ufficio Italiano dei Cambi), and Mediocredito, which was a very time-consuming process.

In the case of direct investments abroad (for instance, a capital participation in a foreign company), investors receive automatic approval and no longer need to make an interest-free deposit of 50% of the proposed investment, provided that the proper authorities do not object within 15 days after the application is submitted.

Denmark: Stock Market Booms as Economy Stabilizes

The Danish stock market strongly outperformed every other European market in 1983, doubling its trading index during the 12-month period. Set at 100 points on Jan. 1, 1983, the index reached 204 in mid-September, faltered, and then came back up to over 200 in December. Trading volume for the first nine months was two-and-a-half times that of the equivalent 1982 period. The value of new issues totaled DKr 1.2 billion, which was a record.

The center-right coalition government under Poul Schlüter has claimed much of the credit for the improvement in the Danish investment climate. It has cited its success in slowly stabilizing the economy through a number of austerity measures, reducing interest rates on the bond market from more than 20% to about 13.5%, increasing the ceiling on institutional investments in the stock market from 20% to 25%, and proposing a lower tax burden on private investors.

Financial observers say that most of the market demand has come from domestic sources. Net sales of shares to foreign investors have been about average, except for a DKr 942 million sale of U.S. depositary certificates by Novo Industries, the chemical and pharmaceutical company, in the first half of 1983.

Greece: OECD Survey Urges More Drastic Austerity Measures

The OECD's latest economic survey of Greece acknowledges that the mild austerity measures introduced by the Socialist government after mid-1982 have begun to show first fruits. However, it warns that the effects of more than three years of inflationary expansion are sufficiently serious to warrant much more drastic measures. The government is reminded in the survey that it must aim to reduce inflation (currently 20%, but expected to fall to 17% by late 1984) in order to strengthen confidence in the drachma and reduce capital outflows. This, says the OECD, will require much more budgetary and monetary restraint and makes a tougher incomes policy particularly desirable. The 1983 changes in the wage indexation system are seen as a step in the right direction.

Tax increases have helped to reduce the Greek public sector borrowing requirement as a proportion of GDP, but 1983 borrowing

remained at 404.2 billion drachmas (16% of GDP, compared with 9% in 1979). The OECD does not expect the current account deficit, which fell from $2.4 billion in 1981 to $1.9 billion in 1982, to show any further significant improvement unless the government takes measures to reverse the decline in productive investment that has occurred since the early 1970s. The organization recommends a shift of resources away from private and public consumption to productive investment and net exports.

Portugal: Parliament OKs Budget; Commercial Rents

The Portuguese parliament has approved by a large majority the toughest austerity budget since the 1974 revolution. The 1984 budget sets an upper limit of 173 billion escudos for the public sector deficit, following a shortfall of 186 billion escudos last year. The deficit ceiling had been established in the government's negotiations with the International Monetary Fund, in conjunction with the granting of another standby credit of $480 million. As part of the budget austerity measures, Lisbon is raising income, transfer and some indirect taxes and imposing extra levies on luxury cars, boats, and private aircraft. Earlier, the government had announced that it will abolish state-subsidized prices for basic foodstuffs and some daily-use consumer items. The subsidy system was introduced in 1933 under the Salazar regime but can no longer be continued because of the country's severe financial problems.

In other developments, commercial rents in Portugal are being indexed for inflation as of this year. The action was taken because the liberalization of such rents by the previous government had led to exorbitant rent increases, to the detriment of many small businesses. Under the latest arrangement, the permissible annual rent increases are set by the government at the end of the previous year - a percentage figure just below the projected inflation rate. (Inflation in 1984 is expected to average around 25%.)

Sweden: Passage of Law Setting Up Employee Funds

The Swedish Parliament has finally approved the highly controversial legislation setting up obligatory employee profit sharing funds on a national scale. As expected, the voting followed along strictly party lines, with 164 Social Democrats voting in favor, 21 Communists abstaining, and 158 members of the center and right-wing opposition parties rejecting the measure.

Sponsored by the Social Democratic government, the law establishes five national funds which may start purchasing shares on the stock market with effect from Jan. 1. The funds are to operate initially with a total capitalization of SKr 400 million

in annual terms. The money will be derived from a new 20% tax on inflation-adjusted company profits above a threshold of either SKr 500,000 or 6% of the payroll as well as from an 0.2% increase in the payroll tax.

The obligatory company contributions to the funds will continue until 1990, at which time the funds are expected to have accumulated the equivalent of 7% of the total value of quoted Swedish stock. The fund profits are to be channeled into the old-age pension system. However, the nonsocialist opposition parties have pledged to dismantle the funds should they come to power in the 1985 general elections.

EURO COMPANY SCENE

As part of a cooperative agreement in the office automation field, American Telephone & Telegraph Co. plans to acquire a 25% interest in Olivetti of Italy, the European market leader in this sector. According to an announcement released in Rome and New York on Dec. 21, AT&T will purchase 100 million new Olivetti shares for $260 million this year. The U.S. company has the option to raise its equity to 40% after four years. The completed transaction would be one of the largest U.S. investments ever made in Europe.

Two American banks, First Boston Corp. and Crédit Suisse First Boston, have been commissioned to act as brokers and advisers in the sale of a substantial part of Spain's Rumasa financial group, which was taken over by the government early last year to avert the group's financial collapse. Involved are the assets of several hundred Rumasa companies, including 18 banks. At the time of the expropriation, the Rumasa holding company showed a negative net worth of 257 billion pesetas (about $1.62 billion), according to an audit made by Arthur Andersen & Co.

General Eléctrica Española, in which the United States' General Electric Co. holds a 28% stake, has filed a declaration stopping payment to its creditors. The suspension, which took effect on Jan. 3, was similar to one implemented last October by the Spanish subsidiary of Westinghouse. The payments suspension procedure is a step preceding a debt moratorium and the appointment of receivers in connection with financial rescue efforts. In the case of General Eléctrica, the company blames its problems on cost pressures, lagging investment activity in Spain, and the absence of a government policy for the country's heavy electrical industry.

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Community: Doubts Over Progress on EC's Enlargement

French government ministers and other officials are cautioning against any major effort by France to wind up the EC's protracted accession negotiations with Portugal and Spain during the first half of 1984. (France holds the presidency of the Council of Ministers until the end of June.) French fruit and wine growers are strongly opposed to Spanish and Portuguese membership. French President François Mitterrand is concerned about the strong possibility that his ruling Socialist party could suffer a serious setback in next June's European Parliament elections. In France, these elections are expected to provide an informal nationwide opinion poll on the Mitterrand government. Thus, it is likely that the French will continue to remain as equivocal on Spanish membership as they have been for more than a year.

Meanwhile, the governments of the two applicant countries are becoming increasingly impatient about the uncertainty surrounding the accession date. Spain and Portugal see the failure of last month's Athens summit as just one link in a long chain of disappointments. Instead of committing themselves to a defi-

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nite date of entry for both countries, the EC heads of government merely agreed "to complete negotiations during 1984." Both Felipe Gonzales, the Spanish prime minister, and his Portuguese counterpart, Mario Soares, had written to the ten heads of government asking for a commitment to grant EC membership to the two candidate countries on Jan. 1, 1986. German foreign minister Hans-Dietrich Genscher went out of his way to obtain a commitment from the summit leaders, but failed. Nine of the leaders were prepared to make such a commitment, but Mitterrand declined.

Under the conditions agreed upon at the Stuttgart summit in June 1983, an entry date cannot be set before accession negotiations are wound up. Another condition was that these negotiations cannot be concluded until the EEC budget and farm policy reform issues are resolved. Only when these issues are settled will the Community have the additional revenue needed to finance the applicants' membership.

EEC-EFTA Relations to Focus on Cooperation

The last major barriers to trade in industrial products between the EEC and the countries of the European Free Trade Association (EFTA) fell on Jan. 1. Attention is now focusing on cooperation and on removing the few remaining obstacles. Only Greece, Portugal, and Finland will continue to apply tariffs to some industrial products; Finland will abolish them on Jan. 1, 1985. Several countries of EFTA, which is comprised of Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland *(Common Market Reports, Par. 110)*, are retaining a small number of quantitative restrictions: Austria, on antibiotics; Finland, on various oil products and fertilizers; and Iceland, on various oil products and brushes *(Common Market Reports, Par. 3863)*.

Abolition of EEC customs duties on newsprint from Scandinavian countries poses an immediate problem. The Community, especially the United Kingdom as a traditional buyer of Canadian newsprint, wants Canada to stay in the market, so that the market is not entirely dominated by Scandinavian producers. Negotiations with Canada in the coming weeks are supposed to solve the problem; the 500,000-ton quota granted by the Council of Ministers last December is only an interim measure.

All of the Community's free trade agreements with the EFTA countries, except the one with Finland, contain an evolutive clause providing for cooperation outside the field of trade. This cooperation has taken on many forms and is extending into numerous areas. A particularly useful area has been regular exchanges of information on a wide variety of topics, such as environment, occupational health and safety, consumer protection, and energy. In the fields of science and technology, all EFTA countries except Iceland participate in the Community's own cooperation program (COST). Following up on a resolution by the

European Parliament, the Commission last June presented to the Council of Ministers a list of areas where cooperation with EFTA countries could be initiated or further developed. These areas are, among others, fisheries, competition rules, industrial policy, and research and development.

In Brief...

The Council of Ministers has formally adopted the directive approximating national liability insurance rules for motor vehicles. The measure continues the approximation process started in 1972 *(Common Market Reports, Par. 3369)* by establishing uniform rules on minimum motor vehicle accident coverage. The Member States must amend their rules within five years to provide that coverage of an insured person involved in an accident is at least 350,000 ECU ($284,000) for personal injuries and 100,000 ECU ($80,000) in the case of property damage + + + The German government has decided to grant the European Commission the necessary enforcement order to collect a DM 23.9-million fine from Klöckner AG, Duisburg. Last Dec. 14, the European Court of Justice upheld the Commission's decision imposing the fine on Klöckner for exceeding its steel production quota in the second quarter of 1981 by roughly 122,000 tons. Some Brussels observers say that they would not be surprised if the Commission seeks a negotiated settlement with the steelmaker and waives collection of the fine + + + The German government has received unsolicited support from the European Parliament in its defiance of a 1981 Court of Justice decision that held butter boat cruises to be incompatible with EEC law *(Common Market Reports, Par. 8766)*. In a resolution adopted before the Christmas recess, the EP voted that the cruises should be allowed to continue. Because of its defiance of the 1981 decision, the German government is the defendant in an action brought by the Commission. It is also indirectly involved in another action brought by two retailers against several North German customs offices regarding certain exemptions granted to organizers of butter boat cruises (Case Nos. 278/82 and 325/82).

Germany: Tightening of Air Pollution Standards Proposed

The German government has proposed a regulation that would considerably tighten air pollution standards and would require industry to make substantial investments in antipollution equipment. The last time the standards were raised was in 1974, and government officials say that, in the meantime, know-how in reducing emissions has advanced. In the past decade, medical research has discovered the toxic properties of many substances previously considered less harmful, the officials say.

The proposal would require a reduction at the source of a large number of toxic, mostly inorganic, chemical substances.

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Government officials themselves describe the extent of the reduction as drastic. Chemical plants would be affected most, but steel mills, plants producing iron and lead, coking plants, cement factories, oil refineries, and small power plants with a capacity of under 50 megawatts would also have to invest to meet the future standards. The list of toxic substances would be expanded by 25 organic substances.

The emission levels for heavy metals, such as cadmium and mercury, depending on their toxic and accumulating properties, would be set forth in three categories - 0.2, 1, and 5 milligrams per cubic meter of air. The current maximum level for all heavy metals is a uniform 20 milligrams per cubic meter *(Doing Business in Europe, Par. 23,544A)*.

In a first reaction to the proposal, industry executives criticized the government for failing to properly balance ecological necessities with economic consequences. Many executives doubt that the costly investments will bring about real progress in improving the environment. Executives put the cost for the chemical industry alone at DM 500 million.

Britain: More Incentives for Multinational Companies?

A report issued last month by the Department of Trade and Industry, "Multinational Investment Strategies in the British Isles," recommends that the U.K. provide greater incentives to multinational companies in order to attract investment. Otherwise, the report warns, the U.K. will fail to maintain its share of worldwide foreign direct investment.

The report highlights the need for more attention to be directed toward increased competition with Ireland for new investment and suggests that investment agencies place greater emphasis on the opportunities available for purchasing U.K. companies. Central and regional authorities should retain existing incentives for overseas companies to establish new operations in the U.K. but should also encourage the expansion of companies already based in the U.K., according to the report.

One hundred and forty multinational companies operating in the U.K. were surveyed in order to compile the report. It is apparent that foreign direct investment has been a major source of employment and economic growth in Britain. The rate of productivity, investments, and trade performance of foreign-owned companies has, on the whole, been better than that of native companies. However, much of the foreign-owned productive investment in the U.K. has been prone to rationalization, due to technological advances. This trend should provide an "added impetus" for a comprehensive study of the relative effects of U.K. inward direct investment, according to the report, which will remain "critical to the health" of manufacturing industry.

The companies in the survey generally agree that the in-

centives offered by both local and central governments played a crucial role not only when enterprises were established but also when decisions for reinvestment were taken. However, the relevant authorities should seriously consider granting selective financial assistance to overseas firms, the report says, to encourage them to introduce new products, undertake new research and development, and generally explore fresh opportunities.

The report notes that the rate of investment growth from the U.S. has now apparently stabilized, relative to investment elsewhere in Europe, after the steep decline in the 1960s and early 1970s. It concludes that much of the hope for growth in U.K. manufacturing industry lies in expanding existing plant and that Japan, rather than Europe, offers the greatest scope for potential foreign investment in the U.K. For this reason, emphasis should be on the promotion of selected areas for Japanese companies, which often wish to operate in "clusters."

U.S. Industrial Presence in North of England

The North of England Development Council has produced a report, "Locating in the North of England: the U.S. Experience," which reveals that this U.K. region now has 80 plants that are subsidiaries or affiliates of U.S. corporations. About 60 of these plants have been established there for at least ten years.

More than half of the production facilities are operated by "Fortune 500" companies, and the largest proportion, one-third of the total, is involved in the chemical and oil industries. Other leading sectors represented are metalworking, mechanical and electrical engineering, and instrument manufacturing. The report emphasizes that these various industrial enterprises have had a significant role in diversifying the economic base of the region, generating a considerable spin-off effect at the same time. One-third of the supplies for these plants come from other companies in the region and a further one-third from other U.K. areas. Only 15% originate in the U.S.

With a single exception, all the companies surveyed agree that the North of England has proved a suitable base for their operations. Eighty percent say that the area would be suitable for further expansion, and 39% of them have, in fact, expanded their activities within the past three years. The majority, 57%, say that their industrial relations in the U.K. compare "very favorably" with the situation in their other plants elsewhere in the world, while only 3% consider these relations to be "fairly unfavorable."

Ireland: Separate Postal, Telecommunications Systems

On its 200th anniversary, at the beginning of this year, the Irish Post Office was replaced by two separate state-run agen-

cies - one to handle telecommunications and the other to operate postal services. Such a move was initially recommended by a review commission in 1979, in the wake of increasing concern that Ireland's outdated telecommunications system was having an adverse effect on attracting high technology industry from abroad.

Since then, about 75% of a £1 billion (Irish) investment program in the telecommunications sector has already been spent on improvements. BTE, the new state telecommunications company, is to concentrate on the business user. By the end of 1984, about half of the country's telephone exchanges will be digital. However, there are still long waiting lists for telephones in many areas (up to two years), and in certain parts of Dublin the situation has become particularly acute.

The BTE's chief executive, Tom Byrnes, is currently investigating means of providing telecommunications services that would be cheaper than conventional systems. However, for the near future, observers believe that Irish telephone charges, which are considerably higher than those in the U.K., are unlikely to come down very much, considering the high investment expenditures in this sector.

Postal services in Ireland now are under the control of ANPost, which also plans to give better service to business users and reduce costs. Feargall Quinn, the company's chairman, concedes that Irish postal charges are among the highest in the world; however, he guarantees that any future increases will be kept well within the rate of inflation. Later this year, the new company intends to introduce cheaper services for bulk business users, facsimile transmission from Dublin and Cork to 100 U.K. centers, and an airlift of bulk parcels to the U.K.

Belgium: Cabinet Sanctions Rescue Plan for Steel Group

The Belgian cabinet has sanctioned a major financial rescue and restructuring plan for the state-controlled Cockerill-Sambre steel group. The plan is now awaiting approval by Parliament. Economics Minister Mark Eyskens indicated that there was a strong possibility the center-right coalition government might fall if the rescue legislation does not go through very soon. Failure to raise the necessary funds for the near-bankrupt company would also have serious consequences for the country's economic and social climate, he said. (Disputes between the Flemish and Walloon political factions over state subsidies for Cockerill had contributed to the demise of the previous government.)

Aside from massive state financial assistance, the plan, as approved by the cabinet, also foresees large work force reductions, pay cuts, and early retirements. Further, it is intended to have the managements of Cockerill-Sambre and Luxembourg's Arbed steel group agree on coordinated cutbacks in production

capacities. This coordination, which would include the closure of existing mills by both companies, is an integral part of the government's concept and a precondition for making the rescue funds available.

Late last month, a special shareholders' meeting gave initial approval to the restructuring plan, under which the Belgian state would consolidate Cockerill's existing debt of BF 51.2 billion. An infusion of BF 53 billion would come from a guaranteed convertible bond issue of BF 37.5 billion and from a capital increase of BF 15.7 billion. As part of the capital increase, the government would acquire 98.7 million shares in the group, thereby raising its controlling interest to nearly 96%. Another BF 27 billion would have to be raised to finance future investments by Cockerill; these funds would be in the form of bank loans to be repaid from tax revenues collected in Wallonia.

France: Rise in Foreign Debt; Industrial Prices

According to Finance Minister Jacques Delors, France's foreign debt has increased by nearly two-thirds, from $29.5 billion to $53 billion, since the Socialist government took over in May 1981. Expressed in French currency terms, the increase is even more dramatic, because of the franc's devaluation against the dollar. At the end of 1983, the French foreign debt stood at FF 445 billion, 50.5% higher than the FF 295 billion one year earlier.

Because of the country's improving foreign payments situation, however, Delors predicts that the government will be in a position to begin reducing the debt by 1986. The December OECD report forecast that France's current account balance will swing from a $500 million deficit in the first half of 1984 to a surplus of $2.5 billion in the second half and of $4.25 billion in the first half of 1985. Delors predicts that, although France will still have to borrow more in the current year to pay back principal, it should by 1985 be able to cover both interest and principal without recourse to further borrowing.

In other news, President François Mitterrand has reaffirmed at a cabinet meeting his resolve to have France return to a system of free industrial prices. At the same time, however, he warned that the government must remain tough on inflation and keep to a target of 5% in the current year. (Paris has had more success with voluntary private-sector price agreements than could have been expected, given the hostile attitude of the Patronat employers' federation on this issue. So far 65 new contracts have been signed with industrial manufacturers, covering 60% of their production.) The cabinet also intends to remain firm on its 5% target for overall pay rises in 1984. Public sector employees have been told that merit and seniority raises will be included in the calculation of this year's limit.

Denmark: Schlüter Coalition Fails to Win Majority

Contrary to previous expectations, the early general elections in Denmark on Jan. 10 produced no more than a modest strengthening of the center-right coalition government of Poul Schlüter, who will thus have to continue with a minority administration. Schlüter's own party, the Conservative People's Party, made the predicted gains by increasing the number of its mandates from 26 to 42. The Liberals and Christian People's Party each gained one seat, for a total of 21 and five, respectively. However, the fourth party in the ruling coalition, the Center Democrats, lost seven of their previous 15 mandates, so that the government's representation in the Folketing rose by only 11 seats, to a total of 76 - 14 short of an absolute majority.

The inconclusive election results will force Schlüter to continue negotiating for parliamentary support with the pacifist Radical Liberals and the anti-tax Progress Party, two splinter parties. The Progress Party's leader, Mogens Glistrup, an attorney who is serving a prison term for tax evasion, was reelected to Parliament, but his party lost ten of its previous 16 seats. However, it is expected that the Folketing will again expel Glistrup from its ranks, as it did last summer.

Portugal: Private Banks Allowed; Foreign Investment

After four years of discussions, Portugal's governing coalition of Socialists and Social Democrats under Premier Mario Soares has finally cleared the way for the reestablishment of a private banking sector. The new rules approved by the cabinet require private banks to have a minimum capital of 1.5 billion escudos. Previous plans called for 2 billion escudos and were based on the argument that the capital requirement for newcomers should be fairly high.

About six foreign banks are expected to apply for permission to open full branches, including two from the U.S. and one each from Britain, France, Japan, and Spain. Representative offices are now operated by about 20 foreign banks in Portugal. Three foreign banks (Lloyds, Crédit Lyonnais, and Banco do Brasil) are already fully operating; they were not affected by the bank nationalizations in 1975, following the revolution.

In related news, foreign investment in Portugal rose by 93% to 7.5 billion escudos in the first half of 1983, compared with the equivalent 1982 period. Twenty-six percent of the newly invested capital went to banks and other financial institutions. The majority of investments came from France (26%), Switzerland (13%), and the U.S. (10%).

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Community: Farm Price Proposals With Drastic Measures

The European Commission's farm price proposals for the 1984-85 marketing year call for freezing intervention prices for cereals, milk, and wine and for very modest price increases for other commodities. Prices would rise by 0.8% on the average as of April 1, when the new marketing year for many farm commodities begins. The intervention price for butter would be lowered by 11.4%.

Never before in the Community's 26-year history has the Commission proposed such drastic measures. If adopted, the measures would, in effect, lead to lower prices and reduced farmers' incomes. However, never before has the EEC's farm policy, with its runaway spending on surplus production, been so close to bankruptcy as it is at present.

The Commission's price proposals have provoked the strongest opposition ever from the national farmers' associations. German farmers would be the worst off: in addition to the 0.8% average price increase, which would not come close to making up for inflation (2.8% in 1983), the Commission has again proposed

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a 50% reduction in the monetary compensatory amounts (MCAs) granted on exports to, or imposed on imports from, other Member States. This reduction reportedly would cut the incomes of German farmers by 5.4% and raise those of French farmers by 3.2%. Germany's agriculture minister, Ignaz Kiechle, has flatly rejected a 50% reduction in the MCAs.

Commission officials point out that even the proposed small price increase for farm products this year would not stave off bankruptcy for the Community. (Commission President Gaston Thorn has predicted an ECU 1.6 billion deficit in the Community's budget this year unless reforms are instituted.) Only approval of the Commission's reform proposals would avoid such a financial collapse. These proposals, submitted last July, include quotas on milk production and withdrawal of subsidies when certain limits are exceeded; withdrawal of aids to producers of beef, lamb, fruit, wine, and vegetables; tightening of regulations in the fraud-ridden olive oil sector; and taxes on butter substitutes to spur consumption of surplus butter (the United States is strongly opposed to such taxes because they would affect U.S. exports of soybeans and vegetable oil *(Common Market Reports, Par. 10,505)*).

A saving of ECU 2.5 billion is expected if all the proposals are enacted. France, in the Council's presidency, wants an agreement on a farm reform for the next summit, to be held at the end of March.

Two Commission Reports on Women's Equality

The situation of women in Europe will be debated during the January session of the European Parliament; therefore, it is appropriate that the Commission has just released two interim reports on the equal treatment of women in the EEC.

When the Council of Ministers in mid-1982 adopted the Community's 1982-85 action program to promote equal opportunities for women, it also asked the Commission to submit an interim progress report by Jan. 1, 1984, on the implementation of the program. Because of the limited volume of information the Commission has received so far, the first part of the report does not contain more than a summary of legislative and other action taken by the Member States. A review of information furnished by the States shows that there are only a few legislative acts to promote women's job equality. However, the number of other affirmative action measures to bring about equality in employment and vocational training has been rising. A comprehensive report with details of the Member States' actions will be published in 1985.

The Commission's second report dwells on equal treatment in social security matters. This report is also of an interim nature since the Council of Ministers' Dec. 19, 1978, directive gives the Member States until the end of this year to eliminate

discrimination on grounds of sex in national laws governing health, old-age, and unemployment insurance and workmen's compensation. The report corroborates that the economic crisis currently plaguing the Community has not been conducive to implementing the principle of equal treatment in matters of social security. Lack of revenue is one, but not the only, reason for the slow development. The directive requires abolishment of all types of discrimination, direct and indirect, and it is indirect discrimination that has raised a number of questions of interpretation that still have not been answered. Moreover, the scope of the directive has also caused problems for the Member States.

In Brief...

Under the threat of legal action by the European Commission, the performing rights societies in the EC that hold music copyrights and collect royalties have agreed to abandon their territorial restrictions on exports of records, tapes, and cassettes within the Common Market. Originally, the EC Executive had planned to bring a test case against GEMA, the West German society, because that agency had insisted on clauses in agreements with its distributors in the various Member States preventing them from exporting sound recordings to other States. In the meantime, GEMA has modified its agreements by dropping the clauses, and the societies in other Member States have done likewise. Consumers in the EEC will now have a broader choice of records, tapes, and cassettes + + + The European Court of Justice has prohibited clauses in contracts between a seller in one Member State and a buyer in another that bar the buyer from reselling a product in part of his home State and require the seller's consent for reselling in another part of the State. The EC tribunal held such clauses incompatible with Treaty Article 85(1) and said that contracts containing restrictive clauses of this kind are void if they are apt to affect trade between Member States. An appreciable effect on inter-State trade can be assumed if the contract volume represents about 10% of a Member State's exports of a particular product to another State (judgment of Dec. 14, 1983, Case No. 319/82).

Germany: Work Hour Rules for Juveniles to Be Eased

The German government has proposed a relaxation of the statutory restrictions on working hours of juveniles. Under the bill, which incorporates and goes beyond an upper house proposal, juveniles could start working at 6 A.M., one hour earlier than is now permissible under a 1976 statute *(Doing Business in Europe, Par. 23,434)*. The government says that the present discrepancies in the start of the workday for adults and juveniles often lead to difficulties.

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There would be several exceptions to the 6 A.M. rule. Bakers' apprentices over 16 could start at 5 A.M., and those over 17 could start at 4 A.M. The ban on Saturday and Sunday work for juveniles would be lifted, which would benefit gas stations, car repair shops, hotels, and restaurants in particular. Employers and works councils as well as employers' associations and the unions would be free to negotiate working hour arrangements for juveniles to better coordinate production processes of individual plants or the work procedures of other establishments if this is also in the interest of young employees. For example, a management-works council agreement could allow juveniles to work half an hour longer each day on four days of the week and be credited with time off sometime during the month.

The political opposition and the unions are attacking the government for what they call a dismantling of statutory walls protecting juveniles in employment. They say that the proposed lifting of the ban on Saturday and Sunday work would legalize widespread breaches by employers, especially in the tourism sector. Government officials respond that these breaches indirectly confirm the need to repeal strict rules for the sake of this sector in particular and for the economy in general.

Britain: Improved Banking Services for Consumers

In response to a request by the government to investigate the services offered by banks in the U.K., the National Consumer Council recently issued a report entitled "Banking Services and the Consumer," which has had a favorable reception from the banks.

One of the main proposals is that an independent banking ombudsman should be appointed, who would deal with complaints against banks by customers. The ombudsman's office would be funded by the banks themselves. This proposal has been welcomed by Alex Fletcher, a minister with responsibility for consumer affairs, and a senior working party has been formed by the Committee of London Clearing Bankers to study the kind of setup that would be required, the types of complaints that would be investigated, and whether such bodies as building societies would come within the ombudsman's jurisdiction.

The report stresses the need for greater competition between banks and building societies, which account for a large share of home financing in Britain. The societies should be allowed to offer limited loans unsecured by mortgages, unlike at present, and this change should be reviewed after five years, according to the report. In addition, building societies should be able to have access to the banks' clearing and electronic payment facilities. In return for such concessions by the banks, building societies would lose certain privileges they

now enjoy vis à vis the banks, such as the composite interest rate agreed upon with the Inland Revenue.

The NCC would like customers to have more information on how bank charges are assessed. It says there should be a limit on the extent to which a bank customer is liable for the fraudulent use of credit cards, and banks should operate more flexible business hours. There should also be a review of the way in which banks handle executor and trustee business, the NCC says, and banks should not put trust funds into their own unit trusts (mutual funds), as often happens at present.

Italy: Budget Deficit; Labor Cost Talks; Prime Rate

The Italian cabinet has, for the time being, ended squabbles among the coalition partners over the size of the 1984 budget deficit by agreeing on 5,000 billion lire in revenue increases and spending cuts this year, which presumably will hold the public sector shortfall to 91,000 billion lire. Italy's enormous public sector deficit, which exceeds 15% of GNP, was recently described by the International Monetary Fund as a "time bomb" in the Italian economy and as being largely responsible for the failure of successive governments to effectively reduce inflation. The current inflation rate of 15.5% is more than twice as high as that of the other major industrialized countries of Western Europe.

The cabinet agreement represents a tenuous compromise between the treasury, which has been campaigning for heavy spending cuts, and Christian Democratic and Socialist cabinet ministers, who are opposed to further burdens being placed on the taxpayers and the social welfare systems. The agreement means, in effect, that no further fiscal measures will be taken until a consensus can be achieved with the unions on reducing labor costs.

Talks between the government, the unions, and the employers on an incomes policy for 1984 were due to start in the second half of January. As in the past, Rome will again try to concentrate the discussions on moderating the effects of the national wage indexation system *(scala mobile)* on labor costs and the cost of living generally. A year ago, in January 1983, the government and the employers had been successful in having the unions agree to wage adjustments that offered compensation for only 85% of annual inflation. The government's aim this time is to win an agreement that would help achieve the goal of bringing inflation down to an average rate of 10% in 1984.

In other news, the Italian commercial banks reduced their prime rate on Jan. 10 by a quarter of a point, to 18.5%, in what the Italian Bankers' Association described as a "goodwill gesture" toward business and the government. The rate had remained unchanged since May 1983, when it was reduced by 0.75%.

Denmark: Budget Issue Still Unresolved After Elections

The Copenhagen stock market has reacted with declining share prices to the inconclusive Danish election results of Jan. 10 which brought the nonsocialist coalition government of Poul Schlüter a modest gain but no parliamentary majority. Still unresolved is the 1984 budget problem: lack of support in the Folketing for the government's proposals was the reason for calling the early elections, but the political stalemate over this issue is continuing.

To win passage of the draft budget, Schlüter requires the backing of either the opposition Social Democrats, the country's largest party, or the anti-tax Progress Party, neither of which is willing to accept the budget in its present form. However, political observers say that Schlüter has a better chance of coming to a compromise agreement with the Social Democrats, who at this time see no advantage in having the government stumble again over the budget. The Social Democrats, headed by Anker Jörgensen, have demanded about DKr 2 billion in additional spending, mainly to combat unemployment among young people. The Progress Party, by contrast, wants budget savings of about DKr 10 billion, particularly in the social welfare sector - a demand considered completely unrealistic in most quarters.

An agreement with the Social Democrats appears financially possible because the government's economic austerity policies since taking over in September 1982 resulted in unbudgeted extra tax revenues of DKr 4 billion last year. The most noteworthy achievement of the four-party coalition was a substantial reduction in interest rates as well as public spending cutbacks. As a result, housing construction investments rose by 14% last year and are expected to go up by 20% in 1984. The stimulation of private demand has boosted retail turnover and profits, especially in the automobile trade. Last October, the annual rate of increase for industrial investments was projected at 17% for 1983 and 20% for this year.

France: Compromise on Unemployment Insurance Coverage

After months of negotiations, the French employers' federation (Patronat) and the labor unions have achieved a basic understanding on a reform plan that could put the country's near-bankrupt Unedic unemployment insurance system *(Doing Business in Europe, Par. 22,833)* back on its feet.

In its newly reorganized form, Unedic would no longer have to provide cash benefits to the long-term unemployed or for the financial support of school leavers looking for their first job. However, union representatives have warned that they will allow the new system to go into operation as of April 1 only if the government agrees to take over financial responsibility for

those no longer covered by Unedic. The government so far has been funding up to 40% of the Unedic budget to make up the increasing deficit the organization has been accumulating because of higher unemployment in recent years.

The new Unedic system is to operate on a self-supporting basis. For most employees, the overall effect of the reorganization would be a slight increase in contributions and a drop in benefits, although they would still be guaranteed 42% of their previous pay and a daily allowance of FF 40. Employer contributions are not expected to rise because it is recognized that the higher burden of social insurance contributions has been a major reason for layoffs.

Austria: 40% State Bonus for New Production Investments

The Austrian government has announced the introduction of a special investment bonus for any new production plants locating in economically depressed areas with a high unemployment rate. The bonus amounts to 40% of a project's total investment cost and is unlimited with regard to the size of the investment. It is offered from Jan. 1, 1984, until Dec. 31, 1985.

The government hopes that the new financial incentive will be of particular interest to foreign investors. The program is to be financed from "unused" unemployment insurance funds. The areas to benefit from the program have not yet been exactly defined but will probably include existing designated "economic crisis areas," such as some parts of the Lower Austria and Styria provinces and the Steyr, Lienz, and Imst regions.

Sweden: 1984-85 Budget; Higher Export Credit Rates

The 1984-85 draft budget presented to Parliament by Finance Minister Kjell-Olof Feldt promises the first reduction in government spending, as a percentage of GNP, since efforts began to contain the growth of Sweden's national and foreign debts. Public expenditure has been projected at SKr 304.9 billion and would thus fall from 68.1% to 66.6% of GNP, while the budget deficit would be reduced from SKr 84.9 billion to 80.8 billion (10.3% of GNP).

Feldt described the draft budget as an effort by Sweden to "work and save" itself out of the economic recession. Prime Minister Olof Palme insisted that it is an illusion to believe that major deficit reductions can be accomplished through drastic cuts in state expenditure; he explained that it is the government's aim to stabilize and, eventually, reduce the deficit through increased economic growth and lower interest rates.

Real-term public spending in 1984 is projected to rise by only 0.5%. In fact, spending would fall by 1.5% if interest

payments are excluded from the calculation; these payments amount to SKr 65 billion, which represents 21% of total expenditure. The government admits that its forecasts about near-term economic development are optimistic. Inflation is predicted to fall from 9.2% to 4% by the end of the year, a target that Feldt says can be achieved only if pay settlements are no higher than 6%.

In other news, the government has raised interest rates on subsidized export credits for poor and underdeveloped countries. As of Jan. 1, Svensk Exportkredit, the semi-public agency that dispenses export credits under the OECD's so-called consensus system, began to charge a 2% penalty on top of the regular rates on all Swedish currency loans. (Penalty rates on foreign currency loans remain unchanged at 0.5%.) The effect of the move is expected to be a severe reduction in Swedish krona financing, which would especially affect trade with East European countries.

EURO COMPANY SCENE

Ford Motor U.K. announced on Jan. 16 that its Dagenham (Essex) foundry will be shut down in April 1985, eliminating some 2,000 jobs. The company said that the foundry has been a deficit operation since 1978 and has run up losses of more than £75 million over the past three years.

In related developments, Ford Ireland plans to close its assembly plant at Cork later this year, with a loss of 800 jobs. Management said the plant is too small to operate economically. A major factor in the decision is the fact that, under the terms of Ireland's accession to the EEC in 1973, the tax relief given for domestically assembled automobiles will be discontinued after 1984.

Pennsylvania-based Hollinee Corp., through its newly established British subsidiary Fibrmat, is investing £2 million in a glass fiber production plant at East Kilbride, Scotland.

At Irvine, Scotland, the U.K. subsidiary of Alabama-based SCI Systems will start up an electronic components plant with an initial employment of 250.

Guardian Industries Corp., of Northville, Mich., has purchased a 48% interest in a Spanish glass manufacturer, Vidierias de Llodio SA. The transaction includes an agreement by Guardian to invest $15 million over the next 12 months into the conversion of a sheet glass production facility to a float glass facility.

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EUROMARKET NEWS

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Community: Trade Curbs on Some U.S. Products

Trade relations between the EEC and the United States could take a turn for the worse when two Community trade measures take effect. Starting on March 1, the EEC intends to increase duties and place limits on several products imported from the U.S. For example, the duty on methanol would be increased by 6.4 percentage points, to 19.9%, and the duty on security devices by 6.7 points, to 11.7%. The duties would yield an estimated $3.7 million a year. Imports of a number of chemicals, such as styrene, and sporting equipment would be limited; these restrictions would affect a trade volume of some $115 million a year.

The two measures represent retaliatory steps against the U.S. government's decision last July to impose quotas on imports of stainless and alloy steel products. Community specialty steel exports affected by the U.S. import measures total about $150 million yearly. For many months, Commission and U.S. officials have tried in vain to agree, under GATT rules, on some trade compensation for the import restrictions. Another topic of the negotiations was an arrangement that would have guaranteed certain Community steelmakers a specific market share.

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

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The Community was exercising rights extended under GATT when it announced the planned measures and informed the GATT secretariat in Geneva of the details. However, the tensions between the EEC and the U.S., which date back to the 1982 agreement limiting EC steel exports to the United States, are expected to heighten when the retaliatory steps are applied.

More tension is bound to come from a Commission proposal aimed at stabilizing imports of corn gluten feed and other by-products of corn processing, virtually all from the U.S. (2.7 million out of 2.8 million tons, worth $500 million). The Commission wants a mandate from the Council of Ministers to start negotiations and consultations before the GATT forum to reduce these imports of cereal substitutes in order to lower surplus production of animal products in the Common Market, especially dairy products. To this end, the plan ties in with the reform proposals for the common agricultural policy. The Commission believes that it would make no sense to impose restrictions on European farmers producing cereals, milk, butter, or meat without curtailing the supply of inexpensive animal feedstuffs, which compete with cereals and stimulate livestock production.

Parliament Deplores Slow Progress on Women's Equality

The European Parliament has expressed regret over the slow progress made by the Member States in complying with Community legislation on women's equality. The EP criticizes the Council of Ministers for moving too slowly on several pending proposals, among them the draft directives on temporary work and part-time work, from which women would stand to benefit. In a Jan. 17 resolution summarizing its finding on equal treatment, the EP calls for a Community commitment to the 35-hour workweek.

Parliament's findings on the situation of women in the EEC stem from 18 reports on the matter prepared by members of the EP. The topics covered include the situation of women in employment, new technologies and their implications for the employment of women, and the role of women as decision makers.

Three EEC directives on equal pay, equal opportunities, and equal treatment in social security matters seek to eliminate discrimination against women. All the States except Denmark and Greece have enacted legislation to conform to the Council's 1975 equal pay directive *(Common Market Reports, Par. 3942.15)*. The Commission had to bring actions against Luxembourg and the U.K., however, to get them to comply. Britain's Equal Pay Act adopted after the U.K. lost before the Court of Justice still does not fully conform to the directive, and the British government's draft order would not do the job either, according to the EP.

All of the Member States have improved equal employment opportunities in line with the Council's 1976 equal treatment directive *(Common Market Reports, Par. 3910.123)*. Although commissions to promote equal opportunities have been set up in all

of the States, the directive has not prevented the practice of employers often giving women the lowest paid jobs, according to the EP.

Since the deadline for compliance with the Council's 1979 social security directive is Dec. 31, 1984, the EP has not yet looked into inequities in this sector.

In Brief...

The Commission has authorized Greece to retain until the end of October import quotas for cigarettes, bathroom fittings, and furniture from other EEC Member States. The Greek government was told, however, that the ten-month extension would be the last; Athens wanted to retain the restrictions for all of 1984. (On Jan. 1, Greece's import restrictions for nine other products expired.) + + + Between 1970 and the end of 1983, the number of unemployed in the Community rose from 2.1 million to 12.1 million. More than 5 million women were out of work in November 1983, compared to under 600,000 in 1970. Female unemployment now accounts for 42% of the total.

Germany: Higher Early-Retirement Costs for Employers

The German government has proposed amendments to existing rules that would burden employers with additional costs if they send employees into retirement prior to the statutory retirement age of 63 *(Doing Business in Europe, Par. 23,451)*. Under certain conditions, such as disability or poor health, employees may retire at 60. For many years, employers and employees have practiced what has become known as the "59 arrangement": a worker is laid off when reaching 59, receives unemployment benefits for one year, and thereafter draws old-age pension benefits. In 1982, some 40,000 took advantage of this arrangement, which cost the government an estimated DM 700 million that year and the pension funds some DM 1.7 billion.

Since the beginning of 1983, employers have been required to reimburse the government for the unemployment benefits paid to the discharged worker; these benefits amount to DM 25,000-30,000 per person annually. The government has now proposed that employers also pay the costs of three years' pension benefits drawn by the retired employee upon reaching 60, which would come to DM 60,000-70,000 for each early retiree.

The proposed amendments contain important details of the reimbursement requirement. An employer would have to reimburse the government for unemployment and pension payments made to an employee let go at 59 if he or she had worked for the same employer for at least ten of the previous 12 years. Businesses employing fewer than 20 persons (not including apprentices and severely handicapped persons) would be exempt from having to re-

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imburse the government. Firms with 20-40 employees would have to pay back one-third. Companies with 40-60 employees would be required to pay back two-thirds of the government's overall costs (one year's unemployment benefits and three years' pension benefits). Enterprises that had received government assistance, such as structural grants, credits, or guarantees to back up bank loans, would be freed from the reimbursement requirement. Also exempt would be generally all enterprises that are experiencing serious economic difficulties and which, for that reason, had laid off more than 15% of their employees in the past two years. The amendments would not apply to an early retirement agreement reached with an employee prior to Jan. 11, 1984 (the date the Kohl cabinet proposed the measure), unless the employee retires after Dec. 31, 1985.

Denmark: Unexpected Majority for Schlüter's Coalition

A recount, which involved the transfer of only 100 votes in one district, has partially corrected the results of the Jan. 10 general elections in Denmark and has helped give the four-party coalition government of Poul Schlüter the basis for a parliamentary majority.

Provisional election results had left the coalition three mandates short of a 90-seat majority in the 179-seat Folketing, leaving it dependent on supporting votes from either the opposition Social Democrats or the opposition Progress Party. However, the discovery of a counting error in a northern district switched one mandate from the Social Democrats to one of the coalition parties, the Liberals. Also, the final results reflect the Social Democrats' loss of one seat on the Faroe Islands and the decision of a Social Democratic deputy from Greenland to join the government coalition.

The new distribution of power in Parliament, which opened its new session on Jan. 24, has strengthened Schlüter's position in the forthcoming negotiations on the administration's 1984 budget proposals. (The early elections had to be called when the government failed to win the necessary support for its budget draft.) However, Schlüter wants to avoid an all-out confrontation over his economic and financial policies with the Social Democrats, who continue to be Denmark's largest political party. With this careful approach, he is taking note of the apprehensions of business leaders, who fear a radicalization of the Social Democrats and a complete reversal of the present austerity course in the event of a Social Democratic election victory in the future.

Another reason for Schlüter's willingness to cooperate with the opposition forces is the fact that the premier cannot count on a parliamentary majority on defense and security issues, since the Liberals in the government tend to side with the Social Democrats on these issues.

Britain: Trade Unions Set Up Their Own Bank

After more than two years of preparations, the U.K. will soon have a bank, Unity Trust, whose function will be to serve trade unions and their members. The institution will initially be a licensed deposit taker when it commences operations, probably in the spring, but it is to become a full-fledged bank later.

Unity Trust has been formed by some 30 trade unions and the Co-operative Bank, a clearing bank. Its charter lays down that it will be "non-partisan either on political, racial or religious grounds in its everyday business activities." The unions will be limited to a maximum 50% of voting stock. The total of authorized stock will be divided into three equal parts between the Co-operative Bank, the unions, and "sympathetic institutions and/or individuals."

Although there are trade union banks in other countries, such as West Germany and Israel, which have advised on the venture, the idea is new to the U.K. The managing director of Unity Trust, Terry Thomas, said that the bank will be run on "solid banking criteria," and the loans will be made exclusively in the U.K. He estimated that the unions control between Ŀ40 million and Ŀ70 million of wholesale and retail deposits, and so "we have plenty to go for." The unions setting up Unity Trust are committed to investing Ŀ1.5 million.

Thomas said that it was "a radical thing" for any U.K. trade unions to be involved in finance and to be in the City. He stressed that "the sooner it (the bank) is seen as a financial institution for the ordinary worker, the better." There is considerable scope for attracting employees who are union members to open bank accounts, he said, in view of the comparatively large proportion of workers who do not have such accounts.

Ireland: Only Slight Economic Progress, OECD Says

The latest annual OECD survey on Ireland indicates that various aspects of the Irish economic situation remain unsatisfactory, although "considerable progress" has been made during the past two years in correcting serious internal and external imbalances. The outlook for 1984 is not especially encouraging, with developments likely to be "very similar" to those in 1983 - a continued weakness in domestic demand, offset by buoyant exports.

On the positive side, the report notes that the basic inflation rate, although still higher than that of Ireland's main trading partners, has been substantially reduced. A better balance between labor costs and productivity has been achieved, and the current payments position has improved considerably. However, weak economic growth combined with the rapid expansion of the labor force has led to an increase in unemployment, which

totals more than 14% of the working population. The public sector borrowing requirement, at over 18% of GNP, is still "excessively large," in spite of a significant reduction. Ireland's foreign debt is also sizeable at over 60% of GNP, with interest payments alone amounting to some 6% of GNP.

The need for the Irish government to lower the current budget deficit is highlighted in the report. While there may be some scope for broadening the tax base, the OECD says, taxation is already high overall, and so the brunt of fiscal adjustment will have to be borne by public expenditure cuts. Accordingly, pay restraint and reductions in public consumption are essential, and reductions in social services may be unavoidable. Large-scale foreign investment has not succeeded in creating enough employment for the rapidly growing labor force, the survey says, and it would be "unwise" to expect that the large increases in overseas investment that happened in the 1970s will recur during the 1980s. A marked strengthening of external competitiveness is needed to both foster the development of indigenous industry and maintain a sufficiently attractive environment for foreign investment. There must be an improvement in Ireland's relative cost and price position, the OECD warns, and this will have to involve an acceptance of real-term wage reductions "for some time."

Belgium/Luxembourg: Signing of a Joint Steel Agreement

To ensure the survival of the crisis-shaken steel industries in both countries and to coordinate capacity cuts decreed by the European Commission, the governments of Belgium and Luxembourg have signed a ten-year cooperation agreement involving Luxembourg's Arbed, the Belgian offshoot of Arbed (Sidmar), and Belgium's Cockerill-Sambre. Signed by the Belgian premier, Wilfried Martens, and his Luxembourg counterpart, Pierre Werner, the agreement provides for the cooperation of the three groups in coordinating their investment, production, and trading activities. Although they will remain financially and operationally independent, the three companies will set up a steering committee composed of the respective top managements. The agreement has been described as the most extensive transnational cooperation pact within the framework of the current restructuring of the EEC steel industries.

Essentially, the plan provides for the sharing of production, the exchange of products, and the coordination of production cutbacks. Capacity reductions will include the closure by Cockerill-Sambre of a sections mill in Charleroi and a wire rod plant in Liège as well as the shutdown of Arbed's strip rolling mill at Dudelange. These closures will lead to the immediate loss of 1,500 jobs, out of a total of about 10,000 that are expected to be eliminated during the whole of the restructuring process.

France: Mitterrand Wants to Cut 'Excessive' Tax Burden

President François Mitterrand has told his cabinet that the tax and social insurance burdens have become "excessive" and that a reduction in these burdens will be a major priority in the government's 1985 budget planning. Mitterrand had already indicated last year that he would aim for an overall tax reduction of 1%, and political observers have noted that the president's latest statement on this issue comes at a time when his popularity in the public opinion polls is on the decline. In his New Year's address, Mitterrand had not mentioned any easing of the tax burden but warned his countrymen to expect another year of austerity.

On the economic front, there has been some good news and some bad news for the government. In December, France wound up with a small foreign trade surplus, both in gross terms and on a seasonally adjusted basis - for the first time in 12 months. For all of 1983, the country's trade shortfall declined from FF 93.3 billion to FF 42.25 billion. At the same time, the 1983 payments balance deficit totaled FF 32.7 billion, less than half of the FF 79.3 billion in 1982. Unemployment, on the other hand, rose by another 1% in December, to 2.1 million, despite the government's efforts to contain the jobless count at 2 million.

Switzerland: Banking Secrecy Vote; Deposit Guarantee

Swiss voters will go to the polls on May 20 to decide on the fate of a Social Democratic Party proposal for a relaxation of the country's banking secrecy laws. An easing of the secrecy curbs would, among other things, have a fundamental effect on the relationship between the Swiss banks and their foreign customers, according to the critics and opponents of the initiative. In March 1983, the Swiss parliament overwhelmingly rejected the proposal "against the abuse of banking secrecy and banking power," thereby indirectly recommending that the voters do the same in the national referendum in May.

A similar position was taken by the Swiss Bankers' Association at a recent press conference. Association representatives said the Swiss banks are not opposed to the introduction of legislation that would prohibit them from knowingly aiding tax evasion and capital flight; such rules, it was pointed out, are already included in the voluntary code of principles adopted by the banks in 1982. However, any new legislation in this area should not bring about a situation in which the banks could accept only "pre-examined" funds from confirmed legal sources abroad. Such a procedure would effectively end the unrestricted money and capital traffic in Switzerland, an association spokesman said.

The referendum proposal sponsored by the Social Democrats

would require banks and other financial institutions to disclose to both Swiss and foreign government authorities far more information about depositors than at present. Aside from stiffening government controls, it would also limit banks' industrial holdings and place curbs on certain banking activities.

In related news, the Swiss Bankers' Association announced that its member banks intend to offer deposit protection beyond the limits established by law. Under a convention, expected to be signed soon by the banks, individual deposits and savings accounts are to be guaranteed up to SF 30,000 in cases where a bank becomes insolvent and its assets are blocked by liquidation proceedings. Individual depositors would not have to await the outcome of such proceedings but would be able to recover their funds immediately, up to the stated limit, from a pool fund maintained by the banks. The legal limit is now SF 10,000 per account, to be raised to SF 20,000.

EURO COMPANY SCENE

Adam Opel AG, the German subsidiary of General Motors, will invest DM 7.4 billion within the next five years in the modernization of its plants and the improvement of its car models. The "largest investment program in the company's history" is designed to safeguard the future of Opel and its employees and ensure continued expansion in Germany and on the export markets, according to a company announcement. Opel said it had the highest growth rates of all European car manufacturers in 1982 and '83, boasting a sales plus of 23% last year alone.

Monsanto Co. of St. Louis has agreed in principle to acquire a Belgian drug manufacturer, Continental Pharma SA, for undisclosed terms. The Belgian firm reportedly had revenues of $40 million last year.

The Turkish government has authorized First National Bank of Boston and Chase Manhattan Bank to open branches in that country, joining American Express and Citibank, which are already present. First National and Chase will each start with a branch in Istanbul and eventually may open three other branches elsewhere.

Nederlandse Credietbank (NCB), Holland's fifth-largest bank, could become the country's largest foreign-owned financial institution if Chase Manhattan Bank succeeds with a $43 million bid for full control. Chase already has a stake of 31.5% in NCB and in December offered 40 guilders for each outstanding share, at a time when the stock was traded at 32.80 guilders. The offer valued the bid at 143 million guilders.

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Community: Extension of Steel Crisis System Welcomed

The Council of Ministers' Jan. 27 decision to extend the Community's steel crisis management system until the end of 1985 has been generally welcomed. Based on Article 58 of the Coal and Steel Treaty, the system empowers the Commission to impose production quotas for individual steelmakers, which it has done since October 1980, and to impose fines for breaching these quotas. The purpose of the system is to bring about major cutbacks in production capacities in order to restore a sound balance between supply and demand. So far these measures have failed to stabilize the Community's steel market. Last December the Council of Ministers granted the Commission the powers to set minimum prices, require money deposits to prevent breaches of minimum prices, and issue details for certificates accompanying intra-EEC steel shipments. These measures took effect on Jan. 1 and will expire on Dec. 31, 1985.

The Council's Jan. 27 action is significant in several respects, according to Commission officials. It should help restore the steel industries' confidence in the market because each Member State government knows what additional cutbacks are

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necessary. By the end of 1985, all the States will have to reduce production capacities by a total of about 25 million tons compared to 1980 levels, and an additional 70,000 steelworkers will have to be laid off. As of 1986, all States will be barred from aiding their steel industries. If all Member States meet this commitment, the Commission says, the issue of subsidized steel exports within the Community, which has dominated many Council agendas, will be a thing of the past.

The two-year extension of the expanded steel crisis management system became possible after Italy abandoned its opposition to the plan and retreated from its demand for an increased quota. Also, the overall agreement enabled the German government to relent on the issue of additional revenue for the Community. Economics Minister Otto Lambsdorff said, "With the steel issue settled, we can now talk about lifting the value-added tax ceiling." At present the Community receives 1% of the Member States' VAT base revenue, and the Commission has proposed raising this 1% to 1.4% *(Common Market Reports, Pars. 5012.13, 10,468).*

EC Enlargement Talks to Be Wound Up in September

Negotiations with Spain and Portugal on joining the European Communities will be wound up by the end of September. The Council of Ministers set this goal on Jan. 23 after France abandoned its wait-and-see attitude under pressure from other Member States, especially Germany. The growing impatience of the Spanish and Portuguese governments with the uncertainty over the entry date also played a role. If the Council meets its commitment, there will be enough time for the national legislatures to ratify the accession treaties, so that Spain and Portugal could join the Communities on Jan. 1, 1986.

Both Spain and Portugal had reason to be impatient with the protracted negotiations. As late as the first week of January, French cabinet ministers had been cautioning against any major effort on France's part to finish the talks during the first half of 1984. During this time Paris is holding the EC presidency. On Jan. 11, French President François Mitterrand cast aside his concern about the fact that Spain's accession would have consequences for French fruit and vegetable growers, saying that the political consequences of excluding Spain would be too serious.

Commission officials nevertheless believe that France's attitude remains crucial to the outcome of the talks and meeting the September deadline. The Community has yet to present its proposals on the conditions for the two applicant countries joining the common agricultural policy. Mitterrand wants the proposals tabled by the end of February. France, more than any other Member State, has insisted that Spanish fruit and vegetable growers be forced to sell at higher prices than at present. Negotiating the details, especially those on support for Spanish and Portuguese farmers, will be difficult.

In Brief...

As of Jan. 27, 1984, France banned all imports of Dutch meat, and meat and livestock imports from all the other Member States are being cleared by a reduced number of border customs offices. The French government gave as the reason for the measures the need for tightened health controls to combat the recent outbreak of foot-and-mouth disease in Holland. However, several Member State governments have accused Paris of wanting to pacify French pig farmers who have protested violently against meat imports from Britain and Holland. The action resembles France's October 1982 decision assigning the Poitiers customs office in central France as the sole clearing post for video cassette recorders from Japan, these States say + + + The Council of Ministers has given the Commission the go-ahead to draw up a negotiating mandate once the Hungarian government makes a formal request for a Hungary-EEC trade agreement. For more than a year, Hungary has indicated that it wants such an agreement, which would do away with the EEC's quantitative restrictions on many Hungarian products, but it has been reluctant to come forward with a formal request. Budapest is concerned about offending the Soviet-dominated East Bloc trade group, Comecon. (To Comecon's long-standing demand for an overall trade agreement with the EEC, the Commission answers that the Comecon secretariat does not have the treaty-making powers that the Community has. Romania was the first Comecon country to negotiate an agreement with the EEC, in 1981.)

Germany: Weak Worker Response to Bonn's VEBA Stock Sale

The German government's plan to reduce its influence on industry by selling over 4 million VEBA shares and, at the same time, making VEBA shareholders of several hundred thousand employees has only partially succeeded. From a financial viewpoint, the sale was an unqualified success: Bonn reaped more revenue than expected from the sale of 4.4 million shares of the diversified German energy group and the country's largest enterprise. Benefiting from a flourishing stock market, the sale was expected to provide the treasury with some DM 800 million - DM 100 million more than anticipated last October. However, most of the shares went to institutional investors, and only 50,000 employees took advantage of the offer. (Through the sale, Bonn lowered its interest in VEBA from 43.75% to 30%.)

Bankers give several reasons why the government's plan did not work out as intended. Although an investment of DM 936 each in VEBA shares would have qualified 14 million workers for a 23% government premium, 10 million had already committed themselves to saving DM 624 annually under an older savings plan, and the DM 312 difference was not enough to buy even two VEBA shares *(Doing Business in Europe, Par. 40,554)*. Furthermore, the time span between enactment of the new savings plan legisla-

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tion (Jan. 1) and the deadline for investing in VEBA shares (Jan. 27) was too short to launch an effective advertising campaign to promote the sale and to win over reluctant investors. A few of the 16 banks that offered the stock reported good results from their advertising, however.

Yet another factor was the cumbersome purchasing procedure: the employee/investor had to open an account with the selling bank, which then gave the account number to the employer's payroll department. Only after the employer had transferred the money did the employee qualify for the government premium. Since there are no union contracts as yet that would commit employers to contributing to the employee's investment, employers deducted the money from the employee's wages or salary. This procedure reportedly acted as a deterrent. A further hindrance was the stipulation that the share buyers hold the VEBA stock for six years in order to keep the 23% premium.

France: Government 'Recommends' Voluntary Dividend Curbs

The official dividend restrictions in force in France during the years 1982 and 1983 are to be replaced by voluntary restraints this year, if the government has its way. In a letter to the Patronat employers' federation, Finance Minister Jacques Delors has recommended that French companies not raise their dividend distributions by more than 5% above the highest distributions of the past three years. In 1982 and '83, businesses were limited to an 8% ceiling for dividend increases, which were thus lower than the inflation rates in those two years (9.7% and 9.3%, respectively). The recommended 5% figure for 1984 corresponds to the official inflation target.

Observers are dubious about the government's declaration that the 5% limit is completely voluntary; they say that it remains to be seen how Paris will react if companies choose to ignore the ceiling. However, some businesses are not affected by the recommendation, among them those with nominal capital increases of at least 10% in 1982, 1983, or this year. The voluntary standard also does not apply to the dividends of companies that are newly quoted on the stock market this year. Another exception is investment funds *(sociétés d'investissement à capitale variable - SICAV)* and companies whose share capital is at least 95% owned by other enterprises or by the state.

More Emergency Subsidies for French Shipyards

Following renewed demonstrations by several thousand shipyard workers who fear for their jobs, the French government has announced a number of emergency financial aids to avert the collapse of major shipyards and mass dismissals in that sector. Additional state subsidies of about FF 775 million allocated on-

ly a few weeks ago are to be followed up by an immediate injection of FF 130 million for one of the country's two main shipbuilding groups, Chantiers du Nord et de la Meditêrranée (Nordmed), which otherwise would have to declare bankruptcy. The government is placing an order for five new ships to help shipyards that no longer have any work. At the same time, the Mitterrand administration has vetoed an order by a French shipping company for four cargo vessels that were to be built in Yugoslavia.

Through the announced measures, the government wants to ensure that the five shipyards can maintain a work level of at least 250,000 displacement tons annually, which compares with an actual capacity of 370,000 tons. Last year, the yards had new orders for a total of only 105,000 tons, down from 200,000 tons in 1982.

Guy Lengagne, secretary of state for the sea, assured the striking workers that the government will not permit the shipyards to go out of business. He said there could not be a 100% employment guarantee but that compensating measures (retraining, early retirements, etc.) will be available for workers whose jobs will have to be phased out. Furthermore, the government will make every effort to attract new industries to the areas hardest hit by the crisis in the shipbuilding sector.

Ireland: Minor Tax Relief in 1984 Draft Budget

The Irish government's 1984 budget draft, presented on Jan. 25 by Finance Minister Alan Dukes, offers a small measure of tax relief, especially for individual taxpayers *(Doing Business in Europe, Par. 25,321)*. It is proposed to eliminate the 25% marginal rate and to extend the 35% rate to Ŀ4,000 for a single person and to Ŀ8,000 for a married couple. The personal tax-free allowance would be raised by Ŀ350 to Ŀ1,800 for an individual and by Ŀ700 to Ŀ3,600 for a couple. The "temporary" 1% levy on income tax is to be renewed for another year but not where an employee's income is less than Ŀ96 per week or where the annual income of a self-employed person is less than Ŀ5,000. This concession should benefit some 350,000 taxpayers.

On the corporate side *(Doing Business in Europe, Par. 25,331)*, the transitional period within which advance corporation tax is payable at 50% of the full rate would be extended to distributions made up to the end of 1984. Next year, the tax would be implemented in full. Income tax relief up to a specific ceiling each year would be allowed for individuals who provide long-term risk capital for new manufacturing enterprises; details would be incorporated into the Finance Bill. The 100% initial allowance for plant and machinery and the 50% initial allowance and 4% annual allowance for industrial buildings due to expire at the end of March would be extended for another

year, as would the deduction against profits for corporation tax purposes of Ł10 per week for each additional person employed.

The levy on banks would remain at Ł25 million for 1984, but it would be reviewed in future years in line with the increase in corporation tax payments from banks that will result from various restrictions to be imposed on tax-biased financing. The government proposes to abolish the tax advantages contained in "Section 84 lending" and artificial preference share financing and to curtail severely the fiscal benefits of leasing, except where leasing forms part of a grant-aided incentive package by the state industrial promotion agencies. Under such arrangements, companies with limited tax liabilities could pass on to the bank the tax relief they would otherwise be granted on investment; in return, the bank would reduce the rate of interest charged on the loan.

Other budget proposals include the imposition, as of May 1, of an 8% value-added tax rate on clothing (at present zero-rated), except on apparel for children under ten, as well as various increases in excise duties. Motor fuel prices are to go up by 6 pence a gallon and cigarette prices by 10 p for a package of 20. Duty on a pint of beer is to be raised by 2 p and on a bottle of wine by 8 p. Road tax would be increased by Ł14 per year on the average.

Netherlands: State Aid to Hoogovens; Nuclear Power

Economics Minister Gijs van Aardenne has given Parliament details of a 915 million guilder package of Dutch government aid to the Hoogovens steel group, the aim being to make the firm profitable by 1985. The European Commission is expected to accept the plan because it involves a reduction in hot-rolled steel capacity below the ceilings set by EEC planners.

The aid package includes a 194.6 million guilder subsidy for "strategic investments" and a 570 million guilder, 25-year loan to pay off debts incurred during the breakup of Hoogovens' Estel linkup with the German steel group Hoesch. In addition, Hoogovens is to make a 65 million guilder share offering to the public. Any part of the issue not accepted by the public will be purchased by the government, but the company's recent improved performance on the stock market makes it seem unlikely that this will be necessary. The state already owns 28.4% of Hoogovens. Contingency plans for a worsening of the overall steel industry situation include a 150 million guilder reserve for use only in "special circumstances," to be defined by the economics minister, and a provision for the 25-year loan to have a low repayment status in case of bankruptcy.

The package is conditional upon wider government control over Hoogovens' activities so long as the company continues to

receive aid. The economics minister will continue to appoint three members of the supervisory board and, in addition, will have the power to appoint a special observer to monitor day-to-day activities. Hoogovens will have to consult The Hague before it makes any changes in its restructuring plan and cannot make dividend distributions without prior government approval. Furthermore, the firm will, in the future, have to rely on Dutch suppliers whenever possible.

In other news, the government is being urged to make a decision on future sources of electric power for industry. Dutch firms have long complained that electrical power is more costly for them than for their German and Belgian competitors. The director of the Association of Electricity Producers (SEP) has called on The Hague to decide this year to increase output of nuclear-generated electricity by 3,000 MW by authorizing the construction of three or four new nuclear plants. However, a commission of experts appointed by the previous (labor) administration in 1981 has recommended that no more nuclear plants be built. The commission says that 77% of those interviewed oppose further nuclear plants and only 51% want to keep the two existing plants operating.

Denmark: Parliament Stalled by Mail Ballot Recount

The Danish parliament, which was newly elected on Jan. 10, cannot meet as a properly constituted assembly until the political parties agree on the correct allocation of mandates. The confusion began with a relatively minor counting error involving only 100 votes in a North Zealand district: the recount helped the governing four-party coalition of Premier Poul Schlüter raise its parliamentary base from a minority to a majority position - or so it seemed. However, the opposition Social Democrats successfully challenged the election results of nearly 120,000 mail ballots, and the recount is expected to take a week. Until a parliamentary control commission announces the final results, the government has to postpone the presentation of its 1984 finance bill and other draft legislation.

Spain: Pay Talks Collapse As Labor Climate Cools

Negotiations between the Spanish employers' federation (CEOE) and the Socialist labor union (UGT) collapsed last month, and efforts to conclude a framework pay contract for 1984 were abandoned, at least for the time being. Such framework agreements have been signed by both sides every year since 1977, and in the last two years both the government and the Communist-controlled Workers' Commissions Union (CCOO) have been parties to the agreement. This year, however, the Socialist government's determination on the issue of fighting inflation appears to have

taken the labor unions by surprise. Madrid has set an 8% inflation target, given civil servants an income rise of only 6.5%, and insisted during the national pay talks on a 6.5% average pay increase (with a band width of 5.5%-7.5%). The employers are readily following the government's lead.

The stumbling block seems to have been the UGT's unwillingness to accept a 7.5% upper limit on pay rises and the CCOO's opposition to anything below a 10% settlement. The negotiating parties also failed to agree on a system for compensating workers if inflation rises above the 8% target. The government now will await the outcome of 3,600 individual agreements between unions and employers.

Meanwhile, labor relations in Spain are continuing to deteriorate, with the metalworkers calling a nationwide strike on Feb. 3 to protest steel industry layoffs. Shipyard workers have also staged protest strikes against closure plans.

EURO COMPANY SCENE

Bankers Trust, of New York, is opening a wholesale subsidiary in Paris this month, with an investment of FF 380 million. The new bank will extend the business of Bankers Trust's existing branch, which has been in operation for 13 years and, at latest report, has a balance sheet total of about FF 3 billion. The branch office is being continued. The investment in the new subsidiary is the largest ever by a foreign bank in France and, according to the management, represents a "vote of confidence" in the French economy and the Socialist government.

One of the major Wall Street investment firms, Prudential-Bache Securities, is acquiring a participation in the London Stock Exchange through a joint venture with officers of James Capel, a leading stockbroking firm in the City. The new company's paid-up capital is £500,000. Initially, Prudential will hold a minority stake in the venture, but it is expected to exercise an option for a complete takeover once new Stock Exchange rules allow full external ownership. The present limit for foreign participations is 29.9%. Two U.S. banks, Citicorp and Security Pacific, own 29.9% holdings in other London firms.

American International Group (AIG) has acquired 97.1% of the shares of a Swiss life insurer, Ticino Società d'Assicurazioni sulla Vita. The AIG holding is one of the ten largest U.S. insurance groups and already operates a banking subsidiary in Switzerland, Überseebank AG. Ticino reported net earnings of SF 402,000 in 1982 and increased its premium total by 13.5% to SF 24.2 million that year.

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EUROMARKET NEWS

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Community: Certain Currency Controls Held Illegal

The European Court of Justice has held that Member States may not limit payments to other States to cover travel expenses related to private, business, and study trips abroad as well as medical treatment abroad. Such payments benefit from the principle of the freedom of services and therefore may not be restricted, according to the Court of Justice (judgment of Jan. 31, 1984, Case Nos. 286/82 and 26/83). The Court added that the Member States may not restrict the number of such payments over a given period (a year, for example), nor may the exercise of the individual right to pay for such services abroad be left to the discretion of national authorities.

The EC tribunal does not bar Member States from imposing exchange controls altogether. The Court makes a distinction between transfers for specific services and capital exports for investment purposes. So long as the Member States have not agreed on directives necessary to ensure the free movement of capital, they retain the power to determine whether funds are transferred for legitimate payment of services or general capital movement, the Court says. (Only two directives on the free

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movement of capital have been adopted - *Common Market Reports, Par. 1602.31*.)

Two Italians had been fined for taking abroad more than 500,000 lire in 1975 ($291 at current exchange rates) and 1.5 million lire ($875) in 1982 to pay for travel and medical treatment. In appealing the fines, they contended that Italian exchange controls imposing currency export limits in these areas violated Treaty rules establishing the freedom to provide services. A Genoa court suspended the proceedings and requested from the EC tribunal a preliminary ruling on the interpretation of Treaty Articles 67, 69, and 106 in relation to Italian legislation restricting exports of foreign exchange by residents for tourism purposes. This legislation was passed to protect Italy's balance of payments against illegal capital exports *(Common Market Reports, Par. 1602.35)*.

The Court of Justice's ruling is the first one touching on the exchange controls issue, and Commission lawyers consider it to be very important. France is applying currency exchange controls similar to the Italian rules. In order to protect the franc against currency speculation, the French government in March 1983 put limits on the amount of money French tourists may take abroad.

The Commission now is expected to review restrictions imposed under Treaty Articles 108 and 109 *(Common Market Reports, Pars. 3732, 3782)* by Member States other than Italy and France.

Commission Urges Japan to Curb Trade Surplus

The EEC has asked the Japanese government to take drastic steps in order to curb Japan's growing trade surplus. These steps have been set out in a letter handed to Japan's minister of international trade, Hikosaburo Okonogi, by Commission vice-president Wilhelm Haferkamp. Japan has been asked to suspend import duties on manufactured goods for a limited period, set specific targets for increased imports, and review its national distribution system, which is often cited as a barrier to the import of foreign products. The Community is also asking Japan to move up its schedule for dismantling tariffs as agreed in the 1979 Tokyo roundtable negotiations: the scheduled tariff cuts should be moved forward three years instead of the one-year and two-year periods currently planned.

Figures released by the Japanese government late last month show that Japan posted a record overall trade surplus of $31 billion in 1983, up from $18 billion in 1982. Japan's trade surplus with the EEC in 1983 was put at $10.4 billion, roughly a billion more than in 1982. The Commission puts the EEC's deficit with Japan near $12 billion.

Haferkamp reportedly told his Japanese counterpart about a precedent for temporarily suspending import duties. Germany did

so several times in the 1960s when its trade surplus took on very large proportions. Haferkamp also warned Japanese officials that failure to ease imports could prompt European manufacturers to come up with protectionist demands.

In Brief...

The Commission has not yet decided how to deal with France's Jan. 27 decision banning imports of Dutch meat and limiting clearance of meat imports from all other Member States to a reduced number of border customs offices. France's move goes beyond the protective measures the Commission is allowing the States to take in connection with the recent outbreak of foot-and-mouth disease in two Dutch regions (Official Journal Nos. L23 and L28, 1984). Some Commission officials are sympathetic toward the accusations by several States that Paris is restraining intra-Community trade in order to pacify French pig farmers, who have staged protests against meat imports from Britain and Holland. If the Commission concludes that France's decision acts indeed like a restraint on inter-State trade, it will order Paris to rescind it + + + Klöckner Werke AG has dropped nine suits brought before the European Court of Justice against fines totaling DM 135.7 million levied by the Commission in 1981-83 after the German steelmaker exceeded production quotas. Dropping the complaints is part of an agreement between the EC Executive and Klöckner under which the latter returns to the steel crisis management system and accepts Commission-imposed quotas. Also part of the accord is Klöckner's payment of a total of DM 23.9 million in fines levied by the Commission for exceeding production quotas; the Court of Justice had upheld these fines.

Germany: Incentives for Buyers of Low-Pollution Cars?

Legislation introduced in Germany's upper house of Parliament is forcing the Kohl administration to speed up work on financial incentives for buyers of cars fueled by lead-free gasoline. Under a bill submitted by the state government of Baden-Württemberg, an exemption from vehicle registration tax would be granted for automobiles that meet the lowest emission levels now technically possible with the aid of lead-free gasoline and catalytic converters. This exemption would apply from July 1, 1984, through Dec. 31, 1988. For two years thereafter, owners of such cars would have to pay only half of the tax. To make up for revenue lost by the proposed exemption, the tax, based on engine displacement, would go up from the current DM 14.40 per 100 cubic centimeters to DM 20 as of 1986 and to DM 25 as of 1991.

The proposal has received backing from two other states - the Rhineland-Palatinate and Bavaria. Government officials believe that the bill is on the right track, but they also want to

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consider other alternatives to the proposed incentives. Experts are contemplating a reduction in the excise tax for unleaded gasoline. At present, the DM 1.33 average retail price of a liter of regular gasoline includes DM 0.68 in taxes (excise tax plus 14% value-added tax and the oil reserve levy). While receipts from the vehicle registration tax flow into the state treasuries (DM 6.6 billion in 1982), excise tax from the sale of gasoline accrues to the federal government (DM 22.8 billion in 1982). The government is expected to disclose its final plan in April or May.

In related matters, officials of the national automobile manufacturers' association have once again urged the government to seek an EEC agreement on reducing automotive exhaust emissions rather than attempt a national solution. Under the government's plan, new vehicles sold in Germany after Jan. 1, 1986, would have to be equipped with catalytic converters and run on unleaded gas.

Italy: Political Stalemates Block Progress in Rome

The Italian government has reluctantly withdrawn its latest version of a bill offering an amnesty to violators of building regulations and has remanded it to the appropriate parliamentary committees for further discussion. The move followed a last-minute decision by Bettino Craxi, the Socialist prime minister, not to use a confidence motion to push the bill through Parliament. If passed, the amnesty law would presumably earn the state several thousand billion lire in extra revenues, to be paid in the form of fines by individuals who want to avoid prosecution. The original amnesty draft law had already proved to be a stumbling block for Craxi last October, when he was dealt his first parliamentary defeat in a vote on the decree legislation.

The continued political haggling over the legislation and Craxi's earlier readiness to resort to a decisive confidence motion is seen as being indicative of the mounting problems faced by the government. After about six months in office, the five-party coalition has still not achieved any agreement on a common economic policy course. The negotiations between the government, the employers, and the labor unions on an incomes policy for 1984 are making no progress at all. The unions have not come to a consensus on the matter among themselves, and the employers are unwilling to accept a price freeze as proposed by the unions. At this point, observers agree, a compromise on wage cost reductions and a reform of the wage indexation system *(scala mobile)* appears as remote as ever.

To break the stalemate, which is effectively blocking any kind of progress in Rome, Craxi had wanted to force the hands of the coalition partners by calling for a confidence vote on the

amnesty bill. However, a large number of deputies were opposed to this step because the voting would have been by open name ballot. Also, in the last week of January, the government had been defeated several times during the parliamentary debate on prison reforms. For these reasons, Craxi was persuaded not to risk the confidence motion at this time.

Italian Road Haulers Protest Rate Boost Suspension

Commercial road transport was virtually at a standstill in Italy from Feb. 6 through 8, when the country's haulers kept about one million trucks and truck trailers off the roads. The road transport industry, which normally accounts for 80% of industrial and commercial deliveries in Italy, was protesting the fact that an agreed 12% rate increase for 1984 has been suspended by court order. The suspension followed a complaint by a number of large industrial companies (among them Montedison, Zanussi, and Italsider) that the Transport Ministry, which had approved the rate boost, had failed to consult the association of road transport customers before setting the rate increase. Such consultation is required by law.

The road transport sector in Italy, represented by about 200,000 businesses, is burdened with over-capacities of about 30%, and rate cutting is a common practice. The fierce competition has led to the collapse of several transport companies in recent months, among them one of the largest in Europe, Gondrand of Milan. The haulers' industry claims that the average rate of 900 lire per truck kilometer barely covers costs and, in fact, leaves only 5 lire per kilometer.

In addition to the rate issue, the haulers were also protesting the notoriously slow Italian customs clearance of trucks at the Brenner Pass, a major alpine checkpoint at the Italian-Austrian border. Waiting times of between nine and 15 hours are nothing unusual there, causing damage of 40 billion lire annually to the Italian economy, the haulers claim. In fact, reports said that the association of European road haulers (IRU) is also considering an international truckers' demonstration at the Brenner to protest the disorganized clearance procedures at the checkpoint.

Britain: Government Pressured to Act on U.S. Unitary Taxes

Renewed pressure is being put on the U.K. government by British multinationals to take action against those U.S. states that employ a method of unitary taxation, by which tax liabilities are assessed on the basis of the multinationals' worldwide profits. A Treasury minister, John Moore, is meeting this month with representatives from the U.K. companies affected, who will advocate that retaliatory legislation against such states be included in this year's Budget, to be announced on March 13.

It is proposed that relief on advance corporation tax *(Doing Business in Europe, Par. 23,827)* be withheld from U.S. companies whose headquarters are based in states using the unitary method. In 1983, U.S. companies benefited from ACT relief to the tune of £500 million. However, some bodies have reservations about such a move, and Alan Willingale, chairman of the tax committee of the Confederation of British Industry, said he would be "astonished" if Chancellor of the Exchequer Nigel Lawson agreed to such retaliation. He added that if he were a member of the government, he would say that "I don't like leveling a gun that could backfire and blow my eye out."

Some 240 Members of Parliament have supported a motion in Parliament condemning unitary taxation, and observers believe it likely that some action will be taken soon by the government, though perhaps not in the upcoming Budget.

Study Urges Radical Overhaul of U.K. Financial Rules

Prof. Jim Gower's "Review of Investor Protection - Part 1" has made wide-ranging and radical proposals for overhauling the way the U.K.'s financial community is regulated. The second part of the review, which will provide a draft parliamentary bill for implementing the proposals, is expected to be published in October.

Commissioned three years ago, the Gower study has been cautiously welcomed by Secretary for Trade and Industry Norman Tebbit, who said that Gower's principle of self-regulation within a framework of statutory supervision may well be "a way forward." Recent experience has shown the need to review investor protection, Tebbit said, but he stressed that this should be done so far as possible in ways consistent with the liberal and innovative traditions of the City. Comments are now invited on the proposals, and Tebbit said that the government will then decide whether to proceed with legislation in the 1984-85 session of Parliament; observers regard this as highly probable.

The outdated Prevention of Fraud (Investments) Act 1958 would be replaced by a new Investor Protection Act, which Gower said would "protect the public from being made fools of, but not to protect fools from their own folly." He said that what is needed is a system to "help the public identify the sheep and which will effectively curb the activities of the goats." The new Act would make it an offense to carry on any type of investment business unless it is registered. Excluded would be investment in physical objects, but all other forms would be included. Gower seems to have in mind particularly contracts or options for commodity or financial futures and life insurance contracts. All those professionally engaged in marketing investment as well as investment managers and advisers would need to register.

The report makes it clear that registration would be ef-

fected by means of membership in self-regulatory agencies recognized by the government. These agencies would establish rules and codes of conduct and monitor the activities of their members. Many existing self-regulatory bodies would qualify for recognition, such as the Stock Exchange and the Lloyd's insurance market. The number of such bodies would be expanded but would largely include existing professional institutions - for example, the accountancy bodies.

Gower indicated the importance of the accountancy profession in the issuance of company prospectuses to the public. He envisages that accountants would be subject to increasing surveillance by the Stock Exchange and the Council for the Securities Industry. Increased vigilance is important to ensure that disclosure is fully complied with, he said, particularly because new technology will probably mean that, in 20 years' time, "the written prospectus will be as dead as a dodo."

Denmark: Recount Leaves Government in Majority

The Danish four-party coalition government of Poul Schlüter can expect to operate with a majority in Parliament following a recount of nearly 120,000 mail ballots, which was completed on Feb. 3. The recount had been ordered after the correction of a previous counting error had given an additional seat to the Liberals, which are partners in the coalition, at the expense of the opposition Social Democrats. The final official count gave the government direct control of 77 seats and indirect control of another 13, for a total of 90 in the 179-seat Folketing.

The final apportionment of mandates cleared the way for the government's 1984 finance and budget legislation. Insufficient support for these bills had forced Schlüter to call the early elections, which were held on Jan. 10.

Spain: Industry, Labor Attack Government; Foreign Investment

Spain's Socialist government is coming under attack from both workers' and employers' representatives for its tough anti-inflationary stance. The Gonzalez administration's efforts to follow up last year's cut in real-term incomes with a comprehensive restructuring plan for the steel and shipbuilding industries, which will mean thousands of dismissals, have triggered strikes and labor unrest. The beginning of February saw over 300,000 on strike in various cities, while workers in the shipyard town of Gijon battled with police and disrupted traffic and business. The unrest follows mounting criticism of Industry Minister Carlos Solchaga by the Socialist UGT trade union.

The business community's dissatisfaction was demonstrated at a meeting of the employers' federation in Madrid attended by

2,000 entrepreneurs, many of whom voiced markedly right-wing or fascist sentiments. Employers complain that the government's anti-inflation policy has made credit too tight and pushed interest rates too high, while the growing budget deficit is forcing taxes up as well. Many are urging the government to permit a higher rate of inflation. The Gonzalez administration has indeed scored a significant success on the inflation front in the past year: 1983 saw the cost of living rise by the lowest annual rate since 1973, though still by 12.2%. For this year, the official target has been set at 8%.

In other news, foreign direct investment in Spain was down in 1983 from 182.84 billion pesetas (1982) to 158.18 billion pesetas. The U.S. was the third largest foreign investor, with 18.51 billion pesetas. Thirty-six percent of the total went into the metal industries, 18% into portfolio investments, and 15.3% into the hotel and catering industry.

EURO COMPANY SCENE

State-controlled Rolls-Royce Ltd. of Britain and General Electric Co. of the United States will cooperate in the development of jet engines for commercial airliners. The agreement specifically involves two types of engines - Rolls' 535E4 and GE's CF6-80C2. According to a memorandum of understanding, each partner will share to the extent of 15% in the risks and revenues of the other's projects. Eventually, the mutual share is to be raised to 25%.

SmithKline Beckman Corp. of Philadelphia has agreed to purchase a French prescription ophthalmic company, Laboratoires Dulcis du Dr. Ferry SA, through its Allergan Pharmaceuticals subsidiary. The acquisition of Laboratoires Dulcis, based in Monte Carlo, Monaco, will strengthen Allergan's position on the French eye care market, according to SmithKline. The terms of the transaction were not disclosed.

Rockwell International Corp. of Pittsburgh has raised from 49% to 60% its stake in a European axle-manufacturing joint venture with Iveco (Fiat). The production of Rockwell-designed axles for heavy-duty trucks is at a plant in Cameri, Italy.

Executives of France's Renault, the state-owned car manufacturer, have disclosed that the company is holding talks with International Harvester Co. of the United States concerning a possible merger or joint venture of farm machinery activities in Europe.

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Community: Commission's Approval of Belgian Aid Illegal?

Advocate General Gordon Slynn is backing the German government in its action against the Commission over the latter's decision authorizing aid for the Belgian textile industry (Case No. 84/82). Germany is seeking an annulment of this decision under Treaty Article 173 *(Common Market Reports, Par. 4636)*, and Slynn supports this claim on both procedural and substantive grounds. However, the AG also supports the Commission's position that the German government's alternative claim is inadmissible. In that claim, Germany seeks a declaration under Treaty Article 175 *(Common Market Reports, Par. 4646)* that the Commission breached Articles 92 and 93 of the Treaty *(Common Market Reports, Pars. 2922, 2932)* when it failed, after a proper examination, to declare the Belgian aid plan incompatible with the common market.

The case raises an important procedural issue involving the interpretation of Treaty Article 93. Paragraph 2 of that article requires the Commission to decide whether aid should be abolished or altered if, after inviting the other States to comment, it finds that the aid is not compatible with the common market or is being misused. The Commission must also be informed in due time about plans to grant new aid, so that it can

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submit its comments (paragraph 3). If the EC Executive believes that the aid plan is not compatible with the common market, with respect to Article 92, it must initiate without delay the procedure provided for in paragraph 2.

The German government contends that the Commission should not have authorized the Belgian aid plan without consulting the other Member States. The Commission says it was not bound to do so. Slynn agrees with Germany on this point. He says that, even after asking the Belgian government to make several changes in the plan and imposing important conditions, the Commission still had serious doubts about several aspects of the plan. In Slynn's view, the Commission was aware of the implications of the plan, including the effect on intra-Community trade, and it was aware that many of its features, especially the effect on the German textile industry and its employees, were highly controversial. Whenever there are controversial issues, the consultation procedure should be initiated, according to Slynn.

German-French Rift Dominates Farm Policy Debate

Sharp disagreement between France and Germany has dominated the recent discussions in the Council of Ministers of the Commission's proposals for CAP reform measures as well as for new farm prices, which are to be virtually frozen this year.

The German government has long supported rigorous controls over farm spending to save the EEC's farm policy from going bankrupt, and Bonn is even prepared to accept a freeze in the prices that are guaranteed to German farmers. However, the Kohl administration is strongly opposed to dismantling the system of cross-border farm taxes. A 50% cut in the monetary compensatory amounts (MCAs), as proposed by the Commission, would mean 5.4% less income for German farmers but 3.2% more for French farmers. MCAs are paid to German exporters of farm commodities to make up for the loss they otherwise incur because of the higher value of the deutschmark. Imports from Member States with weak currencies, such as France, are subject to negative MCAs. This is why France has been demanding abolishment of the complicated system of cross-border taxes and subsidies.

To improve the chances for an agreement between France and Germany and a settlement of the CAP reform and farm price issues prior to the Brussels summit next month, the Commission has suggested that the German farmers' loss of income be partly offset by special aid from the EEC. Bonn finds this unacceptable because it would not fully compensate German farmers for the estimated annual loss of DM 2.5 billion during the 1984-86 period. Germany is invoking the March 9, 1979, gentlemen's agreement between former French president Valéry Giscard d'Estaing and former German chancellor Helmut Schmidt that was a condition for activating the European Monetary System. The agreement stipulates that a dismantling of the MCAs may not lead to either a reduc-

tion or an increase in national farm prices if this entails difficulties for the economy of the Member State concerned. Germany is not prepared to compromise on this point because German farmers are facing the prospect of a 20% decline in 1984 income, according to government agricultural experts.

In Brief...

The Council of Ministers on Feb. 1 agreed on fishing quotas for 1984. In sharp contrast to its slow action of the last two years (the 1983 quotas were set in December of that year), the Council this year took only one day to establish the 1984 levels, which are broadly in line with last year's + + + The economic recovery is continuing in all Member States, though differing from State to State. The advances in the U.K. and Germany especially have prompted the Commission to upgrade from 1.5% to 2% last November's prediction of the EEC growth rate in 1984. In a recently published study, the EC Executive predicts a 10% rise in industrial output this year (3% in 1983). Businesses are expected to make substantial investments, more than in any year since the 1973 oil crisis. Investments had declined during 1981-83.

Germany: Tightened Banking Control Rules Proposed

The German government has proposed a number of amendments to the Banking Act that would tighten controls over banks' accounting procedures and would limit a bank's lending to a single major borrower. An important amendment would require domestic banks to draw up consolidated annual accounts covering all domestic and foreign subsidiaries in which they have an interest of 40% or more. Under a 1981 gentlemen's agreement, the banks agreed to draw up consolidated accounts covering their wholly-owned subsidiaries and to submit them to the Federal Banking Supervisory Office. This accord has not given the Office any real leverage, however.

The proposed consolidation requirement and the lowered equity criterion would provide both the Supervisory Office and the central bank with the power to control the German banks' foreign subsidiaries. All major German banks have subsidiaries abroad, and it is primarily those incorporated in Luxembourg that have caused the government and central bank officials the most problems. Like the affiliates of other foreign banks in Luxembourg, the German subsidiaries in the Grand Duchy have been taking advantage of the liberal banking rules there and have extended far more credits than allowed at home. For example, German law limits the banks' credit volume: total lending may not exceed liable funds more than 18 times, whereas Luxembourg permits a 33:1 ratio.

Bundesbank officials estimate that, at the end of 1982,

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Luxembourg affiliates of German banks had outstanding credits totaling around DM 70 billion that were not covered by corresponding liable funds. Under the proposed amendments, the banks would have five years, starting in 1985, to reduce their lending volume by this amount or increase their capital resources accordingly.

The second major amendment would reduce a bank's risk of being drawn into the financial collapse of a major borrower. This would be achieved in two ways: a bank's largest single credit could not exceed 50% of its capital (currently 75%), and several corporate borrowers that are related entities (a 40% stake would suffice) would be considered as a single borrower. This proposed change reflects the experience gained as a result of the financial crisis of the private bank Schröder, Münchmeyer, Hengst (SMH). The crisis arose last year because of SMH's excessive lending to Internationale Baumaschinen Holding (IBH), the construction machinery group. IBH's bankruptcy almost ruined SMH, but other German banks saved Schröder at the last minute.

Greece: Employers, Unions Achieve Accord for 1984

Intense mediation efforts by the government, through Labor Minister Evangelos Yiannopoulos, have led to the successful conclusion of collective bargaining over a 1984 contract between the Greek employers and the unions. The agreement on Feb. 14 had been preceded by a breakdown of the talks and a call by the unions for a four-hour warning strike. The employers had threatened to take their case to the arbitration court, which would have made the strike illegal.

The consensus became possible after the Confederation of Greek Workers dropped its demand for the automatic inflation index linkage of private sector wages and salaries. (Public sector incomes have been index linked up to a certain ceiling since the Socialist government came to power, and the ceiling was raised this year to 100,000 drachmas.) Also dropped by the unions was their demand for extending the five-day, 40-hour workweek to all commercial sectors.

The employers, represented by the Federation of Greek Industries, agreed in turn to raise wages and salaries three times this year in line with annual inflation. The first such increase will be effective immediately and boost the minimum daily wage to 1,202 drachmas and the minimum monthly wage to 27,012 drachmas, a rise of 10.7%. The two other increases are to follow in May and September. Inflation in Greece is currently running at a rate of 20%.

Other benefits in the collective bargaining package include higher pay for working minors (based on the minimum pay rates) and the extension of maternity leave from 12 to 14 weeks.

France: Accord on Unemployment Insurance Financing

The French employers' federation and the country's labor unions have signed an agreement with the government that will spell an end to the French unemployment insurance system in its present form. The existing Unedic program *(Doing Business in Europe, Par. 22,833)*, which can no longer be financed, will be split into two new systems. Also, the three partners have agreed on ways of paying off the FF 18 billion deficit accumulated by the expiring insurance plan. Details were announced on Feb. 9 by the Social Affairs Ministry.

Under the new arrangement, the Unedic insurance fund, which is financed solely by contributions from employers and workers, will continue to pay compensation to employees who are laid off and to those who terminate their jobs for certain accepted reasons. However, benefits and their duration will be reduced in the future. Compensation paid to workers who have been employed for at least six months will be offered for only 15 instead of 21 months. Also, the amount paid within the first three months of unemployment will be reduced from 42% to only 30% of previous pay.

For the first time, the state will pay benefits directly to the "uninsured" categories of unemployed, who will no longer fall under the Unedic system - job-seeking youths, workers undergoing retraining, early retirees, persons who have been without work for a long time, etc. By assuming responsibility for these groups under the "national solidarity system," Paris will give financial relief to the regular unemployment insurance program and thereby hopes to improve the competitiveness of French industry. The government will also assume responsibility for an FF 6 billion loan to facilitate repayment of Unedic's existing deficit. The remaining FF 12 billion overdraft will be consolidated by Unedic's banks into a six-year loan at 11% interest.

The accord ends several months of uncertainty over the future of the French unemployment insurance system. Last July, the employers withdrew from the administrative board of Unedic to protest a series of new social insurance measures decided by the Socialist government. Spokesmen said then that the Patronat would refuse to participate in the administration of Unedic until such time as a new way was found to ensure the sound financing of the system.

French Drug Sector Demands New Price Increases

The French pharmaceutical industry will wind up with a loss in 1984, for the first time since World War II, unless the Socialist government accedes to demands for approval of a general 4.5% price increase effective July 1. Pierre Joly, president of the French pharmaceutical industry syndicate (SNIP), said the state's stringent price controls are beginning to seriously

erode the earnings of the drug industry and to threaten the industry's international competitiveness. Joly said the negative trend is readily apparent in the sector's research efforts. Five years ago, the French drug industry was second only to its U.S. counterpart in developing new pharmaceutical specialties. Since then, he said, France has been overtaken by Germany, Japan, and Italy in this field.

The SNIP president said that, even though the French drug industry raised its total turnover by 13.6%, to FF 33.5 billion, in 1983, net earnings continued to decline, from 3.5% (1982) to 1.5% of sales. If no further price increases are approved in 1984, the industry will suffer an average net loss of 0.4%, Joly said.

The government has given permission to raise prices by 2% as of Feb. 1, but Joly claims this measure does not even make up for the administration's failure to allow two promised increases last year. The SNIP president criticized the government for being particularly severe with the pharmaceutical sector when it comes to negotiating "voluntary" price agreements with industry. By keeping drug prices as low as possible, Joly said, the state is trying to control the cost of the national health insurance system, which is running very high deficits. Nevertheless, Joly said, the French drug industry needs to expand in order to remain internationally competitive. An extra investment commitment of FF 1 billion, he said, would bring the highest return of any of the leading French industry sectors by producing additional foreign exchange revenues of FF 1.4 billion for France.

Belgium: Government Fights to Save Coal Mining

The Belgian coal mining industry, which is state controlled, is fighting for its survival. Beginning next fall, hard coal will be mined only in the Limburg region, but even this remaining production will be highly unprofitable. Without massive state assistance, covering 50% of production costs, all mines would have to be shut down, and some 20,000 miners would lose their jobs in a region where unemployment already stands at 18%. The government is apparently trying hard to gain time by committing the steel sector and electric power utilities to the use of domestic coal for at least another few years.

The plight of the coal mining industry came again to public attention recently when a government deputy minister speculated on finding cheaper sources of coal for the Walloon steel industry, which alone is consuming more than one-third of Belgium's annual coal output. The official was reprimanded by Economics Minister Mark Eyskens, who was quick to point out that the coal mines remain the leading employer in the province of Limburg.

Eyskens now has commissioned a study to determine whether a new coal-fueled power plant could be efficiently operated with

domestic coal. According to Eyskens, if such a plant is not built, the nuclear share of electric power production in Belgium will rise from 45% to 75% within a few years, which would mean a serious imbalance in the supply situation. Eyskens' critics say that such a new plant would make sense only if it were built on the coast and fueled with cheaper imported coal, which already accounts for 60% of Belgian coal consumption.

The government is under pressure to act because BF 30 billion in state subsidies allocated for the five-year period ending in 1987 will probably be used up next year. No one knows at this point who will pay the subsidies thereafter because the regional governments will, in the future, have political jurisdiction over the nationalized coal mining and steel industries in their respective areas. However, the regions lack the necessary funds, while the central government will no longer have the authority to make unilateral decisions. The conflict is compounded by the fact that the coal mining industry's financial losses of the past were not covered by the state budget but with foreign loans, so that debt servicing alone has now accumulated to BF 672 billion.

Britain: Adjustments in Inflation Accounting Standard

There has been mounting dissatisfaction in the U.K. accounting profession with the controversial SSAP 16, the present accounting standard that allows for the effect of inflation in corporate accounts. As a result, Ian Davison, the chairman of the Accounting Standards Committee, has announced that small companies will not be required to comply with the standard, at least for the time being. Further research has been commissioned in connection with technical accounting problems confronting small companies.

New proposals have also been put forward with regard to other companies. These proposals are due to come into force in January 1985, provided they are approved in time by at least 75% of the members, which is expected. They would be incorporated into a new standard, which would apply to all companies listed on the London Stock Exchange as well as to corporations with an annual turnover of more than £25 million, a balance sheet total above £12.5 million, or more than 1,250 employees. These companies would no longer be required to produce, as at present, a second, current-cost accounting balance sheet; instead, there would be one single set of accounts, and a note would be attached to the conventional historic-cost accounts, providing supplementary current-cost information.

When the new regulations are implemented, companies will have to report earnings on a current-cost basis. This will involve disclosure of current-cost depreciation, a cost-of-sales

adjustment, and adjustments for monetary working capital and for gearing (the ratio of borrowed capital to share capital). The gearing adjustment can be calculated either on the basis of SSAP 16, as at present, or by deducting an inflation allowance from the amount of interest paid.

There are special provisions for companies such as commodity dealers; these companies will be permitted to make cost-of-sales and operating capital adjustments on the basis of a general price index, rather than a specific one related to a particular commodity. There are also changes in the rules for valuation. A company may opt for historical rather than inflation-adjusted costing of an asset when it becomes obsolete because of technological changes. Also, a company will be able to give the net realizable value of an asset only when there is a decision to sell.

The Accounting Standards Committee hopes that the overall result will be to make the concept of inflation accounting more generally acceptable, but there remains considerable opposition among accountants to the general principle.

Switzerland: Bank Told to Disclose Data on U.S. Client

The Swiss supreme court in Lausanne has rejected an appeal by Crêdit Suisse, one of Switzerland's Big Three banks, against government instructions to disclose information about the account of an unidentified U.S. client. The ruling of the federal tribunal means that the bank must release the data, which normally fall under the strict bank secrecy rules, to meet a U.S. request filed almost a year ago under the terms of the Swiss-U.S. judicial assistance agreement. The court said the bank secrecy provisions do not apply because the offense involves neither a tax case nor a political issue.

Crêdit Suisse's American client has been charged by U.S. authorities with illegally exporting high technology to the Soviet Union. Originally, the Swiss authorities had asked the U.S. to withdraw the request for information in deference to Switzerland's neutrality. However, Washington gave assurances that the probe did not involve general American-Soviet relations, and so the Swiss Federal Post Office approved the request. A Basel shipping company and a Soviet bank in Zurich agreed to furnish information, but Crêdit Suisse and its American client filed a court appeal.

U.S. authorities allege that the American, identified only as "X," and a former director of the Basel shipping company conspired to have computer equipment shipped to a nonexistent Zurich company for reexport to the Soviet Union. Forged documents identified the shipment as refrigerators, radios, and TV sets, according to U.S. officials.

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Community: Merger Control Proposal Amended a Second Time

The European Commission has again amended its 1973 draft regulation on merger controls to reflect changes recommended by the European Parliament and to improve the chances of the measure's adoption. The Commission has accepted the EP's suggestion that the sales criterion for mergers subject to control be raised from ECU 500 million to ECU 750 million. Under the proposal, parties to a planned merger with combined sales exceeding ECU 750 million could be barred from completing the merger if the merged entity acquires or enhances its power to hamper competition in the Common Market or a substantial part of it. The Commission would not be bound by the ECU 750 million sales criterion if the market share of the parties to a planned merger in a substantial part of the Common Market is greater than 50%.

Council lawyers have long seen the necessity of raising the sales criterion in order to revive the discussions in the Council. Deliberations on the draft regulation in the Council working group had been bogged down largely because of differences over both the scope of the measure and the decision-making powers of the Commission and the Council. Thus, the Commission

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changed its original proposal in December 1981 and raised the turnover threshold for planned mergers from ECU 200 million to ECU 500 million *(Common Market Reports, Par. 10,364)*. However, this new threshold was still not high enough for several Member States, particularly France and Italy.

In making the latest changes, the Commission has followed most, but not all, of the suggestions made by the European Parliament in its Oct. 25, 1983, resolution. Specifically, the Commission has not followed the EP's recommendation to delete a clause that would allow a Member State to involve the Council of Ministers in the decision-making process. The EC Executive would not have to wait for the results of the Council meeting before rendering a decision declaring a planned merger incompatible with the Common Market. Commission lawyers say that to follow the EP's recommendations would spoil the draft regulation's chances of adoption. *(Common Market Reports, Par. 10,569.)*

German Butter Boat Cruises Violate EC Law, Court Says

The European Court of Justice has fired a second broadside at German "butter boats" by ruling that cruises from North Sea and Baltic ports into international waters to sell tax-free goods to passengers without actually calling at a foreign port violate Community law. Reiterating its position taken in an earlier decision *(Common Market Reports, Par. 8766)*, the Court ruled in two cases that value-added and excise tax exemptions offered to passengers are illegal if the boats enter another State only symbolically, without offering passengers a chance to buy goods there.

In one of the judgments, the Commission won its case against Germany for the latter's failure to comply with the EC tribunal's first butter boat decision in July 1981 (judgment of Feb. 14, 1984, Case No. 325/82). In the second case, a regional retailers' association (REWE Nord) and an individual store owner won their case against the German government indirectly. The Hamburg tax court had asked the Court of Justice to rule whether the VAT and excise tax exemptions offered to passengers on such cruises were compatible with EEC law (Case No. 278/82).

Since the beginning of 1983, passengers on cruises could no longer buy butter and meat as cheaply as before, but denying them this privilege represented only partial compliance with the EC Court's first judgment. The German government was reluctant to fully abide by the judgment because of the negative impact on employment. Several thousand jobs in an already depressed Schleswig-Holstein coastal region were in jeopardy. However, the chance of buying up to 200 cigarettes, a bottle of liquor (or two bottles of wine), and a pound of coffee free of sales and excise taxes still made the cruises attractive for millions of passengers. In 1983, an estimated 10 million people bought goods worth DM 500 million on such cruises.

The European Court of Justice considers these remaining exemptions illegal. Letting the shoppers disembark in a harbor of another country, such as Denmark, and taking them back home by bus would also not suffice, the Court says. Many German shipowners have resorted to this practice because it allows their boats to immediately return to their German home ports and start a new cruise.

The butter boats may not have to be scuttled for good, however. A proposal pending before the Council of Ministers would permit tax-free sales on "prolonged cruises" into international waters.

In Brief...

On Feb. 12, the European Parliament voted 231 to 31 in favor of its draft treaty establishing the European Union. The essential points of the treaty's 87 articles would grant the Parliament additional powers to make it a genuine lawmaker in the Community. Over a ten-year transitional period, the Council of Ministers would retain a veto right against measures approved by Parliament. The treaty would also grant the Community express powers in the environmental field. New forms of cooperation that have evolved since the enactment of the Treaty of Rome, such as political cooperation and the European Monetary System, would be incorporated into the institutional framework. Since the U.K., Denmark, and Greece are against broader powers for the EP, the chances that the draft treaty will be adopted are not considered good at this point + + + The Commission has proposed a two-year extension of the Fifth Directive on Aid to Shipyards until the end of 1986. This would mean that the Member State governments would not need to start cutting back subsidies to shipyards before the beginning of 1987. Continued aid would be approved by the Commission only if additional cuts in the EEC's crisis-stricken shipbuilding industry are made in line with reduced world demand.

Germany: High Court Doubts Constitutionality of Surcharge Law

The German Supreme Tax Court has declined to grant a stay in the collection of the refundable tax surcharge now paid by certain taxpayers, even though the Court has considerable doubts about the constitutionality of the Surcharge Law. A Hamburg company had obtained from the local tax court a stay in the execution of a tax office order asking the company to pay the surcharge it had failed to withhold from an executive's salary. Upon the tax office's appeal, the Supreme Tax Court reversed the lower court's decision granting the stay. Prevailing public interest demands the continued enforcement of the law, according to the high tax court. However, the court left the constitutional issue to be decided by the Federal Constitutional Court.

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Three tax courts have asked the country's highest court to rule on the constitutionality of the law, and a number of individual taxpayers have brought complaints alleging violation of the constitution's equal treatment clause *(Doing Business in Europe, Par. 40,549)*.

Under the Surcharge Law, all corporations and taxpayers in the medium- and high-income brackets are subject to a 5% surcharge on their income tax in 1983, 1984, and 1985. The surcharge is based on an annual income tax liability of at least DM 15,000, equaling a taxable income of DM 50,000, or, in the case of a married couple, a liability of at least DM 30,000, equaling a taxable income of DM 100,000. It will be refunded without interest in 1990-93 *(Doing Business in Europe, Par. 40,533)*. Corporations or taxpayers owning a business can reduce their surcharge liability, or even avoid paying the surcharge, by investing in any one year five times their annual surcharge liability.

Like the three lower tax courts, the Supreme Tax Court also doubts that the Surcharge Law can be reconciled with the German constitution's equality clause and with the revenue system. To bar individuals in employment from being able to reduce their surcharge liability is contrary to the constitution's equal treatment principle, according to the high court. The Supreme Tax Court also believes that the constitution's clearly defined revenue system bars Parliament from enacting a levy not provided for in the Basic Law. However, the Bundestag could enact a law providing for a regular, nonrefundable surcharge. In spite of these constitutional misgivings, the high court considered the purpose of the surcharge (to help finance construction of private housing) and the impact of its decision (a stay of collection would have meant voiding the entire law) and therefore decided against declaring the measure unconstitutional. It did, however, express the hope for an early decision by the Federal Constitutional Court. This decision is expected sometime in the fall.

Belgium: Economic Plans; Discount Rate; Central Bank

The Belgian government is planning additional economic austerity measures to reduce the public-sector deficit and to strengthen the international competitiveness of Belgian industry. Prime Minister Wilfried Martens and Finance Minister Willy de Clercq made the announcement following the raising of the Belgian discount rate from 10% to 11% on Feb. 15 and the publication of the National Bank's annual report, which criticized the government for not taking more decisive action. Financial observers earlier had predicted the discount rate boost, pointing out that the central bank had been forced to intervene to the tune of about BF 50 billion since the beginning of the year in its efforts to maintain the parity of the Belgian franc within the European Monetary System.

In his announcement, Martens said his center-right coalition administration will take steps to reduce the public-sector deficit to below the BF 507 billion limit originally set for 1984. A second priority will be the safeguarding of the competitiveness and profitability of Belgian enterprises, he said. Further details were not revealed, however.

With the help of emergency decree powers, the Martens government was able to push through a number of important economic policy measures during the first half of the current parliamentary session. However, any initial success - particularly in the payments balance area - was spoiled in the last quarter of 1983 by the renewed growth of imports. Also, the perennial political squabbles among the regional factions in the government have not been conducive to plotting and following a firm economic policy course.

The National Bank, in its annual report for 1983, has demanded rigorous steps to bring down the budget deficit, even though it noted that a worsening of the deficit situation had been prevented last year. The Bank expressed regret that the government has had to postpone its goal of reducing the country's net borrowing requirement to a level comparable with the EEC average. It warned that the state will have to cut back spending substantially in the coming years - by as much as twice the reductions already effected. While such efforts would have a negative impact on domestic demand, the report said, relief could come from the export markets, provided Belgian industry can maintain its international competitiveness.

Britain: Banks Start New Check Clearing System

British banks have started using a computerized check clearing system which will introduce same-day clearing to corporate and private customers throughout the U.K. The system, called the Clearing House Automated Payments System (CHAPS), cost £10 million to develop and has been given a mixed reception by some sectors of the banking community.

Until now, same-day clearing has been limited to London and to a small number of transactions involving large sums and the use of a complex courier network. The new system is based on a computer ring operated by the clearing houses (banks with a traditional special arrangement with the Bank of England for check clearing), with each of these houses having its own electronic "gateway" into the system via the telephone exchange. Companies and individuals wanting access to the system can get into it only through one of the "gateways," and thus the clearing houses have been able to preserve their position despite the transition to electronic transfers.

The whole procedure makes CHAPS quite different from the New York automatic clearing system and has led to complaints by

the larger British merchant banks and from American banks that the clearers enjoy an unfair competitive advantage. Criticism is all the more intense because, as things stand, customers will have to establish a fixed relationship with a single clearer, since each clearer has a different computer system controlling its "gateway." In the past, most firms have employed the services of several clearing banks on a rotating basis, thus avoiding too much dependence on a single one. The clearers have promised to develop a new system to cope with this problem and ease access to the system for their customers.

Although at present limited to pound-sterling transactions, it is expected that CHAPS will eventually handle foreign currency checks as well.

OECD Expects Moderate U.K. Recovery to Continue

The latest OECD survey of the U.K. economy takes the view that a moderate and broadly based recovery is likely to continue, accompanied by a low inflation rate. However, there appears to be little prospect of any real reduction in unemployment at least until mid-1985, according to the report.

The OECD is adopting a slightly more pessimistic forecast for 1984 economic growth than the U.K. Treasury. The OECD's figure of a 2.25% growth rate compares with the Treasury's 3% prediction last November, and, in the first half of 1985, the OECD expects growth to fall slightly, to 2%. The survey emphasizes that the "central issue" now is how to achieve growth "in a non-inflationary way, consistent with a considerable reduction in unemployment over the medium term."

The survey says that the U.K. government, after initial difficulties, has "succeeded in establishing credibility in the consistency of its stated anti-inflation aims" through reducing the public sector borrowing requirement and restricting the growth of the money supply. While the levels of public expenditure and taxation are "higher than originally expected," the principal objective of lower inflation has been achieved, even though pay settlements are "disappointingly high." The OECD study has, however, found factors that tend to suggest moderate settlements in the current round of wage bargaining - the continued high level of unemployment, the lower inflation rate (some 3% below that at the start of the 1982-83 wage round), and the projected 3% limit on public-sector wage increases.

The pursuit of firm monetary and fiscal policies over the last five years has achieved the government's principal economic objective of reducing inflation from the peak in 1980, according to the OECD. The inflation rate has fallen by over 15 percentage points to its lowest rate since 1968. The survey predicts that the underlying annual inflation rate for the whole economy will be 5% in the first six months of 1985, compared with 5.75% in the second half of last year.

There has also been a strong rise in productivity, at an annual rate of 4% in the last two years, the survey notes. The slowly strengthening rise in output over the past year has been largely based on a stock turnaround and a surge in private consumption. However, large parts of industry seem to suffer from "inadequate cost competitiveness," and unit labor costs are still relatively high compared with those in many partner countries. This will need to be examined carefully, the OECD says.

Italy: Protests Greet Measures to Fight Inflation

After a stormy cabinet session on Feb. 15, the Socialist-led Italian government decreed a series of inflation-fighting measures which led to the eruption of strikes and protests all over the country. Essentially, it was decided to reduce the automatic inflation adjustments of wages by three percentage points and to freeze public rates and administered prices until the end of April, with the provision to raise them by no more than 10% during the rest of the year. In addition, the government will present Parliament with a bill imposing a freeze on housing rents, which are already controlled. It is Rome's aim to reduce the domestic rate of inflation from its current level of about 14% to less than 10% by the end of 1984. The decree legislation, which takes effect immediately, must be retroactively approved by Parliament within 60 days. (In related news, the treasury reduced the discount rate by one point, to 16%, on Feb. 16.)

The government's action was taken when two months of difficult negotiations with the country's employer and labor organizations ended without an agreement. The reduction of *scala mobile* pay adjustments from 12 to nine points (based on an assumed average inflation rate of 12% in 1984) means that some 15 million workers will lose 220,000 lire (about $130) in gross income this year. The employers regard this as far too little to make a meaningful dent in labor costs, which are the highest in Europe; they had pleaded for a 50% reduction in the adjustments and considered even that percentage a compromise. In fact, most Italian businessmen are convinced that only another devaluation of the lira will offer compensation for the failure to lower labor costs sufficiently.

Other critics say that the temporary freeze of public rates and tariffs and of administered prices is bound to drive the public-sector deficits up further.

The decision of the Craxi government to impose an incomes policy by decree is unprecedented inasmuch as it does not rest on a voluntary agreement with the unions and employers. The Communist-led CGIL labor federation, with more than four million members, described the action as a "direct attack" on workers' living standards. CGIL members reacted by staging wildcat strikes and demonstrations and by organizing roadblocks, which caused serious disruptions for several days.

Creditors Agree on Claims Against Banco Ambrosiano

Liquidators for Italy's bankrupt Banco Ambrosiano, meeting in Geneva, Switzerland, said an agreement has been reached with the bank's international creditors for covering claims against the bank and its subsidiaries. Representatives of the creditors warned, however, that the announcement was somewhat premature, since many implementing details remain to be worked out. National Westminster Bank and Midland Bank in London, which are representing 88 major foreign creditors, refused to commit themselves to any statement on the agreement.

Italian officials say that these larger foreign creditors will receive about $315 million between them, representing about 70% of their claims against Banco Ambrosiano Holding in Luxembourg. Thirty-two smaller foreign creditors will receive $100 million, also about 70% of their claims. The total settlement is said to amount to about $550 million, which means that the balance of about $135 million will probably go to the Italian creditors of the Milan-based parent bank.

The sources of the funds required to meet the claims remain unclear. According to Italian treasury minister Giovanni Goria, a payment from the Vatican (whose Istituto per le Opere di Religione owned ten of the Panamanian companies to which Banco Ambrosiano lent $1.3 billion) will be a substantial element of the settlement. Officials connected with the liquidation negotiations indicated that this sum would amount to about $250 million, and a further $120 million could be expected from the sale of the Luxembourg entity's 51% stake in Banco del Gottardo in Lugano, Switzerland.

Spain: Regional General Strike in Protest of Layoff Plans

The mounting wave of worker unrest in Spain reached another high point this month when 300,000 workers and their families followed the call for a regional one-day general strike in and around the city of Vigo in northwest Spain. The three major labor federations of the region, including the UGT, which is closely associated with the governing Socialists, called the strike in protest against government plans to dismiss up to 60,000, including 20,000 shipbuilders, as part of an industrial restructuring program. The strike, directed especially against the closure of state-controlled local shipyards, matches other protests around the country, including regular attempts by steelworkers from the Sagunto steel complex to block traffic in Madrid. The workers are also demonstrating against the government's decision to limit wage increases in the public sector to 6.5% this year.

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Community: Little Time Left for Solving Summit Issues

Time is running short for the Council of Ministers to agree on the key issues of agricultural and budgetary reform prior to the March 19-20 Brussels summit of the Member States' heads of state and government. The foreign ministers were unable to make any headway in narrowing their differences on the two major issues at their informal Feb. 19 meeting held near Paris. There remains only one more formal meeting (March 12-13) at which the foreign ministers could hammer out proposals for a summit settlement.

Meanwhile, there are signs that the diplomatic efforts of French president François Mitterrand to lead the Community out of its political and financial crisis are paying off. Chancellor Helmut Kohl has announced that Germany is prepared to make a financial sacrifice, provided the other Member States do likewise. Kohl did not indicate how far Germany, the largest net contributor to the EC budget, might be willing to go to save the Community's common agricultural policy from bankruptcy.

On another important issue, the Commission's proposal for

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the first European strategic R&D program on information technology (Esprit), the Council of Ministers reached a full accord on Feb. 28. Agreement became possible after Germany and the U.K. withdrew their objections to the financing terms of the ten-year program. Scheduled to have started on Jan. 1, 1984, the program is to cost ECU 1.5 billion, and Germany is expected to contribute 20% of the total.

EC Criticizes Italy on Customs' Go-Slow Actions

By failing to take action against its customs officials, who have been staging extended go-slow actions, the Italian government has violated its obligations under the Treaty of Rome, according to Commissioner Karl-Heinz Narjes. As a result of the "work to rule" by the customs authorities, there have been massive truck backups at Italy's border crossings with France, Austria, and Switzerland. Truckers from Germany, Austria, and northern European countries blockaded the major north-south artery leading from Innsbruck over the Brenner Pass. They were holding out in the hope of getting from the Italian government a written guarantee of speedy clearance at border crossings.

According to Narjes, who is responsible for internal market affairs, including customs matters, Rome should have settled the "recognized grievances" of the customs officials. (It is generally conceded that Italian border checkpoints are understaffed and that customs officials are underpaid.) The government should have ordered the customs officials to resume work at the regular pace and with regular manpower strength, Narjes said. To relieve the congestion, he added, trucks could have been let through without checks; stamping the documents would have sufficed.

In Narjes' opinion, all of these obligations follow indirectly from Treaty Articles 5 and 30. Article 5 commits the Member States to doing everything to ensure fulfillment of obligations assumed under the Treaty. Article 30 bars quantitative restrictions on imports as well as all measures having an equivalent effect *(Common Market Reports, Pars. 181, 321)*.

Commissioner Narjes' remarks, made on Feb. 24, were the first official reaction by the Commission to the Italian customs' go-slow action. Brussels observers say the crisis at the Italian checkpoint was the culmination of similar, but less serious, protests in recent months by Italian border officials which had also caused long waiting periods for truck drivers. Two months ago, in a message to the Italian government, Bavaria's governor, Franz-Josef Strauss, described the 15-20 hour waiting periods at the Austrian border to Italy as "medieval." Bavarian trucks exporting meat and other easily spoiled farm products were especially affected by the go-slows.

Narjes says that Italy should comply as soon as possible with the Council of Ministers' Dec. 1, 1983, directive to speed

up customs clearance by mere spot checks and by keeping major border crossings open 24 hours a day. While most Member States must comply with the directive by Jan. 1, 1985, Italy, France, Luxembourg, and Greece need not comply until 1987.

The blockade of the Brenner Pass was lifted on Feb. 29 after about one week when German and Austrian truckers were assured by their respective governments that the problems of the border procedures would be taken up with Rome. The Italian government, meanwhile, had already boosted checkpoint personnel.

In Brief...

The Council of Ministers has reached agreement on three documents that would govern Greenland's future relations with the Community. Responding to a 1982 vote by the Greenlanders for withdrawal from the EEC, amendments to the EEC, Coal and Steel, and Euratom treaties would allow Greenland to leave the three Communities as of Jan. 1, 1985. A protocol would grant Greenland as of that date the same status as that enjoyed by the Member States' associated overseas countries and territories. Greenland would have the advantages of a customs union with the EC as well as EC financial aid. (Both the amendments to the three treaties and the protocol are subject to ratification by the Member States' legislatures.) A fisheries agreement would permit Member States' vessels to fish in Greenland waters. In exchange for granting fishing rights, Greenland would receive annual aid amounting to ECU 26.5 million + + + The Commission is contradicting itself on the impact that the monetary compensatory amounts (MCAs) have on the production of, and inter-Member State trade in, farm commodities. Commission president Gaston Thorn says that German farmers enjoy unjustified advantages through the MCA system - a position also taken by the French government. An official Commission report, on the other hand, indicates no significant impact of the system either on farm production in Germany and the other strong-currency States (Holland and the U.K.) or on intra-EEC trade. MCAs are applied in intra-EEC trade of farm produce between strong-currency and weak-currency Member States. For example, German exporters receive a subsidy (positive MCAs) when selling to French importers, but French exporters pay a tax (negative MCAs) on what they sell to German importers.

Germany: First Strikes Expected Soon Over 35-Hour Workweek

Observers expect the first walkouts this month to put pressure on German employers in the talks over 1984 wage increases and the introduction of the 35-hour workweek. Leaders of the metalworkers' union have not indicated the tactics they plan to deploy in what may shape up as the most crucial industrial conflict in Germany since 1980. In past conflicts, the metalwork-

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ers' union (the country's largest, with 2.6 million members) picked individual enterprises all over Germany as targets for strike action. Some of these companies responded with lockouts.

In rejecting the 35-hour workweek, the employers can count on support from virtually all German economists. German workers are on the job only 1,756 hours a year and yet are the highest paid in Europe. (Among workers in industrialized western countries, only the Belgians work fewer hours.) Introducing the 35-hour week would mean 200 hours less a year, equaling nearly six weeks of additional vacation. A workweek of 35 hours at full pay would drive up costs by 18-20% and make German products less competitive abroad (one-third of Germany's GNP is exported). Large enterprises might have to hire more people, but only one-third of the country's work force is employed by large companies. Small and medium-size businesses would not be able to absorb the additional workers.

Recent polls indicate that more union members are against the 35-hour week than are in favor. Chancellor Helmut Kohl finds the demand for the reduced workweek without any loss of pay foolish, adding that it is impossible to work less and at the same time live better.

Union leaders see in the 35-hour workweek one way of cutting unemployment. The unions believe the shorter week would cost employers 14% more, which could be offset over a five-year period by producing 3% more annually. Several militant union leaders also see the 35-hour week as a crusade "to change society and wrench power from the entrepreneurs." However, several union officials believe the drive for the shortened workweek is poorly timed because the economy, now showing signs of revival, is still not strong enough to absorb the costs.

Britain: High Court Allows SEC Insider Trading Probe

After a four-day hearing, the U.K.'s High Court has allowed the U.S. Securities & Exchange Commission to obtain the testimony of two individuals in Britain as part of an SEC investigation of alleged violations of U.S. insider trading laws. It marked the first time, London reports said, that the SEC has sought judicial assistance abroad in one of its investigations.

The Court's ruling concerned two former employees of the defunct International Resources and Finance Bank, which the SEC alleges took some of the orders that resulted in $6.2 million in profits made on the $2.5 billion takeover of Sante Fe International Corp. by Kuwait Petroleum Co. in October 1981. The two men had argued to the court that their examination by the SEC would result in breaking a confidential banker-client relationship. However, the Court ruled that the public interest in having the information released outweighs any other considerations in this case.

Major U.K. Tax Concessions for Fund Investors

Major concessions have been announced in Britain for investors in offshore commodity funds and venture capital funds, following criticism of U.K. government proposals made last November. It had been argued that the tax treatment announced at that time for such funds was so harsh that there would hardly be any yield to the Inland Revenue since few would be willing to invest in the funds. Another point advanced against the proposals was that commodity funds were compelled to base themselves offshore as a consequence of the regulations.

Virtually all U.K. investors had been expected to withdraw from the funds, but the latest changes will make this much less likely. John Moore, a junior treasury minister, has announced that only half the profits from commodity and commodity futures trading by the funds will have to be distributed and taxed as investment income at tax rates of up to 75%. The remaining 50% of the profits may be "rolled up" within the funds and thus will be taxed as capital gains at a rate of only 30% and with an allowance for inflation. The tax committee chairman of the British Federation of Commodity Associations said that "this is the first time ever that commodities have been granted favorable tax treatment."

Another concession is that venture capital funds based offshore will no longer need to reduce their holdings in any one company to less than 10% of their total share portfolio in order to be granted the more favorable "distributor" status by the Inland Revenue. These funds now may take a stake in any non-financial company, which, at the time of the investment only, is valued at a maximum of 20% of their portfolio. Offshore feeder funds, which serve merely as a conduit for investments into other funds, will also be allowed to qualify as "distributors" as a result of the changes, and the same will apply to funds with subsidiary management companies.

However, the new regulations affecting offshore life assurance (insurance) companies will be tightened. The charge at the basic rate of 30% on offshore non-qualifying life assurance policies, which was also announced last November, has been extended to capital redemption policies issued after Feb. 22, in order to block a loophole in the original proposals.

France: Truckers End Blockades as Talks Continue

French truckers ended all road blockades in France on Feb. 24 in response to a call by their leadership to abandon the strike actions so that talks with the government on improving working conditions and other problems could continue. The blockades and protests had spread like wildfire throughout the nation after angry truckers had blocked the Mont Blanc tunnel because a local walkout by customs officials had held them up. The French

trucking industry, represented by about 30,000 businesses and individual owner-operators, has been complaining for some time about excessive fuel taxes, bureaucratic border clearance procedures, overly tough safety regulations, and the government's alleged preference for rail transport.

The government's reaction at first was to send in riot police and troops to clear the roads, but when the truckers threatened to escalate the crisis by burning their vehicles, Transport Minister Charles Fiterman was willing to negotiate on condition that the traffic blockades be ended. Leaders of the two main truckers' organizations called on their members to take their vehicles back to the depots, although some truckers wanted to continue the action.

Many observers see the protest as part of an increasing wave of social unrest in France, involving also steelworkers, miners, farmers, schoolteachers, and others, in the face of the Socialist government's austerity policies.

Denmark: Parliament Starts Session With Budget Passage

After a one-month delay, the Danish parliament started its new session by approving the government's 1984 budget with only minor alterations. The administration's defeat in a budget vote last December had necessitated new elections on Jan. 10, and subsequent confusion over counting errors prevented the new session of the Folketing from getting under way on time. This time the budget vote was 79 to 27 in favor, with 48 abstentions and 25 absentees in the 179-seat Parliament.

Contrary to an old tradition of voting for the government proposal in the final budget reading, the opposition Social Democrats elected to abstain from the balloting because their own "social package" was not accepted in its entirety. The party's proposals involving nearly half a billion kroner in financial assistance to combat youth unemployment and to aid early retirement were incorporated into the budget. However, Prime Minister Poul Schlüter and Finance Minister Henning Christophersen rejected the Social Democrats' financing model, which foresaw an increase in corporation taxes, from 40% to 50%. Instead, Schlüter said, the government will seek to finance the package by way of spending reductions, to be defined later.

Schlüter also announced that his four-party coalition is working on plans to contain private consumption. Such action is necessary, he said, because of the renewed rise in the country's payments deficit. According to preliminary figures, the foreign trade balance showed a DKr 1.37 billion deficit for January, compared with a DKr 680 million surplus a year ago. It was the second consecutive month that a deficit was reported. The payments deficit was cut from DKr 18.7 billion in 1982 to DKr 10.5 billion last year, but is expected to rise again in 1984.

Netherlands: OECD Report Urges Further Spending Cuts

The latest annual OECD survey of the Dutch economy warns that the Netherlands' ability to cope with, and recover from, the global recession is still restricted by rigidities in its own economy, particularly a fairly inflexible labor market and the very low profitability in the industrial sector (excluding natural gas). All of this, says the Paris-based organization, is reflected in low investment and a rise in unemployment to the highest levels in the OECD area. In fact, an increase in unemployment to 16.5% by the end of 1984 is predicted.

Real-term economic growth in the Netherlands this year is expected to match the 1.3% rate of 1983. The OECD says the positive effects of the government's drive to reduce the rise in public spending has already shown up in one of the lowest inflation rates in the OECD area (2.8% in 1983, with 3.3% predicted for 1984). The current-account payments balance is also in surplus; the estimate here is for $6.5 billion this year, following $4.5 billion in 1983. However, the rapid increase in the public debt in recent years, to an expected 55% of GNP in 1984, gives the government little choice but to reduce borrowing further over the medium term, according to the OECD. The report blames the steady expansion of the debt on high unemployment (benefit payments), low tax revenues because of declining production, and high interest rates. Some of these factors can be expected to continue to exert an influence on the economy, the organization notes.

Sweden: Tax Evasion by Small Businesses; Currency Checks

A commission appointed by the Swedish government has proposed a series of measures to combat economic crime among small businesses. The trades that would be affected if the plan is implemented include restaurants, car dealers and repair shops, trucking businesses, cleaners, and painters and decorators. These businesses are said to be the kind in which tax evasion is particularly prevalent, with some of them paying neither tax nor social insurance contributions for their employees. It is proposed to make the owners of such businesses post a bank guarantee of SKr 50,000 against possible future tax debts as well as to compel them to attend special management courses administered by local authorities.

The general reaction of employers and their organizations has been to ridicule the plan and point out the difficulty of implementing it. Government officials, however, refer to the estimated SKr 30 billion in unregistered business, equivalent to about 5% of GNP, which escapes taxation every year.

In other news, public protests have been voiced against a recent one-day deterrent campaign conducted by the Swedish cus-

toms authorities against currency smugglers. During a 24-hour period, body searches were made of over 30,000 travelers leaving for abroad, an operation that the general director of the national customs authority described as an effort to remind people that no one is secure against such controls. The government conceded afterward that no major violations were uncovered. Nevertheless, customs officials warned that even tougher checks will soon be conducted at road border crossing points, including complete searches of commercial vehicles. Sweden's tough currency controls forbid the export of more than SKr 6,000 in domestic currency and the equivalent amount in foreign currency.

EURO COMPANY SCENE

An international patent battle over alpha interferons is shaping up in the U.S. and Europe. Biogen NV, a Dutch biotechnical company, and its U.S. licensee, Schering-Plough Corp., say they have been granted a patent by the European Patent Office in Munich covering all alpha interferons made through genetic engineering. The challengers are Switzerland's Hoffmann-La Roche and Genentech, Inc. of the U.S., who say that Biogen-Schering's claim is "unduly broad." Hoffmann-Genentech have European and U.S. patent applications pending for their own interferon product. They say that Biogen's original application, made in December 1979, does not cover true interferon, a protein substance produced by the human body to protect against cancer and viral diseases. Experts say that the commercial market for interferons eventually will be worth hundreds of millions of dollars.

American Telephone and Telegraph Co. is currently negotiating with the Spanish government on a planned $200 million investment in a semiconductor manufacturing plant. Agreement is expected "within the next few weeks," according to reports from Madrid. As of 1986, the plant would initially produce integrated circuits, mainly for export. Industry Ministry officials reportedly want an ATT guarantee that 90% of the output will be exported.

In related news, ATT's takeover bid for Inmos, a British electronic components producer, has been turned down. ATT had offered Ł45 million for a 75% equity held by the state-controlled British Technology Group (BTG), which estimates Inmos's value at about Ł200 million. The purchase would have given ATT its own European microchip production base. Inmos produces standardized memory chips in two plants located in Newport, South Wales, and Colorado Springs, Colo.

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Community: Council Agrees on Air Pollution Directive

The Council of Ministers reached informal agreement on March 1 on the directive concerning measures and procedures aimed at preventing and reducing air pollution from industrial plants. The measure commits the Member States to making the construction, operation, and any substantial modifications of stationary industrial plants likely to cause air pollution subject to prior authorization. Licenses will be granted according to criteria that combine the air quality standards approach (Britain's method of measuring pollution) and the emission standards approach (the method applied by the other Member States). A license will be granted only if the industrial installations are equipped with the most effective air pollution control devices available. A committee made up of national and Commission officials will draw up lists of plants subject to licensing and the major air pollutants subject to control.

Commissioner Karl-Heinz Narjes terms the Council's quick action on the measures a success, since it is rare that a proposal is approved in less than one year. (The Commission proposed the directive in April 1983.) The Council made no sub-

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stantive changes in the original draft, Narjes said, except for extending the period of compliance from 18 to 36 months at Britain's request. In return, the U.K. recognizes the emission control levels as mandatory.

Most observers believe the Council acted quickly because the measure requiring licensing merely reaffirms the Member States' own policies. The measure follows the pattern established by the Council in combating water pollution - first a general directive and then other directives covering specific pollutants, such as cadmium or mercury *(Common Market Reports, Pars. 3315.13, 3315.15)*. A real test of the Member States' commitment to controlling air pollution will come when the Council's working group takes up the proposal dealing with control of emissions from power plants exceeding 50 megawatts capacity. This draft, submitted by the Commission last December, represents the Community's efforts to restrict sulfur dioxide emissions, which are considered a major cause of forest blight.

In Brief...

The European Court of Justice has ruled that the Commission exceeded its powers in August 1982 when it ordered Ford-Werke AG, Cologne, to resume deliveries of right-hand-drive cars to German dealers *(Common Market Reports, Par. 10,419)*. Ford stopped delivery of these models in May 1982 after U.K. dealers complained that British customers were buying Fords in Germany, where they cost less. In September 1982, the Court of Justice backed the Commission to some extent in an interim order. Now the Court has held that the EC Executive's decision violated EEC competition rules (judgment of Feb. 28, *Ford of Europe, Inc. and Ford-Werke AG v. Commission*, Cases 228 & 229/82). The judgment is not the last word on the matter, however; the Commission's November 1983 decision holding Ford's distribution system in violation of EEC competition rules *(Common Market Reports, Par. 10,539)* is also being challenged before the EC tribunal (Cases 25/84 and 26/84) + + + The EEC won its first antidumping case when the European Court of Justice rejected a complaint brought by three U.S. companies against the Commission. Allied Corp., Transcontinental Fertilizer Co., and Kaiser Aluminum & Chemical Corp. sought annulment of a 1982 Commission regulation imposing a provisional antidumping duty on their exports to the Common Market on the ground that the EC Executive had not sufficiently studied the matter. The most significant point of the Court's judgment is the issue of admissibility: although the provisional antidumping duty was set forth in a Commission regulation, the measure nevertheless was of direct and individual concern to the plaintiffs within the meaning of Treaty Article 173(2) and therefore admissible (judgment of Feb. 21, 1984; Joined Cases 239/82 & 275/82) + + + The Federal Republic of Germany is violating the Treaty of Rome by allowing only businesses established on West German territory to sell pharmaceuti-

cals, according to the Court of Justice. The German law regulating the sale of drugs amounts to a quantitative restriction on imports, in the Commission's view, and the Court agrees (judgment of Feb. 28, 1984; Case 247/81). According to Sec. 9 of the *Arzneimittelgesetz* (Drug Law), only enterprises that have their headquarters in West Germany may sell pharmaceuticals there.

Italy: Truckers' Blockade of Brenner Pass Produces Results

The 3,000 truck drivers who recently blockaded the Brenner Pass and other important alpine border crossings for eight days have forced the Italian government to promise a series of measures that would considerably speed up the border clearance of trucks. Since the blockade ended, Rome has taken the necessary legislative and administrative steps in this direction, and waiting times of 15-20 hours at the Brenner may be a thing of the past. In past years, the European Commission, several Member State governments, and the European Parliament have tried in vain to achieve the same goal. About 60% of Europe's north-south road transport is channeled over the Brenner.

The Italian government has agreed to introduce the TIR carnet procedure *(Transport Internationale de Marchandises par la Route)*. All of the other Member States are signatories to the TIR convention, according to which trucks displaying the blue and white TIR sign are entitled to speedy customs clearance, even on Sundays and legal holidays. TIR trucks are sealed after loading in the home State and are cleared by customs at the place of destination.

Besides promising to accede to the TIR procedure, Italy has pledged to keep the Brenner customs office open around the clock. (Under a 1983 Council directive, it would have been required to do this anyway in 1987.) Prior to the blockade, Italian customs officers were on duty to clear trucks from 6 AM to 2 PM. The rest of the day was considered "overtime," which was paid for by the truckers waiting to be cleared. Italy has also promised to put revenue agents in charge of border crossings if customs officials stage another go-slow action, which they have done on a number of occasions.

European Commission officials hope that the recent events will help to increase the chances for adoption of several pending proposals also designed to speed up clearance. The draft fourteenth directive would allow importers to pay value-added tax at their place of residence instead of at the border, and another proposal would replace the many individual papers now required with a single customs document.

Central Bank Urges Rome to Cut Spending Further

The Italian state deficit must be reduced by another 5,000 billion lire, and Parliament must enact the government's most re-

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cent economic proposals as soon as possible if an economic upswing is to materialize, according to the central bank's latest short-term forecast. The report said only a rigorous spending policy will enable the government to realize its goals of raising GNP by 2% and limiting inflation to about 10% this year. (Rome aims to cut its budget deficit to 90,800 billion lire this year; current and pending measures are expected to bring down the shortfall to 96,000 billion lire, which leaves about 5,000 billion lire still to be trimmed.) The bank said it would be a mistake to loosen credit curbs prematurely: interest rates should be lowered only gradually in order to prevent a revival of a massive capital flight abroad. (The Italian Banking Association reduced its indicative prime rate from 18.5% to 17.5%, effective March 1.)

The economic bulletin of the Banca d'Italia acknowledged that industrial production in Italy has been on the rise since the second half of 1983, paced by the growth of exports, particularly in the chemical, mechanical engineering, apparel, and leather goods sectors. Industrial and private demand has perked up, and the foreign trade deficit was halved in the last quarter of 1983, the report said. Exports should benefit further in 1984 as a result of a 5% expansion in world demand. For the current-account payments balance, the central bank predicts an approximate equilibrium this year, as in 1983.

Unemployment remains a factor detrimental to Italy's current economic development, having risen to 2.278 million last year. This number corresponds to 9.9% of the active work force, compared with 9.1% in 1982. Particularly affected by unemployment are women and the labor market in the country's south. Over 76% of all persons without jobs are younger than 30.

Germany: First Legislative Move for 'Less Government'

Germany has taken the first legislative step toward "less government," which Chancellor Helmut Kohl promised in his May 1983 policy address. A government bill proposed to Parliament would repeal individual provisions in a number of statutes, which would affect individuals and businesses. The often violated provisions governing seasonal and other clearance sales would be repealed. These provisions were incorporated into the Law Against Unfair Competition in 1950. Store owners should decide for themselves when they want to launch special sales, according to the government. Several restrictions on imports from non-EEC countries would be lifted, and so would a number of provisions requiring certain statistics from businesses.

Economics Minister Otto Lambsdorff, the driving force behind the bill, said that eliminating red tape by repealing unnecessary statutes or individual provisions cannot be achieved in one or even several legislative periods. Government agencies

must recognize that there is no need to control and supervise every aspect of life, he said.

Even before proposing the measure, the government had given orders that a ranking official in each of the federal ministries should decide whether any planned bill and regulation is really necessary. The noticeably reduced volume of measures published so far this year in the *Bundesgesetzblatt* confirms in part the work of these officials, government lawyers say.

The business community has welcomed the government's first legislative initiative to cut red tape, but it is skeptical about any real progress being made. A genuine rollback of government bureaucracy would put tens of thousands of civil servants out of work, businessmen say, and this is not in the government's interest, particularly since civil servants cannot be fired or laid off.

One planned measure that would have a positive effect on individuals and businesses is a uniform federal building code. A proposal is expected before the end of 1985. Half of the roughly 1,000 provisions now in force would be eliminated.

Greece: Policy Criticism by IMF; $500 Million Loan Sought

Greece's foreign debt has doubled within the past four years to $9.5 billion, or 27.3% of GNP, largely because of fast-rising current account payments deficits and a drop in private capital inflows, according to the latest International Monetary Fund report on the Greek economy. Although it offers no concrete recommendations, the IMF report suggests that the Socialist government's economic policies have not been restrictive enough to contain the debt problem. It concedes, however, that the Papandreou administration inherited severe payments problems and structural imbalances when it took over in 1981. The report takes issue particularly with the widening disparity between state revenues and expenditures over the past two years, the inadequate tax base (partly caused by extensive evasion), a less restrictive incomes policy for 1984, and the continued overvaluation of the drachma.

Economics Minister Gerassimos Arsenis has rejected much of the IMF criticism, saying that stiffer economic policy restrictions would come at the expense of the relatively small number of fixed wage and salary earners.

Because of its deteriorating economic situation, Greece will probably not be able to improve loan terms when its seeks another $500 million international loan soon to help cover its 1984 budget deficit. (Last year Athens also borrowed $500 million abroad.) Greece's total foreign borrowing requirement for this year has been estimated by international bankers at up to $1.8 billion.

Britain: Banks Face Tax Change on Interest Payments

Legislation to be introduced in the 1984 Finance Bill would require banks in the U.K. to pay interest net of tax to their personal customers. This move would bring the banks into line with the composite rate system used by the building societies, which finance home loans, and would have a significant impact on the savings market.

The proposal is seen as being in keeping with the government's announced intention of getting rid of anomalies and inequities in the tax system. It follows the recent Inland Revenue decision that building societies should lose the favorable fiscal treatment they enjoy with regard to their investment profits and instead should be taxed in the same way as banks.

The changeover, which will probably take place in 1985, has met with an extremely critical response from the banks. The Committee of London Clearing Bankers said that it would "much rather have seen the composite rate abolished than have it extended to us." The composite rate would have to be accepted by the Inland Revenue; it is averaged out at below the basic income tax rate of 30% to reflect the fact that many depositors do not pay tax. Interest is paid to the depositor after deducting the composite rate. However, this would put a heavy extra work load on the banks, which would, in effect, collect the tax for the Inland Revenue.

Observers say it seems certain that the banks stand to lose many of their investors to the government-run national savings plans, which will continue not to withhold tax at source. The Bankers' Committee says that the government would have a "monopoly" in providing tax-free deposits "suitable for widows and orphans and people who do not pay tax." Since the gross interest rates generally paid by banks are well below those offered by the building societies and the national savings plans, banks would be obliged to provide more competitive rates.

In related news, the Bankers' Committee has also announced "a major and wide-ranging review" of the "organization, membership, and control" of the various elements of the clearing system, "taking into account recent developments in technology." This review, likely to be completed by the fall, may lead to building societies and other financial institutions being able to offer a money transmission service as well as savings facilities, thus eliminating the need for depositors to have a bank account. At present, building societies and other banks that want to cash checks for customers or let them make third-party payments can do so only through a clearing bank.

Ireland: Dublin, Employers Want Minimal Pay Raises

The 1984 annual round of pay bargaining with the trade unions will see mounting pressure by the Irish government and the em-

ployers to keep wage increases to a minimum in both the public and private sectors. Ideally, the government would like to have an agreed pay freeze this year for public-sector employees, who will already benefit from an automatic 9% raise carried over from last year's negotiations. However, it appears that the unions are not sympathetic to such a view.

With regard to the private sector, the Federated Union of Employers has emphasized that pay raises in most competitor countries will average between 1% and 5% in 1984. It is essential, the employers argue, to have comparable or smaller increases in Ireland, if not a pay freeze. They point out that at least 18,000 jobs, equivalent to some 2% of the national work force, could have been saved if pay increases had been held to European levels last year. (Hourly earnings rose by 11% in Ireland in 1983, but a substantial decrease in employment led, in fact, to a 1% reduction in unit wage costs.)

In the past, the Irish labor unions have generally been able to ensure that pay raises kept up with inflation. However, the government and the employers have been pressing the point that a wage freeze this year could bring inflation down from the current 9% to almost half that, or roughly 5%, by the end of the year. This would mean that a pay increase of 5% could be awarded in 1985 without damaging the international competitiveness of Irish industry. The unions remain to be convinced of this argument.

France: Public Sector Strike in Protest of Pay Offer

Four out of the seven major trade union federations representing France's 4.5 million civil servants and public-sector employees staged a two-day strike on March 8-9 in protest of the latest government pay offer. The nationwide strike affected public transportation and postal services and led to temporary electric power disruptions.

On top of pay increases for this year, the unions are demanding compensation for purchasing power losses in 1982 and 1983, when inflation was higher than the government targets. In its latest offer, Paris has proposed an immediate bonus of FF 500 per head as compensation and a 1% pay increase starting in April. However, the government has left open the question of whether there would be further pay increases to match inflation this year.

While the Communist-led CGT labor federation says that the purchasing power losses in 1982 and 1983 were 3.3%, official statistics show only a 0.7% loss last year. The government's aim is to reduce public expenditures in preparation for next year's planned 1% cutback in the proportion of tax and social insurance contributions to GNP (at present 46%). With this in mind, observers do not expect Paris to want to go much beyond the cost of the present proposal for public sector pay increases

worth FF 1.2 billion. The situation may become more difficult should it become apparent that the cabinet's 5% inflation target for this year will be exceeded. In January, the cost of living rose by 0.7%, after 0.3% in December and 0.4% in November.

Spain: Mandatory Rumasa Bond Purchase by Banks

The Spanish government plans to force the nation's 144 private banks to buy 340 billion pesetas worth of bonds to cover the losses of the Rumasa group, which was nationalized just a year ago. The group was confiscated from its owner, Ruiz-Mateos, in order to prevent a financial crisis in the banking system. Observers point out that, despite the poor terms attached to the bonds, the private banks are likely to prefer the mandatory purchase to having to bail out Rumasa through their participation in the national deposit guarantee fund. The bonds will pay 8% interest, less than half the going market rate, for ten years. According to Finance Minister Miguel Boyer, the funds raised will cover the 260 billion pesetas in excess liabilities at the time of takeover as well as losses in 1983 (80.65 billion pesetas) and 1984.

The government has also started to make good on its promise to sell Rumasa assets back to the private sector. Two of the 20 private banks in the Rumasa empire are already up for tender, and a number of foreign banks are said to have shown interest.

EURO COMPANY SCENE

National Semiconductor Corp. of Santa Clara, Calif., plans to invest about £100 million in the expansion of its components plant at Greenock, Scotland. The project, which would be the largest single foreign investment ever made in Scotland, would triple the plant's capacity to produce silicon wafers for export to both Europe and the U.S. The expansion will create an additional 1,000 jobs, according to the company.

Security Pacific Corp., Los Angeles, has purchased a German bank, Bankhaus Bohl & Co., Freudenstadt, from the Royal Bank of Canada for nearly DM 36 million. Bohl has a balance sheet total of about DM 300 million and operates mainly as a consumer credit bank.

The United States' Walt Disney Productions has confirmed that it will build a European "Disneyland," and the Spanish government has officially requested that the theme park be built in that country. Reports from Madrid said that, as an extra inducement, the cabinet has approved the construction of a $30 million Spanish pavilion at Disney's Epcot Center in Florida.

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Community: Breakthrough on Agricultural Policy Reform

The Community's ten agricultural ministers achieved a breakthrough in reforming the costly common agricultural policy when they agreed on March 13 to control milk surplus production and to phase out the monetary compensatory amounts (MCAs) for German farm produce exports to the other Member States.

Under the provisional agreement, subject to approval by the heads of state and government at the March 19-20 summit meeting in Brussels, the EEC would guarantee price support for up to 97.2 million tons of milk a year, down from about 105 million tons, and would buy up any surpluses. Each Member State would be allotted a specific quota. The Commission would have a reserve quota of 600,000 tons to alleviate hardships for Member States such as Ireland. Irish dairy farmers contribute about 8% to their country's GNP, and Dublin has made its final consent to the accord dependent on its being granted a large portion of the reserve quota.

The overall annual quota of 97.2 million tons lies 1% over the EEC's milk production in 1981. A reduction of 7.8 million

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tons in annual production would save the EEC some ECU 2.2 billion each year in price supports for milk and in storage costs for milk powder and butter. This reduction would still not be enough to save the Community from bankruptcy later this year, according to Commission officials, who hope that the breakthrough achieved in the milk sector will be followed by accords on curtailing the production of other commodities. Spending on agriculture accounts for about two-thirds of the EC's 1984 budget of ECU 25.3 billion ($21.9 billion). Milk is the heaviest burden on the budget.

The farm ministers found a compromise on dismantling the MCAs, a complicated system of border taxes and subsidies that shields agricultural commodities from currency fluctuations. Introduced in 1971, the MCAs have become a source of friction between Germany and France because the system subsidizes German farm exports and penalizes imports from France. Under the compromise, subsidies for German farm produce exports would be phased out in three stages over the next three years, and German farm commodities exporters would be largely compensated by the federal government.

Fifth Anniversary for European Monetary System

At their March 12 meeting, the EEC economics and finance ministers were too preoccupied with their budget reform discussions to devote much time to another item on their agenda - the commemoration of the fifth anniversary of the European Monetary System (EMS). A Commission report reviewing the EMS's first five years confirms what the eight members of the system have known for some time: the EMS has its positive aspects, but it is also disappointing in some respects.

Put into effect on March 13, 1979, the EMS aims at monetary stability by requiring the member countries' central banks to intervene in order to keep the national currencies within a margin of fluctuation above and below fixed central rates. The margin has been set at 2.25% for all currencies except the Italian lira, for which it is 6%. *(Common Market Reports, Par. 3603.)*

The EMS has been a success in stabilizing exchange rates, according to the Commission. For example, the German mark has fluctuated far less against the other currencies within the system than it has against the U.S. dollar and the Japanese yen. There have been seven currency realignments since March 1979, which were necessitated by underlying economic factors, according to the Commission. Another accomplishment of the EMS has been that it has promoted a convergence of the national inflation rates, though not to the extent the Commission and Member State economists would like to see.

A major drawback of the EMS is the absence from the system of the pound sterling, since the U.K. is not a member (nor is

Greece). Inclusion of the British pound would be of additional help toward economic convergence and consolidation of the Common Market, the Commission says. Another shortcoming is the Italian lira's freedom to fluctuate by a wider margin than the other currencies, which, in the Commission's view, is one explanation for Italy's poor record in reducing inflation. The EMS's most serious drawback, however, has been the fact that the coordination of economic policies - the system's second aim after the exchange rate stabilization - remains embryonic.

In Brief...

The Commission has asked the Paris government to abandon the French purchasing policy giving preference to domestic products over products imported from other EEC Member States. If it does not comply, France will face a suit before the European Court of Justice. In its reasoned opinion, required by Treaty Article 169 before legal action can be brought, the Commission maintains that the official policy implemented a year ago to improve the French trade balance and help domestic manufacturers is in violation of Treaty Article 30. This article bars quantitative restrictions on imports from Member States as well as measures having an equivalent effect *(Common Market Reports, Pars. 321, 322)* + + + The Commission's recent proposal calling on the Member States to double the amount of national value-added tax revenue they contribute to the Community budget has run into heavy opposition from Germany, the No. 1 contributor. The German government is no longer opposed to an increase as such but wants an overall limit on its contributions. In the Commission's view, raising the ceiling on VAT revenue contributions from 1% to 2% would give the Community financial security for the next ten years. The increase would have to be approved by the Member States' legislatures.

Germany: Changes Expected in Early Retirement Bill

The German government's early retirement bill is expected to undergo at least two major changes. As it now stands, the bill would allow the employers' associations and the unions as well as individual employers and employees to negotiate contracts providing for employees' early retirement at age 59 *(Doing Business in Europe, Par. 40,558)*. However, union leaders believe that the measure would have a significant impact on reducing unemployment only if employees are given the opportunity to retire at age 58. For this reason, the government is prepared to propose moving up early retirement by one year. Some 950,000 individuals would be eligible each year to retire at 58, but only 700,000 would qualify at 59. The government is willing to make the change in order to gain some support for its plan of shortening a person's working life instead of reducing the work-

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week to 35 hours, which six of the country's 17 unions are demanding.

Another change would affect the amount of the proposed government grant. Under the bill's current provisions, an employer hiring an unemployed person in place of a retiree would be entitled to a grant equal to 40% of the pre-pension benefits paid prior to the regular retirement age plus 40% of the early retiree's social security contributions. (A retiring employee would receive at least 65% of his last gross pay, although more could be provided under a union contract or an employer-employee agreement.) Since the lower retirement age of 58 might induce more people to retire, and a correspondingly higher number of unemployed would be hired, the volume of government grants would rise as well. To avoid major consequences for its budget, the government is proposing a 35% grant instead of the original 40%. Many lawmakers are objecting to this cutback, however, and it is uncertain at this point how the bill will look when it comes to a vote.

Netherlands: Additional Cuts Proposed for 1985 Budget

The Dutch finance minister, Onno Ruding, has proposed to the cabinet that the 1985 budget be slashed by 10 billion guilders rather than the 7 billion proposed in the November 1982 agreement that set up the present center-right coalition government. The additional cutbacks are necessary, Ruding says, because the 1984 budget was trimmed by only 12 billion guilders instead of the 14 billion originally proposed. The additional 1 billion guilders in reductions is needed to offset other negative budget factors, according to Ruding.

The finance minister maintains that the government cannot afford to relax its austerity course if it still wants to meet its own target of bringing down the budget deficit to 7.4% of the national income by 1986. Last year the Netherlands wound up with a deficit of 33 billion guilders, which represented 11.5% of national income (after 10% in 1982).

For the current year, Ruding has not proposed any further reductions because budget development is following approximately the intended course. Both industrial production and business investment are on the rebound, and foreign trade shows a large surplus. However, on the basis of 1982 forecasts, revenues from natural gas exports are running lower and unemployment is higher.

For 1985, the finance minister wants 3.3 billion guilders in cutbacks in the individual ministerial budgets. Expenditures for the public sector payroll and the social security system would be reduced by 2.7 billion guilders each, and spending for the national health insurance system would be lowered by 1.3 billion guilders.

Ruding's tough stance is expected to run into some opposition in the cabinet. Prime Minister Ruud Lubbers feels that the budget deficit should be lowered more gradually; he knows that any new austerity measures would be extremely unpopular with the unions and workers, following the recent 3% pay cut for public sector employees and painful reductions in social insurance benefits. The minister for social affairs and employment, Jan de Koning, says that his department cannot afford any further budget trimming, considering that the number of unemployed now stands at 838,000, or 17.8% of the national work force.

France: Reduced Steel Aids; 30,000 Mining Jobs to Be Lost

The French government has decided to reduce its subsidies to the two financially troubled state steel groups Sacilor and Usinor, which will mean further manpower cuts for both companies. According to unconfirmed reports, the subsidies to be paid to the two groups will total only FF 5.5 billion this year, after FF 6.45 billion in 1983. The internal government discussions over this year's subsidy allocations had suffered a delay of two months because Finance Minister Jacques Delors and Industry Minister Laurent Fabius were unable to agree on the extent of the steel aids. A consensus was achieved early this month, however, which cleared the way for the subsidy allocations to other state groups as well.

In this context, the Industry Ministry reports that the state-controlled industrial groups reduced their overall losses from FF 19 billion in 1982 to about FF 16 billion last year. The improvement was wholly confined to the non-steel sector, which the government wants to reach the break-even point by next year. The Sacilor and Usinor steel groups, on the other hand, boosted their total losses from FF 8 billion in 1982 to FF 10 billion last year. Renault, the car manufacturer, also remains on the critical list, having slipped from an FF 1.28 billion deficit in 1982 to an estimated shortfall of nearly FF 2 billion in 1983.

In related news, the state-owned coal mining group Charbonnages de France announced on March 2 that within the next five years it will eliminate some 30,000 jobs, which represents more than half of the present work force of 57,000. The manpower cuts will be in line with reduced coal production, from about 18 million tons this year to 11-13 million tons annually by 1988. Critics said the decision reverses a major element of the Socialist government's energy policy, which originally foresaw a boost of annual coal output to 30 million tons by 1990.

The Charbonnages announcement was followed by protest demonstrations of some 5,000 miners in Paris and a one-day strike throughout the coal mining industry. Earlier this year, the Communist chairman of the national coal board had resigned in anticipation of the planned cutbacks.

Automaker Citroen Plans to Eliminate 6,000 Jobs

The management of Citroen, the French automobile manufacturer that belongs to the Peugeot group, has formally announced plans to trim nearly 6,000 jobs from its work force of 43,000. Earlier, it had been indicated that some 3,500 jobs would be eliminated through the early retirement of workers between the ages of 55 and 60; about 3,200 workers are said to have agreed to this plan. Another 2,300 employees would be offered retraining under government-sponsored programs. Several hundred foreign workers would be expected to accept bonuses of FF 60,000 each as an incentive to return to their home countries. Most of the cutbacks would be at Citroen's Paris area plants.

The Citroen plan, which still has to be sanctioned by the Socialist government, has run into stormy opposition from the Communist-led CGT labor federation. The CGT's resistance is fueled partly by worker discontent over the union's alleged conciliatory attitude in connection with the labor conflict at Talbot, another automaker, in December and January: in the recent works council elections at Talbot, the CGT's share of the vote dropped from 42% to 26% among the blue-collar workers.

Any extended labor strife at Citroen, observers say, would mean the certain end of the car manufacturer, which is expected to report losses for 1983 similar to its 1982 deficit of nearly FF 2 billion. Citroen's market share has fallen from 21% in 1971 to 13% last year. Jacques Clavet, the head of the company's automotive operations, said that Citroen will cease to exist within three years unless the manpower reductions are carried through.

Italy: Rift Within Labor Alliance Over Economic Decrees

The outright rejection of the Craxi government's latest anti-inflation decrees by the Communists has led to a virtual breakup of the triple alliance of Italy's three major labor federations and is threatening to dissolve whatever trade union unity still exists in that country. The alliance, which was established 12 years ago, consists of the CGIL (Communists, Socialists), the UIL (Social Democrats, Liberals, Republicans), and the CISL (mainly Christian Democrats).

A major factor in the current crisis has been the decision by the CGIL's Communist wing to organize strikes and demonstrations against the anti-inflation decree legislation, which, as previously reported, also includes a reform of the automatic wage indexation system *(scala mobile)*. The Communists are insisting on going through with a major protest rally on March 24 in Rome, despite appeals by the other unions to abandon these plans. The conflict among the unions is also being carried into the autonomous works councils, which are organized along the lines of small individual unions and so far have been supported

by all three labor federations. Many of the works councils are practically in a state of dissolution, reports from Rome say.

The angry onslaught of the Communist labor organization against the government's anti-inflation program is paralleled in Parliament, where the Communist Party has filed nearly 300 amendments to the decree legislation in trying to slow down or obstruct the parliamentary processing of the bills. Political observers predict that the package will not have a chance of early approval within the allotted 60-day period because of these systematic delaying tactics.

Greece: Athens Reports Rise in Foreign Investments

The Greek Economics Ministry has reported that foreign investment in Greece showed an upward trend in 1983, which officials say is certain to accelerate this year. By the end of 1983, the pertinent ministerial commission had approved applications by foreign investors for projects with a total value of 27.4 billion drachmas. This figure compares with Greek applications for investments totaling 57 billion drachmas in the industrial and commercial sectors and 13 billion drachmas in the agricultural and tourism (hotel) sectors. The reported investment volumes cover the years 1982 and 1983 and fall under the new Investment Incentives Law No. 1262.

Early this year, Economics Minister Gerassimos Arsenis traveled to New York to meet with U.S. business and banking leaders in efforts to lure more American investment to Greece. The trip was understood to be part of the Socialist government's latest attempts to dispel its pronounced anti-American image, which had helped boost it to power in late 1981. Recently, Prime Minister Andreas Papandreou has refrained from renewing his previous vows to have Greece withdraw from both the European Communities and NATO and to get rid of U.S. military bases in Greece. Nevertheless, it is strongly felt in the U.S. that Greek-American relations are at a very low point, a viewpoint not conducive to an improved climate for U.S. investments in Greece.

Switzerland: Voters Accept Highway Tax Proposal

In a national referendum last month, a majority of Swiss voters accepted a federal government proposal to impose an annual SF 30 highway tax on motorists. The tax is designed to cover the cost of maintaining the network of superhighways that carry international as well as national traffic through the Alps. Foreign tourists will have to pay the tax when they enter the country, and truck and bus operators will also have to pay higher road taxes. Consequently, the cost of freight transit through Switzerland is expected to increase.

In reaction to the Swiss vote, the German transport minister condemned the decision on the new tax as "a return to the age of the stagecoach." German motorists will be particularly affected by the toll. For many years, the German government has been urging its EEC partners France and Italy to follow its own example and operate their superhighways without tolls.

Sweden: New Bank Control Rules; White-Collar Crime

A Swedish Finance Ministry memorandum to bankers' organizations proposes to extend the government's influence and controls over the commercial banks. Since 1971, the government has been able to appoint supervisory board members to represent the public interest in the banks' activities, and since then the system has been extended to regional and local banks. The government wants in the future to make the appointment of the chairmen of banks' supervisory boards subject to ministerial approval. According to Finance Minister Kjell-Olof Feldt, the new rule would ensure that the board chiefs serve the interests of the public as well as those of the banks.

In thoses cases where the government rejects a candidate chosen by the supervisory board, it would be able to nominate a candidate of its own from among the board members.

The memorandum was sent out with a request for consideration and comments by May 15. Following that date, the government intends to submit pertinent draft legislation to Parliament.

In other news, the chairman of the state commission dealing with economic crime, Sven Heurgren, has publicized figures showing that various forms of white-collar crime in Sweden caused damage of up to SKr 40 billion in 1983, equivalent to over 5% of GNP. Tax evasion alone accounted for half of the total. In his report, Heurgren said that the success of the government's economic policies is endangered unless countermeasures are taken against white-collar crime.

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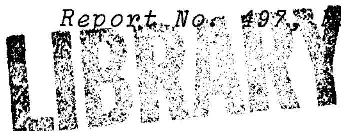

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Community: Summit Meeting Fails Again Over British Payments

Four months after their unsuccessful Athens summit, the EC heads of government have failed again to agree on Community finances because of Britain's insistence on a permanent reduction of U.K. net payments to the EC budget. The failure of the March 19-20 meeting in Brussels casts doubts on all other agreements reached prior to the summit, especially the provisional consensus on curbing the EEC's runaway agricultural production and spending, notably in the milk sector.

Fortunately, the government leaders were able to agree on additional funds for the Community to finance common policies and the accession of Spain and Portugal. Starting in 1986, the Member States would be transferring 1.4% (now 1%) of their value-added tax revenues to the EEC budget; the Member States also agreed to consider paying 1.6% as of 1988. This partial success can be credited largely to Germany, which abandoned its earlier opposition to higher contributions.

Observers blame Prime Minister Margaret Thatcher's intransigent attitude for the collapse of the summit. Mrs. Thatcher

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

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has long demanded a permanent system to limit the U.K.'s net payments to the EC budget to about ECU 400-500 million annually; without any limits, Britain would have to pay ECU 1.8 billion in 1984. All of the other Member States except Ireland presented a compromise proposal under which the U.K. would have received an annual rebate of ECU 1 billion this year and for four years thereafter until a permanent solution is found. Mrs. Thatcher rejected this suggested compromise as insufficient. In the end, Britain and the other nine Member States were only some ECU 300 million apart.

Even before the summit foundered on Britain's financial demands, the departure of Ireland's prime minister cast a shadow over the conference. Garret FitzGerald left because he found no support for his demand for a total exemption of Irish dairy farmers from the milk production quota system provided in the provisional agreement. Ireland had made its consent to the milk quota agreement dependent on its being granted a large portion of the 600,000-ton annual reserve quota.

Company Law Directive on Qualifications of Auditors

The Community has taken an important step toward company law harmonization with the Council of Ministers' agreement in principle on the Eighth Company Law Directive concerning the qualifications of auditors *(Common Market Reports, Par. 10,578)*. Formal approval is expected within a few weeks. The directive would expand the body of accounting law by establishing common standards for the education and training of auditors. To this end, the directive would complement two earlier directives on annual accounts of companies and on consolidated accounts of groups of companies *(Common Market Reports, Pars. 1371, 1421)*. Both directives require that annual financial statements be checked for their accuracy and consistency.

Setting high common standards for the accounting profession, the Eighth Directive would require that individuals acquire qualifications equivalent to university entrance level, complete a minimum of three years' practical training, and pass an examination before obtaining a license from the Member State authorities to carry out audits. Individuals lacking university entrance level qualifications would be authorized to carry out audits if they have 15 years of relevant experience or combine seven years of experience with practical training. The Eighth Directive does not deal with the mutual recognition of national auditors' certificates by the Member States or with the freedom of auditors to provide services in other States. These issues are to be dealt with in separate directives.

The Member States would be required to bring their national rules in line with the Eighth Directive by Jan. 1, 1988, which is also the date for compliance with the Seventh Directive. Italy would be granted an additional two years for compliance (1990).

In Brief...

The European Court of Justice has ruled that EEC law is violated by German provisions reserving the use of *bocksbeutel* bottles exclusively to wine from Germany's Franconia region and four Upper Rhine communities, thus barring the import of wine in similar bottles from other Member States. A wine dealer importing wine from South Tyrol, Italy, in short-necked, bulbous *bocksbeutel* bottles had been fined. When he appealed, the Munich district court suspended proceedings and asked the Community tribunal for a ruling because it had doubts about the compatibility of the German rules with EEC law. The Court of Justice found that the German provisions were tantamount to a quantitative restriction barred by Treaty Article 30 (judgment of March 13, 1984, Case No. 16/83) + + + The Council of Ministers has agreed in principle on a regulation providing for a new commercial protection instrument for the Community. The instrument would enable the Community to respond to unfair trade practices by non-EEC countries that cause, or threaten to cause, material injury to Common Market-based industries selling in the EEC or elsewhere. In contrast to the original proposal *(Common Market Reports, Par. 10,465)*, the new instrument would allow the Commission to become active only during the consultation phase - for example, by initiating procedures under GATT. The decision-making would be left to the Council, which would decide by a qualified majority. Agreement on the regulation, which goes back to a French initiative, is expected to clear the way for adoption of 15 draft directives, among them the proposal on Community certification of third-country products as well as a number of technical standardization measures covering products such as construction machinery and lawn mowers. France had made its consent to the 15 measures dependent on an agreement on the trade protection instrument regulation + + + On March 13 in Brussels, representatives of the ten Member States, the Commission, and Greenland's regional government signed the Treaty Modifying the Three Treaties in Relation to Greenland (EEC, Coal and Steel, and Euratom). The treaty must now be ratified by the EC's ten national legislatures. Assuming ratification is completed this year, Greenland will leave the three Communities to become an overseas territory. It would mark the first time that a fully integrated region of the Community changes its relationship with the EC.

Belgium: Martens Proposes Another Austerity Program

Prime Minister Wilfried Martens has proposed another rigorous economic austerity program, the second within two years, the aim being to reduce Belgium's high budget deficit over the next three years. The proposed measures include a modification of wage indexation, a reduction of social insurance and tax benefits, and various public-sector spending cutbacks. Certain parts of the new legislation have to be dealt with quickly be-

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cause of the expiration of the government's emergency decree powers at the end of this month.

Martens outlined his program to Parliament on March 15, following two weeks of negotiations between the Christian Democratic and Liberal coalition partners. In these talks, the Liberals had pushed for even more substantial reductions in public services, while opposing additional tax increases. Nevertheless, it was difficult for the premier to prevail with his call for an uncompromising austerity policy because of the resistance put up by the labor factions in his own party, the Christian Democrats. The new program would run until the end of 1986, i.e., beyond the present term of the ruling center-right coalition.

In his parliamentary address, Martens referred to the desperate state of Belgium's finances, which, he said, will have dire consequences for the country unless quick and decisive action is taken. A general loss of confidence in the Belgian economy, Martens warned, would weaken the currency and endanger the success of the policy measures implemented previously by the government.

Martens said the most essential element of the new austerity plan is a deceleration of nominal incomes growth. To this end, he proposed income reductions of 2% annually for the private sector, which would be achieved by reducing the number of inflation adjustments. Consumer demand would thus be curbed to the tune of BF 9.4 billion for the remainder of this year and by BF 25.2 billion and BF 38.1 billion, respectively, in 1985 and 1986. Any income increases for the self-employed would be subjected to a similar 2% reduction, while a 3.5% payroll cut is foreseen for the public sector, to be achieved via worktime reductions (38-hour workweek) and manpower attrition.

Additional savings are proposed for the social security sector, where unemployment compensation, family allowances, and health service benefits would all be reduced. Companies modernizing or converting their plants would benefit from tax concessions, but businesses with high earnings would be required to invest "excess profits" in Belgium or provide interest-free funds to the treasury. The government would promote work sharing and part-time work.

Over the next three years, the government wants to bring the budget deficit down from a probable BF 550 billion this year to BF 250 billion. Belgium's current deficit of about 15% of the budget is triple the EEC average.

Netherlands: 800 Million Guilders in State Loans for Fokker

The Dutch government has agreed to allocate long-term state loans totaling 800 million guilders to help Fokker Aircraft NV to develop the F-50 and F-100 commercial airliners, which are intended as successors to the successful F-27 and F-28. Eco-

nomics Minister Gijs van Aardenne said that the funds will be made available "over a number of years" from the budget of the NIVR, the Dutch Institute for Aerospace and Space Development. Financial participation in the project by Japanese industry remains a good possibility.

Plans for the two new aircraft were first announced last November. The Fokker 50, which will replace the F-27 short-haul airliner, is a 50-seater to be fitted with two Pratt & Whitney 124 turboprop engines. First deliveries are scheduled for July 1986. The Fokker 100, replacing the F-28, is a medium-range 107-seater and will be powered by two Rolls-Royce engines. Company spokesmen said the first orders are expected this year.

Germany: Bonn to Push Efforts in High Technology R&D

Some DM 3 billion will be spent between now and 1988 under a German government program to boost research and application of microelectronics, computer, and communications technologies. The program is considered the most ambitious attempt so far by any West European government to catch up with U.S. and Japanese competitors in the high technology industries. A government report shows that Germany is trailing not only the United States and Japan but also France in the expansion of R&D capacities in some high-technology fields. Bonn officials expect the country's electronics industry to spend DM 6-9 billion on various individual programs in these areas.

Around DM 600 million will be spent on the development of advanced computer systems, among them microchips with an extremely high storage capacity. The objective of this part of the government's plan is to make German industry competitive in sub-micro technology by the late 1980s and utilize R&D results in mass production. An additional DM 530 million has been set aside to advance automation in industry through the use and development of robots. According to a government report, at the end of 1982 West German industry was using roughly 4,000 robots, less than one-third of the robots operating in Japan and half the figure for those in the U.S. Around DM 320 million is earmarked for a special program for microelectronics and information technologies, notably in the fields of computer-aided design and manufacturing and sensor devices.

Britain: 1984-85 Budget Features Series of Tax Reforms

This year's U.K. Budget, presented by Chancellor of the Exchequer Nigel Lawson on March 13, features two main themes - a series of tax reforms to stimulate business and the economy and further government efforts to reduce inflation.

Lawson said that his "radical program" of fiscal changes abolishes outright two major taxes - the national insurance

surcharge and the surcharge on investment income. The complete removal of the NIS, now standing at 1% and contributed by the employers, would reduce employers' costs in the private sector by more than Ⱡ850 million in the full year. The removal of the 15% surcharge on investment income over Ⱡ7,100 would take effect as of April 1. It would benefit wealthier taxpayers whose maximum tax rate on investments would then be 60%, compared with 98% under the last Labour government.

Other Budget measures would reduce substantially the burden of taxation on business and bring about "a far-reaching reform" of company taxation, according to the Chancellor. Radical reductions in the rates of corporation tax are to be introduced. In the case of "large companies," the rate would be cut from 52% to 50% with regard to profits as of April 1, 1983. Subsequently, the rate is to go down successively to 45% as of April 1, 1984, to 40% in 1985-86, and to 35% in 1986-87. Similarly, the "small company" rate would be lowered from 38% to 30% as of April 1, 1983. The small company rate applies to annual profits up to Ⱡ100,000, and marginal relief is available up to Ⱡ500,000. The rate of advance corporation tax remains unchanged. (See also *Doing Business in Europe, Par. 23,825.*)

The corporation tax changes are, however, to be accompanied by a phased reduction in the rates of first-year allowances available on certain business assets. A first-year allowance of 100% is currently available for plant and machinery. It would be reduced to 75% for expenditures incurred after March 31, 1984, to 50% as of March 31, 1985, and to zero as of March 31, 1986. These changes would also apply to other expenditures, such as furnishings and office equipment.

Capital allowances on industrial buildings would similarly come down from the current level of 75% - to 50%, 25%, and zero by April 1, 1986. Stock relief is to be abolished as of March 31, 1984, which would particularly affect manufacturing industry, where companies have been able to offset the inflation element of price increases in stocks (inventories) against their tax liability.

As previously reported, banks would be required to pay interest to U.K. resident individuals as of 1985-86 after deducting income tax at a composite rate still to be fixed. However, deduction of tax at source would not apply where a deposit exceeds Ⱡ50,000. The rate of duty on share transfers would be halved, to 1%. Lawson said that this move should help U.K. companies to raise equity finance and improve the international competitiveness of the U.K. stock market.

There is to be a 12.5% increase in the basic income tax threshold, 7% more than necessary to compensate for inflation, which means that some 850,000 individuals would no longer be subject to income tax. The rise would be financed largely by extending value-added tax to building alterations and hot takeout foods and by raising excise taxes on various products.

Foreign Executives to Protest Loss of U.K. Tax Relief

The foreign business community in the U.K. has reacted with shock to the Budget announcement that the government plans to abolish the tax relief of 25% and 50% now applying to the earnings of foreign personnel employed by overseas companies in Britain *(Doing Business in Europe, Par. 23,823)*. Transitional relief would be available, but those foreign executives or technicians who have been resident in the U.K. for nine out of the past ten years would cease to qualify for relief on April 5, 1984.

Spokesmen for various foreign business organizations in London said that the government's decision, if carried through, will result in an exodus of highly paid foreign personnel from the international banking and financial center in London and the North Sea oil industry. The American Chamber of Commerce said it regards the proposal with "considerable alarm" and will make strong representations to the Treasury and members of Parliament, similar to action taken in 1974, when the Labour government also planned to reduce tax deductions for foreigners employed by overseas companies. German, Dutch, and Japanese business organizations in London said they intend to join the lobbying campaign against the latest proposal.

Sweden: Pay Deal for City, State Workers; OECD Survey

Sweden's municipal workers' union has reached agreement with local government representatives on a new two-year contract, which is the first in this year's round of decentralized wage bargaining. In previous years, wage negotiations were conducted centrally by the national labor federation, LO. The 600,000 municipal workers will get an 8.8% pay increase spread over two years. Nominally, the deal stays within the government's own 6% target for such settlements. However, various side benefits, including extra holidays, put the rise for the current year up to 7%.

The agreement was followed by similar deals affecting some 800,000 white-collar employees in both the local and central governments. Central government employees will receive a raise amounting to 11-14% over two years, costing the state about SKr 3 billion. Prime Minister Olof Palme said the increases are within the government's economic policy framework, but the employers complained that the rises will put industry under greater pressure in the forthcoming pay talks in the private sector.

In its latest economic survey on Sweden, the OECD also offers a timely warning to Stockholm not to let up on the wage front and suggests that the government set an example with public servants' incomes. The OECD forecasts a 2.6% rise in the Swedish GNP in 1984 (1.9% in 1983), with industrial production

expected to expand by 4% (5%). Unemployment is expected to stabilize at about 3.5%. Exports are seen to remain the driving force of the economy: the OECD believes they will rise by 7% this year (10.1% in 1983), which would result in an estimated trade surplus of $4.25 billion ($3.5 billion) and bring the current-account payments deficit down to $500 million ($3.2 billion).

Switzerland: Bern Acts to Fight Air Pollution, Forest Blight

The Swiss federal government has approved a number of measures designed to combat air pollution and forest blight, which is increasingly becoming a problem in Switzerland.

As of Jan. 1, 1985, regular-grade gasoline, whether imported or produced domestically, would have to be lead-free. Refiners and distributors would have until June 1986 to dispose of existing supplies; after that date, the sale of leaded gasoline would be prohibited. The government is also preparing regulations for the registration of motor vehicles equipped with catalytic converters and is considering tax and duty reductions for such vehicles as well as for lead-free fuels. Earlier plans to lower the legal speed limits on superhighways to 100 kilometers per hour and on other roads to 80 km have been postponed, however, to give the cantonal governments, the political parties, and other organizations a chance to comment.

As of Oct. 1, 1984, Bern will put into effect new and stiffened rules on building insulations and on the inspection of oil-fueled furnaces and of newly installed boilers, oil burners, heating and hot-water plants.

EURO COMPANY SCENE

The United States' St. Regis Corp. has purchased $159.6 million of its own stock, at $52 a share, from a group of investors headed by Sir James M. Goldsmith, the British financier. The deal, involving 8.6% of the St. Regis shares, averted a possible takeover bid by the Goldsmith group for the U.S. forest products and packaging company. The group said it had bought the stock with the idea of building up the stake and eventually taking over St. Regis, which discouraged these plans, however.

Union Carbide Corp. has agreed to pay $107 million for the complete takeover of a Dutch fluid-cracking catalyst company, Katalistiks International BV, which it jointly owns with CRI International of Baltimore, Md., Britain's English China Clays, and Sweden's EKA. Katalistiks produces catalysts for cracking crude oil and operates plants and R&D facilities in the U.S. and Holland.

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Community: Improved Chances for Common Insurance Market

The chances that insurance companies of one Member State may be able to sell non-life insurance in other States are improving now that Germany and France, the main opponents to a common insurance market, have softened their positions on this issue. The two States have indicated their readiness to agree to the draft directive on non-life insurance services so long as so-called mass risk insurance, such as personal injury and automobile coverage, is excluded. Even if the draft is reduced in scope, adoption of the measure would be a breakthrough toward creating a common insurance market because carriers would be able to provide cover for commercial, industrial, and professional risks throughout the EEC. These risks make up the bulk of the non-life insurance business. Britain's insurance companies would stand to gain the most from the passage of the proposal.

Negotiations on the Commission's 1975 draft directive on the coordination of national provisions relating to direct insurance other than life insurance and laying down provisions on the freedom to provide insurance services began in 1976 but did not progress *(Common Market Reports, Par. 9803)*. Germany and

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France have been blocking approval. While the Germans claimed that more liberal markets and less regulation would hurt German consumers, the French feared substantial revenue losses if foreign insurers could operate in France.

A working group of national insurance experts has until the beginning of June to prepare a compromise proposal based on the softened German and French positions. Such a compromise would reserve coverage of mass risks to domestic insurers. Accordingly, the German government could continue to exert its strict regulatory powers on domestic insurance carriers in order to protect insurance buyers, especially car owners. The French government believes that it could forego some revenue so long as fiscal fraud could be limited by excluding mass risk insurance from the directive.

What the experts still have to decide is whether an insurance company established in one Member State could provide complete insurance coverage for members of the liberal professions and whether smaller premium policies should qualify as mass risk insurance and thus remain under national jurisdiction. A premium threshold, yet to be established, could be the dividing line.

Partial German Victory in Belgian Textile Aid Suit

The German government has won a partial victory in its action against the Commission involving the 1981 decision authorizing aid for the Belgian textile industry. The European Court of Justice has ruled that the Commission violated paragraph 2 of Treaty Article 93 by having failed to consult the other Member States before approving the Belgian government's aid plan. Because the EC Executive did not observe the consultation requirement, its decision had to be annulled on procedural grounds, according to the Court. Germany's suit was rejected on a substantive point, however (judgment of March 20, 1984, *Germany v. Commission*, Case No. 84/82).

It was the first time that the Court of Justice was confronted with the Commission's aid approval policy on the basis of a suit brought by a Member State. Germany contended that the Commission should not have approved the Belgian aid plan after discussing it with the Belgian government alone. (The Commission did insist on some changes, however.) The procedure provided for in paragraph 3 of Treaty Article 93 suffices when an aid plan is not controversial. Since Belgium's planned aid was likely to affect the German textile industry, the Commission should have resorted to the consultation procedure set forth in Article 93(2), Bonn argued. The Court agreed that the other Member States should have been consulted as well because the Commission still had doubts about the aid's compatibility with the Treaty even after insisting on modifications in the aid plan.

The Court of Justice did not touch on Germany's request for

a declaration that the authorized Belgian aid was incompatible with Treaty Article 92, which bars any aid that distorts or threatens to distort competition by favoring certain enterprises or the production of certain goods insofar as it affects trade between Member States *(Common Market Reports, Par. 2922)*. The Court held inadmissible the German government's alternative claim seeking a declaration that the Commission failed in its duty by not declaring the aid plan incompatible with the Common Market.

In Brief...

Unemployment in the Community at the end of February 1984 was 5.5% higher than a year earlier. Some 12.9 million persons were registered as unemployed in nine Member States (Greece does not compile unemployment data). This figure represents a jobless rate of 11.5%. In Germany, unemployment was at the same level as a year ago, and in Denmark it was only slightly higher (plus 0.9%). In Belgium, the increase was 2.6%; in the U.K., 4.8%; in France and Italy, around 8.5%, and in Ireland, 14.7%. Luxembourg recorded the highest increase, 25%, mainly because of a sharp rise in the number of unemployed women + + + The Commission has approved the Bonn government's plan providing for DM 270 million in aid to four German steelmakers. Approval was required under the Community's system of restructuring the steel industry by reducing capacity in order to return the mills to profitability by 1986. Bonn's plan calls for a production cut of four million tons by the end of 1985. Steel aid plans proposed by Luxembourg and the Netherlands were approved last February. The U.K. and France have not yet submitted their restructuring plans, and Commission officials are currently discussing Ireland's and Italy's provisional plans + + + On March 5, St. Christopher and Nevis, two islands that make up the former British dependency in the Caribbean, acceded to the Lomé Convention, which links the EEC with 63 African, Caribbean, and Pacific countries. The former dependency, also known as St. Kitts-Nevis, which became independent in 1983, has thus become the 64th ACP state and the thirteenth in the Caribbean region.

Germany: Dispute Over Legality of Warning Strikes

Corporate and union lawyers are once again locked in a dispute over the legality of warning strikes that members of the German metalworkers' union are currently staging to put pressure on employers in the talks on a new collective contract. A key issue in the talks is the introduction of the 35-hour workweek at full pay, which the powerful union (the country's largest, with 2.6 million members) has been demanding. Employers are strongly opposed to a shorter workweek because it would mean higher production costs. The employers' representatives so far have refused to talk about the 35-hour week.

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Many experts consider warning strikes illegal since walkouts are not allowed while negotiations (which have been held intermittently for almost two months) continue, and the union has not formally announced the collapse of the talks. In 1982, five appellate labor courts declared the metalworkers' union's 1981 warning strikes over pay raise demands illegal because there had been no formal statement ending the negotiations. Union lawyers, citing nine appellate labor court decisions declaring the 1981 warning strikes lawful, claim that these decisions were in line with Supreme Labor Court case law.

In 1976, the Supreme Labor Court departed from the then-established doctrine barring warning strikes so long as contract talks or mediation efforts are still going on. It held lawful "brief warning strikes designed to apply mild pressure on management representatives to speed up negotiations and reach a new contract" *(Doing Business in Europe, Par. 23,421).* Since then, the courts have had to grapple with the terms "brief" and "mild," with differing results. A clear-cut answer is necessary, however: if a warning strike is neither brief nor mild, management could react by locking out employees and/or suing the union for damages. The answer will not be known until the Supreme Labor Court hands down its decision in the case brought by the national employers' federation against the metalworkers' union.

Italy: Partial Privatization of Telephone System; Mass Rally

The Italian government is stepping up its initiatives to persuade private savers to invest in the share capital of state-controlled enterprises. The latest example is a project by the state Institute for Industrial Reconstruction (IRI) to seek the participation of private risk capital in STET, the financing company that controls the nationalized SIP telephone system. STET operates with a share capital of 255 billion lire, 92.6% of which is held by IRI and the remainder privately.

It is expected that in early April private investors will be offered the right to subscribe for two IRI bond issues totaling 300 billion lire. The bonds would have maturities of five and seven years, and their yields would be inflation adjusted. Also attached would be options for the eventual purchase of STET savers' shares. For this purpose, IRI is setting up two special investment funds of 75 million STET shares each. Should the two issues be a full success, the private participation in STET would rise by another 11%. The revenues from the bonds would be partially used to finance a SIP capital increase of about 600 billion lire.

In other news, more than half a million workers staged a peaceful rally on March 24 in Rome to protest the wage indexation reductions decreed by the government. The event was described as the largest mass demonstration ever held in Italy.

Britain: Solicitors' Conveyancing Monopoly to Be Ended

The U.K. government has decided to end the monopoly enjoyed by solicitors for the past 180 years with regard to conveyancing - the legal formalities involved in real estate transfers. The decision is expected to result in a reduction of about one-third in the cost of such transactions, which would affect thousands of law firms and solicitors in England and Wales whose income is largely derived from conveyancing fees. (Scotland has an independent legal system and is not affected by the proposed change.)

The government will introduce in the next session of Parliament a bill that would allow solicitors employed by building societies (home mortgage funds) to handle conveyancing. A committee of experts is to be set up and would report by September on how non-solicitors could handle the purchase and sale of real properties with sufficient protection for the public. For example, banks would probably be allowed to handle conveyancing transactions; it has been estimated that they would save £3.5 million a year by undertaking such services just for their own employees. The government's chief law officer, the attorney general, said that the committee would report on simplifying home purchasing overall, and consultations would take place to ensure that anticompetitive practices do not arise.

The Law Society, the body that represents the interests of the solicitors, has given a cool response to the proposed loss of the monopoly. It said it recognizes that the public wants persons other than solicitors to carry out conveyancing but opposes proposals that would allow banks and building societies to undertake this work for their customers. The Law Society believes that the legislation cannot be justified because of the "overwhelming" dangers arising from the suggested change "in terms of potentially serious conflicts of interest, the loss to the public of independent and impartial advice, and the inevitable reduction in the freedom of choice and competition."

Observers believe, however, that the change would lead to increased competition and price cutting, and there are indications that the banks are getting ready to take advantage of the relaxation of conveyancing rules.

Improvements in U.K. Insolvency Law Considered

The British government has published a White Paper, "A Revised Framework for Insolvency Law" (Cmnd. 9175), two years after the Review Committee on Insolvency Law produced its final report in April 1982. The discussion document includes a number of recommendations to improve the existing law, the overall aim being to reduce the total number of corporate failures in Britain.

One important area of reform would be the establishment, for the first time, of professional standards for insolvency

practitioners. These practitioners would have to be practicing solicitors or members of an approved accountancy body, or otherwise be individuals who have been involved in insolvency work for at least five years and have been approved by the Department of Trade and Industry. Practitioners would have to provide bonding or insurance for all forms of insolvency proceedings to protect creditors against any losses that might arise through the misappropriation of funds.

Stronger measures are proposed against directors who continue to trade while their company is insolvent. A director of a limited liability company whom a court finds responsible for "wrongful trading" could be held personally liable for losses incurred by the creditors. This new legal concept of wrongful trading would apply whenever a director knows, or ought to have known, that there is no chance of a company's being able to pay its debts and yet allows the company to continue trading.

Stringent sanctions are advocated against directors involved in a compulsory liquidation. It is proposed that they be automatically disqualified from the management of any company for three years. The courts would have the power to similarly disqualify a director for up to 15 years after his involvement in a single compulsory or voluntary liquidation, rather than for his being involved in two such liquidations within a five-year period, as under present legislation. Sir Kenneth Cork, who headed the Review Committee, has criticized the proposed three-year automatic disqualification period as being too harsh. He does not believe that Parliament would approve this part of the proposal.

The White Paper endorses the recommendation of the Cork Committee that a new category of external manager, to be known as an administrator, be established. The administrator would be appointed by a court upon the application either of the directors or of the creditors in cases where a company is near insolvency but has some prospect of returning to profitability. He would be obligated to act at all times in the interest of the creditors and the shareholders as a whole, and he would be responsible for preparing plans to either rescue the company or otherwise realize the company's assets in the most profitable way.

Belgium: Approval for Austerity Program; Aliens Law

The lower house of the Belgian parliament has given Prime Minister Wilfried Martens a vote of confidence, 111-93, with one abstention, following a three-day debate on the center-right coalition government's new economic austerity program. The vote means that the government can immediately implement by decree a major part of the program, which aims at reducing Belgium's budget deficit by BF 250 billion within the next three years. Fast action was necessary because the government's special emergency

powers ran out at the end of March, and the government does not intend at this time to ask Parliament for another extension.

A key element provided in the new program is an annual 2% reduction in the inflation adjustments of pay and social welfare benefits in each of the next three years. The country's labor unions have reacted critically to these cutbacks, describing them as "inequitable" for most of their members. The Christian labor federation, CSC, which is loosely aligned with the governing Christian Democrats, objected to various points in the Martens plan and demanded prompt consultations with the government. The Socialist FGTB labor federation is also opposed to the program. Both unions have agreed to maintain contact with regard to this issue and, perhaps, formulate a joint "action plan," not to exclude protest strikes.

In other news, the lower house of Parliament has passed legislation tightening residence rules for foreigners. Under the modified law, the authorities of certain communities are empowered to refuse residence permits to non-EEC aliens. Also, the legislation limits the freedom of foreigners to bring their families into Belgium and offers to foreigners financial incentives to return to their home countries. The number of foreign students starting studies at Belgian universities is to be restricted.

Final approval of the bill by the Belgian senate is considered certain. The Belgian population of about 10 million includes 900,000 aliens.

Netherlands: Industry Neglects Research, Report Claims

Dutch industry is generally neglecting research and development "in a worrisome manner" and is employing increasingly fewer persons in R&D, contrary to the trend in other industrial countries. This conclusion is drawn in a report just published by Holland's semi-public Industrial Projects Corp. (Maatschappij voor Industriele Projecten - MIP).

In 1982, Dutch enterprises with more than 50 employees spent a total of 3.7 billion guilders, or 1.01% of GNP, on research and development. These figures compare with 3 billion guilders in 1979 (0.95%) and 3.5 billion guilders in 1981 (0.99%). The modest increase in 1982 is attributed mainly to relatively steep equipment cost rises. Five large Dutch corporations - Akzo, DSM, Philips, Shell, and Unilever - account together for two-thirds of R&D spending, and 88% of all expenditure is by companies with at least 1,000 employees.

Worse than the drop in the financial R&D commitment, according to the MIP, is the manpower stagnation, or even decline, in this area. The number of persons employed in Dutch research and development dropped from 28,200 in 1975 to 27,100 in 1981. The comparative figures for two major competitor countries are

strikingly different, the report says - 186,250 and 242,500 for Germany and 308,700 and 363,850 for Japan.

The discouraging present state of R&D in the Netherlands should be a signal for the government to offer more incentives, the MIP says - for instance, by encouraging new share issues through fiscal means. Industry itself is called upon to rally to the challenge and to undertake more R&D projects despite the inherent risks. The MIP says businesses should not shy away from seeking outside venture capital to finance such projects, which is a common practice in the U.S. and Britain. The MIP itself provides risk capital to selected qualifying businesses, and its total investments amount to 67.5 million guilders, which has given an "investment impulse" of about 275 million guilders to the enterprises concerned.

The MIP started its operations a year ago with a share capital of 1 billion guilders (576 million paid in). The state controls 57.3% of the stock and private shareholders the remainder. Within the broad framework of government industrial policy, the company participates in venture financing - primarily through share purchases - though never by more than 49.9% of the risk capital. The MIP operates on the profit principle despite its state affiliation.

Switzerland: Stricter Conditions for Foreign Banks

In the wake of the Banco Ambrosiano scandal, which also touched Gotthardt Bank of Lugano, the Swiss Banking Commission has revised the rules pertaining to the licensing of foreign banks in Switzerland. One of the key requirement provides that a foreign bank may establish a branch in Switzerland only if it can guarantee (in terms of its organization, personnel, and finances) the "durability and solidity" of its border-crossing operations. Also, the bank must be subject to "reasonable supervision" on the part of its parent organization.

A foreign bank seeking to establish itself in Switzerland will also be required to offer certification by the regulatory authorities of its home country that there are no objections to the establishment. The certification must further include assurances by these authorities that the Swiss Banking Commission would be notified of any newly arising circumstances that could seriously endanger the interests of the bank's creditors.

The modified rules dispense with the previous requirement that foreign banks must abide by the Swiss limits on equity capital and risk spreading. This change is based on the premise that the financial health of the foreign branch is directly dependent on the solvency of the parent. However, foreign banks will be required to invest at least 10% of their balance sheet total in "easily disposable" assets in Switzerland.

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Community: Common Agricultural Policy Reform Enacted

The reform of the EEC's common agricultural policy went into effect on April 1 after the Member States' farm ministers reached a compromise on the last unresolved issue, involving Ireland's milk output. The wrangling over the CAP has gone on almost a year as the national farm, finance, and economics ministers negotiated off and on, and the heads of government met at three summits to reach a consensus on measures designed to control the Community's runaway agricultural production and spending. On April 1, common prices for the 1984-85 marketing year also went into effect, providing for the first time in the CAP's 21-year history a reduction (roughly 1%) in prices for a dozen agricultural commodities.

A key element of the CAP reform is the annual production quotas for milk. Buying up surplus milk and storing butter and milk powder has absorbed roughly 40% of total CAP spending. The enacted quota for 1984 is 99.5 million tons, compared with an actual production of 105 million tons in 1983. This year's

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quota is based on 1981 production plus 1%. A 98.7 million-ton quota was set for 1985. The quota system will particularly affect British, Dutch, and German farmers, who must cut back milk production by slightly more than 7%.

In contrast to the Commission's proposal, under which Ireland would have been required to cut milk output by 13.6%, the enacted compromise allows Ireland to increase production by 4.5% this year and by 3% next year. Milk production is vital to Ireland's economy because it contributes some 8% to the GNP, a percentage that is more than twice as high as that of the Netherlands, one of the EEC's most intensive dairy producers. Commission and national officials have long realized that Ireland is a special case and that the original proposal had no chance of getting Ireland's approval. Farm Commissioner Poul Dalsager confirmed that the concessions granted to Ireland will require substantial additional funds. He also believes that the enacted measures will not save the EEC from bankruptcy, which is expected some time in the summer, unless additional money is made available.

Under the milk production quota system, farmers will have to pay a "super levy" to the Community for every liter of milk they sell above their individual output quota.

EP Adopts Blueprint for Economic Recovery

The European Parliament has proposed to the Council of Ministers a blueprint for the Community's economic recovery. The proposal, called the "Plan for European Economic Recovery," is based on the premise that all attempts at economic recovery will be doomed unless the Common Market becomes a genuine internal market without any barriers whatsoever. The plan is based on an expertise prepared by a British and a French economist for an EP subcommittee. The plan envisages the rapid implementation of a series of Community measures designed to fully open up national markets and thereby boost investments. It also calls for a concerted and coordinated medium-term action program covering the Member States' budgetary, monetary, and incomes policies and aimed at a lasting, noninflationary recovery. Both the Community and the Member States should adopt accompanying measures to ensure that the recovery program has a permanent impact, according to the plan. It also said cooperation with other industrialized countries, such as the United States and Japan, as well as with developing countries should be expanded.

Although the EP members who took part in the debate on March 27 and voted on the resolution attached to the plan were nearly unanimous in assessing the potential of a genuine internal market, they disagreed over the methods of attaining lasting economic recovery for Europe. Many conservative and liberal MEPs are counting on market forces, with some supporting measures such as tax relief and more flexible working hours. So-

cialists and Communists favor strong government intervention, such as the institution of public investment programs.

Besides consolidating the internal market by harmonizing technical standards, removing restrictions on the freedom to provide services (insurance and road and air transport), and opening up public procurement markets, the resolution calls for a strengthening of the European Monetary System, with British participation. Upgrading the ECU's status, to make it an international reserve currency, would be a decisive step toward improving the international monetary system, in the EP's opinion. To finance investments in the energy sector, advanced technologies, telecommunications, and transport infrastructure, the EP suggests that the Community's lending volume be raised from ECU 6 billion to ECU 20 billion. François-Xavier Ortoli, Commissioner for economics and finances, reminded Parliament that the survival of enterprises depends on profit making, not access to loans.

In Brief...

The European Commission has amended its 1981 draft directive concerning annual accounts of banks and other financial institutions. The proposal would establish common standards for the layout, publication, and auditing of banks' annual reports and the presentation of the directors' report. The draft is an extension of the Fourth Directive on annual accounts of certain types of companies *(Common Market Reports, Pars. 1394, 1397)*. The amendments reflect suggestions made by the European Parliament, the Economic and Social Committee, and several Member States + + + The Commission has invited the Member State governments to comment on its preliminary draft regulation on patents and licensing agreements. The measure would exempt such agreements from the ban of Treaty Article 85(1). The patent holder and the licensee could put a clause in their agreement prohibiting them from competing in each other's market territory. This represents a complete turnabout for the Commission, which previously took the position that only companies with annual sales of less than ECU 100 million could be parties to agreements with a noncompetition clause.

Germany: Tax Reform Plans Taking Shape

German Finance Minister Gerhard Stoltenberg's plan for relieving individual taxpayers of some DM 25 billion in individual income tax and recovering almost half of the revenue loss by raising the sales tax rate or various federal excise taxes has drawn strong criticism from the Christian Democrats (Stoltenberg's own party) and the business community. Stoltenberg wants his plan realized in two phases. Starting in fiscal 1986, individual taxpayers would be able to claim a DM 2,400 exemption for each child instead of the DM 432 exemption allowed under present

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law. This proposal alone would give family providers about DM 5 billion in income tax relief annually. As of 1988, all individual taxpayers would benefit from the increased basic exemption: annual income under DM 4,536 (DM 9,072 for married couples) would be exempt from income tax. At present, this exemption, reflected in the income tax schedule, is DM 4,212 (DM 8,424); the increased exemption would cost the treasury an estimated DM 2 billion annually. Stoltenberg suggests two alternatives for changing the tax rate structure, either one of which would allow about 19 million taxpayers to pay an estimated DM 18 billion less to the government each year.

Finance Minister Stoltenberg is fully aware that the sales tax or the excise tax increase he suggests may be economically illogical, but he feels committed to a course of fiscal frugality, a policy that has earned him high marks from bankers and economists and has put him far ahead of Chancellor Helmut Kohl in the public opinion polls. Stoltenberg believes that, in 1986, the economy, assuming its continued course of recovery, would be able to take the higher value-added tax rate of 15% (now 14%, *Doing Business in Europe, Par. 23,375*). This VAT increase would yield some DM 10.4 billion annually. Should Parliament reject this proposal, Stoltenberg suggests instead an increase in the gasoline tax (a liter of regular gas would cost DM 0.12 more), the tobacco tax (a pack of cigarettes would cost DM 4.20 instead of the present DM 3.20), and the insurance tax. The heating oil and natural gas taxes would also be increased. All in all, these planned increases would produce about DM 7 billion more in annual revenue.

Stoltenberg's plan to eliminate certain tax advantages would affect businesses. One change would revoke the increased depreciation allowance for small and medium-size businesses (the allowance was introduced in legislation effective as of Jan. 1, 1984 - *Doing Business in Europe, Par. 40,551)*. Employers would have to withhold income tax on now tax-exempt compensation for holiday and night-shift work. What an employer contributes to employees' lunches would be subject to withholding (at present DM 1.50 per day is exempt). Any amount the employer pays into a company pension fund would also be subject to withholding (DM 312 per employee is exempt under present law).

Bonn Plans Labor Law Changes to Reduce Unemployment

The Kohl administration has drafted a number of labor law amendments in the hope of improving the employment situation. Some of the changes would remain in effect until the end of 1988, while others would have no time limit. The planned amendments would complement tax law changes in effect since Jan. 1, 1984 *(Doing Business in Europe, Par. 40,551)*, and two pending bills on early retirement *(Doing Business in Europe, Pars. 40,558, 40,562)*. Among the short-term measures are provisions that would ease conditions for employment contracts. An employer and

prospective employee could agree on an employment contract of up to one year. Under present law, an employment contract is concluded for an unlimited period of time, although the courts have permitted exceptions to this rule. Agencies that place workers on a short-term basis would be allowed to do so for six months; current law limits such placements to three months. The objective of these two changes is to induce employers to hire an unemployed person or someone from an agency instead of putting their employees on overtime. Another amendment to discourage overtime would require employers to grant employees one day of vacation instead of pay for every eight hours of overtime accumulated over a month.

Several changes would relieve businesses, especially small firms, of some of their costs. Employees working part time would have to share social security contributions even if they earn very little. Present law requires an employer to pay for the entire contribution if an employee earns no more than DM 390 a month.

Employers and union representatives will offer their comments on the planned legislation at an internal hearing at the Labor Ministry in Bonn on April 24-27.

France: No Alternative to Planned Steel Mills' Closure

The French government's decision to close down several steel mills, involving the layoff of some 20,000 steelworkers by 1987, has provoked violence in Alsatia, the heartland of France's steel industry, and a general strike in that region. The French government had no other choice, since without the planned closures it could not count on receiving approval from the European Commission for its FF 15 billion investment program. Both the closures and the investments are thought to be the only way of getting the steel industry back into the black. Other steel producing States have had to, or will have to, take a similar step.

It was the fourth time since 1977 that a French government has had to make the painful decision to bring production in line with demand. The closures have cost some 50,000 steelworkers their jobs. Demand for steel started declining worldwide in the mid-1970s, primarily as a result of the oil crisis.

Grants Planned to Induce Non-EEC Nationals' Departure

The French government is planning on reintroducing the system of grants to be paid to employed aliens who return to their home countries outside the EEC. The grants would average FF 40,000, but the actual figure would depend on individual circumstances, such as the alien's marital status, length of employment, and health. From 1977 through 1981, non-EEC nationals who returned to their homeland could receive a lump-sum payment of FF 10,000,

which, based on 1977 prices, was worth half of what returnees would receive on the average under the latest plan.

The details of the plan will be hammered out by a commission on which the government, the national employers' association, and the unions will be equally represented. The costs will be borne by the government, the vocational associations *(associations pour la formation professionnelle des adultes)*, the migration fund *(Fonds d'action sociale des migrants)*, and the enterprises concerned. The vocational associations are to be involved because they are to offer aliens opportunities for retraining prior to their departure. The government hopes that the plan not only might help those industries that will have to continue laying off employees because of slackening demand (steel mills, coal mines, and shipyards), but also could ease problems in the automobile industry. Car manufacturers, which employ a high percentage of aliens, are losing ground to foreign competition, thus forcing layoffs.

Greece: Finance Minister Resigns Over Policy Differences

The Greek Socialist government has lost its third finance minister since coming to power in October 1981: Yiannis Potakis resigned his portfolio on March 27 because of insurmountable differences with Economics Minister Gerassimos Arsenis, who now heads the Finance Ministry as well.

Potakis, an attorney and a Socialist member of Parliament, had a reputation as a tough revenue collector - a position that did not endear him to the Greek taxpayers and lately found increasingly less favor with Prime Minister Andreas Papandreou and most of the other cabinet members. The government is facing the European Parliament elections in June and national elections next year and therefore does not find it opportune to add to the tax burdens at this time.

One of the events that led up to Potakis's resignation was the minister's unilateral decision to subject any dividend increases to particularly harsh taxation. Also at issue between the two rival cabinet ministers were the causes of the country's poor internal and external liquidity: mainly because of Potakis's severe fiscal stance, critics said, private investment dropped by 10% in 1983, despite the fact that public investments rose by 13.4%. Thus, overall investments declined by about 3% last year. Further tensions between Arsenis and Potakis were attributed to the rise in the current-account payments deficit from $1.885 billion to $1.916 billion in 1983 and the shrinking of the national currency reserves, which, according to international banking experts, would not last even three months to finance the country's imports. Among the solutions to this problem proposed by Potakis was the stepping up of barter trading with the Comecon countries of Eastern Europe.

Earlier this month, Arsenis appealed to the private business community and the labor unions for "general cooperation" with the government in its efforts to pull the economy out of its present recession. Arsenis warned businesses that they could no longer expect "protectionism and handouts," and he urged employees to work harder and moderate their wage demands.

Britain: Tax Haven for U.S. Multinationals?

Now that they have had time to reflect on the latest U.K. Budget proposals, observers believe that the corporation tax cuts put forward by the Chancellor of the Exchequer could turn the U.K. into a tax haven for U.S. multinational companies and those of other countries that have double taxation treaties with the U.K.

It is estimated that U.S. corporations distributing profits from the U.K. subject to mainstream corporation tax will see the rate they pay on a full distribution policy fall from 44.6% last year to about 25% in 1986-87, because the Inland Revenue will repay almost half the advance corporation tax it had deducted. Since the U.S. operates a worldwide tax credit system, subsidiaries of U.S. corporations will be able to average income from low-tax countries, which the U.K. will become, with income from other EEC countries where the tax rates are higher.

Belief is also growing among observers that U.S. and other overseas companies will invest heavily in the U.K. over the next twelve months in order to take advantage of those existing capital allowances that are soon to disappear. Companies would then be able to roll forward their fiscal liabilities until they eventually become taxable at the future lower rates. At present the U.K. attracts about one-third of all U.S. direct investment in manufacturing industry in Europe.

Austria: Slight Economic Recovery, OECD Says

According to the latest OECD economic survey of Austria, the growth of GDP in that country will stabilize at about 1.5% in the current year (1.75% in 1983) before rising to 2% in the first half of 1985. Inflation will rise to 5% this year (3.25% in 1983), and unemployment will increase from 4.5% to 5.25%, the report said. Both figures represent relatively low levels by OECD standards. The OECD compliments Austria on the success of its counter-cyclical policy, which it says was made possible by trade union wage moderation. The report notes that, this year, workers have abstained from demanding compensation for the inflationary effects of last year's budgetary consolidation measures.

At the same time, the economic survey sounds the alarm over the effects of the prolonged recession on government debt, which

is now threatening to become a restraint on future demand management. Between 1970 and 1981, the public debt rose from 19.4% to 39.2% of GDP, roughly in line with neighboring countries. However, in 1983, the budget deficit rose to 5.5% of GDP, compared with a 4% target. Last September, the government announced budget measures to reduce the 1984 deficit to 62 billion schillings (5% of GDP). The OECD warns, nevertheless, that there remains a danger of interest payments becoming a dynamic component of future expenditure, and questions in particular the high level of government subsidies and aid to industry.

EURO COMPANY SCENE

Dun & Bradstreet International, New York, has taken over the entire DM 3.2 million share capital of Schimmelpfeng GmbH, Frankfurt, one of Germany's leading business information companies and collection agencies. The takeover came about through the acquisition of Schimmelpfeng's owner, Vereinigte Grundstück-gesellschaften. Schimmelpfeng, which was founded 112 years ago, operates 75 offices in Germany and employs some 1,500. Its turnover, which is not publicized, has been estimated at between DM 150 million and DM 200 million.

Britain's Bowater group has announced that it will set up a separate company, Bowater, Inc., to embrace all its North American interests, including substantial paper and newsprint production facilities. To be quoted on both the New York and London stock exchanges, Bowater, Inc., will benefit from investments of $450 million over the next three years. Prior to the split, Bowater will make a £41 million rights issue and issue $140 million of stock in its U.S. operation. Bowater, Inc., will then use $57 million of the proceeds to buy Bowater Canadian from the parent company.

Chase Manhattan Bank Austria will become a 100% subsidiary of Chase Manhattan Overseas Banking Corp., New York, after the parent bank's purchase of a 25.5% participation in the Austrian affiliate from Girozentrale der Sparkassen, Vienna.

Commodore International of Norristown, Pa., plans to build its first European plant for the production of personal computers in Corby, about 80 miles north of London. The extent of the investment was not specified.

International Signal & Control PLC, London, a subsidiary of ISC of Lancaster, Pa., will establish an Italian unit, Findep SpA, to invest in small military electronics companies in Italy.

Common Market Reports

EUROMARKET NEWS

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Community: EEC, EFTA Agree to Intensify Relations

Government representatives of the ten EEC Member States and the seven countries of the European Free Trade Association (EFTA) have agreed to intensify trade and strengthen cooperation between the two trade blocs. In their "Luxembourg Declaration" issued on April 9, the ministers committed their governments to a number of policy objectives, the most ambitious of which would be an internal market comprised of the 17 nations. Among the concrete steps to be taken toward such an internal market is the removal of obstacles to trade through harmonization of technical standards, simplification of customs formalities, and elimination of unfair trade practices and state aids that are contrary to the free-trade agreements concluded by the EEC with each EFTA country *(Common Market Reports, Par. 110)*.

It was the first time that a meeting of ministers from the EEC Member States and EFTA countries dealt solely with the relations between the two trade groups. The conference that culminated in the Luxembourg Declaration was preceded by year-long efforts by several EFTA countries, the European Commission, and the presidents of the Council of Ministers to put the desire for

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improved EEC-EFTA trade relations into a formal document. Although the last remaining industrial tariffs in EEC-EFTA trade were eliminated on Jan. 1, 1984, a large number of nontariff barriers are still hampering trade. These barriers, consisting of differing standards, would have to be removed, although the declaration sets no deadline for attaining this objective.

In the declaration, both sides agree to continue to cooperate in fields not directly related to topics covered by the various free-trade agreements. Cooperation in research and development would be given top priority. Other fields for improved cooperation would be transport, agriculture, fisheries, and energy. The ministers also pledged consultation on environmental and consumer protection. The two trade blocs would also consult each other in international trade matters to arrive at common solutions with important trading partners such as the United States and Japan.

European Parliament Presents Waste Management Program

The European Parliament has presented an action program to reduce the ever-growing volume of waste and increase recycling. The Community produces almost 2 billion tons of household, agricultural, and industrial wastes annually. In recent years, waste production has been rising by 3% annually despite the economic recession. The EP is convinced that it is possible to maintain and even improve living standards without squandering any more raw materials and energy.

Since waste often contains valuable materials, the EP believes the Community should give urgent attention to recycling. If households would separate their garbage into four additional categories - metals, glass, plastics, and paper - the Community could save up to $10 billion in raw material imports each year, according to the EP. Between 80% and 90% of waste currently dumped or destroyed could be recycled.

Waste management and recycling industries could become an important factor in the EC's economic recovery, the EP believes, since they could create many new jobs. Parliament has called on the Commission to draw up proposals aimed at obtaining more precise data on the production of waste. The data would also indicate the investment requirements for waste management, the means of financing research, and how to utilize the best methods of waste recovery.

The Commission is to come forward with a waste management program to supplement the Community's third action program on the environment. The supplemental program would contain provisions to improve protection of tne environment and public health against the dangers caused by waste, especially toxic waste. At the same time, it would encourage the use of waste obtained as by-products from raw materials and energy sources. Parliament also wants the Commission to submit to the Council of Ministers

a second research and development program on recycling household and industrial wastes. This program should extend the practical measures initiated under the first research program (1979-1983) as well as provide more funds. In the EP's view, the second program should also emphasize the utilization of waste by-products.

In Brief...

The European Commission has presented to the Japanese government a detailed list describing the measures it considers necessary to ease access of Common Market products to the Japan market. The list, which updates the one submitted last year, emphasizes the EEC'S long-standing demands for lower tariffs on a wide range of industrial and consumer products, especially processed foodstuffs and alcoholic beverages. The Commission reiterates its concern about the negative effect of Japan's testing procedures for imported goods. Tokyo is urged to align its domestic standards with international ones. New on the list is the request for the continuing liberalization of the Japanese capital market, since this is one way European banks could play an important role in helping importers + + + Clearance of trucks at the Brenner Pass, the alpine crossing between Austria and Italy, is now better than at any time during the past 30 years. Following the blockade of the Brenner and other crossings into Italy by several thousand protesting truckers last February, the Italian government had promised a number of alleviating measures, such as the employment of additional customs officials and round-the-clock clearance. Because of these improvements, waiting times have been reduced from up to several hours to around ten minutes, according to reports.

Germany: Equity Investments Encouraged by Tax Changes

Institutional investors in Germany are increasingly taking advantage of recent tax legislation by building up their equity interest in German corporations. Under the rules in effect since Jan. 1, 1984 *(Doing Business in Europe, Par. 40,551)*, a resident corporation owning at least 10% of the stock of another company, whether resident or incorporated abroad, may exclude the value of this stock from its net worth and business taxes. Until the first of the year, the threshold equity criterion for qualifying for net worth and business tax exemption of the stock value was 25%.

Although the exemption applies to participations in both domestic and nonresident companies, there have been a series of reports that German institutional investors, mostly banks, have for the most part been raising their holdings in domestic entities from under 10% to 10% or more. Securities analysts believe, however, that it is only a matter of time before German institutional investors look abroad for new investment opportunities.

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Some analysts expect the new tax rules to boost stock market activity and make equity offerings a more attractive option for corporations seeking capital. German insurance companies in particular are expected to buy shares in order to take advantage of the tax exemptions. At present, the equity holdings of German insurance carriers account for only 2% of their total investments, estimated at DM 390 billion. The government has attempted for years to encourage insurance companies to increase their equity investments.

Britain: Government Assists Microelectronics Sector

The U.K. minister for trade and industry, Norman Tebbit, has announced wide-ranging measures to ensure that "industry uses efficient and technologically advanced equipment." The main emphasis will be on expanding the current Microelectronics Industry Support Program (MISP), which will receive funding of £120 million over the six-year period up to 1990. This figure more than doubles the present resources available for projects aimed mainly at the development, production, and utilization of microelectronic components.

The MISP is expected to stimulate investment in the British microelectronics industry by some £600 million, based on the average current MISP grant of about 20% of the total cost of projects. The government will finance up to 25% of the cost of development and plant, excluding working capital and the cost of land. However, it is estimated that an overall investment of at least twice as much, or £1.2 billion, will be needed to help make the U.K. internationally competitive in electronic technology. The program will particularly support the development of innovative microchips. At present, the microchip output of the U.K. electronic equipment industry accounts for around 3-5% of the sector's total output; the government hopes to boost this figure to at least 6% by 1990.

Among other measures, small and medium-size companies with not more than 500 employees in the textile and allied industries will be eligible for investment grants of up to 20% for specified technologically advanced equipment. A total of £20 million is to be made available by the government for this purpose.

U.K. Banks May Be Able to Spread New Tax Charge

U.K. banks will probably be able to absorb over a number of years the very large tax bill that results from the recent Budget changes in capital allowances and leasing provisions.

The banks estimate that they face a charge of £1.4-1.5 billion on their past leasing business. If this charge had to be absorbed in a single year, it would virtually eliminate the anticipated profits for 1984. It would also force the banks to make offsetting allowances in this year's accounts, which could under-

mine customers' confidence and upset investors, according to spokesmen for the banks.

To alleviate the banks' mounting concern, the Accounting Standards Committee, which sets standards for the accounting profession, has made a statement that appears to allow a certain latitude in the interpretation of accounting standard SSAP 15 on deferred taxation. (The standard states that companies must make full provision for their potential deferred tax liabilities.) The ASC said that "there may be instances" where companies feel that applying SSAP 15 "does not enable their accounts to give a true and fair view." Although the chairman of the ASC, Ian Hay Davison, declined to interpret the statement, observers believe that the banks will now be able to effectively spread the fiscal burden over more than one tax year.

Ireland: Hints of Supplemental Budget, Price Freeze

The Irish government will probably have to consider the possibility of a "mini-budget" in the summer because tax revenues so far this year are failing to keep pace with the projections in January's budget, according to Dublin reports.

The principal shortfall is apparently in income tax revenue, which may eventually amount to £90 million (Irish) less than the target figure. The government is also experiencing difficulty in collecting excise duties and value-added tax. Observers predict that if this pattern continues the budget deficit for this year could well amount to as much as £1.4 billion, or over £300 million more than the projected figure of £1.089 billion.

There are also reports that the Irish government is contemplating the imposition of a price freeze on companies that grant excessive pay increases. The Federated Union of Employers has emphasized the need for "severe pay restraints" this year. It said the country's economic situation and the level of unemployment would be "seriously affected" if cost increases in 1984 exceed those arising in countries with which Ireland has to compete. The FUE's executive council has drawn attention to the fact that the Irish government had not issued a specific statement on pay following recent meetings with leaders of the employers and the trade unions. The council has firmly rejected the concept of negotiating pay increases with reference to the consumer price index, which would lead to pay raises of 10-11%. It stressed that "cost increases on this basis could not be recovered in the marketplace."

France: Paris Continues to Stand Firm on Steel Layoffs

In a news conference on April 4, French President François Mitterrand refused to tone down his government's plan to lay off some 20,000 steelworkers by 1987, despite violence by protesters, a general steelworkers' strike, and pressure from high-ranking

Communists. Government leaders have also stuck to their hard-line stance by turning aside proposals for substantial state aid in rebuilding the depressed region of Lorraine. Instead of moving more nationalized industry into the region, officials said the administration will be relying more heavily on tax incentives to encourage job creation by private businesses. However, Mitterrand promised that early retirement and retraining programs will be offered to all laid-off workers.

Several Socialist parliamentarians from steel industry regions have turned their backs on the party in protest against the proposed labor cutbacks in a sector that has already dropped to 85,000 workers from the 160,000 a decade ago. A serious division has also developed between Socialists and Communists, which might threaten the government coalition.

The plan will cut almost one million metric tons from the current French steel-producing capacity of 26 million tons. Meanwhile, production is to increase by one million tons this year and next, with a goal of 18.5 million tons annually. These moves, along with the layoff of approximately one-quarter of the industry's workers, are to accompany the government's planned investment of FF 15 billion in that sector by 1987. The European Commission has decreed an end to government subsidies in the Member States' steel industries by 1986, meaning that France will probably need to ask for a one-year extension of the deadline.

Netherlands: Parallel Stock Market; Eurobond Trading

Amsterdam's parallel stock market, the Dutch equivalent of the over-the-counter markets in New York and London, is becoming an important source of Dutch venture capital and even beginning to attract foreign companies, according to observers in Amsterdam.

The market began operations two years ago and has 27 firms listed so far. Total transactions amounted to 214.9 million guilders in the first ten weeks of this year, compared with 353.6 million guilders for the whole of 1982. In March, the market's first high-technology stock was introduced and met with overwhelming investor response. Now more high-technology companies are expected to apply. Until this year, most of the companies seeking a listing came from the investment and banking sectors. To qualify, companies must have an issued nominal share capital of 2.5 million guilders, of which only 10% has to be listed, compared with 100% for listings on the regular stock exchange. Also, the rules on publishing results are looser than on the regular exchange.

In related news, Eurobond trading started on the Amsterdam stock exchange on April 16. The first 18 bonds were denominated in U.S. dollars and issued by major Dutch companies. Eventually, Eurobonds of foreign companies in non-dollar currencies will probably also be introduced. The stock exchange aims to concentrate on transactions smaller than the usual $100,000.

Spain: Energy Plan Writes Off Large Nuclear Investment

A new Industry Ministry energy plan to be sent to the Spanish parliament for approval makes good on government election promises, which were renewed last October. Nuclear power capacities projected for the early 1990s are to be reduced to 7,500 MW from the 12,500 MW proposed in the 1979 energy plan. This cutback will entail an investment write-off of 496 billion pesetas, according to ministry estimates, since some of the plants to be shelved are already under construction.

The new energy plan calls for four new reactors, on which work has already begun, to be completed by 1992, in addition to the six already in operation. Five reactors are to be written off - a twin plant near Bilbao, two reactors being constructed by U.S. contractors near the Portuguese border at Valdacaballeros, and the Trillo plant No. 2. The Trillo No. 1 station, being constructed by Germany's KWU, is to be completed, as are the Westinghouse model reactor at Vandellos and plants at Asco and Cofrentes.

The Socialist government's national energy plan calls for 29.5% of Spain's electrical energy to be generated by nuclear power by 1992 (compared with 9% last year), 29% by hydro-electric power, 39.5% by coal-fueled power stations, and 2% by oil and gas.

Portugal: Foreign Borrowing; Economic Progress

The Bank of Portugal's vice-governor, Vitor Constancio, expects Portugal's foreign borrowing this year to rise somewhat over 1983's $650 million raised from two syndicated bank loans. The government aims, however, to bring the short-term part of the foreign debt down to 20% by the end of 1984. During 1983, despite the increase in the total foreign debt by $621 million, to $14.2 billion, the short-term debt fell from 33% to 24% of the total. The country's cash flow has been improved by better export coverage of imports, from 40% in early 1983 to 50% at present.

An International Monetary Fund team visited Lisbon last month to check on progress in compliance with the terms of agreement on a standby loan granted to Portugal last fall. Observers see the Mario Soares government as being in a good position to point to progress in meeting the targets set by the IMF. After a dramatic upturn in exports and a severe economic squeeze, the country's 1983 payments deficit was reduced to $1.7 billion, which was even better than the IMF target of $2 billion.

EURO COMPANY SCENE

Clark Equipment Co. of the U.S. and Sweden's AB Volvo have agreed to explore the feasibility of merging their construction equipment activities in a joint venture that would make Clark-

Volvo the world's third-largest manufacturer of construction equipment and vehicles. As an initial step, the partners plan to take shareholdings of about 10% in each other "and offer access to each other's boards as a strong indication of the seriousness of the mutual commitment."

General Motors has earmarked £100 million for plant modernizations at its British automobile subsidiary, Vauxhall, increasing GM's total financial commitment in Britain to £260 million by 1986. The investment could be raised by another £64 million for the expansion and improvement of a new paint facility, provided that Vauxhall is profitable in 1984. GM's U.K. losses climbed from £37.9 million in 1982 to £53.3 million last year, but Vauxhall accounted for only £1.09 million of that total and is well on its way to recovery, according to the company.

As of next fall, Ford Motor Co. intends to invest an additional FF 1 billion in its French transmission assembly plant at Bordeaux. Part of the investment is for the production of a new generation of automatic transmissions, based on the Variomatic system of Holland's DAF, for Ford's Fiesta model. The plant will also supply transmissions to Fiat and, possibly, other auto makers. Previously, Ford had invested some FF 1.2 billion in Bordeaux, mainly for the production of mechanical transmissions. The new CTX (Continuously Variable Transaxle) transmission was developed by Ford in cooperation with its original inventor, Van Doorne Transmissie, which will initially supply the transmissions to the U.S. company before Ford starts up its own CTX production in May 1986.

The United States' Chronar plans to establish a plant for the production of solar energy equipment - specifically photovoltaic modules for solar energy systems - at Lens, northwestern France. Reports from Paris said the plant will be in operation in about five years and will employ some 300.

Control Data Corp. (CDC) of the U.S. and Philips of the Netherlands have set up a joint venture, Optical Storage International (OSI), for the manufacture and marketing of high-capacity data storage systems based on optical technology. Both companies have already invested $40 million in the development of this technology and plan to spend about $200 million more over the next two years. Optical systems, which are not yet on the market, use lasers to record and read computer data stored on revolving discs; they are thought to be less expensive than the electromagnetic systems now in use.

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Community: Commission Split Over Automotive Pollution Curbs

Disagreement within the European Commission over automotive exhaust control proposals has not only delayed presentation of these proposals but also produced an unprecedented reaction from the German government. In a message to the EC Executive, the Kohl administration has urged Commission President Gaston Thorn to use the influence of his office to press for Community automotive standards based on the best technology. This means the catalytic converter, and the German government is still hoping to get the support of France and Italy for its plan calling for the introduction of unleaded gasoline and converters in new car models as of Jan. 1, 1986. So far only Britain, the Netherlands, and Denmark are expressly supporting the plan.

Last June the Council of Ministers asked the Commission to come forward by April 15, 1984, with proposals for the introduction of unleaded gasoline throughout the EEC. Several Commissioners, including Thorn and Karl-Heinz Narjes, favor the German plan. Others support the approach of the French and the Italian car makers on the issue. France and Italy have both made

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a concession to the extent that they will not oppose the sale of converter-equipped models in their territories. Otherwise they want to adhere to the approach and timetable in existing EEC legislation, which calls for a 25-65% reduction in automotive pollutants as of October 1986 *(Common Market Reports, Par. 3371.06)* and another 20-30% reduction by 1990. After 1990, the EEC pollution levels would, however, still be about 50% above the levels proposed for new German models as of 1986.

Persons Discriminated Against Must Be Fairly Compensated

The European Court of Justice has held that Community law requires the Member States to legislate effective sanctions in order to ensure equal treatment of women and men in access to employment. The Court concedes that the Council directive on equal treatment of men and women with regard to access to employment, promotion, and working conditions leaves to the discretion of the Member States how violations of the equal treatment principle should be treated *(Common Market Reports, Par. 3910.123)*. If a State chooses to compensate a victim of discrimination, the compensation must relate to the actual damage suffered and may not merely offer reimbursement of costs incurred in applying for the job (judgment of April 10, 1984, Case Nos. 14 & 79/83).

Two German labor courts confronted with aspects of alleged discrimination on grounds of sex approached the Court of Justice seeking an interpretation of Directive 76/207/EEC. The directive deals also with the form of any sanctions against discriminations on grounds of sex with respect to access to employment. Two women social workers who had applied for jobs at an all-male prison in North Rhine-Westphalia were rejected on the ground that employment of female social workers at an all-male prison would cause problems. Two less qualified men were hired instead. The local court agreed with the State and granted the women only reimbursement for their train fare. In the other case, before the Hamburg labor court, a woman with a degree in business administration had applied for a job as manager of a trading company doing business with countries in the Near East. Her application was rejected because, the company said, women are not desirable in negotiations with companies in the Near East; she was reimbursed for her postage expenses.

The European Court of Justice emphasized that national sanctions against discrimination based on sex must offer effective protection. The sanctions must provide for a genuine deterrent to employers wanting to deny access to employment and therefore may not be confined to token compensation, according to the Court. The Court's ruling is expected to prompt the German government to propose amendments to the Civil Code that would provide for genuine compensation to persons discriminated against on grounds of sex. Such compensation could consist, for example, of six months' salary.

In Brief...

The European Court of Justice has held that the European Parliament exceeded its powers with its 1983 resolution calling for the transfer of civil servants from its General Secretariat in Luxembourg to Brussels and Strasbourg (judgment of April 10, 1984, Case No. 108/83). Last July the EP decided to relocate to Brussels those officials occupied with preparing committee meetings and to Strasbourg those entrusted with preparations for plenary sessions. At present only about 160 of the General Secretariat's 3,000 employees work in Brussels and six in Strasbourg. The Court of Justice granted the EP the right to decide where the work is to be done and where committee meetings and plenary sessions are to be held, but Parliament was denied the competence to make a policy decision about where its General Secretariat should be located. To allow the EP this competence would undermine the 1965 and 1981 Council decisions on the provisional location of certain Community institutions, according to the Court of Justice. (In 1983, the Grand Duchy lost its action challenging a 1981 EP decision that plenary sessions should generally be held in Strasbourg and committee meetings in Brussels (Case No. 230/81, *Common Market Reports, Par. 8941*)) + + + The European Commission has agreed to amend its 1983 draft directive on noise exposure limits along the lines recommended by the European Parliament. The Commission's proposal would have required the Member States to adopt legislation obliging employers to prevent noise from rising above an average level of 85 decibels in an eight-hour day. The Parliament, concerned about costs for employers, recommended a relaxation of the original proposal. Commissioner Karl-Heinz Narjes said that the noise limits of the amended version will be in the 85-90 dB range.

Germany: Policy Change in Air Pollution Control

The German government has made an important policy decision in air pollution control that would add a free-enterprise element to official environmental considerations. Rather than adhering to the present system of improving air quality by imposing strict legislative anti-pollution standards on businesses, Bonn would follow a flexible approach toward attaining its air quality objectives. Enterprises in particular locations or regions could agree among themselves on how to achieve the overall air pollution control objective for that area. A financially well-situated company could reduce air pollution on its own and thus allow a less well-situated business to exceed pollution levels. This compensatory approach, comparable to the "bubble and offset" system followed in the United States, would broaden management's freedom of decision, in the government's opinion. It would also allow enterprises to come up with the best possible ecological and economical solutions in a particular situation.

The policy decision will be incorporated in planned amend-

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ments to the 1974 Clean Air and Noise Abatement Act and in government regulations setting forth emission standards *(Doing Business in Europe, Pars. 23,543A, 23,544A)*. Interior Minister Friedrich Zimmermann believes that the compensatory approach can achieve better progress in reducing air pollution in congested regions than the present policy of imposing stricter standards.

The Kohl administration's decision in favor of the compensatory approach has ended speculation about introduction of an alternative way of improving air quality through the issuance of environmental certificates. This plan would have permitted an enterprise to obtain a government license allowing higher pollution levels under specified conditions. Such certificates could have been traded among businesses. Government experts convinced the administration that the certificate idea would not be easy to apply and, more importantly, would entail environmental risks.

U.S. Still Attractive for German Investments Abroad

German investments abroad rose in 1983 by DM 13.7 billion to DM 539 billion in gross terms, and the United States accounted for DM 2.7 billion of the German net transfers to other countries, followed by Britain (DM 1.1 billion), Switzerland (DM 614 million), and Brazil (DM 529 million). German direct investments in underdeveloped countries did not decline, as they did in 1982, but increased by nearly DM 140 million to DM 2.33 billion.

Foreign direct investments in the Federal Republic also went up last year - by about DM 900 million to a total of DM 7.3 billion. The leading investors were the United States (DM 1.2 billion), Switzerland (DM 902 million), France (DM 353 million), Sweden (DM 272 million), and Japan (DM 263 million). The preferred German industrial sectors for the foreign investors were metalworking, motor vehicles, electrical engineering, chemicals, industrial holdings, and machine tools, in that order.

Italy: Anti-inflation Decree Fails to Clear Deadline

Despite winning a vote of confidence in the Chamber of Deputies on April 16, the Italian coalition government of Socialist premier Bettino Craxi had to bury its hopes of having Parliament approve the administration's anti-inflation decree legislation on time. Midnight of April 16 marked the end of the 60-day period allotted by law for the passage of the decree legislation. It was extensive parliamentary obstruction and successful filibustering by the Communist deputies in the final stages of the mammoth debate that dealt a fatal blow to the decree, the main feature of which was a reduction in the national wage indexation system *(scala mobile)*.

Craxi immediately called a cabinet meeting to assess the situation, and political observers predicted that the government would reissue the decree in a more moderate form in an attempt to

gain Communist acquiescence. The expired decree, which had been in force since mid-February, reduced by three percentage points the quarterly inflation adjustments of wages this year. It was the aim of the government to bring the average rate of inflation down to 10% in 1984, from an average of 15% in 1983. The Craxi adminstration resorted to the decree legislation after the Communist-led CGIL labor federation refused to enter into a voluntary agreement on inflation-reducing measures. The Communists subsequently organized mass protests against Rome's plans.

Since coming to power, the Craxi government has submitted more than 200 bills to Parliament, but only about a dozen have been passed. Much of the blame is attributed to the outdated procedural system, which allows the political opposition to stall legislative progress almost at will. Craxi is now pushing for a reform of the system, but neither Communists nor Christian Democrats are in favor of such a change.

Denmark: Taxes on Strike Funds, Foundations' Incomes?

Denmark's nonsocialist minority government has encountered heavy criticism of its proposal to tax the capital income of foundations as well as the strike funds of both the labor unions and the employers. The Socialist opposition described the proposal as "too meek," while the employers' federation and the unions termed it "unfair," though for different reasons.

Tax Minister Isi Foighel would like foundations to pay a tax of 40% on their interest income and 15% on their income from securities, after a tax-free allowance of 10%. Charitable foundations would be exempt. According to a Justice Ministry report, there are 8,850 foundations with total assets of DKr 29.5 billion in Denmark. They reported a total net income of DKr 2.2 billion for 1982, DKr 852 million of which was distributed for charitable purposes. The government would expect to gain additional revenues of DKr 75 million annually, as of 1985.

The "conflict reserves" of both the unions and the employers, which are normally set aside to cushion the effects of strikes, are estimated to total DKr 5 billion. The government would hope to raise an extra DKr 250 million annually.

It is uncertain whether the Schlüter administration will succeed in getting its proposal through Parliament. The Social Democrats would like to see a tougher version. The Liberals, on whose support the government depends, also have additional demands: they want to make the capital income of all foundations, associations, and clubs subject to taxation, exempting only purely charitable organizations.

Should Parliament approve the proposal, tax experts believe that the employers' federation and the unions would shift their strike funds from bonds and bank deposits into shares and real estate in order to qualify for lower tax rates.

Britain: Ŀ200 Million Lost So Far by Coal Miners' Strike

Neither the National Union of Mineworkers nor the National Coal Board has shown any signs of relenting on the issues that led to the six-week-old strike by most of the 182,000 miners in the U.K.'s nationalized coal industry. The strike has already cost the government Ŀ200 million and caused a 50% drop in the production of the British Steel Corp., despite coal stockpiles. However, there are no indications so far of a repeat of the power blackouts that occurred during the miners' 1974 walkout, which led to the demise of the Conservative government of Prime Minister Edward Heath.

Miners in Yorkshire, Scotland, and South Wales walked out on March 12 following the government's earlier announcement of plans to close 20 pits and lay off 20,000 workers next year. A drop in coal demand has combined with increases in labor and production costs to raise the industry's operating loss from Ŀ489 million in the 1982-83 fiscal year to an expected loss of over Ŀ800 million for the year that ended on March 31.

The strike originally commanded little support from miners in other parts of the U.K. However, walkouts soon increased on a regional basis following the death of a miner in a fight between worker groups and the refusal of NCB chairman Ian MacGregor to accede to striker demands. Union leaders, who believe the layoffs will not end with 20,000 miners, are pushing for a slower rate of dismissals, an increase in government subsidies, and improvements in old mines. Just prior to the first walkouts, the government announced that early retirement benefits to laid-off workers would be increased.

At a special meeting scheduled for April 19, NUM leaders were expected to pass an amendment to a union rule requiring a 55% majority to order a national strike. Reports said the union would probably have enough support for a national strike if the amendment were passed.

No Inland Revenue Reexamination of Past Tax Avoidance Cases

The U.K. Inland Revenue does not intend to apply the widest possible interpretation of a House of Lords decision last February *(Furniss, Inspector of Taxes v. Dawson)* which has invalidated many forms of tax avoidance in the U.K. Peter Rees, chief secretary of the Treasury, made this statement in a parliamentary debate on this year's Finance Act, which implements the Budget proposals.

In what many observers regard as one of the most important British tax cases in recent years, the House of Lords, the highest appeal court in the U.K., said that the fiscal consequences of a preordained series of transactions, intended to operate as such, are generally to be ascertained by consolidating the results of the series as a whole and not by dissecting the series

and considering each individual transaction separately. The actual case involved a complex arrangement to defer capital gains tax, and the Lords' ruling means that the courts may disregard any step in a composite transaction that has been included for the sole purpose of tax avoidance.

Rees declared that the Inland Revenue will not apply the newly formulated principles laid down in this case to transactions that have already been approved. There had been worries that the tax authorities might reexamine transactions carried out within the past six years and make new assessments.

In the light of the House of Lords decision, Rees stressed that the Inland Revenue will also not use the new principles to launch an attack on the more "innocuous" forms of tax avoidance, such as the treatment of covenants, leasing transactions, intergroup transfers of assets to avoid capital gains tax, and other straightforward actions. However, Rees said that in this evolving field of law the courts in the future would be considering the actual substance rather than just the form of financial transactions that have the effect of tax avoidance. Rees said that the Inland Revenue will be considering whether it can give clearance to groups of cases of particular importance or general guidance for the benefit of taxpayers.

Sweden: Restrictive Economic Measures; Foreign Banks

To contain wage costs and inflationary pressures, Sweden's Socialist government has imposed a series of restrictive economic measures, including a price and rent freeze, dividend curbs, and compulsory deposits of liquid assets. Prime Minister Olof Palme and Finance Minister Kjell-Olof Feldt said the action was necessary to counteract the effects of recent generous wage settlements of 6-9%, which threaten the government's inflation target of 4% for this year. (Last year's inflation rate was 9.3%.) At least one government official described the new program as the harshest ever imposed in peacetime.

The key measures announced on April 12 were a general price freeze, except on foodstuffs, and a rent freeze, to last until the end of the year. Companies quoted on the Stockholm Stock Exchange may not raise their dividends next year. Some 2,000 large enterprises as well as the local governments will be required to deposit liquid assets equal to 6% of their payroll expenditures into low-interest accounts at the National Bank for up to two years. The country's forest products industry, which is currently enjoying healthy profits, will be required to make similar deposits equal to 3% of the value of its exports beginning on July 1, for a one-year period.

Concerned by the news that the latest inflation statistics show a rise of 9% in annual terms, the government is meeting with employer and labor representatives this month to impress on them the need for "reasonable" pay increases in 1985, when Stockholm

is looking for an inflation rate of only 3%. The government wants to protect the economic advances made since late 1982, when the krona was devalued by 16%. Since then, corporate earnings have generally risen at a record rate, causing the unions to complain that the real-term incomes of their members have not kept pace.

The political opposition has reacted to the announcement of the latest measures by accusing the government of a panic-like attitude in trying to cover up the failures of its socialist economic policies. Spokesmen for the employers predicted a worsening of the investment climate. Share prices on the Stockholm Stock Exchange declined.

In other news, sources in the Finance Ministry said that the government is preparing a bill for parliamentary passage by July 1985 that would allow foreign banks to operate subsidiaries in Sweden as of Jan. 1, 1986. At present, there are 20 representative offices of foreign banks in Sweden, including four U.S. banks, but their activities are strictly limited. Sweden would be the last country in Western Europe to remove curbs on foreign banks (Portugal did so just recently).

EURO COMPANY SCENE

Ford Motor Co. plans to invest £93 million at its Halewood (Liverpool) engine plant for the production of new five-gear transmissions for the company's European car plants. Beginning in mid-1987, 300,000 units a year are to be produced.

The United States' SCM Corp. has agreed in principle to purchase the titanium dioxide production units of Britain's Laporte Industries for about $125 million. Laporte produces the white pigment in U.K. and Australian plants, with a total annual output of 110,000 tons. The acquisition will make SCM one of the world's leading producers of titanium dioxide, which is used in the manufacture of paints, paper, plastics, and rubber products.

ITT Corp. has won a Turkish government order valued at as much as $1 billion over a ten-year period for the supply of its System 12 digital public switching equipment for telephone exchanges. The initial part of the contract involves ITT's Belgian subsidiary, Bell Telephone Manufacturing Co. As part of the deal, ITT plans to acquire 20-35% of a Turkish telecommunications equipment producer, Teletas, which would be licensed to manufacture the System 12 equipment. The Turkish government has launched a $6 billion, ten-year program to modernize the country's telephone network.

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Community: Commission Asks for Loan to Cover Deficit

The European Commission has asked the ten Member States for an ECU 2.3 billion loan to cover a corresponding deficit in this year's budget. A deficit of this magnitude is expected because of rising expenditures in the farm policy sector. The measures enacted on April 1 to control runaway spending on the common agricultural policy, especially the annual production quotas for milk and lower guaranteed prices for a number of agricultural commodities, were not far-reaching enough to prevent a deficit.

In a draft regulation submitted to the Council of Ministers, the Commission proposes that a Member State's loan should correspond to its VAT revenue contribution to the Community. Germany, for example, would have to lend the Community ECU 670.7 million (28.75% of ECU 2.3 billion). Each State would earn interest at the prevailing rates. The loans would be paid back to each State in eight semi-annual installments, starting on July 1, 1986. The repayments would come from the additional revenue that the ten heads of government agreed on in principle at their

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March 19-20 summit in Brussels. Under this agreement, the Member States would be transferring 1.4% (now 1%) of their VAT revenue to the EC budget starting in 1986.

EC budget commissioner Christopher Tugendhat sees difficulties in obtaining the Council's approval of the draft regulation in time to make the needed funds available toward the end of the year. The European Parliament's opinion on the matter cannot be expected before September. (Elections for a new EP will be held in June.) Also, the draft regulation requires unanimous approval by the Council, and Britain could easily block adoption if the issue of the U.K.'s contributions to the EC budget is not finally settled by then. Tugendhat also realizes that all the Member States are running up deficits in their own budgets and that special legislation is necessary in each State to provide for a loan to the Community.

Other States Ask Britain for Budget Concession

Several Member State governments have asked the Thatcher administration to abandon what they call intransigence in Britain's attitude on the EC budget issue. France and Germany in particular maintain that the U.K. has won so many concessions on budget payments that it should not expect still more concessions from the other Member States.

Britain and the other nine States are currently deadlocked over a semi-permanent system that would govern the U.K.'s future payments to the Community. In money terms, Britain and the others are only some ECU 250 million apart. This figure emerged in the current conflict over the size of the reduction in Britain's net payments. All ten States agreed that the yardstick for measuring the reduction should be the gap between Britain's share of total VAT payments to the EC budget (21.3%) and its share of allocated spending (13%). Based on 1983 budget figures, this difference would amount to ECU 1.622 billion. While the nine States have offered an ECU 1 billion reduction, the U.K. has been demanding ECU 1.25 billion.

Under part of the proposed semi-permanent system Britain's payments other than VAT-based contributions (for example, customs duties) would be based on (a) a percentage of its GNP and (b) its per-capita GNP in relation to the average GNP of a 12-member Community including Spain and Portugal. The other nine States have accepted this proposal as fair since Britain is the No. 2 contributor but No. 7 in terms of per-capita GNP.

In Brief...

The European Commission's preliminary draft directive on the reduction of automotive emissions would require the Member States to see to it that unleaded gasoline is available as of Jan. 1,

1989. The States could make the sale of lead-free gasoline mandatory as of Jan. 1, 1986. New automobiles registered after Jan. 1, 1989, would have to run on unleaded fuel, as would all cars operated after Jan. 1, 1992. The proposal is still incomplete because of disagreements within the Commission over the level of permissible automotive pollutants, such as carbon monoxide, hydrocarbons, and nitrogen oxide. Commissioner Karl-Heinz Narjes favors introduction of the stricter standards now applied in 49 of the U.S. states. His colleague, Etienne Davignon, favors a more gradual reduction of emissions + + + In the EC's accession negotiations with Spain, another step forward has been made with a compromise on patent matters concerning chemicals and pharmaceuticals. The compromise would enable the ten Member States to continue to control imports of low-priced Spanish chemicals and drugs for ten years after Spain's accession (scheduled for Jan. 1, 1986). Spain would have until Oct. 7, 1992, to amend its patent laws to conform to Community patent rules; however, new patents registered after Jan. 1, 1986, would be subject to EEC rules from that date. The biggest legislative change for Spain would be the shift of the burden of proof in patent litigation: under EEC rules, it is for the defendant in a patent suit to prove that he did not violate patent rights. In Spain, the patent holder must prove that his rights were infringed.

Germany: Major Strike Possible in Key Industries

The prospect of serious labor unrest in Germany's crucial steel, engineering, and motor industries is almost a certainty following the failure of the second top-level meeting between employer and union leaders on April 12. Strike ballots are expected to be cast in the first week of May. If 75% of union members vote for strike action in each of 16 regions, Germany could face its worst labor conflict since the winter of 1978-79, when members of the steel industry union, IG Metall, were involved in a six-week walkout. At that time, the dispute also centered on union demands for a shorter workweek; however, the employers prevailed.

This time, IG Metall, the country's largest union with 2.6 million members, and the employers are locked in a battle over the introduction of the 35-hour workweek without any cut in pay. IG Metall leaders see the shortened workweek as a way of lowering unemployment, currently at 2.3 million in Germany. They have retreated from their original demand for the immediate introduction of the 35-hour workweek and would now settle for a gradual reduction of the present 40-hour week.

Employer representatives oppose a shorter workweek for several reasons. The 35-hour week at the same pay would push up costs by some 18%, they argue. A great number of small and medium-size businesses, they say, could not possibly absorb this added burden and would have to file for bankruptcy, adding to unemployment. In fact, the employer representatives doubt whether

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the 35-hour workweek would make a real dent in unemployment. They have been offering the unions instead a 3.3% pay raise, an early retirement plan allowing workers to retire at 58 with 75% of their last wages (10% more than provided under recent legislation - *Doing Business in Europe, Par. 40,558*), and flexible working hours on a plant-by-plant basis.

A major strike would seriously damage the German economy's recovery. Economic conditions have improved significantly since the beginning of the year, manifested primarily in rising business investments. This trend has prompted Germany's five leading economic institutes to give the most optimistic forecast in years, predicting a GNP growth of 3% for 1984 (1.3% in 1983). The institutes are strongly opposed to the introduction of the 35-hour workweek because of the costs involved.

Italy: New Anti-Inflation Decree Issued; Banco Ambrosiano

Undaunted by Parliament's refusal to ratify its anti-inflation decree legislation, which expired on April 16, the Italian coalition government led by Socialist premier Bettino Craxi immediately issued an almost identical decree aimed at reducing the cost-of-living adjustments in the national wage indexation system *(scala mobile)*. The new decree, like the first one, also requires parliamentary approval within 60 days. It would apply for only six months rather than one year, as originally proposed. However, the shorter duration would have little practical effect because both versions would cancel the 3% wage adjustments normally due next August. The government is attempting to bring the inflation rate down from the current 12% to an average 10% by the end of the year.

The original decree ran out of time in Parliament following extensive Communist filibustering. The new decree has also been denounced by the Communists and the CGIL labor federation, which they control. Nevertheless, the Craxi administration hopes it will encounter less opposition because the Communists might feel they have made a sufficient show of strength with their victory over the first decree. To further pacify the opposition, the government has also announced proposals for higher adjustments in family benefits and improved job training for juveniles.

In other news, the liquidators of bankrupt Banco Ambrosiano and representatives of the creditor banks of Banco Ambrosiano Holding of Luxembourg reached a consensus last month on settling the outstanding claims of the creditor banks. Both sides said that their respective legal representatives had agreed on a draft accord to be submitted to the creditor banks for their approval. Unconfirmed reports from Milan said the settlement will amount to about $450 million, of which some $250 million will be contributed by the Vatican bank (Istituto per le Opere di Religione), one of Banco Ambrosiano's major shareholders at the time of liquidation.

France: Assembly OKs Part of Bankruptcy Law Reform

The reform of the French bankruptcy law is making good progress - the National Assembly this month approved substantial parts of the legislation, for which the government plans a one-year "probationary" period before it takes effect on July 1, 1985.

The existing bankruptcy law of 1967 has its roots in the second half of the 19th century, when the first trading companies were established in France. The law grants a powerful role to the *syndic*, the bankruptcy administrator, who usually has discretion to determine whether an ailing enterprise is allowed to continue or must close down. The *syndic* himself generally benefits more from a bankruptcy than from the survival of a company - a fact that, according to critics, has definitely contributed to the steep rise in insolvencies over the years. (Last year 22,708 bankruptcies were registered in France, about ten times more than during the early 1970s.) The *syndics* belong to a close-knit guild into which newcomers are accepted only reluctantly - one reason why their number has remained fairly constant, at about 350 nationwide.

The reform legislation, worked out by the Justice Ministry, provides for two fundamental changes. First, the *syndic* would be replaced by a court-appointed *administrateur*, and, in those cases where bankruptcy is inevitable, by a liquidator who would primarily represent the interests of the creditors. Secondly, the commercial court would no longer be restricted to the choice between opening bankruptcy proceedings or the French equivalent of Chapter XI proceedings. Instead, the law would require that the court and the parties involved first explore all possible means of saving the troubled business.

Under the new system, proceedings would start with a three-month observation period, which could be extended once. At the same time, a financial rescue plan would be worked out to cover a period of three years, during which time all creditor claims would remain suspended. The company's management, which under the prevailing law can be immediately removed by the *syndic* upon the slightest evidence of insolvency, would remain in office to assist the administrator in his rescue efforts. The rescue plan would have to confirm the enterprise's chances of future financial, industrial, and social viability; only where such chances are deemed nonexistent would formal bankruptcy proceedings be instituted.

French Socialist-Communist Alliance Near Breakup?

At the instigation of President François Mitterrand, the French Socialists brought a confidence motion to a vote in the National Assembly on April 20 to test the willingness of the Communists to continue their support of the government coalition in which they are presumably partners. The Communists did vote for the govern-

ment, which won the balloting by a 329-156 margin, with one abstention. However, the strains in the coalition are now so obvious that many political observers predict the breakup of the "union of the left" in the near future.

In the debate preceding the voting, Communist speakers again harshly criticized the government for its alleged inability to deal effectively with the country's major economic problems of unemployment, incomes, and industrial policy. Guy Hermier, a top party official, said the Mitterrand administration has been ignoring the recommendations of the Communists, who have four ministers in the cabinet. Speaking for the Socialist majority in the administration, Prime Minister Pierre Mauroy adopted a conciliatory tone but, nevertheless, warned that the government would stick to its guns in making further painful, but necessary, structural changes in French industry.

The policy differences between the French government partners reached a climax last month when Communist party leader George Marchais decided to join an April 13 protest march of steelworkers demonstrating against the government's steel industry plan.

Austria: Government Acts to Contain Spread of Forest Blight

The alarming spread of pollution-caused forest blight in Austria has persuaded the government to rush through an emergency clean air program to take effect beginning on July 1. The latest statistics of the Agricultural Ministry classify about 300,000 of Austria's 3.7 million hectares of forests as "heavily damaged"; last year, the ministry had listed 200,000 hectares in that classification. The new program would lower the maximum levels of permissible pollution emissions, cover smaller installations for the first time, and extend emission controls to existing installations as well. The law would require the authorities to track down polluters and force them to comply with the rules.

The legally permissible emissions of sulfur dioxide would be more than halved, from 850 to 400 milligrams per cubic meter; eventually this ceiling would be lowered to 200 mg. All power plants with a capacity in excess of 200 megawatts would have to lower their sulfuric emissions by at least 90%. Existing plants would be given a transition period of up to five years for compliance, and those that could not meet the stricter requirements would have to be shut down. The country's electric utilities would have to submit pollution control plans for each of their plants by the end of this year.

Another element in Vienna's new program is the gradual reduction of the sulfur content of heating fuels beginning on July 1. Austria also plans to adopt the proposed stricter emission controls for automobiles that two neighboring countries, Germany and Switzerland, propose to implement by 1986. By that year, newly registered cars would have to be equipped with cata-

lytic converters, while a five-year transition period would apply to older motor vehicles. Austria's nationalized oil company, ÖMV AG, would thus have to ensure supplies of unleaded gasoline by 1986.

Higher Pension Contributions, Lower Benefits Proposed

Contributions to Austria's old-age pension system, shared by employers and employees, will be raised by one percentage point as of Jan. 1, 1985, according to a proposal approved by the coalition government last month. At the same time, social security benefits are bound to decline in the future, since the assessments would be based on the last ten years, rather than five years, of employment income. Parliament is expected to approve the package in the near future.

The government was forced to act quickly because Vienna's generous social security policies of the 1970s have resulted in a tremendous drain on the budget. Last year alone, the state contributions to the old-age pension funds totaled 39.2 billion schillings; for 1984, a total of 41.6 billion schillings is expected. Without the new program, the budget contributions to the system would rise to nearly 84 billion schillings by 1990. Within the last ten years, social security payments to retired persons have doubled in nominal terms. On the other hand, the proportion of working persons to pensioners has steadily declined: in 1979, the ratio was still 2 to 1, today it is 1,000 to 527, and by 1990 it is expected to drop to 1,000 to 648. The government hopes to save a total of 63 billion schillings by 1990 if these latest proposals are adopted.

Britain: U.S. Firms Lead Steep Foreign Investment Rise

Foreign investment in the U.K. jumped by 58% in 1983, led by U.S. businesses, which accounted for 127 of the total 210 new investments. Continuing their role as the most active foreign investors in Britain, American companies created 10,828 jobs and preserved another 10,101. (The rate of foreign investment in Britain, already at its highest recorded point, continued to rise in the first quarter of 1984.)

Germany ran some distance behind the U.S. as the second largest foreign investor, with 23 projects accounting for 353 new jobs and the safeguarding of 3,063. Japan followed with ten investments, which created 938 jobs and secured 2,906. Since 1976, the Japanese share of foreign investment in the U.K. has risen from 2% to over 5%. By contrast, the share of EEC-based investors has declined from 21% to 9%.

Industry Minister Norman Lamont said the gradual elimination of first-year allowances on capital expenditures will have only a slight effect on foreign investment. However, he said, investment

in the U.K. should be spurred by the reduced corporation tax announced in the new Budget - the lowest such tax in the Community, excluding Ireland, Jersey, and Guernsey.

Document on Restructuring of U.K. Stock Market

The London Stock Exchange has published a discussion paper setting out various radical proposals for the restructuring of the whole stock market system in the U.K. The proposals are intended to deal with the new situation in the British securities market after the forthcoming removal of fixed commission charges on share transactions.

The publication of the paper follows an agreement last year between the Stock Exchange and the government's Dept. of Trade and Industry after lengthy litigation by the Office of Fair Trade, which alleged restrictive practices by the Exchange. It was decided that, in return for the court action's being dropped, the Stock Exchange would abandon its minimum commission scales by the end of 1986 and would review the present system of "single capacity in dealing," by which the functions of stockbroking and stock jobbing (market making) are kept separate.

In the place of the separate broking and jobbing functions, the Stock Exchange favors a "competing market maker system," whose participants would be broker-dealers who could register as market makers. A special quotations dissemination system would relay dealing prices to competing market makers. Another option is an "auction system with specialists," with certain firms specializing in the block trading of active securities. Although such a system operates effectively in New York, the Stock Exchange has doubts whether it would be workable in the U.K., "where the variety of securities listed is far wider than in any auction market in the U.S."

For the gilt-edged market, the proposed system for dealing in government securities envisages that various broker-dealer firms would be recognized by the Bank of England as "primary dealers," who could make markets and deal with other firms and investors directly. The new system would probably be modeled on the market for Treasury bonds in the U.S.

The present restriction limiting outside ownership of a member firm to a 29.9% shareholding would disappear. Also relaxed would be the requirement that a non-member firm cannot have an interest greater than 5% in a Stock Exchange firm when it already owns 29.9% of another such firm. There would be a two-tier system of individual membership in the Exchange - "principal" members, to include all executive directors or partners of member firms, and "representative" members.

Common Market Reports

EUROMARKET NEWS

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Community: Campaigns for Second EP Election Under Way

The political parties in the ten Member States have launched their campaigns for the second direct election to the European Parliament. Time for campaigning will be short because voters in Denmark, the Netherlands, Ireland, and the U.K. will go to the polls on June 14, and voting in all other States will be on June 17. Around 190 million people are entitled to vote for the 434 members of the European Assembly *(Common Market Reports, Par. 4306.08)*. The briefness of the election campaigns is in keeping with Parliament's role and functions: the EP has primarily advisory and supervisory tasks but no legislative powers, except in the budget area *(Common Market Reports, Pars. 4301, 4302.05)*.

Since the EP is not a Community legislature that can be judged on its performance, the political parties have difficulties conducting genuine campaign programs. In any case, real programs would have little influence on the development of the Community, and therefore the political parties are trying to attract the voters' attention by stressing issues rather than programs.

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

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Two major issues are the political integration of Europe and the precarious present situation of the European Community - topics that are very much on the minds of millions of Europeans who experience the lack of progress in their daily lives, such as when traveling between Member States. On both issues the candidates running on national tickets of the different political parties have no lack of arguments. In fact, the candidates can even point to a number of accomplishments of the current EP.

A notable feature of the present Parliament is the positive way in which it has developed its role as a watchdog, especially in the budgetary field. By putting a temporary freeze on the British rebate, the EP has for the first time become actively involved in the current negotiations between the U.K. and the other Member States. Moreover, Parliament has taken the initiative and presented reforms on Community finances, transport (a suit against the Council of Ministers is pending before the European Court of Justice), and development aid. In addition, the EP has increasingly become an international forum for various issues, such as world hunger and economic recovery.

Doubts About Sept. 30 Deadline for Accession Talks

There are increasing doubts about the viability of the Community's political commitment to wind up the negotiations on the accession of Spain and Portugal by Sept. 30. This date was set by the Council of Ministers last January after France abandoned its wait-and-see attitude on the matter. The goal of winding up the accession talks was confirmed by German and Dutch government leaders in recent visits to Madrid and Lisbon. However, even Spain's foreign minister, Fernando Moran, has conceded that the Community must first settle its differences over future budget financing before the negotiations can be concluded. Only a settlement of the issue of Britain's contributions to the EC budget and additional financial resources will clear the road for the third enlargement of the Community on Jan. 1, 1986.

Many Brussels observers no longer consider Sept. 30 a realistic date for the conclusion of the accession talks, despite the recent progress in patent matters, because several issues have not been tackled at all. For example, the fisheries policy has not even been introduced to the EEC-Spain negotiations. The Community has not been able to arrive at a common position because its main fishing nations (Britain, Denmark, France, and Germany) are concerned that any disputes about concessions to Spain could jeopardize the still fragile common fisheries policy.

In Brief...

The European Commission is reportedly determined to wind up its case against International Business Machines Corp. with a formal

decision rather than a settlement. The decision, expected in about two months, would charge IBM with having abused its market-dominating position under Treaty Article 86 by withholding from its competitors technical information about its medium-sized and large computers. The decision would require IBM to publish technical details about the interfaces of its new computers within one month after they are first announced. IBM's current practice is to disclose the details after the computers are shipped to customers. In addition to the disclosure requirement, the Commission could also impose a fine of up to ECU 1 million or the equivalent of 10% of IBM's annual sales. An IBM spokesman still does not rule out a negotiated settlement + + + Tokyo's recently announced measures to liberalize Japan's trade with the Community (and the United States) would reduce tariffs on some 60 items, including mining products, plywood, and color print paper. These reductions would come two years ahead of the schedule agreed on under the GATT Tokyo Round. Tariffs on around 40 agricultural products would be reduced one year ahead of schedule. Import quotas for a number of farm products such as citrus fruits and beef would be raised. The measures would also include the relaxation of the rules on recognition of test results and industrial standards of imported products. In a first reaction, Commission officials said that the measures still fall short of what had been hoped for in Brussels.

Denmark: Copenhagen Presents Another Austerity Plan

The Danish center-right government has presented a new budget savings package for 1984-85 surprisingly early, thereby underscoring its determination to continue the economic austerity course it started in 1982. The package is made up of 13 separate bills and seeks to consolidate the country's financial recovery through budget savings of DKr 1.5 billion for the remainder of this year and DKr 4 billion in 1985.

The most controversial aspect of the program is Copenhagen's intention to continue the suspension of wage indexation and to permit pay raises of no more than 2% in each of the fiscal years 1985-86 and 1986-87. (Under the present incomes policy, pay raises have been restricted to 4% annually for a two-year period ending in the spring of 1985.) The government says a further slowdown is necessary to enable Denmark to remain competitive with its major international trading partners, which are benefiting from lower inflation in their countries. Other proposed measures in the program include DKr 500 million in additional taxes on cigarettes and beer, a freeze on unemployment compensation, higher contributions to health and unemployment insurance, and the abolition of state subsidies for certain products such as margarine and skimmed milk.

The labor unions regard the government's new proposals for further income restrictions as an attack on the collective bar-

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gaining process, and the employers have also expressed misgivings. Knud Christensen, the head of the national labor federation, predicted "tough negotiations" next fall and expressed regret that Copenhagen had failed to consult the unions and the employers before drawing up its plans. The employers' federation, while favoring the complete abolition of wage indexation, feels that such a decision should be left to union-employer negotiations and not be enforced by political means because the flexibility of the labor market would suffer as a result.

Undaunted by these objections, the minority government of Prime Minister Poul Schlüter has already assured for itself the support of the Liberals for the program, which is expected to bring the budget deficit down from a projected DKr 53.5 billion to DKr 50 billion this year and from DKr 50 billion to DKr 45 billion in 1985. Thus the deficit would shrink from 10.7% of GNP in 1983 to 9% in the current year, and to 7.7% in 1985.

Danes Want Natural Gas as Primary Energy Source

The Danish government plans to make natural gas the country's main energy source and, at the same time, ensure the financial survival of the state oil and gas company, Dansk Olie og Naturgas (DONG). The company is sitting on huge gas reserves because of slumping demand, dropping gas prices, and high interest rates. To boost gas consumption, the government has decreed the conversion of several electric power plants from imported coal fuel to gas.

According to plans dating back to 1979, DONG was supposed to have produced, as of October 1984 and over a 25-year period, a total of 55 billion metric tons of natural gas from Denmark's North Sea oil sector. The plans also foresaw profitability by 1987, but the latest estimates put that target off until the year 2005. To help keep the company afloat, the government plans to have DONG nearly double its capital to DKr 1.94 billion over the next two years. In addition, Copenhagen intends to provide interest-free loans of about $40 million annually between the years 1987 and 2005. For the short term, about DKr 8 billion in new subsidies and loans would be allocated.

France: Creusot-Loire Asks for Debt Moratorium

Creusot-Loire, France's leading engineering group, on April 25 sought temporary protection from its creditors under the French equivalent of Chapter XI bankruptcy provisions, following the government's refusal to provide the company with another FF 2-3 billion in aid. French bankruptcy law allows a three-month moratorium on the debts of a company while restructuring plans are prepared. Creusot lost some FF 1.4 billion last year, including a FF 400 million provision for its U.S. subsidiary, Phoenix Steel Corp., which filed under Chapter XI last August.

As part of a FF 6 billion aid package worked out with the government last November, the state took control of some of Creusot's loss-ridden steel groups and bought 20% of the company's Framatome nuclear energy subsidiary. However, Creusot's losses ran higher than expected, and last month the company asked the government to take over its remaining steel operations and consolidate its debts. Paris is still waiting for Creusot to uphold part of the November bargain - raising FF 500 million through a convertible bond issue.

The state is also reluctant to increase aid to Creusot because of the financial problems with nationalized industries as well as rising unemployment. Usinor, one of the state's major steel holdings, posted a 1983 loss of FF 5.33 billion, up from FF 4.9 billion in 1982. Some 20,000 steelworkers are being laid off nationwide in an attempt to return the industry to profitability. Layoffs have also been announced recently in other French industries, led by reductions of 6,000 workers in Peugeot's Citroen unit and up to 7,000 in the Michelin tire company.

Germany: Exporters Regained Ground, Bundesbank Says

Relatively low wage increases in the last three years have enabled German companies to regain some of the ground they lost on markets abroad since the mid-1970s, according to the Bundesbank. In its annual report covering the economy's performance and its own (a DM 13 billion profit), the central bank points out, however, that German manufacturers of high-technology products fell further behind their Japanese and U.S. competitors. In 1972, German manufacturers of computers, electronic tubes, transistors, measuring and medical instruments, and communications equipment sold 26% of their production abroad, but by the end of 1982 this share had dropped to 17%. By contrast, American exporters of high-tech products increased their share to 37%, up from 32% in 1972. Japanese manufacturers practically doubled their export share from 13% to 25% during the 1972-82 period.

The report comes at a time when the government, the employers, and the unions are engaged in a debate over the pros and cons of a 35-hour workweek without any loss in pay. The Bundesbank points out that Germany was able to post a substantial trade surplus in 1983 (DM 10 billion, as against a DM 28.5 billion deficit in 1980) largely because the unions showed restraint in their wage demands, which made the costs of German exporters rise at a slower rate than those of their competitors. However, the Bundesbank does not have only praise for the unions: it opposes the argument of union leaders that German products could be sold for less if the deutschmark were devalued. Union leaders believe that a devaluation could compensate for the additional costs that German exporters would incur as a result of the introduction of the 35-hour workweek. The Bundesbank concedes that the D-mark's decline in value since 1979, especially against the U.S. dollar,

has improved the position of German manufacturers abroad. However, price increases caused by more expensive imported products have reduced real-term incomes in Germany. Only a strong currency can bring lasting improvement to the competitive standing of manufacturers, the report concludes.

Britain: Agreement on Current-Cost Accounting Standard

The U.K.'s Accounting Standards Committee has reached agreement on a new formula for an adjusted form of current-cost accounting, to replace the present controversial SSAP 16 standard. A statement of intent for a new standard has been unanimously approved. The new rules will apply to all public limited companies whose shares can be offered for sale to the public, but they will not be applicable to small companies and nationalized industries. "Value-based" companies, such as investment funds, unit trusts (mutual funds), and insurance companies, will also be exempted from the provisions, as at present.

From the beginning of next year, public limited companies (PLCs) will have to show adjustments for inflation. These adjustments will be regarded as a requirement for "a true and fair view." Any qualifying of the accounts by the auditors would result in noncompliance. The Stock Exchange will also play a part in enforcing compliance, since having true and fair accounts will be essential for a continued stock market quotation.

The statement of intent indicates that inflation accounting will in the future be a part of the main accounts, rather than part of an appendix. However, the current-cost information will be in notes to the accounts rather than a part of the principal profit and loss statement. There will be adjustments to the historic-cost profit to allow for inflation with respect to depreciation, inventories, monetary working capital, and fixed assets. Companies will be given three options concerning gearing adjustments (the ratio of borrowed capital to share capital). They may either continue the current-cost adjustments specified in the current SSAP 16, adjust the geared portion of valuation gains, or cut interest charges by the rate of inflation.

The new standard is unlikely to be finally approved before the middle of next year, but it will be operative for corporate financial years starting on Jan. 1, 1985. Observers believe that there will be a far higher level of compliance than there is at present with the much-criticized SSAP 16.

U.K. Trade Unions Lose Members, Gain Assets

The trade unions in the U.K. are continuing to lose members at a substantial rate, even though union assets have shown a marked increase, according to the newest available figures. Total membership of 456 U.K. unions at the end of 1982 was 11.744 million,

600,000 less than a year earlier. Seventy-one percent of the total represented the larger unions, with at least 100,000 members.

On the other hand, union assets expanded by over £87 million to £474.4 million in 1982. Fixed assets accounted for nearly £127 million, and £215 million was in the form of investments that produced an income of almost £31.5 million. During 1982, the unions had an aggregate income of some £370 million and spent just over £310 million.

According to the newly published statistics, 59 unions maintained political funds, to which over 80% of their membership contributed. The total income from these funds amounted to £7.1 million, most of which was donated to the Labour Party. Conservative members of Parliament have criticized the present system, under which a union member automatically pays this political levy with his dues unless he specifically requests that such a contribution be withheld. However, the government has decided not to make any change in the system for the time being.

Observers believe that the downward trend in union membership is continuing because of the economic recession and the sustained high level of unemployment, particularly in the manufacturing sectors.

Portugal: Economic Ills Cloud Tenth Anniversary of Revolution

The tenth anniversary of the Portuguese revolution, on April 25, has been celebrated in a muted manner: the 1974 uprising against a dictatorship of nearly half a century brought about welcomed political changes but very little economic progress. Portugal's anticipated accession to the European Communities, probably in 1986, will certainly bring improvements. For the time being, however, the Portuguese have to cope with harsh economic realities.

The country's economic situation in early 1984 is marked by declining growth, rising unemployment, revived inflation, and shrinking real-term incomes. At the same time, private and public-sector consumption continues to exceed levels dictated by common sense and the government's austerity policy. Unemployment was estimated to have reached 12% at the end of the first quarter of 1984, half of it afflicting young people looking for their first job. Industrial production is on the decline, especially for capital goods. Consumer prices rose by 30.8% in annual terms in the first three months of the year, and the upward trend is continuing.

The difficult economic conditions have not helped to attract foreign investment. What little activity there is usually comes in the form of individual projects. Last year, the authorities approved new investments valued at about 16 billion escudos, but one-third of this total was contributed by Renault, the French car maker. The government is now easing its currency controls to

attract more foreign investors. Last month, for instance, the cabinet cleared the way for modified rules that will allow non-residents to open foreign currency deposits at authorized banking institutions. Interest from such deposits will be exempted from capital gains tax.

EURO COMPANY SCENE

Mercury Communications Ltd. and Western Union Telegraph Co. are launching a joint telephone and data service between New York and London, scheduled to begin in August. Customers of the new service, Americall, will pay for the right to transmit their calls by satellite during certain daily intervals. Mercury claims Americall will be cheaper than leased lines for business users, although both the caller and the receiver will be charged for the calls.

Electronic Data Systems Corp. of Dallas has obtained for an undisclosed price the data processing subsidiary of Holland's Rijn Schelde Verolme Machinefabrieken Scheeoswerven NV (formerly RSV Data). The acquisition will come under EDS's Dutch subsidiary, EDL BV. However, it will operate independently as the base for the European expansion of EDS processing services.

The Turkish government has surprised ITT Corp. by saying that negotiations are still open on the $300 million digital switching equipment order that ITT thought it had won. Company spokesmen in Brussels said that Turkey had indicated in a letter of award that the deal would go to ITT, though a formal contract has yet to be signed. ITT's main competitors for the order are Sweden's L.M. Ericsson and Germany's Siemens.

ZF-Spicer International will be the name of a partnership venture to be composed of the truck transmission activities of Dana Corp., Toledo, Ohio, and those of Germany's Zahnradfabrik Friedrichshafen. Dana said it has agreed in principle to this merger, which is expected to generate about $550 million in sales during the first year. The joint venture will cover five Dana transmission plants in the U.S. and England and three Zahnradfabrik plants in Germany and Brazil.

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Community: Taking a Look at Legal Professional Secrecy

The European Parliament has asked the EC Commission to look into the fundamental problems confronting lawyers with respect to professional secrecy when rendering services in a Member State other than their own. In a recent resolution, the EP called on the EC Executive to consider the issues evolving from the protection of legal professional secrecy when applying EEC competition rules. The EP wants the Commission to look into these problems, in collaboration with the EEC Consultative Committee of Bar Associations, and propose solutions.

An attorney who is admitted to the bar of his home State and represents a client in another State must observe the rules of professional conduct of the host State without prejudice to the obligations imposed by his home State. An analysis of the Member States' provisions on professional secrecy shows that, although all States recognize the same basic principles, there are considerable differences in practice, especially in criminal trial procedures.

The EP realizes that the ideal of putting protection of

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confidential information on the same level in all States through identical provisions is unattainable at this point because the codes of procedure and the national laws governing the exercise of the liberal professions would have to be harmonized. However, Parliament believes that lawyers providing services in other States could be adequately protected by subjecting them to the laws of the host State and releasing them from any statutory obligations of their home States. This way these lawyers would be spared being subjected to two different sets of rules on professional responsibility.

The EP has also called on the Commission to review the problems that have arisen in the application of Article 14 of Regulation 17/62 concerning the Commission's powers of investigation *(Common Market Reports, Par. 2531)*. Parliament wants Community law to extend the legal professional privilege to lawyers employed by companies as well as to practicing attorneys from third countries. These problems are illustrated by the Court of Justice's 1982 decision in *A M & S Europe Limited v. Commission* (Case No. 155/79; *Common Market Reports, Par. 8757*). The Court restricted application of this privilege to written communications from or to an independent lawyer. The Commission decided in June 1983 not to extend legal protection of confidential documents to lawyers employed by companies in the Member States.

Seeking Turkish Concessions on Free Movement Issue

The German government is trying to persuade its Turkish counterpart not to insist that Turks be allowed to move to Germany after Dec. 1, 1986. (Free movement of Turkish nationals is to be lawful as of that date under the 1964 EEC-Turkey association agreement - *Common Market Reports, Par. 5346.11*.) Germany, which has some 1.5 million Turkish residents, would be most affected if Turks had that freedom of movement. Germany and Turkey have a long history of close ties; however, relations have deteriorated over the past few years because of tensions between Germans and "guest workers."

Several German government ministers have traveled to Ankara in recent months to negotiate a bilateral agreement to restrict the exercise by Turks of the right of free movement. Germany, which is currently offering financial incentives to aliens if they leave the country permanently *(Doing Business in Europe, Par. 40,550)*, is prepared to grant additional aid. Although Bonn is offering less than Turkey wants, government officials in Bonn are confident that an agreement will still be reached.

The association agreement allowing statutory free movement of Turks in the Community is not a bilateral one with Germany but one with the Community as a whole, Community lawyers point out. Furthermore, the uncurtailed exercise of the right of free movement by Turkish nationals could worsen the situation of Turks who are already in the Community. Turks live for the most part in

substandard housing and, because of their lack of training, have the highest rate of unemployment among aliens. Commission lawyers see no need for renegotiating the EEC-Turkey agreement in order to take into account the Community's current situation, which neither side anticipated when the accord was signed. It is expected that the Turkish government will not press its case too hard.

In Brief...

Of all the EEC Member States, Germany ranks first in production costs. In an analysis made by the Institut der deutschen Wirtschaft covering labor cost developments in 1983 in 18 Western industrialized countries, the industry-supported economic research institute puts the overall hourly labor cost in Germany at DM 27.42, followed by the Netherlands with DM 26.30 and Belgium with DM 24.57. Worldwide, labor costs are the highest in the United States (DM 31.13), followed by Canada (DM 30.79) and Switzerland (DM 29.43). The rise of the U.S. and Canadian dollars as well as the Swiss franc against the German mark in 1983 is largely responsible for the fact that the labor costs in these three countries moved to the top. Important for EEC-Japan trade relations is the fact that hourly labor costs rose faster in Japan in 1983 than in any other country (to DM 19.05) and have surpassed those of the U.K. (DM 17.13) + + + The inflation rate in the Community dropped in March to 7.9%, which for the first time since 1978 put it below 8%, according to the EC Statistical Office.

Germany: Tax Reduction Bill Taking Shape

The German government's tax reduction bill is gradually taking shape, and although some details will not be filled in until the end of this month, it is certain that the measure will take effect on Jan. 1, 1986. Finance Minister Gerhard Stoltenberg's idea of enacting the planned tax cut in two steps - relief for families as of 1986 and for all other individual taxpayers as of 1988 - met with opposition from his own Christian Democratic party and was flatly rejected by the Free Democrats. Stoltenberg wanted to continue on his course of rigorously cutting back public-sector borrowing for at least another two years.

Under the provisional agreement of the governing coalition parties, the country's 25 million individual taxpayers can count on tax relief amounting to some DM 20.6 billion as of 1986. Family providers would benefit from substantially higher exemptions for each child (at an estimated loss to the treasury of around DM 5.7 billion). All taxpayers would be entitled to higher basic exemptions (at an estimated treasury loss of DM 2.6 billion) and otherwise would generally feel less of a tax burden (DM 12.3 bil-

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lion). The latter would be achieved by slowing the tax progression; thus the relief would be felt especially by taxpayers with medium and upper incomes.

Still open is how to plug at least partially the resulting DM 20.6 billion gap in the federal and state treasuries. The states, which receive a large portion of income tax revenue through the revenue-sharing system *(Doing Business in Europe, Par. 23,392)*, have demanded some compensation for the expected loss in revenue. Without a satisfactory solution to this problem, the bill would have little chance of being approved by the Bundesrat, the upper house, despite the fact that the Christian Democrats have a majority there. A value-added tax boost of one-half percentage point (from 14% to 14.5%, *Doing Business in Europe, Par. 23,375)* would be an option. Increased borrowing would be another. It seems certain that the insurance tax (payable on insurance contracts other than life) will be raised from 5% to 7%, yielding some DM 1.2 billion annually. A number of subsidies and tax relief provisions would be repealed to save DM 5 billion. A continued economic upswing would yield approximately DM 4-5 billion in additional tax revenues.

France: Program to Encourage New Innovative Businesses

Draft legislation proposed on May 2 by Finance Minister Jacques Delors aims to stimulate the creation of new businesses in France and thereby promote "a more flexible, innovative economy, better adapted to react quickly and effectively" to international competition. The package, which the Socialist government describes as one of its most important since it took power in 1981, was given its first reading in the National Assembly on May 3.

The three principal elements of the program entail the establishment of risk capital ventures, the promotion of company buyouts, and the expansion of stock option plans for managers. The government said earlier that the new program is being presented at a time when French business investment is on the way up again: contrary to most expectations, investments went up by 1% in 1983, and this year they could rise by 5-7%, according to official projections.

Under the new legislation, the creation of risk capital ventures would be favored by offering tax advantages for the establishment of small and medium-sized companies focusing on new products and technologies. The government's idea is to spread the financial risks entailed between innovative financing companies and the venture enterprises. Also, by going through risk capital funds, investors could qualify for tax deductions as they buy into unlisted companies.

By treating the purchase of share holdings as a tax credit, the government would encourage managers to acquire their company's operations with outside financial support. Under the same proposal, new financial companies would be able to take control

of financially troubled businesses that are technically sound. Such a procedure would, for instance, benefit family-held businesses that would normally face liquidation because of succession disputes.

A third major part of the program is to improve the terms under which managers may exercise their share purchase options. For instance, executives could also purchase shares of direct or indirect affiliates of the parent company. The bill extends from three to five years the period during which an employee could hold shares purchased under an option plan without paying tax on the dividend income. Delors said this would offer a "powerful incentive" to managers to become more involved in their companies.

Small Foreign Share in French Cable Television

On May 3 the French government paved the way for the introduction of cable television in France, while making it clear that foreign companies will have little part in the venture. Louis Mexandeau, minister of post and telecommunications (PTT), said openings for foreign firms would depend on the development of open markets in other European countries.

The two initial contracts for the wiring of a total of 320,000 homes by next year went to a joint venture between Valec and CGCT, the former French subsidiary of ITT, and to LTT, a holding of the nationalized CIT-Alcatel telecommunications group. The total cost of the first-year wiring of optical fiber cables will be FF 1.3 billion, with much of the cost borne by the PTT. The Socialist government plans to have six million homes hooked up by the middle of the next decade. Local cable networks will be run by "mixed economy" groups, composed of private and public interests. Foreign programs will be limited to one-third of all programming on each local network.

The government also gave permission for private radio stations to run commercial advertisements and decided to launch a pay-TV service by the end of the year.

Netherlands: EEC, Central Bank Reports on Economic Progress

The fight against high unemployment and the reduction of the public deficit must remain the most urgent priorities of Dutch ecomomic policy, despite first indications of a modest economic recovery, according to the Dutch central bank and the European Commission. However, while the central bank, in its annual report, emphasizes the absolute need for further cuts in the state deficit, the Commission survey cautions that such efforts should not be too much at the expense of domestic demand and the fledgling upswing. Both the central bank and the EEC report have been issued at a time of lively political discussion in the Netherlands

over next year's budget policy approach, the necessary budget savings, tax relief for businesses and individual taxpayers, and employment policy.

At 15%, Holland has one of the highest European unemployment rates, and the Commission says that the rate may climb as high as 17% within the year. The country's public-sector deficit rose from 10% to 11.6% of national net income last year, and for this year the government is aiming for 12.1% - a rate that the EC Executive thinks can be improved upon. By 1986, The Hague plans to reduce the rate to 7.4%.

Among the most positive factors of recent economic development, the Commission survey cites Holland's relatively low inflation rate, a fine export performance, and improved business profitability. Brussels' predictions for the current year are an inflation rate of 3%, export growth of 4.5%, and GNP growth of 1.5%. The expectations for an upswing in private consumption are not optimistic, mainly because of the government's strict budget consolidation policy and the prevailing wage curbs.

Pointing to visible economic improvements of late, the Dutch labor unions are pressing more and more for government measures that would stimulate job-creating investments, The employers, on the other hand, insist that The Hague keep its promise of 2 billion guilders in additional annual relief for businesses. As a compromise formula, central bank president Willem Duisenberg suggests in the annual report that these 2 billion guilders, plus 5 billion guilders in allocated investment aids, be used to reduce the employers' social insurance contributions and not for tax relief or investment aids. In this way, Duisenberg argues, the government would favor the labor factor rather than subsidizing the capital factor, which is less costly, anyway. At the same time, the labor market would profit because the booming export industry is capital-intensive and provides fewer jobs than in the past.

Greece: Athens Sets Up Trade Intervention Office

The Greek parliament has passed legislation for the establishment of a state Trade Intervention Office (Embo), which will be engaged in "import, export, market research, and the procurement and sale of products...to meet the demands of both the private and public sectors." The Office, in which the state is the sole shareholder, will finance itself from subsidies and its own revenues. Along with the Embo law, Parliament also passed very controversial amendments to the market organization code. Among other things, the new rules will require manufacturers, wholesalers, and importers to issue price catalogues, authorize the Trade Ministry to impose minimum prices and ask any business for certain information, and tighten bookkeeping requirements (for instance, to reflect production costs more precisely). Other intended amendments will be included in a separate bill.

Norway: Oslo Reaches Agreement on Statoil's Future

Norway's governing Conservatives, under Prime Minister Kaare Willoch, and the opposition Social Democrats have come up with a compromise plan to reduce the power of Statoil, the national oil company. The Conservatives have always been wary of the increasingly powerful economic and political role of the state group, which was founded 12 years ago and is on the verge of becoming Norway's No. 1 company, rivaling Norsk Hydro. Last year Statoil reported a turnover of NKr 26.3 billion, of which the state received NKr 7.5 billion in taxes, dividends, and other revenues. Under existing rules, Statoil itself predicts a gross income in the year 2000 of NKr 120 billion (at 1983 prices). This enormous growth potential and the inherent political clout in terms of Norway's North Sea oil wealth have raised fears of Statoil's becoming a "state within a state."

The new framework agreement, in the form of a White Paper, is to ensure that there will be political permanence to Statoil's future role, even if the Social Democrats regain the government. Under the plan, the Conservatives promise that Statoil will continue to be awarded at least 50% of all new production licenses on Norway's shelf. The opposition had wanted the company to receive a higher percentage. Another compromise neutralizes the company's veto power, unless the Oil Ministry steps in and decides the veto is of "vital" concern to Statoil. A part of the gross revenues will go directly to the state budget in the future and not into the company's cash flow. Under the new rules, the government expects Statoil to have a yearly profit of NKr 70 billion (in 1983 prices) by the year 2000, of which 95% would accrue to the state.

Willoch's efforts to reduce Statoil's holdings in the oil concessions came in the face of pressure by foreign oil companies, including complaints that Norwegian taxes, at rates of up to 85%, are too high. In the most recent round of offshore licensing, Oslo offered foreign companies large shares in 14 exploration concessions.

Switzerland: Bern Remains Adamant on Motorway Tax

Despite vehemently negative reactions from abroad, particularly from neighboring Germany and the European Community, the Swiss government has made it clear that it will impose an annual SF 30 tax on the users of the country's motorways as of next year. The decision for such a tax was made by the Swiss voters in a national referendum last February.

Swiss president Leon Schlumpf, who also happens to be the Swiss transport minister, said it is not within the powers of the federal government to change the voters' verdict, even if it wanted to. He said the EEC had weak grounds for criticizing the decision because two of its Member States, France and Italy,

collect motorway tolls far in excess of those planned for Switzerland. For example, a one-way trip from Paris to Switzerland, Schlumpf said, costs more in French toll charges than the proposed annual Swiss levy.

Schlumpf also rejected suggestions that motorists from Germany, the Benelux countries, and Denmark be exempted from paying the levy since these countries do not impose such taxes. He said the introduction of the levy (plus one on trucks and buses) is not discriminatory because it affects Swiss motorists as well. He further pointed to the fact that Swiss tourist buses are subject to a German levy of 0.7 pfennig per kilometer/passenger. Schlumpf was reminded by his German counterpart, Transport Minister Werner Dollinger, that a 1928 treaty between Germany and Switzerland provides for mutual exemption from any type of border-crossing charges. The treaty is not applicable in this case, Schlumpf said, because the forthcoming levy covers only the Swiss motorway network (about 1,000 kilometers) and not the country's other roads (more than 60,000 km).

Despite its rejection of the criticism from abroad, the Swiss government admits to facing big problems in implementing the tax. (The government had, in fact, opposed the proposal but was overruled by Parliament and the voters.) Bern expects to collect SF 250-300 million annually, 80% of that from foreign motorists. However, administrative costs will be high, considering that 10-12 million tax stickers *(vignettes)* are expected to be sold. Additional personnel at the border checkpoints will be required, and commissions will have to be paid to foreign automobile clubs and travel agencies selling the stickers abroad.

Even Swiss commentators say that the administrative costs and additional personnel and bureaucracy required to collect the tax tend to cast a big question mark on the whole thing. They also wonder about the reactions of foreign tourists confronted with long queues at the border checkpoints and "sticker controls" by the highway police.

Yugoslavia: Price Freeze Lifted on Some Consumer Goods

The Yugoslav government started its planned economic reforms on May 3 with a partial lifting of the price freeze placed on consumer goods last December. While prices of basic foodstuffs, transportation, and energy remain government-controlled, drastic increases are expected in the prices of other consumer goods.

Loosening the controls was one of the conditions imposed by the International Monetary Fund and western banks and governments for further aid to Yugoslavia, which already owes $20 billion. Belgrade expects prices to stabilize by December and hopes to reduce inflation by then from 60% to 40%. Interest rates will be stepped up gradually from 30% on May 1 to 41% on April 1, 1985. The government is also trying to eliminate drastic changes in the dinar's value by devaluing it in accordance with the average inflation rate of 12 other currencies.