Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: German-French Legal Clash on Car Emissions

The criticism from several Member States of Germany's legislative plans for strict emission standards and tax incentives for buyers of "clean exhaust" cars has taken on a legal dimension, with France lodging formal objections with the European Commission. (The standards would apply to all cars made in or imported into Germany as of 1989 or, for cars with two-liter engines, as of 1988.) The French government maintains that the proposed standards would be tantamount to a quantitative restriction, which is prohibited under Treaty Article 30 *(Common Market Reports, Pars. 321, 322)*. The French say that the Germans are going too far with the standards (modeled after U.S. standards) and that there is no scientific proof that automotive exhaust is one of the causes of forest blight. Speed limits, which the German government has so far refused to impose on major highways, would be just as effective in lowering toxic automotive exhaust, France maintains. Paris wants enactment of the proposed standards to be delayed 12 months.

The German tax incentives for buyers of new models are viewed by France as an illegal state aid prohibited by Treaty

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Article 92 *(Common Market Reports, Pars. 2921, 2922)*. The Commission must do everything in its power, the French government says, including bringing action before the European Court of Justice, to prevent passage of the German tax bill. (The bill provides for exemption from motor vehicle registration tax for two to ten years for new models, depending on engine size - *Doing Business in Europe, Par. 40,604.)*

The French government invoked Community law in lodging its formal objections to the proposed standards and calling for a 12-month delay in their enactment. A 1983 Council directive, in effect since April 1, 1984, requires every Member State to immediately communicate to the Commission any proposal setting forth new technical standards. (The German government's proposal was communicated on Oct. 31, 1984.) After receiving the proposal the Commission should immediately inform the other States about the planned measure. The Commission and any Member State may then submit comments to the proposing State. Also, within three months of the date the proposed measure was notified, they may submit a detailed opinion asking that the contemplated measure be amended to avoid creating a barrier to the free movement of goods within the EEC. (The French government did so on Jan. 31, the last day of the three-month period.) Where such an opinion is submitted, the Council directive requires the proposing State to postpone enactment for six months. Since the Commission has submitted its own proposal on the matter *(Common Market Reports, Pars. 10,589, 10,632)*, France is demanding a 12-month postponement, as the directive also provides.

Germany says it is not bound by either the six-month or the 12-month requirement because, under the directive, neither requirement applies if a State is forced to enact the standards immediately for urgent reasons of public health or safety.

If a compromise is not reached, Commission and German government lawyers say, only a Court of Justice decision could resolve the matter.

Record Number of Community Actions Against States

In 1984 the Commission moved against Member States more often than ever to remind them that they failed to live up to their commitments assumed under the Treaty of Rome. In 454 instances, the Commission had to resort to the pre-judicial procedure provided in Treaty Article 169 *(Common Market Reports, Pars. 4615, 4616)* to serve formal notice, compared with 289 instances in 1983 and 322 in 1982. The number of reasoned opinions (the second move required before bringing suit in the European Court of Justice) rose to 148 in 1984, compared with 83 in 1983 and 166 in 1982.

The number of cases brought before the EC Court increased slightly, to 54, in 1984, compared with 42 in 1983 and 46 in 1982. Of the cases brought before the Court in 1984, 16 were removed from the docket after the States complied with EEC legislation. Another 16 concerned failure to bring national laws in line with EEC directives or to implement them correctly.

In 19 cases, the Commission successfully sued Member States for violating Treaty Article 30 by adopting protectionist measures against intra-Community trade. These measures were taken largely because of economic difficulties in individual sectors and confirm a trend observed in recent years that economic crises lead to more protectionism.

In Brief...

The Court of Justice's Jan. 29 decision on French fuel price controls has given Commission lawyers new hope regarding the EC Executive's campaign to bring legal action against the EC's airlines. The Court held that the French law empowering the government to set prices and rebates for gasoline is contrary to the Treaty of Rome's rules on competition and free inter-State trade. Additional cases involving the government's right to fix prices, including air fares, are pending. The Commission's drive would gain a new impetus if the Court again denies that right. The airlines, most of them state-owned, have been fixing fares under bilateral agreements between Member State governments. Attempts by previous Commissions to make air fares more flexible have failed because EEC competition rules do not apply to air transport + + + The Commission has vetoed Britain's £20 million aid plan aimed at helping small and medium-size businesses producing textiles, clothing, and footwear. The EC Executive maintains that the planned subsidies cannot be reconciled with EEC state aid rules. The Commission's move follows the line of action taken against general state aid plans as well as specific programs for individual companies in France, Italy, and Belgium.

Germany: Steep Decline in Job Accidents Since 1970

German job safety legislation is paying off, according to a recent government report: the number of work-related accidents dropped from roughly 2 million in 1970 to around 1.2 million in 1983. Over 3,200 employees lost their lives in job-related accidents in 1983 in Germany; the number was twice as high in 1970. The Work Safety Act is seen as the main reason for this favorable trend. Other reasons given for the improved statistics are changes in production methods that eliminated dangerous jobs as well as an increased safety awareness among employees.

The Work Safety Act, passed unanimously in 1973, requires enterprises to hire physicians, safety engineers, and other specialists on work safety. These requirements are based on the type of business, the dangers it entails for employees' health, the number of employees, and plant or office organization.

In addition to examining employees and advising management on work safety matters, company physicians must regularly tour the plant and offices and report to management and safety engineers any deficiency in work safety and accident prevention. They must suggest measures for correcting deficiencies and supervise their implementation.

The total number of company doctors in Germany rose from roughly 1,500 in 1973 to more than 16,000 in 1983. Today 90% of all enterprises either have physicians as full-time employees or retain a doctor's services on a contract basis. Moreover, the workmen's compensation funds that collect employers' contributions *(Doing Business in Europe, Par. 23,455)* have organized medical services utilized by small businesses and have doubled the number of physicians in their employment. Virtually all German medical schools have established institutes engaged in research and development of work accident prevention.

German Test Case Focuses on Forest Blight, Acid Rain

The discussion of the causes of acid rain and forest blight and the measures to be taken against them has found its way into a German court and is likely to play a dominant role in the courts in the years ahead. A hospital in southern Germany has brought suit in the Stuttgart district court against a power company, claiming DM 105,000 in damages. The hospital administration contends that smoke from the utility's power plant fell in the form of acid rain on the hospital's 1,500-acre forest 35 kilometers east of the power plant, causing several million D-marks in damages. Should the hospital succeed in its DM 105,000 claim, it would sue for the full amount in a second suit.

The same Stuttgart district court will soon have a similar damage suit on its docket. A regional farmers' association, representing some 28,000 farmers owning farms and woodland in the Black Forest, plans to sue the federal government and the state of Baden-Württemberg on behalf of one of its members. Although the farmer says he has taken care of his 100-acre forest in the best possible way, he has nevertheless incurred a loss of about DM 1 million from dying trees. Since it would be difficult, if not impossible, to pin down the actual polluter causing acid rain, the association chose to sue the government instead.

The association believes that the farmer should be entitled to damages under a doctrine, embedded in a 1794 Prussian law and expanded by the former *Reichsgericht* and the current Federal Supreme Court, providing for compensation to anyone who has suffered injury through the exercise of public power and makes a sacrifice for the common good. Just as a child who sustains permanent damage from a polio vaccination has a claim against the state, the farmer, too, should be entitled to compensation, the association believes. Germany, which is an industrialized country relying heavily on exports to maintain high employment and to pay for raw materials imports, has been slow in imposing air pollution standards. Even the current rules applicable to power plants and industry are far too lax to halt the destruction of forests, the association claims. The farmer is making a sacrifice for the common good and should be compensated accordingly, the association maintains.

Belgium: Bank Lauds Economic Policy, Warns on Deficit

The Belgian central bank gives the government's economic policies a good overall grade in its 1984 annual report, although it remains concerned about the large public sector deficit. The National Bank points to such positive results as the 2.2% growth in GNP last year, the low foreign trade deficit, and the stabilizing employment situation. Consumer prices rose by 6.3% last year, compared with 7.7% in 1983 and 8.7% in 1982. Investment rose an average 7% (11% in manufacturing), and a further increase of 10% is expected for this year.

The report is more critical of the public sector deficit and warns the Belgian government not to relax its efforts to cut back public spending. Any increase in the proportion of GNP devoted to public sector financing would reduce confidence in the economy and weaken the Belgian franc, the bank says. A clear message in the report is the advice to Prime Minister Wilfried Martens' coalition government to hold back on tax cuts in this election year. The bank is also concerned about the dependence of the Belgian economy, and the EEC economy as a whole, on that of the United States. The report complains that the Community has responded to the worldwide recession not as a common market but as ten separate states.

Britain: White Paper on Financial Services Legislation

The British government has issued a White Paper proposing a complete restructuring of financial services legislation to provide added safeguards for investors. The document has been welcomed by most of the financial bodies affected. Trade and Industry Secretary Norman Tebbit said its main aim is to ensure that the U.K. financial markets present themselves as "a clean place in which to do business and in which investors should have confidence." The financial markets themselves would be responsible for financing the changes.

The document advocates the creation of two regulatory or watchdog bodies - a securities and investments board and a marketing of investments board. The latter would be concerned mainly with life insurance and mutual funds. The chairmen would be appointed by the Trade and Industry Secretary, who would also approve the board members. Because these members would be drawn from users and providers of financial services, the result would be a system "which can most simply be described as self-regulation within a statutory framework."

Tebbit said it is essential to ensure that the boards would not be "lawyer-ridden," as can occur in systems such as the U.S. Securities and Exchange Commission, or be "politician-ridden." The government has emphasized that the system is more likely to be effective if practitioners are significantly involved in devising and enforcing the rules and in encouraging the observance of high standards of conduct.

The proposed legislation covers such areas as financial and commodity futures, options contracts, and items now covered by the Prevention of Fraud (Investments) Act 1958, which is regarded as outdated. Businesses affected would include any enterprise that carries out investment transactions or manages or offers advice on investments. All practitioners would have to be registered with the relevant watchdog body or a recognized trade association.

Investment advisers would be required to disclose to investors any "relevant information," including any financial interest they may have in a particular recommendation. Only authorized investment businesses would have the right to place advertisements intended to lead to the purchase or sale of investments.

The insider trading provisions of the 1980 Companies Act would be extended to cover all securities, including options and futures contracts. New powers for obtaining evidence would be given to inspectors working on insider trading cases.

Italy: Parliament Approves Tax Reform Decree Law

The Italian Chamber of Deputies on Feb. 17 passed into law the heavily debated tax reform package designed to cut down on rampant tax evasion among the country's shopkeepers. Finance Minister Bruno Visentini's bill had barely made it through the Senate last fall before bogging down in the lower house under suggested amendments. Because the government had counted on the package to add to 1985 revenues, Prime Minister Bettino Craxi's cabinet issued a decree law putting the reform into effect on Jan. 1. The decree law then had to be approved by Parliament before Feb. 18 in order to remain in force.

Although the decree law was passed in a 255-89 vote, 140 members, mainly Communists and independent Liberals, abstained. During the bill's five-month-long passage through Parliament, Craxi repeatedly had to call for votes of confidence in order to suppress thousands of proposed amendments. The heaviest lobbyists against the bill were the shopkeepers themselves, who carried out organized closures to protest the legislation. Meanwhile, labor unions staged a four-hour general strike in support of the reform.

The chief purpose of the law is to ensure that owners of small businesses report their actual incomes to the government. In 1983, shopkeepers declared average annual incomes of 6.6 million lire, while shop workers reported average annual incomes of 10.5 million lire. The government expects the tax refórm to pull in additional revenues of 5,500 billion lire this year.

Italian Treasury Attacked Over High-Interest Policy

The Italian business community and banks are watching with growing frustration the treasury's uncompromising high-interest policy, which has made the lira Europe's most stable currency in the last few months. While the newly "hardened" lira is benefiting the economy in a number of ways, it has also caused Italy's share of the world market to shrink noticeably. In the first 11 months of 1984, exports rose by 5.5% in real terms, but world trade expanded by about 9% during the same period.

Because the Italian treasury absorbs about 75% of the country's credit volume to cover the budget deficit, it can virtually single-handedly write its own terms on the financial markets. In order to continue ensuring the financing of the public-sector debt, it must be sure to offer attractive yields to investors. The commercial banks are naturally critical of this massive "competition" from the state, and they complain that the state bond yields have effectively taken the lead function once exercised exclusively by the discount and prime rates.

In setting its bond rates, the treasury doesn't just follow prevailing market conditions but directly influences the capital flows into and out of Italy and thereby the payments balance. Financial observers point out that the payments balance is now affected more by capital transactions than by the current account. While this has improved the lira's standing in external terms, it has not eliminated the problem of relatively high domestic inflation: the rise in production costs cannot be wholly compensated by the foreign exchange advantages, the critics say.

A distinct rise in productivity has helped to partially offset this imbalance, but the Italian foreign trade performance nevertheless worsened last year. Industrialists are complaining of the "economic Darwinism" allegedly practiced by Treasury Minister Giovanni Goria, fearing that his policy will drive Italy's weaker production sectors into extinction. They say that Goria no longer steers a median course between the government's stabilization and employment targets. They charge that industry has been unable to compensate for its shrinking European market with additional sales in the U.S. and that low-priced imports are presenting stiffened competition at home.

Goria and his supporters (mainly at the central bank) are defending the treasury policy by arguing that the lira's new strength is caused not so much by the high interest rates at home as by the relaxation of monetary curbs in other EEC Member

States. Rome cannot follow this course, they say, because of the continuing inflationary pressures in Italy. Moreover, Goria warns against a devaluation of the lira because the country's dollar-denominated imports (mostly oil) are far larger than dollar-based exports, so that a "softer" lira would not have a greatly beneficial effect on the trade balance.

Norway: OECD Recommends Reform of Subsidies Program

Norway should undertake a complete overhaul of its system for providing subsidies to private industry, according to the latest OECD report. The organization points out that, as a percentage of GNP, Norway's grants to private industry are at a much higher level than those of other OECD countries. Unfortunately, the report says, much of this money is expended to maintain unprofitable areas of production. For instance, the organization recommends a gradual de-indexation of agricultural incomes and a moderate reduction in agricultural production goals. The government should also place more emphasis on the temporary nature of the subsidies, thus encouraging businesses to take steps toward greater competitiveness. In recent years, the OECD says, Norwegian competitiveness with foreign industries has been maintained mainly through devaluations of the krone.

After a 3.8% rise in GNP last year, the OECD predicts a 1.3% increase in 1985, due to a slowdown in oil and natural gas exports. The trade balance should show a surplus of almost $3.9 billion, down from $4.3 billion in 1984. The rise in inflation should be about 5.3% (6.3% in 1984), depending on the extent of wage increases. Unemployment is expected to remain at about 3% (3.1%), one of the lowest figures among the OECD countries.

EURO COMPANY SCENE

The U.K. Dept. of Economic Development of Northern Ireland has filed suit in a U.S. court claiming as much as £231 million in damages from Arthur Andersen & Co., auditors of the failed De Lorean Motor Co. The suit alleges that Arthur Andersen was negligent by failing to uncover accounting irregularities and that it practiced public accounting functions "fraudulently and with gross incompetency." The British government had given £77 million in subsidies to the car maker, which operated a factory in Northern Ireland before its 1982 failure.

Manufacturers Hanover Trust has become the first foreign bank to rank among the top ten banks in Spain in terms of profits. The bank, which has two Spanish branches, moved up to No. 9 after a 32% increase in earnings last year, to 3.66 billion pesetas. Foreign banks were first allowed in Spain six years ago.

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Community: Time Running Out for Accession Talks

The possibility of meeting the proposed Jan. 1, 1986, date for Spain's and Portugal's accession to the EEC is becoming increasingly doubtful. If the negotiations between the Community and the two Iberian countries cannot be wound up by the end of March, there may not be enough time for all 12 national parliaments to ratify the accession draft treaties before the end of the year. The foreign ministers of the ten Member States, who have met several times since the beginning of the year to discuss the matter, will make a final attempt to wind up the negotiations at their March 17-20 meeting. (Jan. 1, 1986, is also an important date because it is linked to an increase in Member State contributions to the EC's budget.)

The Community and the two applicant countries continue to be far apart on three key issues - fisheries, agricultural trade, and social affairs. The ten foreign ministers still have not agreed on a common position. Fisheries is considered the biggest problem. The main question is the date as of which the Spanish fishing fleet should be allowed to enter Community wa-

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ters. Deviating from its original proposal, the European Commission has proposed reducing the transitional period from ten to seven years. (The Spanish government had flatly rejected the proposed ten-year period.) In return, Spain would have to trim its fleet, for which it would get EEC financial help. The Community's five leading fishing countries (Britain, Denmark, France, Germany, and Ireland) insist that the bulk of Spanish trawlers be kept out for ten years, subject to possible negotiation of the matter after eight years. These States fear the competition of the Spanish fleet, which is bigger than all of theirs combined.

In the matter of agricultural trade, the Member States are still debating how long Spanish fruit and vegetable exports should be kept under control and what restrictions should be placed on exports from the Ten to Spain of beef, milk, cheese, and high quality wheat. As a concession to Spain, the Commission has proposed a change in the Ten's negotiating position that would grant tariff-free access for some Spanish fruit, including citrus fruit, and vegetables after seven years instead of the ten years originally proposed. France and Italy oppose this change.

The Commission has suggested that the Member States soften their stand on the remaining social affairs issue: the States should commit themselves as of 1988 to allowing payment of children's allowances to Spanish and Portuguese workers regardless of a child's residence. Germany, which has the highest percentage of Spanish and Portuguese aliens, has been insisting that these allowances not be granted before 1993.

Proposal for Reduced Mediterranean Program

The Commission has proposed a modified Integrated Mediterranean Program calling for one-third of the spending provided for in the original plan. The program is designed to buffer the negative consequences that the admission of Spain and Portugal would have for fruit and vegetable growers in the Community's Mediterranean regions.

Following the negative response to the Commission's original proposal at the Dublin Summit last December, the modified program was worked out to provide for a financial aid volume of ECU 2 billion over a seven-year period. This aid would be complemented by credits totaling ECU 2.5 billion, which would be offered at favorable terms. In addition, the Community's major funds - Regional, Social, and Agricultural Guidance - would offer help to the Mediterranean regions.

The Community's original plan called for ECU 6.6 billion to be spent over six years. This aid volume was considered far too high by several Member States. Germany and Britain, in particular, called it excessive from the time the Commission submitted the plan in May 1983. Their opposition prevailed at the Dublin

Summit and forced the EC Executive to cut back on the aid volume. Greece, the main beneficiary of the program, threatened at Dublin and thereafter to veto the accession of Spain and Portugal if the program falls substantially short of its expectations. Athens considers unacceptable the ECU 200 million that the other nine governments agreed on in Dublin as a start in 1985.

Aside from the reduced financial volume, there has been no major change in the details of the program. The aid and the credits would be given to Greek, Italian, and French farmers in the Mediterranean region to modernize their farming methods. Owners of farms too small to provide a living would be granted compensation if they give up farming. Money would be given for investments in tourism, small businesses, and crafts in order to create new jobs.

In Brief...

The Member States may not demand tuition fees from students of other States when resident students need not pay such fees. To demand tuition from out-of-State students is contrary to the Treaty of Rome's nondiscrimination clause, according to the European Court of Justice. A French woman enrolled at the Royal Academy of Fine Arts in Liège, Belgium, was denied free tuition. The Belgian court suspended the proceedings in her case and asked the Court of Justice for its interpretation of Community law on two points. Although education and school policies are not covered by the Treaty, participation in educational and vocational courses aimed at learning a profession or vocation are subject to Treaty rules, the Court held (judgment of Feb. 13, 1985, Case No. 293/83) + + + The Commission has blocked two German government programs providing grants to offset research and development personnel costs. The EC Executive has launched an investigation under Treaty Article 93 to see whether the two programs can be reconciled with the Treaty's state aid rules. One program launched last year provides for DM 380 million, and this year's DM 55 million plan is designed to encourage enterprises to hire additional R&D personnel. Until the Commission has reached its decision, which may take more than five months, the German government may not accept applications for the aid nor may it pay any grant under the programs.

Germany: Access to Risk Capital for Small Businesses

According to a preliminary bill drafted by Germany's Finance Ministry, small and medium-size businesses whose shares are not traded on German stock exchanges will be given indirect access to the money market to obtain risk capital needed for expansion, research, and development. The measure would provide for the formation of equity corporations *(Unternehmensbeteiligungsgesellschaften)* to purchase shares of closely held stock corporations, limited liability companies, and limited commercial partnerships or to become silent partners in domestic businesses. In turn, these equity corporations would issue shares which would be offered to investors. To put investors in equity corporations on an equal footing with investors in small and medium-size companies, an equity corporation would be exempt from net worth and business taxes, just as investment funds are.

An equity corporation could be established only as a stock corporation because the corporation is considered the best way of attracting a large number of investors. To protect investors, the equity corporation would be required to have a minimum stated capital of DM 2 million as a safeguard against unsound ventures. The equity corporation could issue only bearer shares, never bonds or participating certificates. It could issue nonvoting preferred shares with a total par value up to three times its stated capital, and holders of such shares would be entitled to annual statutory dividends of at least 6%.

Stock could be offered to the public only after the equity corporation had purchased shares in at least ten small or medium-size companies. At no time could the value of an investment in any such company exceed the equity corporation's capital. The equity corporation would have to prepare financial statements. It would have to be listed on a domestic exchange, and it would have to publish a prospectus to be listed.

Britain: Levy Proposed on Blank Tapes; 1985 Budget

The U.K. government has issued a Green Paper on copyright law that proposes a levy on blank audio and video tapes. The document is part of a detailed and comprehensive review of copyright law, which is generally regarded as outdated because of technological developments. Other discussion documents are expected shortly.

The recommended levy would probably raise royalty revenue of around £10 million annually in roughly equal amounts from audio and video tapes. (More than 50 million blank audio and 20 million blank video tapes were sold in the U.K. in 1984.) The actual levy would be negotiable between the owners of the copyright and the manufacturers or importers. However, there would be a statutory limit of about 10% of the retail price of audio tapes and 5% of video tapes. Audio tapes of less than 35 minutes would be exempt.

Geoffrey Pattie, minister for information technology, said that the levy would mean "striking an acceptable balance" between the current situation and full compensation to copyright owners. According to the document, the government realizes that "an element of inequity" is inherent because some consumers who pay the levy may never use the tape for purposes that infringe copyrights; however, there is "no realistic alternative." The levy proposal, which would go into effect in 1987, represents a turnaround for the government, which had opposed the measure in a 1981 discussion document.

In other news, Chancellor of the Exchequer Nigel Lawson will present the 1985 Budget on March 19. He is expected to include income tax cuts, although they will not be as extensive as originally forecast. Tax thresholds and allowances will probably be increased. Also expected are a widening of the value-added tax, a new tax on pension fund investment income, and a simplification of the capital gains tax.

France: State Aid to Boost Part-Time Work; Strike Days

The French government has adopted measures to encourage part-time work as a means of lowering the unemployment rate without abandoning its economic austerity program. The first measure, effective March 1, grants bonuses to companies that hire workers for part-time jobs of 18 to 32 hours per week. The bonuses are set at FF 6,000 this year and FF 3,000 in 1986 and 1987. The government will also compensate workers if their part-time pay is less than the unemployment benefits they were receiving. Another measure, which would offer bonuses to companies that create new jobs by cutting the workweek, is expected to be adopted soon. The government hopes to create 40,000 to 50,000 jobs this year through the changes at a cost to the state of about FF 800 million.

The jobs package has been attacked by both employers and unions. The Patronat employers' association says Paris should cut corporate costs instead of offering bonuses. The moderate Force Ouvrière union maintains that the measures don't really address the long-term unemployment problem, and the Communist-led Confédération Génerale du Travail says the package will "destabilize employment" by inducing employers to emphasize part-time work.

As of January, French unemployment stood at 2.443 million, or 10.3%. Some estimates predict that the number of jobless could reach 2.7-3 million by 1986. Compared with companies in other countries, French companies use fewer part-time workers because of the high social security costs an employer must pay for each new employee. About 8% of French workers are employed part-time, compared with 20-30% in the Scandinavian countries, 19.4% in the Netherlands, and 14.4% in the U.S.

In related news, the number of working days lost to industrial strikes in France dropped slightly last year to an average of 110,000 per month. Days lost to strikes started by national unions fell sharply from a monthly average of 13,000 in 1983 to 3,000 in 1984.

Greece: 240,000 in Coordinated Strikes; Treasury Bills

Greece was hit last month by a wave of strikes by workers demanding higher wages and pensions. The labor minister accused the Communists of initiating the strikes for political reasons. Bank employees began a three-day strike on Feb. 19, and they were soon joined by textile, construction, and public transportation workers. A total of 240,000 workers were estimated to have participated. The strikers were protesting the 1985 wage agreement between the Socialist government and the Socialist-controlled General Confederation of Greek Workers, which represents the unions. This pact includes no wage increases for 1985.

Labor Minister Evangelos Giannopoulos maintains that the strikes were instigated by the Communists to force the government to reconsider the new electoral system announced in January. Communists say the new system will do nothing to meet their demands for a proportional parliamentary representation. The Communist Party holds about 11% of the vote but won only 13 seats in the 300-member Parliament in the 1981 election.

In other news, Greece will begin issuing treasury bills in April. Economics and Finance Minister Gerassimos Arsenis said the bills will mature in three, six, or 12 months and will carry interest rates of 17%, 17.5%, and 18.5%, respectively. No interest rate has been set for 24-month bills. The lowest denomination will be 100,000 drachmas.

Italy: Trade Deficit Fuels Renewed Devaluation Demands

Business spokesmen in Italy who strongly advocate a devaluation of the lira to boost lagging exports have found new support for their argument in the country's latest foreign trade statistics. According to Istat, the government statistical office, the 1984 trade deficit amounted to 19,206 billion lire, the highest ever recorded. The shortfall was 67.5% higher than that of 1983 and was caused primarily by the steep rise in imports, which increased by 21.5% to 148,210 billion lire. Exports went up by only 16.7%, to 129,004 billion lire.

The overall cause of the problem was Italy's dependency on energy imports, an area of the foreign trade balance that saw the deficit rise further, to 35,581 billion lire. The country's 1984 trade balance involving all other goods was positive, showing a surplus of 16,375 billion lire.

In the trade with its Common Market partners, Italy's balance closed out 2,000 billion lire below the 1983 level. Exporters are complaining that they have lost much of their competitiveness in Western Europe because of the "overvaluation" of the lira within the European Monetary System. The demand for a lira devaluation is particularly strong in the footwear, textile, machine tool, automobile, and tourism sectors.

Along with the trade deficit, the government also has to cope with the negative trend of the current-account payments balance, which showed a deficit of 4,299 billion lire at the end of October and was expected to close out 1984 with a shortfall one-third higher, which would be twice as high as that of 1983.

Sweden: Government Proposes Insider Trading Penalties

In response to the rapid growth of the Stockholm Stock Exchange in recent years, the Swedish government has proposed a bill that would outlaw insider trading. The bill, whose passage is almost assured, would go into effect on July 1, instituting penalties of up to two years in jail and SKr 120,000 for persons convicted of insider trading, plus confiscation of any profits from the deals. The legislation would expand the traditional definition of insider trading to cover transactions based on an insider's tip. "Insiders" would also include traders holding at least 5% of a company's share capital or voting shares and company attorneys or advisers who have access to confidential information.

Currently, company directors and officers who are privy to confidential information must disclose any transactions in their company's stock to the Bank Inspection Board. The Board publishes a monthly listing of such transactions in the press. Opponents of the bill dislike the move away from this traditional self-regulation, and some doubt the ability of the Board to handle the increased responsibilities. However, the Board has long advocated strict penalties for insider trading.

Switzerland: Santa Fe Bank Data Released to SEC

After three years of legal procedures and negotiations, Switzerland has handed over to the U.S. documents requested by the Securities and Exchange Commission in the insider trading case involving Santa Fe International Corp. The most recent hold-up in the exchange was removed when the Swiss government decided that releasing the information would not harm national interests and thus rejected an appeal by unidentified customers of Swiss banks.

In March 1982, the SEC first requested information from three Swiss banks on customers who allegedly reaped over $5 million through insider trading during the 1981 takeover of Santa Fe, a U.S. oil and gas engineering company, by Kuwait Petroleum Co. Because insider trading is not illegal in Switzerland, the Swiss High Court agreed to hand over the documents only after the U.S. authorities persuaded it that the transmission of business secrets was involved.

The early Santa Fe negotiations led to the 1982 informal agreement waiving Swiss secrecy rules for bank clients tied to insider trading in the U.S. However, subsequent SEC probes into alleged insider trading by the Zurich-based Ellis AG ran into problems because the firm is not a bank and thus is not subject to the agreement. In the next few weeks, the Swiss government plans to present to Parliament a bill that would make insider trading illegal.

EURO COMPANY SCENE

Chevron Corp. has reached an agreement for the sale of its Italian refining and marketing operations to First Arabian Corp., a Luxembourg-based banking and investment company. First Arabian will take over Chevron's 100% share in Chevron Oil Italiana and its 23% share in the SARPOM refinery near Milan. The deal is part of Chevron's plan to sell most of its European refining and marketing operations.

Ford Motor Co. plans to concentrate its worldwide tractor production at its plants in Basildon, Britain, and Antwerp. As part of the plan, the company will shift production of its Series 10 models to Basildon from Romeo, Michigan. The move will mean an additional investment of £5 million in the British plant over the next two years.

American Telephone & Telegraph Co. has applied to the U.S. Federal Communications Commission for permission to expand its toll-free "800" service to the U.K. on April 5. Subscribers would be billed $84 an hour or $1.40 a minute, plus $36.80 a month for AT&T access in the U.S. and $50 a month for British Telecom access in the U.K.

Avon Products, Inc., has decided to shut down its Belgian and Dutch subsidiaries, Avon Benelux SA and Avon Benelux BV. (The latter is controlled through the German Avon Cosmetics GmbH.) Operations will cease in April.

Levi Strauss & Co. plans to close within six months three of its 11 European plants - those at Inchinnan and Bothwell, Scotland, and Carnot, France. The European division had a 1984 operating loss of $23 million on sales of $321.7 million. As part of the reorganization, a new division in Brussels will take over the marketing of traditional Levi products, and another new division will market other fashion apparel.

Common Market Reports
EUROMARKET NEWS

Issue No. 843 *Report No. 522, March 14, 1985*

IN THIS ISSUE

Community: Additions Urged in Worker Safety Measure

The European Parliament and the Economic and Social Committee have called on the European Commission to amend its 1984 proposal designed to protect workers against the health risks of exposure to chemical and biological agents *(Common Market Reports, Par. 10,627)*. The proposed ban on aromatic amines should be extended to other chemical agents with obvious tumor-causing effects, especially benzidine and its salts, according to Parliament and the committee. The EP defends the inclusion of benzidine in the ban with the argument that the U.S. and many European countries have barred its use in manufacturing processes or other work activities. The procedure for extending the annex listing the banned chemical agents is restrictive and cumbersome, the ESC says, explaining why it wants benzidine included as soon as possible. The risk of cancer from benzidine has been established by numerous scientists and organizations, including the International Agency for Research on Cancer.

The purpose of the draft directive is to increase the protection of workers' health through a general or limited ban on certain dangerous agents and/or work processes where other

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available means cannot guarantee adequate protection. The proposal is the fourth in a series implementing the 1980 framework directive on health protection in the workplace *(Common Market Reports, Par. 3441.22)*. The first three measures dealt with dangers from lead, asbestos, and noise. The Council of Ministers has adopted the directives on lead and asbestos *(Common Market Reports, Pars. 3441.23, 3441.25)*, and the draft directive on reducing workers' exposure to noise is being discussed by the Council's working group *(Common Market Reports, Par. 10,428)*.

The Commission has indicated its readiness to reflect in an amended proposal the EP's and ESC's demand for including benzidine in the ban. It has also agreed to accept most of the other suggestions, made primarily by the EP. However, although the EC Executive sympathizes with the EP's suggestion to move up the date of the directive's enactment to Jan. 1, 1986, it nevertheless considers the proposed Jan. 1, 1987, deadline for application a much more realistic date. The EP says that waiting until 1987 for application is unnecessary since several Member States have already enacted legislation prohibiting the use and production of aromatic amines.

The Commission is also opposed to the EP's request to monitor any import of banned processes or export thereof to the Third World. This request followed the Bhopal, India, catastrophe, in which a gas leak at a Union Carbide plant killed over 2,000 people. The Commission believes that the question raised by this incident should be answered within the provisions of the Seveso Directive, which is now under review *(Common Market Reports, Par. 3450.43)*.

Bundestag Wants Changes in Loss Carry-Over Proposal

The Commission's proposal for the harmonization of national tax rules governing carry-forwards and carry-backs of losses will probably have to be scaled down to improve chances for adoption. The tax committee of the German lower house has called on the government to ensure, through the Council of Ministers, that the enacted version of the measure is limited to establishing general principles for the alignment of national provisions. In the committee's view, the proposal is too generous and would result in considerable losses for the German treasury. The government should insist on liberal time periods for the carry-forwards and carry-backs, the tax committee says, so that Member States may retain some freedom in determining their own rules.

The tax committee's unanimous recommendation is not far from an outright rejection of the Commission's proposal. German government lawyers point out that the tax committee's stand puts the administration in an awkward position. Although the Kohl administration sympathizes with the idea of improving the tax environment for enterprises, it is also concerned about loss of revenue. Bonn observers emphasize that no German government has ever ignored resolutions passed by either house of Parliament or any of its important committees.

The Commission's draft directive was conceived to improve the tax environment for businesses and increase their competitive standing. The three main elements of the measure are a provision for unlimited carrying forward of losses, an option to carry back losses over a period of two years, and a choice in the order of compensation for losses *(Common Market Reports, Par. 10,623)*. German law also places no limit on the volume of losses an enterprise may carry forward, but the carry-over is limited to five years *(Doing Business in Europe, Par. 23,332B)*. The Bundestag's tax committee wants the proposed draft directive amended to include a time limit on loss carry-forwards, while retaining the proposed two-year period for loss carry-backs. In response to a suggestion made by the European Parliament, the Commission was prepared to amend its proposal to extend the period to three years.

Commission lawyers see difficult and protracted discussions ahead when the Council's working group takes up the measure. They predict several years of deliberations since all of the Member States are confronted with the prospect of losing revenue under the measure.

In Brief...

The Council of Ministers has reached a consensus on amendments to the EEC wine marketing organization that are designed to reduce the chronic table wine surplus. The amendments would freeze wine prices and require that large quantities of wine be distilled into industrial alcohol. Vineyard owners who forego their rights to replant vines would receive grants. The finances of the wine reform are to be left undecided until the end of the year + + + The Community has extended for another year its February 1984 retaliatory measures against the United States' unilateral action restricting imports of certain steel products from the Common Market. An amendment extends until Feb. 26, 1986, the Council regulation suspending tariff concessions, increasing duties, and imposing quotas for certain U.S. products imported into the EEC. The regulation increased the duties on imports of methyl alcohol to 18% (from 13.4%) and burglar and fire alarm equipment to 15% (4.8%). It also imposed quotas on sporting guns, rifles, athletic equipment, and snow skis + + + France, Germany, and the Benelux countries have committed themselves to abolishing immigration and customs controls at their common borders. An agreement is to be drawn up by the end of April and signed later in the year. An important element of the agreement is that the planned abolishment of border checks applies not only to persons but also to goods. At their Fontainebleau summit in June 1984, the heads of the Member State governments agreed to abolish frontier formalities, but realization of the agreement has proven difficult. Because of this, France and Germany moved on their own last year and signed an accord that reduced to spot checks controls of travelers crossing their common borders.

Germany: Slight Improvement in Employment Situation

The rate of employment in Germany improved slightly in February, but the overall situation is still very serious. The country's 146 labor exchange offices recorded 2.6 million unemployed in February, roughly 10,000 less than in January, when the 1951 German unemployment record was broken. The January unemployment figure was 2.61 million (10.6% of the workforce), some 690,000 more than in December 1984. The government and most economists blamed the increase on the severe winter, which brought most outdoor construction activity to a halt. The January total was about 3.2% higher than 12 months before, when the weather was mild. Unemployment fell from 10.2% in January 1984 to 9.4% in December 1984.

Of the 690,000 who joined the unemployment ranks in January, at least 20,000 will not return to their old jobs even after the others go back to the construction sites. More than half of the 20,000 were employed by construction firms that went bankrupt when investments by local governments and private investors, especially home buyers, slackened. The Kohl administration has appealed to cities to make long-term construction investments now and not defer them to future years.

Despite the poor employment situation, Economics Minister Martin Bangemann is not changing his positive economic outlook. Capital investments will increase rapidly this year, he believes, resulting in many new jobs. Most economists and banks agree with Bangemann, although some experts do not share this optimism, largely because of uncertainties concerning the foreign exchange markets.

Belgium: Move Toward Privatization; Budget Revisions

Belgium's public-sector companies appear to be headed toward increased privatization, with the Martens administration's current discussion of its holding in Sabena, the national airline, paving the way. At the head of the push toward privatization is Hermann De Croo, Minister for Transport, Post, and Telecommunications. He recommends selling part of the government's 53% share in Sabena to airline employees and then listing the company on the Brussels Stock Exchange. Another option, he says, would be to continue transferring individual Sabena operations to private companies. A financial overhaul of the airline, including a reduction in the government's stake from 93% to 53%, gave the company in 1983 its first annual profit in 25 years, and profits were up sharply in 1984.

De Croo also has plans for bringing more private involvement into the national airport, railway system, and telephone and telecommunications company. However, the minister probably will not be able to garner much support for his recommendations until after the national elections, which should be held by Dec. 8. If the Socialist Party gains enough votes during those elections to take some power from the governing centrist-Liberal coalition, any plans for privatization will probably be stalled.

In other news, the government's 1985 expenditures will total about BF 30.1 billion more than the originally planned BF 1,703 billion. The Budget Ministry was not yet certain whether the revenue figures would also need revision or whether budget cuts would be made to offset the added payments. More than half the additional expenditures are the result of budgeted austerity measures that were not carried out. Other added costs include payments to the EEC and adjustments due to the dollar's upward course.

Britain: Miners End Strike As Government Remains Firm

Most British miners returned to work on March 5, two days after a National Union of Mineworkers delegation voted 98 to 91 to end the strike of almost one year, without receiving any concessions from the National Coal Board. By March 1, with the prospect of reaching a favorable agreement dwindling, about 52% of the miners had gone back to work. The resolution to end the strike was proposed by delegates from South Wales, one of the union's strongholds, where over 90% of the miners had remained on strike until the vote.

The NCB still intends to carry out its decision to close uneconomic pits and cut capacity by 4 million tons. (An announcement to this effect had spurred the miners' strike on March 12, 1984.) In addition, an NCB spokesman said the board will not participate in long-delayed wage negotiations until the NUM calls off an overtime ban that was initiated 18 months ago. However, NUM president Arthur Scargill, who opposed the return to work, said the union would continue to fight against pit closures and layoffs. Scargill blamed the failure of the strike on a lack of support both from other unions and from within the NUM. Out of a total 186,000 union members, the number of striking miners dropped from an early high of 150,000 to 96,000.

Estimates of the strike's cost to the British economy range from £2 to 3 billion, including about £1 billion within the coal industry itself. Other sectors, such as steel and electricity, had to resort to costlier imported fuels instead of coal, thus helping to reduce the U.K.'s current-account surplus from £2 billion a year ago to £200 million. However, following the strike's end, economists are predicting GNP growth of 3-3.5% this year, after slightly more than 2% in 1984.

U.K. Banks Agree to Appointment of Ombudsman

Seventeen major banks, including all the English, Scottish, and Irish clearing banks, have accepted the planned appointment of an ombudsman to deal with customer complaints. The ombudsman will have the power to award a customer up to £50,000, a decision that would be binding on the bank involved.

The first ombudsman, most likely a lawyer, will probably be appointed in the fall by a council composed mainly of non-banking interests representing consumer, academic, and professional bodies. The office will not be fully functional, however, until early in 1986. The cost will be shared by the banks in proportion to the size of their businesses. The plan will cover only the banks' estimated 33 million private customers, not the business customers.

The decision to appoint an ombudsman is in line with a December 1983 report on banking services by the National Consumer Council. The report found that bank customers were generally satisfied with the services provided, but 25% saw the need for an independent body to resolve disputes. A spokesman for the Committee of London Clearing Banks said, "We are confident that the ombudsman will come to play a useful role in the banking scene."

The ombudsman will consider a complaint only after a customer has exhausted the individual bank's own grievance procedures. He will have the authority to deal with all aspects of personal banking except for the commercial reasons underlying a bank's decision to make or withhold a loan and, at least initially, a bank's estate or travel agency business. Once a complainant accepts the ombudsman's decision, he gives up his right to initiate further legal action. However, the complainant will have the option of rejecting the ombudsman's decision and pursuing the matter in the courts.

France: Foreign Investment Restrictions Eased Again

The French government has again eased its restrictions on investment by foreign companies in France. Economics and Finance Minister Pierre Bêrêgovoy said that applications from outside the EEC for investments of up to FF 10 million will now be processed within one month. If the government does not respond before that deadline, the company may go ahead with its investment. In November, the limit on such investments had been raised from FF 1 million to FF 5 million. Bêrêgovoy said that two-thirds of these investment applications are now processed within 10 days.

The changes are part of an attempt by the government to increase investment without forcing up inflation. Other strategies include lowering interest rates, boosting domestic demand, and improving company profit margins. However, the Patronat employers' federation recently requested a major government financial boost to investment. The Patronat predicts a 5% rise in industrial investment and a 2.9% increase in overall investment this year. Guy Brana, Patronat vice president, said enlarging the public-sector deficit would be preferable to allowing French industrial investment to fall further behind its foreign competition. The government hopes to trim the deficit to 3% of GDP in 1985 and under 3% in 1986, following 3.3% in 1984.

Italy: Renewed Concern Over Inflation, Public-Sector Deficit

Amid growing concern over Italy's inflation and public-sector deficit problems, Prime Minister Bettino Craxi late last month called a special meeting of his cabinet to discuss its economic strategies. High on his list of priorities is the June 15 referendum on the wage indexation *(scala mobile)* system. If the vote goes against the reduced pay raises, which had been linked to inflation, wages could increase by more than 11% this year instead of the 10% raise already agreed upon.

Even without a higher pay adjustment, it is unlikely that the government can meet its 7% inflation target for 1985, according to the central bank's latest report. The bank praises the government's progress in lowering inflation below 10% but warns of a turnaround evident in price increases of an average 1% per month so far this year. Among the causes for this trend, observers say, are the strength of the U.S. dollar, the poor current account balance, and the upward readjustment in this year's budget deficit. Originally forecast at 96,300 billion lire, the deficit is now expected to be at least 99,900 billion lire. Treasury Minister Giovanni Goria said the revision is mainly due to unexpectedly high needs of the old-age pension and health insurance funds.

Switzerland: Financial Center Still Attractive, EBK Says

Switzerland's "magnetic effect" on foreign financial institutions remains high, despite recent charges to the contrary, according to the 1984 report of the Federal Banking Commission (EBK). In 1984 permits were given to 14 foreign banks and 11 other foreign financial institutions to establish branches in Switzerland. Since 1979 the number of foreign banks in Switzerland has increased about 35% to 109, and the number of other foreign financial institutions has jumped 80% to 76.

The EBK admits, however, that Switzerland has "lost its attractiveness in certain areas" as a major financial center, compared with other traditional markets, such as London and New York, as well as newer markets in Singapore and Hong Kong. Among the causes for this trend are taxes on a large number of securities transactions, the strength of the U.S. dollar against the Swiss franc, and the relatively slow moves toward modernizing the country's financial markets. Many Swiss banks have been establishing branches in foreign cities to take advantage of lower taxes there.

The banks have been among those most vocal in claiming a decline in the Swiss financial markets. However, the EBK says that the banks themselves can help improve the situation by bringing their fees in line with those in other countries. The commission hopes to work together with the banks to determine whether "specific restrictive regulations do more harm than good in the end."

EURO COMPANY SCENE

Arco Chemical Europe, Inc., a subsidiary of Atlantic Richfield Co., expects to begin production in the second quarter of 1986 on a $250 million chemical plant in Fos-Sur-Mer, France. The plant will produce up to 180,000 tons a year of propylene oxide and 430,000 tons of tertiary butyl alcohol for use in lead-free gasoline.

Ford Motor Co. and Fiat Auto SpA have been discussing the possibility of a joint production agreement, although details have not been disclosed. A major reason for the talks is the standoff in the European market among the leading automakers, none of whom has been able to establish a clear advantage. Ford's European profits fell 48% in 1984, to $147 million.

In related news, Ford's British subsidiary, Ford Motor Co. Ltd., has been contracted to supply 7,000 cars to the U.K. unit of Avis Rent-a-Car. All of the cars will be produced in Ford's European plants, mainly in Britain.

Citicorp International Bank Ltd., the European merchant bank of Citicorp, has agreed to acquire Seccombe, Marshall, & Campion PLC, thus becoming the first foreign company to control one of the Bank of England's nine agents in the British money market. Citicorp will pay £7.04 million for its acquisition, which has a current net worth of about £4.8 million.

Continental Illinois Corp. has sold its Zurich subsidiary, Continental Illinois Bank (Switzerland), to State Street Bank and Trust Co., of Boston. Continental Illinois has been seeking to dispose of foreign units as part of its financial recovery plan.

Common Market Reports

EUROMARKET NEWS

Issue No. 844 *March 21, 1985*

IN THIS ISSUE

Community: Hope for Compromise on Car Exhausts

The Council of Ministers' 19-hour discussion on March 7-8 of the European Commission's proposals on automotive exhaust limits and Germany's pending legislation on the same topic, including tax incentives, have ended with hope for a compromise. Many Brussels observers believe that a compromise could be reached at either the March 20 meeting of the Council of Ministers or the Brussels Summit of the heads of government on March 29-30.

To greatly improve the chances for a measure combining the elements of the Commission proposals and Germany's legislation, Bonn went more than halfway toward the position of France, Britain, and Italy, the outspoken opponents of the German legislation. The German government will make several changes in its pending legislation on car emission standards and on tax incentives for buyers of autos fitted with anti-pollution devices *(Doing Business in Europe, Pars. 40,604, 40,613)*. France and Italy, in turn, have softened their rigid stand and would support earlier deadlines on car emission controls *(Common Market Reports, Par. 10,589)*.

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All of the Member States except the U.K. support the compromise suggestion, which would establish three car categories based on engine size. Each category would have a different deadline for meeting exhaust standards. (The Commission's draft directive makes no distinction as to engine size. The German bill distinguishes between cars with engines of over 2,000 cubic centimeter displacement and smaller cars.) New cars with at least 2,000 cc displacement would have to meet strict emission standards (either the U.S. standards or similar EEC standards) as of Oct. 1, 1989. (The German bill provides for a Jan. 1, 1988, deadline.) The deadline for new cars with 1,400-2,000 cc engines would be Oct. 1, 1992 (Jan. 1, 1989, under the German bill). Cars with smaller engines would not yet be subject to the strict standards. Instead, new models marketed after Oct. 1, 1991, would be allowed to operate with reduced levels of hydrocarbons, sulfur dioxide, and nitrogen dioxide, and their final emission standards would be determined by 1987 to apply after 1993.

Another major concession by Germany concerns the proposed exemption from or reduction of motor vehicle registration tax for buyers of cars fitted with catalytic converters or other pollution-reducing devices. To avoid confrontation with France, Britain, and Italy, the German government is prepared to change pending legislation so that the planned tax exemption does not exceed the price of a catalytic converter. Moreover, buyers of converter-equipped cars with engines of up to 1.4 liters would be denied full exemption from vehicle registration tax. If such cars have devices reducing pollution by 50% (as French and Italian models will have), the buyers could be granted a tax reduction.

Commission Presents Ambitious 1985 Program

The Commission's program for 1985 differs from previous programs primarily in its detailed description of the Community's problems that must be solved in short-term and medium-term periods. One of the immediate issues is the 1985 budget, which has been difficult to resolve because Germany has tied its approval of an expansion of the Community's resources (1.4% of the VAT base instead of the current 1%) to the accession of Spain and Portugal.

Unemployment is one of the Community's major long-term problems. Nevertheless, the Commission hopes within two years to achieve a reversal of the 15-year trend of rising unemployment. A number of measures would be necessary to accomplish this ambitious aim, the Commission says. Economic recovery could be achieved if businesses were allowed to fully exploit the potential of the Common Market and if the Member States' economic policies were more coherent and dynamic. The Commission plans to seek from the heads of government a commitment to turn the Common Market into a genuine internal market by 1992. This commitment would mean abolishment of trade barriers of all kinds and approximation of legislation and tax rules. To this end, the Commission will present a program to include common value-added-tax rates and excise duties by 1992.

Brussels observers view the Commission's program for 1985 with skepticism and see little or no chance of developing a genuine internal market by 1992. If only a portion of the program is realized by that date, it must be considered a success, the observers say.

In Brief...

The Council of Ministers has reached agreement on legislation establishing common principles to determine the environmental impact of certain projects. Formal adoption of the draft directive, which is less extensive than the original proposal, would require a legislative follow-up by Member States within three years. Authorities planning to build airports, ports, or facilities for the disposal of nuclear waste materials would have to inform the public beforehand and give a description of the project. Private investors would have to provide the public with information about planned oil refineries, chemical factories, iron works, asbestos plants, and similar projects + + + According to a Common Market survey, businesses in the EEC are planning a 9% increase in new real-term investments in 1985. Investments by German enterprises are expected to be only 1% above those made last year. However, German businesses invested more in 1984 than businesses in the other States. According to the survey, some 55% of 1985 investments will be to rationalize and modernize production facilities, while 20% will go toward expansion. Replacement of existing plant and machinery should take up the remaining 25%. The investment leader of all branches of industry is the metalworking sector, with a 27% increase over 1984 + + + Officials from 35 nations, including all of the EC Member States, have initialed in Geneva a draft protocol to the Convention on the Prevention of Transnational Pollution. The protocol, drawn up by a working party convened by the United Nations' Economic Commission for Europe (ECE), would commit each signatory to reducing sulfur dioxide emissions by 30% no later than 1993. The basis for computation would be the overall sulfur dioxide emissions determined in 1980. The draft protocol is expected to be signed this summer and would then be submitted for ratification by the legislature of each signatory.

Germany: Realization of 38.5-Hour Workweek

The implementation of last year's union contract for over three million workers in Germany's steel, engineering, and automotive industries is not moving the way management representatives thought it would when they consented to the compromise settlement. The compromise, which ended the costliest labor dispute in postwar Germany, provides for a 38.5-hour workweek after April 1, 1985, without any cut in pay. More important to management is the clause that allows individual employers and works councils to negotiate flexible workweeks of as few as 37 and as many as 40 hours for groups of employees. A condition is that the total hours an enterprise's employees spend on the job may not exceed an average of 38.5 hours per week.

IG Metall, with 2.6 million members Germany's biggest union, has been successful in influencing works councils not to negotiate a flexible workweek but to insist on a 38.5-hour week for all workers. The works councils' hardline position has so far prevented a mutual agreement with management in nine out of ten cases. As a result, settlements were worked out by conciliation boards made up of an equal number of representatives of management and the works council and presided over by a neutral chairman *(Doing Business in Europe, Par. 23,446)*, and the decisions were overwhelmingly to management's disadvantage.

Management had hoped to obtain an agreement that would have allowed department heads, foremen, and the greatest possible number of skilled employees to work 40 hours a week and a corresponding number of unskilled workers to work 37 hours. In practice, most of the conciliation board settlement decrees allow less than 10% of an enterprise's skilled employees to work the 40-hour maximum per week. In none of the cases settled by a conciliation board has management decided to go to court. In several of the instances in which a conciliation board settled the flexible workweek issue to the unions' and works councils' disadvantage, the decisions were appealed to the local labor court.

Britain: Tax Breaks Eliminated for 'Bond Washing'

In a surprise move, the U.K. government has decided to clamp down on "bond washing," also known as "dividend stripping." The procedure allows high-rate taxpayers to transform their income on government gilt-edged securities and other bonds into capital gains, which are generally tax-free. The Inland Revenue estimates that this device costs the Exchequer around £300 million a year. Without the clampdown, the costs could be expected to rise sharply next year with the restructuring of the gilt-edged market.

Bond washing involves selling the securities just before the dividend is due but after the price has risen in anticipation of the dividend payment. The bonds are generally sold to tax-exempt institutions. After the non-taxpayer has collected the dividend, the bond is sold back to the taxpayer until the next dividend date. If the bonds are held for more than a year, they are exempt from capital gains tax. Due to various exemptions, the tax can often be avoided even over a shorter period.

Under the new regulations, which apply as of Feb. 28, 1986, the interest on bonds and securities will be treated as accruing on a day-to-day basis between interest payment dates. The seller will be liable for income tax on the interest that has accrued by the date of sale, while the purchaser may offset the same amount against his next dividend. The new rules will apply to all stocks with fixed or variable interest rates but not to treasury or local authority bills. Equities will not be covered, although they are often used in a similar tax-avoidance procedure.

The new regulations will apply to all taxpayers who are resident or ordinarily resident in the U.K. as well as to nonresidents who trade in the U.K. through a branch or agency. They will not apply to financial groups whose profits from security sales are now taxable as income or to individuals who hold securities of less than £5,000.

The Inland Revenue may ask taxpayers "in appropriate cases" to provide records of transactions in the pertinent securities as of Feb. 28, 1985, where no income was received in the period up to Feb. 27, 1986, or where the income is less than it would have been under the accrual plan. In such cases, the taxpayer will be charged under the accrual rules. However, an exemption will be allowed if the total income is less than 110% of the income received from dividends or if the trading during that period shows no increase in bond washing compared with the previous three years.

France: 'Smart Card' Plan; ECU Forward Contracts

By the end of 1986, French banks hope to have issued 3 million *cartes à mémoire* or "smart cards," thus becoming the first European country to introduce a widespread electronic payment system. The cards, which will be issued first in selected regions of the country, will handle such tasks as cashless shopping and telephone calls. The program involves an initial investment of FF 200 million. The second stage, during which 10 to 12 million cards are to be issued by the end of 1988, is expected to cost another FF 1 billion. The system will involve the country's main commercial banks, cooperative and savings institutions, and the post office network.

One of the main problems still to be settled is the amount of the bank commission from retailers on each transaction. Questions also remain as to the ability of the state-run Bull computer group to fill orders for the microchip-containing cards and the necessary electronic equipment.

In other news, the French government has further relaxed its foreign exchange controls by authorizing businesses to use ECU forward contracts to protect their import bills. French companies may now purchase forward contracts of up to six months to cover goods denominated in European Currency Units. Such purchases have been illegal since 1981.

French Conservatives Win 50% of Local Election Votes

Conservative opposition candidates won almost 50% of the votes in French local elections on March 10, resulting in predictions of a tough battle in the parliamentary elections in March 1986. The Conservative alliance consists of the neo-Gaullist RPR, centrist UDF, and several other independent parties. The extreme right-wing National Front took 8.85% of the vote, down from the 11% it received in the European Parliament elections last June. Conservatives had been considering an alliance with the National Front, whose platform is based on anti-immigration policies.

The governing Socialists and their left-wing Radical allies received about 25.8% of the vote, up from 24.2% in the EP elections but down from 37.8% in the 1981 parliamentary elections. The Communists took 12.9%, compared with 11.2% in June and 16.1% in 1981. About half of France's municipalities were involved in the elections, with a voter turnout of 67%.

Greece: Dispute Over Foreign Debt; President Resigns

Yet another dispute has arisen between Greece's Socialist government and the conservative New Democracy opposition, this time concerning the foreign debt. The Conservatives are calling for measures to decrease the foreign debt, which the OECD says stood at $18.67 billion at the end of 1984. The Bank of Greece, however, puts the figure at about $12.358 billion, up from $10.562 billion at the end of 1983. The bank says the OECD's figure is much larger because it includes defense borrowing, private shipping debts, and foreign exchange deposits in Greece by residents living abroad. The opposition also says that the public foreign debt has risen from $5.7 billion in 1981, when the Socialists took office, to $10 billion.

Although Dimitris Halikias, the central bank governor, insists that Greece has "no special problem" in obtaining foreign loans, the country has become increasingly reliant on Japanese banks because many Western and Arabic banks have closed their doors to Athens. The Conservatives fear that soon Japanese banks will also refuse loans to Greece, the end result being the intervention of the International Monetary Fund to monitor an austerity program.

In other news, Greek President Constantine Caramanlis resigned on March 10, one day after Prime Minister Andreas Papandreou unexpectedly decided to support another candidate for the next five-year presidential term. (Caramanlis' term of office was to end on May 1.) Papandreou had directed the 165 Socialist members of the 300-seat Parliament to support Christos Sartzetakis, a Supreme Court judge. Giannis Alevras, Parliament speaker, will take over as president until a new president is elected. If no candidate receives at least 180 parliamentary votes by March 25, parliamentary elections will be held immediately. New Democracy controls 112 seats, the Communists 12, and independents 11. So far Sartzetakis is the only candidate.

Austria: Strong Dollar Boosts Production, Exports

The Austrian economy is profiting from the strength of the U.S. dollar, with both industrial production and exports showing healthy gains. Exports have been rising at a two-digit rate in annual terms - by 15% last December (seasonally adjusted) and by 20% in January (unadjusted). Austria's major export markets are not only the U.S. and Canada but also the OPEC countries. Strong foreign demand has been stimulating industrial production, which was 14% higher in December.

According to the latest survey of the official Institute for Economic Research, no further increases in industrial orders and output can be anticipated for the moment. The reasons lie in the stagnating domestic demand for consumer goods and the fact that the growing demand for capital goods is being covered largely by imports. Thus, industrial production in Austria continues to lean heavily on base products and semi-finished goods - a peculiarity attributed to structural weaknesses in Austrian industry.

The report is optimistic that the consumer climate will improve somewhat with the slightly brighter outlook for employment and rising real-term incomes. Nevertheless, such a trend would have hardly any effect on economic growth, the institute says, because the export advances are already fully compensated by imports for inventory buildups and investments. The labor market has reacted only sluggishly to the upturn: employment levels have remained virtually the same since last summer, and the unemployment rate still stood at 6.7% at the end of February, down from 6.9% in January. Construction workers and young job seekers have been most affected.

In related developments, it has been noted with apprehension that the Austrian construction workers' union is negotiating for wage increases of 7.8%, following last year's 5.3% increase. The government maintains that these pay demands are far too high considering the depressed labor market (especially in the building industry) and the need to hold inflation at the lowest possible level (3.4% in January). To combat youth unemployment, Vienna recently introduced a 1.5-billion-schilling program designed to ease the cost burden on businesses that agree to hire and train young people.

Sweden: Price Controls Imposed; Catalytic Converters

Sweden's Socialist government has enacted price controls for the third time since it came to power in 1982. As of March 13, manufacturers must receive government approval for any price increases on individual products. The controls apply to all goods and services except for imports, daily newspapers, many foodstuffs, and alcoholic beverages, which are sold in state-controlled stores.

Most observers agree that the government will be hard pressed to meet its goal of holding inflation to 3% this year. (Last year's 7.5% rate was almost double the target of 4%.) Finance Minister Kjell-Olof Feldt says the target will be met only if the unions agree to limit wage increases to 5%. The LO union federation has agreed, but talks with unions in individual industries have not been proceeding so well. Feldt hopes that the price controls will swing the unions in favor of the 5% limit.

Since the 16% devaluation of the krone in late 1982, Sweden has been plagued by high inflation. There has been speculation lately that the krone may face another devaluation due to its weakening position against a weighted basket of currencies. At a recent economic conference in Stockholm, central bank chief Bengt Dennis urged that the government's restraints on fiscal, monetary, and credit growth be continued through the end of the decade because of basic imbalances in the economy. He said a major reason for Sweden's slow growth compared with other industrial countries is its foreign debt of SKr 130 billion. Because of this high debt, Dennis said, domestic interest rates must be kept higher than those in foreign markets. Some observers believe Swedish interest rates may soon be raised further to offset a heavy outflow of capital.

In other news, the Swedish government has introduced a bill, which is expected to pass easily through Parliament, to require catalytic converters on all new cars sold in the country as of 1989. Lead-free gasoline would be available beginning in mid-1986.

Switzerland: Voters Turn Down Vacation Amendment

Swiss voters on March 10 turned down by a two-thirds majority a constitutional amendment that would have entitled all workers to four weeks of annual leave. Workers under 20 or over 40 years old would have received five weeks. Observers believe that most workers would prefer to negotiate the extra week of vacation in contracts between individual unions and employers.

The strong showing against the measure, which had been supported by the Swiss labor federation (SGB), could prove detrimental to the federation's campaign for a constitutional amendment reducing the workweek to 40 hours, from an average of 43 hours among industrial workers. Such an amendment has already been turned down several times.

Common Market Reports

EUROMARKET NEWS

Issue No. 845 *Report No. 523, March 29, 1985*

IN THIS ISSUE

Community: Company Law Proposal on Related Enterprises

The European Commission has completed a proposal that would coordinate national laws on related enterprises, especially groups of affiliated companies. The Draft Ninth Council Directive, which is expected to be sent to the Council of Ministers in the near future, is the final part of the Commission's company law coordination program *(Common Market Reports, Pars. 1350-1433)*.

Work on the draft directive started in the early '70s, and preliminary proposals were redrafted to reflect criticism from the Member State governments. The final proposal has fewer articles and no longer attempts to deal with controversial issues such as detailed criteria of what constitutes control of one company over another. The proposal incorporates many elements of German legislation *(Doing Business in Europe, Par. [illegible])* and in some aspects goes even further.

Adoption of the measure and subsequent legislation by the Member States would establish rights and obligations not only for stock corporations but also for other entities or commercial

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

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partnerships that are members of a group. An enterprise, corporate or noncorporate, that acquires directly or indirectly more than 10% of a corporation's stock would have to report the investment to the corporation's managing board no later than two weeks after the transaction. The information would have to specify how many shares were acquired and what voting rights are entailed. The managing board would also have to be informed if the enterprise's holding increased or dropped by five or more percentage points. (German law is more liberal in that it establishes a reporting requirement whenever an enterprise acquires more than 25% or 50% of a corporation's stock.)

For the sake of protecting shareholders and creditors, management of a controlled company would have to prepare a special report each year on the company's dealings with other controlled companies and the group's controlling company. As under German law, a shareholder of a controlled company who has reason to believe that the company suffered damage in these dealings would be able to go to court to have special auditors check the dealings. In contrast to German law, the draft directive would also allow a creditor or the works council to request such an audit. A creditor or the works council could go to court to have one or several members of the managing or supervisory board temporarily removed from office. (German law does not extend such a right.)

Bonn for Modified Extension of Multi-Fiber Arrangement

The German government opposes allowing the 1973 Multi-Fiber Arrangement (MFA) to expire without some kind of restrictive agreement to govern world trade in textiles thereafter. The MFA expires on July 31, 1986. The Community has not yet started internal discussions on a common stand to be taken at upcoming GATT negotiations in Geneva.

The MFA provides a legal framework that the importing and exporting countries may use to negotiate a year's trade volume. This framework has been used by the Western industrialized nations and textile-exporting countries in the Far East, Latin America, and the East Bloc. Their agreements provide for quotas and put a limit on the annual textile trade growth rate. The EEC has bilateral agreements with 28 textile exporting countries; its principal suppliers are Hong Kong, Macao, and South Korea.

The MFA and the bilateral agreements represent a departure from the free-trade principle embedded in GATT. Because of this, the Commission and several Member States, including Germany, have tried in the past to revive free trade by letting the MFA expire. These efforts were foiled by pressure from France and Italy and the united stand of the national textile workers' unions in all Member States. In late 1980, when the parties to GATT were deliberating an extension of the MFA, a massive protest by nearly 300,000 textile workers forced the German government to abandon its free-trade drive and close ranks with those Member States that favored an MFA extension.

Despite their negative attitude toward the MFA and bilateral agreements restricting world textile trade, Commission officials concede that the accords do have a beneficial side. Since 1976, the Common Market's textile industry has lost some 800,000 jobs, but the loss might have been twice as high without the MFA to restrict low-priced imports from Asian, Latin American, and East Bloc countries. According to the German government, the MFA has shielded Europe's textile industry, and some protection is still necessary in the process of adaptation.

In Brief...

The central bank governors of the eight EEC Member States linked through the European Monetary System (EMS) have agreed on a number of measures that would encourage the use of the European Currency Unit (ECU) as an official reserve asset. The measures are expected to be approved by the finance ministers next month. Central banks would be able to use ECU holdings more freely for intervention to keep national currencies at EMS-pegged rates. They would be allowed to swap ECU holdings against dollars in order to have more dollars for intervention purposes. Interest rates of ECU holdings would be brought up closer to market rates. Non-EEC central banks would be permitted to hold ECU deposits in their reserves + + + The Council of Ministers has agreed on a five-year, ECU 5.2 billion program of farm grants to help modernize the Common Market's poorest, most inefficient farms. The program offers for the first time special aid to young farmers and for forestry and conservation projects. Community grants to offset Member States' costs may range, for example, from 25% for investments in farm machinery to 50% for investments in forest cultivation and protection of the rural environment.

Germany: Jurists Criticize Tax Evasion Trials

State attorneys all over Germany, especially in the state of North Rhine-Westphalia, have been preparing charges against several thousand individuals (mostly owners, major shareholders, or managers of companies) for alleged tax evasion in connection with the financing of political parties. Some of these individuals have already stood trial, and in a number of cases they were fined up to half a million deutschmarks and/or received jail sentences. However, one much publicized trial ended with the acquittal of the defendant. In hundreds of cases, the defendants accepted fines of up to several thousand deutschmarks and did not insist on a trial.

A number of renowned jurists, including the chief justice of the Supreme Tax Court and two former chief justices, have criticized these trials. Their criticism has culminated in the assertion that criminal court judges fail to grasp the ramifications of tax law provisions. Legislative plans by the Kohl administration that would have offered amnesty in connection with contributions to political parties foundered last year due to strong criticism, primarily from the Free Democrats, and a campaign in the news media.

Prosecutors started probing campaign financing in 1981. During a raid on the headquarters of the Flick holding in late 1982, the state attorney's office found evidence pointing to large-scale political donations by Flick managers via tax-exempt organizations. These organizations, some of them actually affiliated with political parties, channeled the money to the parties' treasurers. The donors were given a receipt and claimed the donations as a business expense. Virtually all tax offices recognized the donations as deductible items, and last year the Supreme Tax Court rebuked a tax office that had declined the deduction requested by the taxpayer/donor.

With the tacit consent of high-ranking tax administration officials, the tax offices continued to recognize the organizations' donation certificates, even though this practice was against the law: the money-receiving organizations did not qualify for a tax-exempt status because party financing is not among the activities qualifying for this status. Some lawyers say that tax officials should be brought to trial as accomplices to tax evasion. The argument of other lawyers may have more weight: if the tax courts treat the donations as a business expense, a criminal court may not convict the donor of tax evasion.

Report Confirms Pollution As Forest Blight Cause

A scientists' report commissioned by the German government gives ample support to the Kohl administration's anti-pollution drive to halt forest blight. The report was compiled by a team composed of scientists from several German universities as well as federally employed scientists. It invalidates the reasoning of some of Germany's Common Market partners who have attacked Bonn's planned legislation on low-pollution automobiles by arguing that there is no scientific proof of the causes of the "death of the forests." In the scientists' view, there can be no doubt that air pollution - mainly sulfur dioxide and nitrogen oxide - is the cause of the *Waldsterben*.

Research is continuing to determine how much each of these two pollutants and others, such as heavy metals, contribute to the problem. This much the scientists say can be taken as fact: while sulfur dioxide affects the soil through acid rain, nitrogen oxide attacks the needles and leaves of trees as well as the soil. There is strong evidence for the "photochemical" theory, which blames ozone for damage to needles and leaves. Ozone is common at high altitudes and in sunny weather, but it is also a by-product of nitrogen oxide and hydrocarbons from car exhausts; the higher the car's speed, the higher the ozone percentage. (Emission of nitrogen oxide accounts for slightly more than half of overall pollution.)

Even if all pollution stopped overnight, according to the scientists, the dying of the forests would not stop for quite some time. Over many decades, acid rain has raised the acidity of the soil, and nitrogen oxide has oversaturated the earth with nitrogen. It is recommended that the current German anti-pollution drive be complemented by measures to (a) curb nitrogen oxide pollution not only from cars but also from power plants and (b) cut back pollutants from large heating units in plants and office buildings and eventually from oil burners in private homes.

Belgium: Tax Reform Proposal; Budget Reductions

Belgium's Christian-Liberal coalition government has proposed a four-year tax reform plan that includes BF 16.2 billion in personal income tax cuts in 1986. The reform proposal, which runs through 1989, would raise the minimum income level on which taxes are paid, lower the personal tax rates, and provide for indexation of tax schedules. Cutbacks in other areas would finance the loss in revenue.

The tax reform announcement was expected as Prime Minister Wilfried Martens moves to garner support for his coalition before the December parliamentary elections. The coalition parties face a tough campaign, mainly because of Martens' decision to go ahead with the deployment of NATO cruise missiles.

At the same time, the government has announced an additional BF 27.5 billion in 1985 spending cuts. Expenditures have been unexpectedly heavy so far this year, and additional funds will be needed to finance EEC contributions and dollar debts. Both the OECD and the European Commission advised the government that a further reorganization of the budget is necessary.

Britain: Director Disqualification Proposal Dropped

Yielding to opposition from employer organizations and other bodies, the U.K. government has abandoned its proposals for the automatic disqualification of directors of companies that undergo compulsory liquidation. The proposals were defeated in the House of Lords earlier this year. The rest of the Insolvency Bill, which is intended to provide a radical revision and updating of insolvency law, is making its way through Parliament.

Although the controversial clauses have been removed, the government has decided to toughen the provision for disqualification of unfit directors of companies that are wound up. Alex Fletcher, minister for corporate and consumer affairs, said, "We are holding to our objective to catch directors for unfitness, but not as simply as before." Liquidators of companies that go into voluntary liquidation would now be required to inform the Dept. of Trade and Industry if they believe a director is "unfit to be concerned in the management of a company." The minister would then decide whether to apply for a court order disqualifying the director.

Although the revised measures would be more expensive to implement, Fletcher predicts that fewer cases would be brought to court. He stresses that the effectiveness of these measures would depend on the liquidators' being prepared to make the necessary reports to the department. If the liquidator failed to make a report and complaints were then received about a director's conduct, the matter would be reported to the liquidator's licensing body.

The business community has generally welcomed the changes in the Insolvency Bill. However, the Confederation of British Industry wants more guidance as to what type of conduct renders a director unfit to manage a company.

Ireland: End to Conveyancing Monopoly Urged

The Irish Restrictive Practices Commission has recommended to the government that the conveyancing monopoly currently enjoyed by solicitors be abolished. According to the commission, the arguments in favor of the monopoly are not sufficient to justify the resulting infringement of personal choice. The Irish Law Society, which is in favor of continuing the monopoly, argues that it provides safeguards for clients. The commission has also proposed that solicitors be permitted to advertise and charge competitive fees.

The British government is introducing legislation to remove the solicitors' conveyancing monopoly in the U.K. Observers believe this has given the impetus for a similar move in Ireland. However, any changes would involve the Dept. of Justice and the Dept. of Trade and Commerce, and there seems little prospect of any imminent curtailment of the monopoly.

Netherlands: OECD Recommends Employment Measures

Although the Dutch economy should improve slightly in overall terms this year, the poor employment situation will remain "the most important imbalance in the economy," according to the latest survey by the OECD. The organization expects the unemployment rate to remain at about 15% this year, due partly to the rising number of women in the job market, high labor costs, and narrow wage differentials. To improve the employment outlook, the OECD recommends greater pay flexibility, shorter working hours, and a strengthening of corporate profits.

The report forecasts a 1985 growth rate of 2.25% for the Dutch economy, up from 1.75% in 1984. Exports should rise by 4.4% this year, following 5% last year. Consumer prices are expected to increase 1.4% (2.9%), while tax cuts should allow a 2.6% (0.2%) rise in real disposable incomes.

According to the OECD, the government will need to enact more extensive spending cuts in order to reach its goal of reducing the budget deficit to 7.4% of net national income by 1986 (9%-9.5% in 1984). Since the report was issued, Finance Minister Onno Rudding has proposed increasing the cuts in the 1986 budget from 7 to 9 billion guilders. The budget is to be sent to Parliament in September, and it is expected that the reductions will face heavy opposition due to the 1986 elections.

Switzerland: Budget Recovery Triggers Tax Cut Pleas

Slow but continuous improvements in the financial situation of the Swiss federation have brought the government to a position where it can confidently hope for a balanced budget in 1986. Last year's federal finances still closed out with a deficit of SF 450 million, but this was about 50% less than originally anticipated. Expenditures in 1984 rose by 6.7% to SF 21.6 billion, and revenues increased by 9.1% to SF 21.2 billion.

Financial observers regard the recovery of the federal finances as fairly impressive in view of the fact that the government itself not too long ago had predicted a revenue shortfall of about SF 1 billion in 1984. The progress was achieved by a series of measures supported by both houses of Parliament, which resulted in major cutbacks in the size and number of federal subsidies and grants. In fact, some of these cutbacks were so drastic that it is questionable whether they can be sustained.

In view of the advances made as a result of spending cuts rather than tax increases, the political climate for new or higher taxes in Switzerland remains cool. A recent government proposal for the introduction of a general energy tax of SF 400 million was rejected by a parliamentary committee. A similar effort seeking the introduction of an electricity tax appears doomed as well.

On the other hand, there have been proposals for the lowering of several federal taxes and levies. The banks, for instance, are demanding a reduction in the stamp tax on foreign securities transactions and the abolition of the withholding tax on interest in interbank deposits. They are worried that these taxes will cause international business to turn away from Switzerland. The government's annual revenue from taxation on financial transactions currently amounts to some SF 1.2 billion. The Swiss Bankers Association says that it would be too much to ask for the complete removal of these taxes, but it urges the government to start with those levies that bring in relatively low revenues.

Yugoslavia: Parliament Okays IMF Standby Credit Pact

The Yugoslav parliament has approved an agreement with the International Monetary Fund providing for $300 million in standby credits from May 1985 to May 1986. Finance Minister Vlado Klemencic said the agreement clears the way for negotiations with foreign creditors over the rescheduling of $5.7 billion in debts that fall due during 1985-86. Yugoslavia's total foreign debt amounts to $19 billion.

According to Klemencic, the terms of the agreement are easier than anticipated in the 1985 economic plan. Belgrade has agreed to raise its foreign-currency reserves by $200 million, instead of the expected $400 million. The current-account surplus is to be increased to more than $1 billion, following $750 million in 1984.

EURO COMPANY SCENE

Sears Holdings PLC has agreed to acquire Foster Brothers Clothing PLC and its more than 650 stores in the U.K. The move rescues Foster from a £90 million takeover bid by Ward White Group PLC. The Sear's takeover deal is valued at £114.3 million.

Fairchild Industries, Inc., and France's Alcatel Thomson are setting up a joint venture to develop and market satellite-based telecommunications networks and products. Each partner is contributing a products company and a systems and services company, and each parent will own a 20% stake in the other's subsidiaries. Fairchild will be responsible for marketing in North America and Alcatel in the rest of the world.

Representatives of Ford Motor Co.'s European employees have been meeting to discuss their strategy following reports that the company may cut its European capacity. Since 1979, Ford has reduced its European workforce from 140,000 to 105,000. The company's next five-year plan is expected to be finalized in June.

As part of its strategy of European expansion, Citibank has acquired a controlling interest in Cie. Générale de Banque of France. Citibank obtained 80% of the bank's capital from the Drouot insurance group and 10% from Hottinguer & Cie., a private bank. CGB has offices in Paris and southwestern France.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Compromise Timetable for Low-Pollution Cars

The Council of Ministers has agreed on a timetable for the introduction of low-pollution cars. The new standards would have to be met by 1989 in the case of automobiles with engines over two liters, by 1993 in the case of those with 1,400-2,000 cc engine displacement, and by 1994 in the case of those with engines up to 1,400 cc. The Council assumed the commitment to establish the details of the technical standards by the end of June. The type of test to which cars will be subjected to verify compliance would be agreed on by 1987.

The new standards would not be identical to the U.S. requirements, which the Commission and the German government had included in proposals *(Common Market Reports, Par. 10,632; Doing Business in Europe, Par. 40,613)*. However, their effect on the environment would be equivalent to that produced by U.S. standards, taking into account differing patterns of use for each vehicle category. These standards would not impair technological development because the compromise permits further development of the lean-burn engine as a way of reducing exhausts. The development of the lean-burn engine is a concession to the United Kingdom.

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The compromise, which gives auto manufacturers legal security, would also allow the use of the three-way catalytic converter as a pollution-control device. The German government had wanted converters for all new cars sold in Germany starting in 1989 (1988 for models with engines over 2,000 cc). Experts consider the converter to be the best method of cutting toxic exhausts.

Part of the Council's agreement is a declaration that allows the Member States to offer financial incentives to encourage the sale of low-pollution cars, although there would be several restrictions. An incentive would have to amount to significantly less than the additional costs involved in fitting catalytic converters or lean-burn engines to meet the EEC standards. During the period before the standards are adopted, small cars (up to 1,400 cc) emitting less pollution than allowed would qualify for incentives equivalent to DM 750. Thus, Germany will have to scale down the tax incentives proposed in pending legislation *(Doing Business in Europe, Par. 40,604).*

The Council's March 21 agreement represents a compromise essentially between Germany on the one hand and Britain, France, and Italy on the other. Germany, where 60% of the forests are affected by blight, wanted to act quickly to require low-pollution cars. For France, Italy, and the U.K., where forest blight is not as extensive, the converter requirement would have placed an undue burden on domestic car manufacturers. In the end, both sides gave way. If Germany had gone ahead with unilateral measures, the Common Market would have been confronted with one of the most serious crises of recent years.

EC Prepared for New Round of GATT Negotiations

The European Community is prepared to participate in a new round of multilateral trade negotiations under the General Agreement on Tariffs and Trade. A declaration adopted by the Council of Ministers on March 20 emphasizes that the EC will continue its agricultural policy, much criticized by a number of third countries, especially the United States. No date has been scheduled for the new GATT round, but the declaration puts the EC in a position to speak for all the Member States at the OECD meeting in Paris (April 11-12) and the Bonn economic summit (May 2-4). The place of the negotiations has yet to be agreed on. The European Community would like the talks to be held in Brussels. (The previous rounds took place in Geneva and Tokyo.)

An important goal for the new GATT round is the redefinition and implementation of commitments assumed at previous economic summits and other international conferences. These commitments include a halt to new protectionist trends and a rollback of existing restrictions on international trade. Both demands are directed against the United States, which stands accused of having violated these commitments with its curbs on European steel imports. The Community expects Japan to raise its imports to the levels prevailing in most other GATT member countries.

Besides agreeing to talk about the removal of common trade restrictions such as tariffs and quotas, the Community also wants to take up the liberalization of services and the problems of trade in counterfeit goods. The EC's declaration does not mention trade in high technology, a topic that the U.S. government wants included in the agenda, but Commission officials see no reason why this important matter should not be included in the talks.

In Brief...

The Council of Ministers has agreed on amendments to EEC legislation that would commit the Member States to making unleaded gasoline available by 1989. In line with the option provided in the legislation, several States have moved ahead and obtained a commitment from oil companies to market lead-free gasoline required for engines with catalytic converters + + + The Council has adopted seven research and development programs to be carried out over the next five years and supported by Community funds. The programs include research on biotechnology, non-nuclear energy sources, thermonuclear fusion, and the protection of man and the environment against the hazards of nuclear waste treatment and storage. The Community's contribution toward financing R&D will be ECU 1.22 billion. (The Commission had proposed ECU 4 billion.)

Germany: Proposed Tax Legislation to Affect Homeowners

The German government has proposed tax legislation that would bring important changes for homeowners and home buyers. Owners of homes or condominiums would no longer have to pay income tax on the rental value of their property. Taxpayers would be denied the privilege of deducting from their income the amounts paid for home repairs and maintenance.

Under current law, an individual is taxed on the rental value of his home. This rental value represents a percentage of the property's assessed value established for purposes of computing the net worth and real property taxes. Since the assessed value of real estate is low when compared with the commercial value, the amount added to the homeowner's income is not very large.

The bill would expand slightly the tax relief provided for potential home buyers in current legislation. An amendment to the Income Tax Law would allow a taxpayer who buys or builds a home or condominium to deduct from his annual taxable income over a period of eight years 5% of the purchase price or construction cost up to a maximum of DM 250,000 (DM 300,000 for a two-family home). Under current law, these amounts are DM 200,000 and DM 250,000, respectively.

A taxpayer could also deduct additional costs incurred prior to moving into the new house, such as interest on an interim credit to buy furniture. However, interest on mortgage payments made after occupancy would no longer be deductible from income because present legislation providing for such a deduction expires on Dec. 31, 1986. There are no plans at the moment to extend the deduction privilege, although the construction industry has demanded an extension to stimulate construction activity.

An innovation in the proposed legislation would allow taxpayers acquiring a home to deduct DM 600 annually per child from income tax.

Enactment of the measure is scheduled for July 1, 1987 - far too late, according to the construction industry, to prevent this sector from moving deeper into recession. Government leaders believe, however, that the construction industry's protracted slump is due not so much to fewer new homes but to sharply reduced investments by local governments.

Britain: New Budget Contains Few Fiscal Changes

British Chancellor of the Exchequer Nigel Lawson on March 19 introduced a "neutral" 1985-86 Budget that contains relatively modest fiscal measures. The Budget does not include the anticipated and widely opposed changes in the tax treatment of pension funds. Lawson said that any such fundamental reforms would need to be preceded by a Green Paper.

According to the chancellor, the two principal Budget themes are "to continue the drive against inflation and to help create the conditions for more jobs." To stimulate employment for school leavers, Lawson has made concessions on the national insurance contributions for earners of low incomes. However, he has proposed abolishing the £265-a-week upper earnings limit for employers' contributions, which would subject all earnings above £130 a week to a 10.45% levy. This change, which is scheduled for Oct. 6, would cost employers £800 million per year.

The Budget increases personal tax allowances by almost twice the rate of inflation. The single person's allowance would rise by £200 to £2,205 and the married couple's allowance by £300 to £3,455. Thresholds for higher-rate taxpayers would be indexed to inflation. The basic rate of 30% would apply to incomes up to £16,200 and the top rate of 60% to incomes above £40,200. Self-employed persons would be able to offset half their national insurance contributions as of April 6.

Included in the Budget are increases in excise duties on wine by 10 pence a bottle, cigarettes by 6 pence a package, and gasoline by 4 pence a gallon. The annual road fund license for cars and light vehicles would rise from £90 to £100.

A number of changes in the allowances on business assets have been proposed. Allowances for plant and machinery would be available for the period in which the expenditure is incurred, rather than as of the date when the assets are brought into use.

Under existing legislation, profits from transactions in commodity and financial futures and traded options are treated as income. As of April 6, such profits would be treated as capital gains so long as they do not form part of a trade.

Lawson did not propose abolishing the capital gains tax, as had been widely expected. Instead, he introduced measures to reform and simplify the indexation provisions. An individual would be able to revalue assets acquired before April 1982 as of that date, thus incurring a smaller profit for tax purposes. The annual exemption would rise from £5,600 to £5,900 in the next tax year.

The chancellor has proposed abolishing the development land tax immediately because he views it as extremely complicated and discouraging to land development.

Ireland: Government Acquires Insurer in Bailout

For the second time in two years, the Irish government has taken over a major insurance company to prevent it from going bankrupt. In its latest move, Dublin rescued Insurance Corp. of Ireland (ICI), the country's second-largest non-life insurer. The takeover was also intended to prevent a possible collapse of Ireland's largest bank, Allied Irish Banks PLC (AIB), owner of ICI. AIB had written off £89 million (Irish) to cover ICI's losses, thus allowing the bank's reserves to fall below the minimum 6.5% of deposits. The bank, which injected £30 million into ICI a few months ago, is suing Ernst & Whinney, former auditors of the insurance company, for failing to accurately depict the company's finances.

In 1983 the government bailed out the country's largest car insurer, Private Motorists Protection Association, to prevent a collapse of the domestic car insurance market. A 2% tax was then levied on all Irish insurance policies to help pay for the takeover. Trade and Industry Minister John Bruton said that, to help finance the ICI bailout, the 2% tax as well as a surcharge on bank profits will probably be raised. ICI's losses, estimated at £50 million for this year, could eventually total as much as £150 million.

Italy: IMF Urges Tighter Control of Public Spending

The International Monetary Fund has warned Italy that the country's rate of economic recovery is slowing and that the government needs to keep a tighter rein on public spending, incomes, and the money supply. Following a visit by an IMF delegation to Italy, the organization said, "We believe that, unless the suggested measures can be applied rapidly and with decisiveness, the

Italian economy could return in the not-too-distant future to a pattern of slow growth and rising inflation and unemployment." However, observers have already noted that the government is hesitant to make any unpopular economic moves before the local elections in May.

The IMF is particularly concerned about runaway public spending. Italy's public-sector deficit has grown from 11.9% of GNP in 1981 to about 15%, and the public debt has reached 500 trillion lire. According to the IMF report, the major reason for this growth lies in health and pensions spending, which it says must undergo significant cuts in the future. The organization also recommends that wage increases for state employees be held to 7% this year.

The report sees a potentially "explosive interaction" between the growing public debt and the resulting high interest rates. Another boost in interest rates may eventually be necessary, the IMF says, to restrain the rapid expansion of the monetary supply.

The IMF believes that the government's 1985 goals of cutting inflation from 10.8% to 7% and achieving growth of 2.5% (3% last year) are possible only if quick moves are made to hold wage increases to 7%. The report also recommends a reorganization of the *scala mobile* (wage indexation) system.

Austria: OECD Recommends Updating Industrial Structure

Although the Austrian government can be satisfied with the country's general economic situation, attention must be turned to structural problems in industry, according to the latest report by the OECD. A major share of manufacturing is still made up of consumer and basic goods industries, which must compete with cheaper production in developing countries. Low expenditures on research and development are partially responsible for the relatively small portion of high-technology items among Austria's exports. This figure has risen only slightly from 7.6% in 1970 to 8.7% in 1982. The OECD says productivity and profitability must be brought up to par with those in other advanced industrial countries.

Industries having the greatest need for structural improvement are those dominated by nationalized companies, according to the OECD. The organization is also concerned by the vast system of government subsidies, which it says is difficult to evaluate due to a "lack of transparency." Government subsidies and capital transfers total 62 billion schillings or 4.5% of GDP this year.

Although the unemployment level of 4% last year is among the lowest in the OECD countries, the makeup of the jobless ranks is changing. The jobless rate for young people is rising faster than the total, and the long-term unemployed now represent a larger percentage. The organization does not foresee much improvement in the employment figures over the short term.

Spain: INE Economic Statistics Show Slower Growth

Economic figures published recently in the yearly report by the Spanish National Statistical Office (INE) contradict the more optimistic numbers the government has been issuing, thus putting a damper on Madrid's boasting about economic development in the past year. Althought the government has been pressuring INE to adjust its statistics to balance with the earlier "correct" figures, the statistical office has refused to yield.

The discrepancies are most pronounced in the country's investment figures. According to the government, whose original goal was to increase investment by 4.5% last year, investment fell by 1% in 1984, which is still a slight improvement over the 1.5% drop during the previous year. INE, however, tabulated a 3.5% decrease for 1984. Another disagreement concerns GNP: the government reports that GNP rose 2.5% in 1984 (2.2% in 1983), while INE says the gain was only 2%.

Other data included in the INE report are a 1% fall in real private consumption (up 0.7% in 1983) and a 2% increase in public consumption (4.1%). Consumer purchasing power fell as inflation was reduced to 9%, but wage increases were held to 7%. Although corporate gross incomes rose by 22%, this increase was used mainly to finance debt structures and institute labor-saving measures, rather than going toward investment and employment.

Sweden: Foreign Bank Bill; Metalworkers' 5% Raise

The Swedish government has proposed legislation that would allow foreign banks to establish subsidiaries in Sweden beginning early in 1986. If passed, the bill would become effective as of July 1, and applications would be accepted until Oct. 1. Only subsidiaries of the parent banks, not branches, would be permitted, and the units would need a minimum capital of SKr 25 million. Because the subsidiaries would be governed by the same regulations as Swedish banks, they would have to offer a range of services rather than limiting themselves to corporate customers. The subsidiaries would be able to operate on the foreign exchange and stock markets, but they would not be permitted to own shares in Swedish companies.

In other news, the government's campaign to reduce inflation from 8% to 3% this year received a boost when the metalworkers' union agreed to a 1985 pay increase of less than 5% for its 200,000 members. Stockholm responded by submitting the promised legislation that would grant all workers earning over SKr 80,000 per year a SKr 600 tax rebate this June. The trade union federation LO had agreed in February that pay increases would be held to the government's 5% target but that individual unions and employers would set the final amounts. Progress in those talks slowed until the government imposed price controls in mid-March.

Denmark: Government Prepares Law Seeking to End Strike

At a special session on March 31, the Danish parliament was to vote on government legislation seeking to end the labor conflict that has crippled much of the country since March 24. In the bill, Prime Minister Poul Schlüter also sought to keep the strike from spreading to the public sector, where the previous collective contract expired on April 1. The negotiations between the public-sector unions and the Finance Ministry have produced no concrete results so far.

In the private sector, some 300,000 union members were on strike or affected by lockouts. As of March 26, the Conservative-led, four-party coalition government was still negotiating with the political opposition the terms for a statutory settlement. Unofficial reports said that the strikers would be offered a 2% pay increase in 1985 and an unspecified workweek reduction in 1986. (It was also reported that Copenhagen plans to boost the corporate income tax rate from 40% to 50%, cut employers' social insurance contributions, and impose a savings rate of 8% on those who earn more than DKr 150,000 per year.)

The walkout for higher wages and a gradual introduction of the 35-hour workweek is the most serious Danish labor conflict since 1973, when the unions successfully fought for a reduction of the workweek from 41.75 to 40 hours. They also achieved equal pay for women.

The unions had started the most recent round of collective bargaining late last year with demands that would have meant total pay increases of about 10%. They also wanted the introduction of the 35-hour workweek as a means of combating unemployment, which currently stands at 10% of the national workforce. The talks broke off in January, and both sides subsequently rejected a compromise proposal by the official mediator that would have meant a 3.5% pay boost in 1985, a 4% increase in 1986, and a workweek of 38.5 hours.

The strike and lockouts have affected the entire Danish metalworking, construction, and transport industries and interrupted private bus and ferry services. Fuel and food supply shortages have been reported in various parts of the country.

Common Market Reports

EUROMARKET NEWS

Issue No. 847 Report No. 524, April 11, 1985

IN THIS ISSUE

Community: Accord With Spain, Portugal on Accession

On March 29, the foreign ministers of the ten Member States and those of Spain and Portugal agreed to compromise formulas in preparation for the accession of the two Iberian countries. Spain and Portugal will join the three Communities on Jan. 1, 1986, if the accession treaties are signed by the leaders of the ten Member States and the two applicant countries (expected to occur in June) and then ratified by the 12 legislatures. The coming weeks will be devoted to continued drafting of the treaties, with particular attention to the compromise formulas. These concern fishing policy, agricultural trade, and free movement of Spaniards and Portuguese, all difficult issues that prolonged the accession talks for several months.

The treaties will take into consideration the problems accompanying the EC's enlargement. A general seven-year transition period would enable Spanish and Portuguese industries to adjust to competition from the other ten States. Spain would have to cut its tariffs by 52.5% by the end of 1989; Portugal would dismantle them immediately for many products. Fruit and

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

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vegetable growers in the Community, especially in France, Italy, and Greece, would be shielded over a ten-year period as EEC tariffs are gradually dismantled. Spain would be allowed to retain restrictions on capital movement for five years and Portugal for seven years. Spain's fishing fleet, larger than those of the Ten combined, would face restrictions on the number of trawlers that could enter specified zones and on how much they could catch. Spanish and Portuguese workers would not have free access to the European job market before the end of 1991.

The membership of Spain and Portugal would also entail rights and obligations in areas that posed no problems during the negotiations. These areas include full application of EEC competition rules as of Jan. 1, 1986, participation in the Community institutions, and access to Community funds.

Enlargement of the Community to 12 States would mean an expanded customs union comprising a market of 320 million people (now 270 million) and the opportunity to reduce economic disparities between the old and new members. A Community of 12 would have a stronger voice in international bodies and would attract more interest in Central and South America. However, the enlargement would also add to the institutional problems already besetting the Community. Reaching a consensus among 12 partners would be even more difficult than among ten. Financial disputes might become more frequent after the accession of Portugal, Europe's poorest country, widens the economic gap between the Member States.

Mediterranean Aid Plan Clears Way for Enlargement

Approval of an ECU 5 billion financial aid program for the EC's Mediterranean region by the heads of government at their March 29-30 summit in Brussels cleared the way for Spain's and Portugal's proposed accession to the Community in 1986. Greek Prime Minister Andreas Papandreou had threatened to veto the accession unless the other nine government leaders agreed on massive Mediterranean aid over the next seven years.

The Integrated Mediterranean Program was originally designed to buffer the negative consequences of the admission of Spain and Portugal for fruit and vegetable growers in southern France, Italy, and Greece. However, during the months-long wrangling, Greek officials insisted on additional funds to help backward regions in their country. The agreement reached at the summit guarantees Greece ECU 2 billion of the ECU 5 billion total.

With the settlement of the accession and Mediterranean issues, which took up virtually all of the last two summits, the heads of government can devote their next meeting to more fundamental issues, for which the summit meetings were meant in the first place. At their first summit in Paris in December 1974, the heads of government decided they should meet three times a year "to develop the activities of the Communities." At their

June meeting in Milan, they will discuss the Dooge Committee's report on the ways and means of making progress toward a true European union. (The committee is composed of Member State officials and chaired by Sen. Jim Dooge of Ireland.)

All of the Member States except the U.K., Denmark, and Greece believe that abandoning the so-called Luxembourg Compromise should be the first step toward a European union. A de facto amendment of the Rome Treaty, this compromise (reached in 1966 at the insistence of France) allows any Member State to veto a proposed Council of Ministers action if the effects of passage would conflict with vital national interests. The majority of States say that the veto right should be retained in only a few instances, such as questions of Community enlargement or the scope of the European union. This suggested curtailment of the veto right would still entail majority voting on Council actions, and more frequent use of majority voting on major issues would mark a return to the letter of the Treaty of Rome.

In Brief...

A compromise reached by the Council of Ministers will enable France, Italy, Belgium, and Luxembourg to increase subsidies to the steel industries this year. The European Commission, however, will authorize these subsidies only if they are linked with production cuts in addition to those it demanded in 1983. In the compromise, the ministers reaffirmed the Dec. 31, 1985, deadline set in 1983 for the phaseout of subsidies to national steel industries + + + At the end of February, registered unemployment in the Community (except Greece) stood at 13.6 million, 96,000 less than in January. The overall jobless rate was 12%. Ireland registered the highest rate (18.1%), followed by Belgium (14.5%) and Italy and the Netherlands (both 14.1%). With an unemployment rate of 12.6%, the U.K. lies slightly above the Community average, while Germany, with a 9.7% jobless rate, lies considerably below it. Luxembourg, at 1.8%, has the lowest rate.

Germany: Legislation to Control Health Costs Pondered

German Labor Minister Norbert Blüm has threatened to initiate legislative action unless in the next few months he is given commitments to control health insurance costs. Only if the health insurance funds and the association representing some 60,000 doctors who treat insured patients can agree on increases in physicians' fees will Blüm refrain from legislative action. Such an agreement and other accords involving drug manufacturers could forestall higher contribution rates by most health insurance funds. Over 200 of the approximately 1,400 health insurance funds have already raised their contribution rates this year. (These contributions are shared equally by employers and employees - *Doing Business in Europe, Par. 23,454.*) A large number of the funds will probably follow suit to cover an estimated deficit of DM 3 billion this year.

The recent meeting of representatives of the insurance funds, doctors, drug manufacturers, employers' associations, and union officials failed to produce binding commitments on how much medical fees and hospital rates should go up during the year. Only the dentists' association reached an agreement with the insurance fund associations: dentists' fees would be increased by no more than the 1985 average income rise of insured employees. The physicians are prepared to assume a similar commitment if insurance funds would limit the number of new doctors. However, such a commitment could not be reconciled with the German constitution, which guarantees free access to the liberal professions. Representatives of the health insurance fund associations and the national pharmaceutical manufacturers' association have not been able to agree on the extent of drug price increases.

Although Blüm did not specify the details of the threatened legislative action, one possibility could be a regulation stipulating how much hospitals could charge insurance funds for treating a patient. Hospital bills account for slightly less than one-third of the total that the funds pay for treatment of the 25 million insured persons (in 1983, DM 30.8 billion of the total DM 100.5 billion paid by the funds). Blüm is also considering having a list drawn up showing comparative drug prices to enable doctors to prescribe the lowest-priced drug if it is just as effective. He does not rule out raising the fee that the insured must pay when buying a prescribed drug (now DM 2 per drug).

Britain: Reforms of Partnership, Personal Income Taxes

Further clarification has been provided of the U.K. chancellor's proposals on partnership and personal income taxes referred to in his Budget presentation. Legislation has been proposed to counter the avoidance of tax by arranging partnership changes. This government move comes in the wake of criticism from the House of Commons Public Accounts Committee that members of a partnership can reduce their tax liabilities by manipulating the tax rules applicable when a business commences and terminates operations.

The proposed changes would alter the basis of tax assessment following a change in the members of a partnership, effective retroactively to March 19, 1985. Currently, the first three yearly tax assessments of a newly formed partnership are based on the profits during the first year of operation. Under the proposal, tax would be assessed during the first four tax years on the actual profits arising in each of those years. Thereafter, the preceding-year rule would apply, although the partnership could elect to be taxed on actual profits during the fifth and sixth years. *(Doing Business in Europe, Par. 40,619).*

The new rules would apply when at least one person is a member of both the old and the new partnerships and when an election could have been made for the partnership to be treated as a continuing business.

The government also plans to publish, later this year, a Green Paper on the reform of the personal income tax system. This document will set out for discussion a new tax structure under which each taxpayer would have a single personal allowance. Married couples would have the equivalent of two allowances. If one spouse was unable to use all or part of his or her allowance, the unused portion could be transferred to the partner. Husbands and wives would be taxed separately on their own incomes. (See also *Doing Business in Europe, Par. 23,815.*)

The Green Paper is expected to form the basis of legislation that would probably be introduced in 1987. The reform could be in force by the end of the decade.

U.K. Government Considers Abolishing Wage Councils

Following the publication of a Green Paper on wage councils *(Doing Business in Europe, Par. 23,953A)*, U.K. Labor Secretary Tom King has promised "urgent action" to counter the "harmful effects" of the councils on employment. He said the government intends to "de-ratify" International Labor Organization Convention No. 26, under which wage councils operate. The convention "lacks flexibility," King said, "and therefore limits the government's freedom of action in an area of vital public concern." The government is expected to decide in June on whether to abolish or reform the councils.

Wage councils determine the statutory minimum rates of pay in certain manufacturing and service industries. The 26 councils in the U.K. cover more than 2.5 million employees.

According to the Green Paper, wage councils contribute to unemployment through the minimum wage structure. The document says that pay issues are best settled between employers and employees "in the light of their particular circumstances" and that deregulation is desirable in principle. The current system "lacks relevance to today's needs" and works against the interests of the unemployed by "maintaining artificially high rates of pay...." The document also says that wage councils impose a bureaucratic burden on employers and that their requirements are often difficult for both management and labor to understand.

The government appears to favor at least a tighter definition of wage council functions, eliminating such powers as setting overtime rates, holidays, and holiday pay. The government would also remove young people from the council's scope to encourage higher employment among that section of the population.

Denmark: Parliament Orders Strikers Back to Work

On March 30, the Danish Parliament passed emergency legislation ordering over 320,000 private-sector workers to end their week-long strike on April 1. The legislation also prevented most public-sector workers, whose contract expired on April 1, from joining the country's worst postwar labor conflict. Over 100,000 strikers defied the back-to-work order, however, and many participated in protest demonstrations throughout the country. Observers believed that most strikers would drift back to work by the end of the Easter holiday.

The legislation gives both private and public workers an immediate 2% wage increase, to be followed by a 1.5% raise in March 1986. The workweek will be cut from 40 to 39 hours as of 1987. (The unions had originally demanded total pay increases of about 10% plus the introduction of a 35-hour workweek.) As compensation, employers' social insurance contributions will be reduced, although the corporate income tax rate will be raised from 40% to 50%. Another measure requires all taxpayers to deposit in interest-free accounts 8% of any earnings above DKr 150,000 a year.

The 2% limit on wage increases this year (compared with 5% in 1984) should make Danish industry more competitive with other countries, particularly the U.K., Norway, and Sweden, which account for 34% of Danish exports. The Federation of Danish Employers claims that the measures should create 50,000 to 100,000 jobs and cut unemployment from about 10% to 7% within two years. Also included in the legislation is a freeze on prices and dividends, which the government hopes will help reduce inflation to 4% this year, after 6% in 1984. The savings requirement is designed to improve the balance of payments, which showed a deficit of DKr 17 billion in 1984.

France: Payers of Income Tax Enjoy Many Exemptions

About one-third of French households are spared from paying income taxes because of low earnings, while 10% of all households account for 64% of total income tax revenue and 1% for 30% of this revenue (FF 85 billion in 1983). These figures are contained in the latest report of the government's Tax Council, which is attached to the Court of Auditors *(Cour des comptes)*.

The relatively low percentage of taxpayers is explained by the fact that two-person households with an annual income of less than FF 27,540 (1983) are not subject to income taxes. Also exempt are many households that report incomes in excess of this amount but are eligible for children's allowances. Of 16.6 million French people subject to income tax, 75-85% avail themselves of children's and other allowances, such as for home building or energy-saving investments.

French tax law provides special tax-free allowances ranging from 5% to 40% of income for 88 professional or occupational groups, according to the report. Benefiting from such allowances are, for instance, actors, journalists, and "clog makers." Incomes that are low but in excess of the tax-free limit are taxed at a lower rate in France than, for instance, in Germany, Britain, or the United States. However, French taxpayers generally pay higher contributions for health and old-age pension insurance than their counterparts in these other countries.

The report says that the income tax burden on a French household in 1982 was FF 11,280 on the average. About 70% of total income tax revenue was contributed by wage and salary earners. In contrast to the practice in most other European countries, income taxes are not withheld from wages and salaries in France. Instead, taxpayers file a declaration once a year and then pay in four-month intervals one-third of the tax due or have the tax deducted from their accounts on a monthly basis.

Minister Says French Auto Price Controls to End

French Industry Minister Edith Cresson said that price controls on automobiles will be lifted "probably toward the middle of the year." Such a move would be a relief to the financially troubled French automakers Renault and Peugeot, who are expected to raise prices on their larger models in the event of deregulation. The price tags on smaller cars would probably not change much because of heavier competition in that market.

The government froze prices on autos and many other goods and services in 1982 and then shifted to a system of price controls. In recent months, the controls have been gradually loosened, and the government says it intends eventually to eliminate most of them.

The proposed liberalization of car prices is viewed as part of the Socialist government's strategy to help the auto industry recover financially before the 1986 elections. The biggest concern is state-controlled Renault, which posted losses of about FF 12 billion in 1984. Renault's share of the French auto market has dropped from almost 40% in 1982 to about 30% in 1984. The government has raised the carmaker's capital grants from FF 1.9 billion last year to FF 3 billion in 1985. Privately owned Peugeot is in better shape, although it has reported deficits every year since 1979. The company is hoping to make a profit this year.

French Dependence on Energy Imports Lessening

Mainly as a result of energy-saving measures and an increase in domestic nuclear power production, France's energy imports fell to 58% of total consumption last year, compared with 61.5% in 1983 and 78.5% in 1973, the first year of the oil crisis. According to the Office of the Secretary for Energy, last year's reduction saved the country about FF 16 billion in foreign exchange. By 1990, the government hopes that at least half of France's energy needs will be supplied through domestic sources. Achieving this goal will require further energy-saving measures as well as more use of nuclear power, which already supplied over 50% of French electricity in 1984.

Although the percentage of energy imports dropped last year, total French consumption of energy increased to the equivalent of 191.5 million tons of oil, up from 187.9 million in 1983. Of this amount, crude oil accounted for 45.3%, nuclear power for 22.2%, coal for 13.2%, and natural gas for 12.3%. The high value of the U.S. dollar also helped cause an 11% rise in the French oil bill, to FF 187.3 billion, following a 5.4% decrease in 1983.

Since the energy crisis of the '70s, France has been shifting its oil imports away from the Middle East. The share of French oil imports coming from that area fell from 66.9% in 1981 to 30.2% in 1984, while imports from Africa jumped from 14.7% to 33.5%, and imports from other European countries rose from 6.6% to 23.8%. The natural gas situation has remained fairly constant, with imports coming mainly from Algeria, the Netherlands, the Soviet Union, and Norway.

Switzerland: Watch Industry Overcomes Three-Year Slump

After three years of decline, the Swiss watch industry reported a 12.9% increase in exports for 1984, to SF 3.84 billion. According to the Fédération Horlogère (FH), the watch industry federation, the number of exported watches and works rose by 6.6% to 32.3 million units last year. Despite these gains, the number of employees in this most traditional sector of Swiss industry dropped further, from about 46,000 in 1981 to 31,000 last year.

In commenting on the latest annual report, FH president André Margot warned that the painful restructuring process in the Swiss watch and clock industry is far from over. Watchmakers continue to face stiff international competition, particularly in the medium-price category, which accounts for 20-30% of the industry's 10,000 employees who are engaged in the production of finished watches.

A solid position is enjoyed by the makers of luxury and high-priced watches, who contribute only 3% in unit terms but 40% in earnings. Another relatively successful category is that of the low-priced "plastic" watches, which make up 23% of total Swiss watch exports in terms of units, but only 3% in terms of value.

The FH estimates world watch production at 530 million units and world exports at SF 10 billion (1984). Switzerland continues to lead in value terms with FF 3.8 billion, followed by Japan with FF 3.1 billion and Hong Kong with FF 2.1 billion. In terms of units, however, Hong Kong leads with 336 million, followed by Japan with 94.5 million and Switzerland with 32.3 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 848 April 18, 1985

IN THIS ISSUE

Community: Consensus on Beverage Containers Measure

The Council of Ministers has reached agreement on the directive on returnable or recyclable beverage containers. The underlying objectives of the measure are to protect the environment and conserve energy and raw materials by controlling the rising volume of beverage containers. To this end, the directive will require action in the areas of production, marketing, use, recycling, and disposal of beverage containers. The directive, which the European Commission proposed in 1981 *(Common Market Reports, Par. 10,301)*, will be formally adopted within the next few weeks.

Containers in general account for 30-50% of the refuse collected by local governments, and beverage containers comprise 10-12% of all refuse. The directive will require the Member States to set goals to reduce the volume of garbage, although they would have the choice of attaining these goals through legislative or administrative means or through voluntary agreements. (Beverage manufacturers could agree on the use of returnable glass bottles, and manufacturers and the retail trade could agree on the use of such bottles and on deposits.)

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The States will be asked to facilitate the refilling or recycling of containers. With respect to non-refillable containers (for example, containers for vinegar or oil may be recycled but for hygienic reasons do not lend themselves to refilling), the States will be required to promote selective collection of containers. The States will also be asked to maintain (and, where possible, increase) the proportion of refillable or recyclable containers.

The Commission must be kept informed about a State's goals concerning beverage containers, the means to be used, and the results obtained. With the assistance of the Waste Management Committee, the Commission will assess the progress made and, if necessary, consider additional measures.

New Proposal on Lower Tribunal for Staff Cases

The Commission is expected to submit soon a new proposal providing for the establishment of a lower court to handle disputes between Community employees and the various EC institutions (Council, Commission, Parliament, Investment Bank, and Court of Auditors). An earlier measure proposed in 1978 foundered in 1980 largely because of France's opposition. At that time, the French government preferred enlargement of the bench, which took place on Jan. 1, 1981, when an additional advocate general and another justice were added as Greece acceded to the Community.

The Commission's proposal would provide for a lower tribunal consisting of three judges. The Council of Ministers (and not the Court of Justice, as the 1978 proposal provided) would appoint the tribunal president and the other two judges, who would be chosen from lists presented by the EC institutions and the committees representing Community employees. The tribunal president would have to have legal training, but the Commission is still debating whether it should propose such a requirement for the other two judges. Several Member States and the European Parliament believe that the absence of this requirement would be detrimental to the tribunal's impartiality.

A Community employee could plead his own case or retain a lawyer admitted to the bar of any Member State. The tribunal's decision could be appealed to the Court of Justice on questions of law.

The chances for setting up a lower tribunal reportedly improved after French President François Mitterrand indicated he is not against the proposal. The need for a lower tribunal has long been recognized. Of the 151 cases decided by the Court of Justice in 1983, 39 involved actions brought by civil servants against Community institutions, mostly the Commission.

In Brief...

The Commission has taken Ireland, Italy, and Germany before the Court of Justice for failure to comply with the Fourth Council

Directive on annual accounts of certain types of companies (Case Nos. 16/85, 17/85, and 18/85). The Fourth Directive contains detailed rules on the content, auditing, and publication of a company's annual financial statements and annual report and describes the methods that managers must use in evaluating corporate assets *(Common Market Reports, Par. 1371)*. The original deadline for compliance with Directive 78/660/EEC was Aug. 1, 1980. Until now, the Commission has refrained from suing any defaulting Member State because of an understanding within the Council of Ministers on a tacit extension of the deadline. The German government's first proposal (during the Schmidt administration) died when the Kohl administration came to power. Presentation of a new bill was delayed to combine compliance legislation on the Fourth and Seventh Directives (the latter dealing with group accounts) and to consider business executives' views on the subject. What reportedly made the Commission lose patience is the fact that Germany's compliance will be further delayed by additional hearing of expert testimony and by including in the pending bill *(Doing Business in Europe, Par. 40,521)* provisions that would bring German rules in line with EEC legislation on auditors' requirements (Eighth Directive, *Common Market Reports, Par. 1431)* + + + Germany is holding the key to a farm prices accord. The German government is refusing to agree to the proposed cuts in cereal prices for the 1985-86 marketing year. Bonn says that in recent years German farmers have suffered more financially than farmers in any other State.

Germany: Bigger Role for Workmen's Compensation Funds

The German government has long-range plans that would accord the workmen's compensation funds *(Doing Business in Europe, Par. 23,455)* a much bigger role in establishing and enforcing work safety rules. (There are 35 such funds in Germany, one for each branch of industry.) At present the funds' tasks are largely confined to decreeing minor details in work safety rules and helping authorities in enforcement. The government's plan would have them establish and enforce safety rules. The authorities would step in only where the workmen's compensation funds fail to perform these functions adequately.

The main objective of the proposal is to free the state of work safety responsibilities as much as possible and to leave the initiative to the workmen's compensation funds to establish any new work safety rules that might be warranted in view of technological developments and new industrial processes. The government hopes that management and the works councils of individual enterprises would approach the pertinent workmen's compensation fund and recommend action in a specific area. If the need for action was apparent, the government would give the fund a deadline for establishing rules to protect employees in that particular branch of industry. If the deadline was not met, the government would step in and issue rules of its own.

Plant inspections would be carried out by officials of the workmen's compensation funds. Officials of the State's business supervisory offices *(Gewerbeaufsichtsämter)*, who now do most of the checking, would step into the enforcement picture whenever serious violations of work safety rules occurred or whenever fund officials failed to fulfill their enforcement responsibilities.

Shifting enforcement responsibilities from the state business supervisory offices to the workmen's compensation funds has the backing of all eleven state governments, including those run by the opposition Social Democrats. Enforcement of environmental legislation, which has been growing rapidly since the early '70s, is occupying most officials of the supervisory offices. Hiring additional personnel for the enforcement of work safety rules is out of the question for budgetary reasons.

The chances that the Kohl administration's plan will succeed are considered excellent, regardless of the outcome of the next national elections, scheduled for March 1987. The target for enactment of the planned legislation is 1990.

Britain: Accounting Body Drops Current Cost Standard

The U.K. accounting profession has failed to reach agreement on a common standard for current cost accounting. The Accounting Standards Committee has finally abandoned its earlier proposals, which were set out in Exposure Draft 35. ED 35 was originally intended to replace the highly unpopular SSAP 16 standard on inflation accounting. Under ED 35, companies were required to provide (by way of a footnote) additional information on the effects of inflation on their profit-and-loss account. Under SSAP 16, the procedures are more involved.

Both standards have been widely disregarded by the majority of listed companies, with only about 25% complying with the requirements of either. ED 35 has been criticized by many practicing auditors as being too inflexible and failing to give "a true and fair view" of a company's financial position.

Peter Godfrey, the ASC chairman, said that the committee members are "still in the middle of a debate about what should follow." He said there is widespread agreement among accountants that historic cost accounts are unsatisfactory. It is generally accepted, he said, that a determination of the effects of changing prices is necessary for a proper evaluation of a company's results and financial position. The ASC hopes to be able to set a common standard by the end of this year, Godfrey said. However, many observers regard this as unduly optimistic.

Cyril Banyard, president of the Institute of Cost and Management Accountants, emphasized that it is important for the profession to try to reach common ground now. He said it might be necessary to ask the government to intervene and provide statutory backing, even if this is only to require companies to state in their accounts why they elected a particular accounting method. (Godfrey, however, indicated that he doubts whether a statutory base would receive much support.)

Government Launches 'Britain Means Business' Campaign

The U.K. government has launched a coordinated campaign, "Britain Means Business," that is directed toward increasing foreign investment in the country. The joint venture is supported and funded by the various U.K. development bodies as well as many large companies in the private sector, including banks.

The campaign is particularly aimed at attracting investment by American and Japanese companies, and government ministers are scheduled to make promotional trips to both countries. Trade and Industry Secretary Norman Tebbit said that it is important to dispel the views of some foreign investors that, for instance, Britain's economy is on the decline or that its industrial relations record is poor. Tebbit emphasized the attractiveness of the U.K.'s corporate tax system and said that no other country, except perhaps the U.S., places fewer restrictions on the movement of capital in and out of the country.

Tebbit conceded that the joint approach of the campaign means that the various regional development agencies will be competing against each other for business but termed this "a good thing." He said, "There is nothing wrong with England and Ulster, or Scotland and Wales, competing." The government therefore will not try to direct foreign companies to invest in a particular region of the country.

Last year, the highest number ever of foreign-based companies (295) decided to locate investments in the U.K., a 36% increase over 1983. These companies also set records in terms of capital investment (£3 billion) and the creation of new jobs (28,000).

Denmark: Schlüter Defends Policy; Interest Rates Drop

The Conservative-led Danish coalition government has not been shaken in its economic policy aims despite nearly two weeks of regular and wildcat strikes and a national "protest day" called for April 10. Prime Minister Poul Schlüter said that substantial cost reductions continue to be necessary for the country in order to safeguard the economic upturn that started last year with a real-term growth rate of 4.2%. "Denmark is the only country in our part of the world," Schlüter said, "which last year saw an increase in workplaces in the private sector of the labor market - and this is a direct result of our anti-inflation policy."

Schlüter's government has been pursuing a very strict incomes policy course since it came to power in the fall of 1982. The central element of this policy is the detachment of wage indexation from consumer price levels. A new element was added this month in emergency legislation restricting pay increases for both private-sector and public-sector employees to 2% this year and 1.5% in 1986. In addition, the workweek is to be cut by one hour, from 40 to 39, as of 1987.

According to the latest economic forecast of the Finance Ministry in Copenhagen, the Danish GNP will grow by about 3% this year and by the same rate in 1986, mainly because of stronger export activity. The government expects Danish industry to win additional market shares abroad because the wage costs of international competitors are forecast to rise by about 5%, which would be twice as high as at home. Inflation is expected to slow to 4.5% this year and 2% in 1986, following rates of 10% in 1982 and 6% last year.

In other developments, long-term interest rates in Denmark have dropped by 1.5 percentage points and are expected to decline further as a result of the central bank decision to ease credit and in the wake of the government-imposed labor settlement. Rates on long-term state bonds and mortgage bonds now stand at about 12.8%, and some financial observers predicted they will go down to 10-11% by the end of 1985. The rate reductions are also aimed at curbing a massive capital inflow from abroad, mainly from Germany. Last month, the central bank reported a net inflow of 6.3 billion kroner from abroad, about half of it from the sale of high-interest Danish state bonds.

France: Further Liberalization of Financial Markets

The French government plans to gradually decrease the regulation of the country's financial markets as a means of making them more competitive with major foreign markets. One measure will improve access to the small bond market *(petit marché)*, on which bonds may be issued without prior authorization. The limit on such issues will be raised from FF 500 million to FF 1 billion per year. The Finance Ministry also announced that all restrictions will be lifted on "gray market" trading - transactions before stocks are officially quoted.

Commissions on private company issues will be completely negotiable, and those on government and nationalized company issues will vary within narrow limits. Brokers will be able to freely negotiate discounts given to banks on transactions of more than FF 2 million for stocks and FF 10 million for bonds. For smaller transactions, the discount will be raised from 27.5% to 40%. To aid undercapitalized companies, the 1% tax on capital increases will be lifted.

Introduction of a French stock option market is planned for around the end of 1985. The government also intends to initiate a system involving "stock jobbers" to act as intermediaries and prevent wild fluctuations in stock prices.

The government's plans for deregulation are based on a report by a group headed by Bernard Tricot, formerly president of the Stock Exchange Commission. As part of its deregulation moves, the government earlier this year instituted a market in negotiable certificates of deposit and announced plans for a market in interest-rate futures.

French Agriculture Minister Resigns Over Vote Debate

The power of French President François Mitterrand's Socialist Party and the fate of Mitterrand's call for a switch to proportional representation have been severely threatened by the April 4 resignation of Agriculture Minister Michel Rocard. Mitterrand's adviser on agriculture, Henri Nallet, was immediately appointed to the vacancy.

Rocard, one of France's most popular politicians, resigned in protest against Mitterrand's demand for a change in the electoral system. Currently, parliamentary seats are given to the candidate with the most votes after a two-stage election. Under Mitterrand's proposal, the seats would be divided according to the proportion of the votes each party received in a particular district in a single round of balloting. A party would have to get at least 5% of the votes to be represented. To ensure proper division, the number of seats in the National Assembly would be raised from 491 to 588.

Mitterrand says his proposal would mean more equitable representation in Parliament and a greater voice for small parties. It is believed, however, that his main objective is to increase the Socialists' chances of maintaining their position after the 1986 elections, despite the voters' increasing shift to the right. For the moment, the proposal has boomeranged. Rocard's resignation, and the possibility that he may declare himself a candidate for the 1988 presidential election, threaten to split the Socialist party.

Greece: Early Elections; Air Service Pact With U.S.

Greek President Christos Sartzetakis is expected to announce soon the dissolution of Parliament as well as early elections, probably for June 16. Prime Minister Andreas Papandreou asked Sartzetakis to order the dissolution, using the breakdown of the Greek-Turkish talks on Cyprus as the required "national issue of exceptional importance." However, the decision is believed to be more a result of domestic problems, particularly the recent election of Sartzetakis by Parliament. The opposition New Democracy Party has been calling for early general elections, claiming that the presidential election was illegal because the deciding vote was cast by Ioannis Alevras, speaker of Parliament and acting president at the time. The general elections are currently scheduled for October.

If Parliament is disbanded, the move will probably be held off until mid-May, when constitutional changes backed by Papandreou should be through two rounds of voting. The amendments would limit the power of the president to call elections and appoint the prime minister. The governing Socialists and the Communists pushed the proposals through Parliament in the first vote on April 6. After a dissolution, elections must be held within 30 days. The new Parliament would then have to approve the proposed amendments before they are final.

In other news, Greece and the U.S. have signed a one-year agreement providing for the continuation of the daily commercial air service between Athens and New York by TWA and Greece's Olympic Airways. Both sides have agreed to discuss the opening of another route between the two countries.

Switzerland: Bern Raises Export Risk Guarantee Fees

As of April 1, Swiss exporters have to accept stiffer terms for their export risk guarantee coverage: the government has raised its fees by up to 45% and is no longer covering foreign exchange risks.

Bern was forced to revise the terms of the Swiss export risk guarantee system (ERG) because of the accumulation of deficits over the past few years. (Swiss federal law specifies that there be a financial balance between ERG fees and damage awards.) The shortfalls came to SF 163 million in 1981, SF 237 million in 1982, SF 239 million in 1983, and SF 236 million (provisional) last year. During these four years, however, the share of foreign exchange damages dropped from 65% to less than 10%, reflecting the Swiss franc's decline from the record levels of the late 1970s.

Under the new fee schedule, users are required to pay for the first six-month period a base premium of 1.1% of the guaranteed amount, which represents up to 80% of the contract value. Another 0.08% is added for every additional six months or part of a six-month period, up to five years. After five years, the surcharge is raised to 0.16%.

The Swiss government expects, through these measures, to deflate international complaints that it is openly or clandestinely subsidizing its export industries. For this reason, the proposal of Swiss exporters that the state extend risk coverage for deliveries not only to foreign state enterprises but also to private enterprises never had a serious chance. Government officials indicate that private-sector export risk guarantees could be taken over by the commercial banks. However, the banks tend to be extremely cautious in this regard.

Common Market Reports

EUROMARKET NEWS

Issue No. 849 *Report No. 525, April 26, 1985*

IN THIS ISSUE

Community: EC Court Backs Commission in Trademark Case

The European Court of Justice has upheld a decision by the European Commission that banned a trademark limitation agreement *(Common Market Reports, Par. 10,459)*. It was the first major competition case to come before the Court involving such an agreement (judgment of Jan. 30, 1985, Case No. 35/83).

In December 1982, the Commission moved against BAT Cigaretten-Fabriken GmbH, Hamburg, a subsidiary of British American Tobacco Co., the world's largest cigarette maker. It banned BAT's trademark limitation agreement with a Dutch firm, reasoning that the competition restrictions imposed by that agreement were not justified by any real danger of confusion.

A small Dutch firm processing and selling tobacco had had its "Toltecs" name and trademark registered internationally. BAT opposed the registration, claiming that the Toltecs mark would be confused with its own "Dorcet" brand. In return for BAT's withdrawal of its opposition, the Dutch firm agreed to limit the use of its Toltecs mark to shag tobacco. The Dutch

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

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firm also agreed to refrain from selling fine-cut tobacco under its "Toltecs Special" mark in Germany or to sell it only through an importer approved by BAT. This condition violated EEC competition rules, the Commission said, because it kept the Dutch firm's fine-cut tobacco out of the German market.

Of more significance to the Commission was another contract clause, which (a) prevented the Dutch firm from asserting against BAT its rights arising out of the registration and use of its Toltecs mark and (b) barred it from utilizing the priority its Toltecs mark had over the Dorcet mark because the latter had never been used. This no-challenge clause prompted the Commission to impose a relatively small fine of ECU 50,000.

The Commission justified its ban on the trademark limitation agreement by arguing that a trademark's scope of protection is governed not only by national but also by Community law, especially that on free inter-Member-State trade and competition rules. The Commission arrived at the conclusion that there was no real danger of confusion between the Dorcet and Toltecs trademarks. The Court of Justice did not touch on the problem of confusion in its ruling, although for BAT (and the German government, which supported the cigarette maker as intervenor) and the Commission this was the key issue.

The Court confined itself to acknowledging that trademark limitation agreements are permissible and useful to avoid confusion and litigation. The Court added that Treaty Article 85 may nevertheless be applied where agreements contain clauses aimed at partitioning the market or imposing other restrictive practices. The ECU 50,000 fine was quashed for procedural reasons.

EC Committee Supports Loss Carry-Over Proposal

The Economic and Social Committee is backing the Commission's loss carry-over proposal in general but, at the same time, recommends a few changes concerning time limits. In its recent opinion, approved by a large majority, the ESC sees the need for improving the investment climate by allowing Common Market businesses to carry over their losses. Improved international competitiveness on the part of European companies through loss carry-over arrangements appears to be more important to the committee than the other underlying intention of harmonizing one aspect of the national company taxation systems.

In contrast to the Commission, which proposed the unlimited carry-over of losses *(Common Market Reports, Par. 10,623)*, the committee considers unlimited carry-forwards to be unacceptable. It recommends that carry-forwards be limited to eight years, as is the rule in most Member States. New businesses should be allowed to carry losses forward for any period during the first eight years, according to the committee.

On the other hand, the committee proposes a three-year limit on carrying losses back, as against the two-year limit proposed by the Commission. (In the meantime, the Commission has agreed to accept a similar recommendation made by the European Parliament.) Serious budgetary repercussions that this extended time period might have for some Member States could, in the committee's opinion, be offset by allowing these States a grace period for compliance with the three-year limit.

In conclusion, the ESC urges that enterprises be given as much flexibility as possible in using the carry-over provision. The committee is confident that the arrangements could lead to an optimal tax environment for companies in the Community.

In Brief...

The French National Assembly has passed amendments to the book price maintenance law in response to criticism by the European Court of Justice. Last January the EC tribunal objected to two provisions in that law on grounds that they were contrary to the free movement of goods principle (judgment of Jan. 10, 1985, Case No. 229/83). One clause allowed the first importer of a book to bind other importers to selling the book at the price set by him. Another clause extended price maintenance to books exported from and then reimported into France. The amended law precludes price maintenance for books imported from an EEC Member State. Books exported and reimported may be put under price maintenance only if they were sold abroad and reimported into France for the purpose of circumventing French price maintenance provisions + + + Foreign trade relations Commissioner Willy De Clerq has responded with skepticism to Japan's plans for greater foreign competition in its domestic markets. De Clerq considers the steps promised by Japan's government to the United States as rather modest and doubts that they will make a dent in the lopsided U.S.-Japan trade balance. He also complained that Japan so far has failed to give similar promises to the EEC. (The EEC's trade deficit with Japan was around $11 billion in 1984.)

Germany: Amendments Lower Incentives in Car Tax Bill

The German government has proposed amendments to pending legislation that would offer tax incentives to buyers of low-pollution cars and raise the vehicle registration tax for cars without pollution control devices *(Doing Business in Europe, Par. 40,604)*. In line with the EC Council's March 21 compromise (approved by the Commission), the tax incentives would not be as substantial as provided in the original bill. For example, the buyer of a car with a catalytic converter and up to 1,400 cc engine displacement would save a maximum of DM 750 in tax instead of about DM 2,000 as originally proposed. *(Common Market Reports, Par. 10,677)*.

This tax difference demonstrates the extent of the concession that Germany had to make in the small-car category under pressure from Britain, France, and Italy. The concession on medium-size cars (1.4-2 liter engines) and large cars (over 2 liters) is not as great: the maximum tax savings will be DM 2,200 instead of about DM 3,000 as the German government had originally proposed.

Part of the Council compromise provides that small cars equipped with pollution-reduction devices other than catalytic converters should also qualify for tax incentives, depending on the extent that these devices cut toxic exhausts. Accordingly, an amendment to the German bill would allow a limited exemption from vehicle registration tax or a reduced tax rate for new small cars fitted with devices that reduce toxic exhausts to within certain limits.

A major change in the bill would affect owners of current or older models. For all cars on the road before Jan. 1, 1986, the registration tax would go up from the current DM 14.40 per 100 cc displacement to DM 18.80 instead of DM 16, which the original bill provided.

Both houses of Parliament are scheduled to consider the amendments in the coming weeks and vote on the legislation before the end of April. July 1 remains unchanged as the date of enactment.

Britain: Jobs Report Plays Down Government's Role

The U.K. government has published a White Paper, "Employment Challenge for the Nation," providing a detailed analysis of the British unemployment problem. Although the document puts forward no new solutions, it stresses that employers and employees must carry the main responsibility for job creation.

In the document, the role of the government is generally played down. The government's principal contribution is seen as creating "a climate in which enterprise can flourish," above all by removing obstacles to the working of markets. Wage increases should be reduced, according to the paper, but "experience of pay policies shows that government cannot sensibly intervene directly." (However, observers believe that the government will be forced to adopt a more interventionist role regarding employment, which will probably be the major issue in the next general election.)

The government's employment strategy has been centered on creating a "sound and stable framework of economic and industrial policy" as well as removing obstacles to the hiring of new workers. The signs are encouraging, the paper says, with a net increase in jobs in the year to September 1984, growth in self-employment, and higher productivity.

The document emphasizes that the main responsibility for job creation lies with employers and employees, particularly the trade unions. Greater flexibility is needed on the shop floor, and not just regarding hours and patterns of work "but, even more important, attitudes and methods." Blame for poor productivity is laid on both sides of industry.

A principal reason for the increase in the working population, and thus the number of unemployed, has been the rising number of women in the workforce. Between 1951 and 1984, the number of men in the labor force remained at between 15 and 16 million, but the number of working women jumped from 7 to 11 million.

There has also been a marked change in the type of work being undertaken. In 1955 manufacturing industry accounted for 40% of all jobs. By 1984 this figure had declined to 26%. During the same period, the share of the services sector rose steeply, from 45% to 65%. There has also been a sizeable growth in the number of part-time workers to about 5 million, or 1 million more than ten years ago.

France: Devaluation Talk; Capital for Small Business

Renewed inflationary pressures in France have given rise to the question of whether the government should consider a "cold devaluation" of the franc within the European Monetary System rather than wait for an actual currency crisis. Financial observers point to various factors in favor of such a devaluation - the French 6.4% inflation rate (compared with Germany's 2.3%), the fast-rising trade deficit, and an accumulated foreign debt of FF 500 billion. In January and February alone, France ran up a trade deficit of FF 10 billion, nearly half of last year's total shortfall.

These negative figures are in contrast to the Socialist government's show of economic optimism. Only a few weeks ago, Finance Minister Pierre Bêrégovoy claimed substantial progress in the administration's efforts to regain a sound trade balance and maintain economic growth. In the meantime, however, the economic news has been less encouraging, with reports of shrinking orders, an annual 0.7% decline in the purchasing power of private households since 1983, lagging investments and profitability, and declining production. "The benefit of three successive franc devaluations has been used up for the export sector," said one financial commentator. "So, once again it is time for the question concerning the franc's exchange rate."

In other news, Paris reports said that a government bill containing tax measures to promote the financing of small high-growth businesses will soon be presented to Parliament. Such legislation would be in keeping with a series of official moves over the past year or so encouraging the raising of venture and risk capital in promising business sectors. Under the new bill, venture capital companies that invest in non-quoted businesses would be offered major tax relief, provided that the holding company distributed to its shareholders at least 50% of dividends received after a certain start-up period. This dividend distribution would be taxable at a rate of only 15% (similar to the capital gains rate) rather than 50%.

Netherlands: Slow Works Council Compliance; Strikes

Over two years after the effective date of the law requiring works councils in small Dutch companies, 32% of the affected businesses have complied, according to a report by the Labor and Social Affairs Ministry. As of May 1, 1982, works councils are required for companies with 35 or more employees. Not included in this count are employees working less than one-third of full time. (Companies with at least 100 employees were to establish works councils as of 1971; 65% of these enterprises have done so.)

As of the end of last year, 3,162 of the approximately 10,000 small companies in the Netherlands had established works councils or were planning to do so in the near future, according to the ministry. The highest compliance rate is in the services sector, where 66% of the small companies have works councils. At the other end of the scale, only 5% of construction and related companies have complied.

In other developments, the Dutch metalworking, broadcasting, and transportation sectors have been hit by intermittent strikes over the past few weeks. National labor negotiations have been proceeding slowly because of union demands for a two-hour cut in the workweek to 36 hours, a cost-of-living allowance, and supplementary sickness benefits. (Government benefits will be lowered as of May 1.) Full-scale strikes are expected to erupt in the next few weeks if no progress is made in the talks.

Improved Competitive Standing of Dutch Industry

In its forecast for 1985, the Dutch government's Central Planning Bureau expects an economic growth rate of 1%. The main support of this modest expansion will again be the export of goods and services, with a rise of 3.5%. The export of visibles alone is expected to increase by 4.5% and, if natural gas is excluded, by 6.5%. The improved competitive position should result in slightly higher market shares for Dutch enterprises, according to the CPB.

The Netherlands was among the countries that profited the most from the greater American import demand last year: the strong dollar and the economic upturn boosted Dutch exports to the U.S. by 34%, and the Dutch foreign trade surplus amounted to nearly 12 billion guilders. The Netherlands currently holds a world market share of 3.6%, which ranks it No. 9 among the trading nations.

In the area of domestic demand, the Bureau is predicting a gain for the first time since 1979 (1.5%). The main reason for this upward trend is the greater purchasing power of private-sector employees, not so much because of wage and salary increases but because of the reduced social insurance burden.

Gross investment is expected to increase by 0.5% in 1985, based on declines in home construction and the public sector and a 5.5% rise in the other investment sectors. Industrial investments in plant and machinery are expected to increase by 10%, mainly because of better capacity utilization and improved corporate earnings.

The CPB bases its prediction of a 2% inflation rate on declining unit wage costs, the effect of import prices, and stable indirect taxes. The moderate economic growth and current and future worktime reductions should lead to the creation of about 25,000 additional jobs. According to the Bureau, the worktime cuts realized so far have depleted employers' manpower reserves, so that new hirings on a small scale appear likely. The CPB researchers venture no firm predictions for the labor market, confining themselves to the observation that unemployment will probably stabilize at the level of 1984.

Spain: Lower Retirement Benefits Planned; Labor Laws

The Spanish government's intent to defuse the financial crisis in the social security system by reducing retirement benefits has spurred heavy opposition from all sides, including the threat of a general strike. The cabinet itself has not yet reached a consensus on the matter, although the ministers seem agreed that cuts must be made. The Labor Ministry wants an 8% reduction in future old-age pensions. Economics Minister Miguel Boyer, on the other hand, insists that benefits must be reduced by at least 16% for the system to fully recover.

Over the past few years, social security finances have steadily worsened. In 1984 the government paid out 50 billion pesetas in excess of the amount budgeted for retirement benefits. During the next eight years, the number of retirees is expected to jump from 5 to 7 million; old-age pension payments are expected to increase from 7.8% to almost 10% of GDP.

The strongest opponent of the Socialist government's suggested cuts is the Communist Comisiones Obreras union, which has called for a general strike in mid-June to protest the issue. The Socialist UGT is more open to compromise, saying that the government should officially discuss the matter with the unions. The CEOE employers' association, which agrees with the UGT on this issue, fears that an abrupt move by the government would undermine progress made in the employer-union "social pact" signed late last year.

In related news, the CEOE and UGT cannot seem to find common ground on the matter of flexible labor rules. The social pact included an agreement to liberalize hiring and firing regulations after Spain's accession to the EEC (scheduled for Jan. 1, 1986). The UGT, however, insists that Spanish laws can be brought into line with EEC rules without any drastic changes.

EURO COMPANY SCENE

Exxon Corp. has agreed in principle to sell its Swedish oil marketing and chemical production units, Svenska Esso AB and Esso Chemical AB, to Norway's state-owned Statoil AS. The sale of the subsidiaries, which had a turnover of SKr 8.2 billion last year, must still be approved by the Swedish government.

ITT Corp. plans to invest 6.2 billion escudos in its Portuguese operations during the next four years, a 60% increase over the last four-year period. More than half of the funds will go toward plant modernization. ITT expects sales at its Portuguese units to jump from an estimated 17 billion escudos in 1985 to 41 billion escudos by 1989.

Comdial Corp. has sold its European interests to Autophon AG, of Switzerland. The major holdings involved are a 100% share in Comdial Communications Systems Ltd., of Wales, and a minority share in HPFSA, of France. Both firms are engaged in the sale of telecommunications equipment.

Westinghouse Electric Corp. has agreed to sell its 42% stake in ACEC, a leading Belgian engineering group, to Société Génerale de Belgique and Compagnie Générale d'Electricité, of France. This holding, together with the 9.69% share already owned by Société Génerale, will be placed in a holding company owned 65% by SGB and 35% by CGE. ACEC is changing its emphasis from heavy industry to telecommunications, robotics, and biotechnology.

The German federal cartel office has denied Pillsbury Co.'s request to purchase the fine-foods group Sonnen-Bassermann Werke. According to the office, the takeover would have given Pillsbury a 40% share of the German market for pre-cooked foods.

Common Market Reports

EURONARKET NEWS

Issue No. 850 *May 2, 1985*

IN THIS ISSUE

Community: Ministers Endorse Plans to Widen ECU Role

The finance ministers of the eight Member States that are partners in the European Monetary System (EMS) have endorsed plans to widen the role of the European Currency Unit (ECU) in monetary affairs. (The U.K. and Greece are not members of the EMS.) The measures, part of the effort to strengthen the EMS, have yet to be set forth as amendments to EEC and international rules.

Prepared by the central bank governors of the eight States, the plan would allow non-EEC central banks to hold ECU deposits in their reserves. This change would require an amendment to Article 2 of Council Regulation No. 3181/78 of Dec. 18, 1978, relating to the EMS. That regulation empowers the European Monetary Cooperation Fund (set up by Reg. No. 3180/78 of the same date) to receive reserves from the Member States' central banks and to issue ECUs against these assets *(Common Market Reports, Par. 3603.01)*. The European Commission is expected to submit this amendment next month.

The other measures would authorize the central banks to (a) use ECU holdings more freely for intervention to keep national

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currencies at EMS-pegged rates, (b) swap ECU holdings for U.S. dollars in order to have more dollars for intervention purposes, and (c) raise interest rates of ECU holdings closer to market rates. These measures would require an amendment of Article 8 of the Basel Agreement Among the EEC Member States on the Functioning of the EMS, of March 13, 1979. The details of the amendment will be worked out by experts of the eight central banks within a few months. It may take until the fall before the entire plan on the ECU's broadened role is enacted.

At their April 13-14 Palermo meeting, the finance ministers also gave the central banks a broad mandate to look into issues such as liberalizing the movement of capital in Europe and having Spain and Portugal join the EMS. Britain's joining the EMS has been discussed by the finance ministers many times in the past without success, but the central banks have now been told to examine the issue in greater depth.

At the finance ministers' June meeting, the Commission will present a report on ways of strengthening the EMS. That report will also be discussed at the EC's Milan summit later that month.

German Disagreement Stalls Farm Price Talks

There is still no breakthrough in this year's farm price discussions, which have been marked largely by deep disagreements between Germany and the other Member States. At the same time, Italy and Greece are objecting to reductions in fruit and vegetable prices. There have also been arguments over the future of the superlevy, which curbs surplus milk production.

Foremost among Bonn's objections is its refusal to accept any price cut on cereals. German Agriculture Minister Ignaz Kiechle has repeatedly told the other farm ministers that his government cannot agree to the 3.5% cut in grain prices proposed by the Commission. According to a recent government report, German farmers' incomes fell by 18.2% in 1983-84. In 1984-85, their incomes rose by less than 10%, including substantial direct aid from Bonn worth 5 percentage points.

Kiechle has been equally firm in his rejection of another Commission proposal to get rid of Germany's remaining Monetary Compensatory Amounts, the system of border taxes and subsidies that protects German farmers against low-priced imports and helps them sell abroad at competitive prices. Though Germany agreed earlier to phase out the system, it is now refusing to live up to that promise.

Brussels observers do not expect any change in Bonn's stand before the May 12 state elections in North Rhine-Westphalia.

In Brief...

The Commission has proposed that Community aid to Central America be increased by 50% starting this year, amounting to a total of

$100 million over the next five years. The amount is proposed in a draft agreement on economic cooperation between the EEC and Central American countries. An earlier aid proposal was heavily disputed within the Commission; several Commissioners considered it to be unconstitutional to the extent that the draft sought to commit the Community and the Member States at the same time + + + The Commission has asked the Dutch government to drop discriminatory restrictions on foreign TV programs transmitted by satellite or cable. If the Netherlands does not comply, it faces action before the European Court of Justice. The restrictions prevent foreign program distributors from carrying commercials in Dutch, stating prices in Dutch guilders, giving addresses of commercial outlets in Holland, or featuring products available only on the Dutch market. The Commission says the restrictions are contrary to the Treaty of Rome; the Dutch government disagrees.

Germany: Plan to Improve Protection From Toxic Substances

The German government has proposed a measure on toxic substances and made plans for another that would eventually be of significance to industry, employers, employees, and consumers. The Kohl administration has proposed several amendments to the Water Pollution Control Act that would place additional restrictions on the discharge of toxic substances, especially heavy metals, into public sewage systems, rivers, and lakes. All industrial plants would have to deploy the most modern production methods involving fewer or less concentrated toxic substances as by-products. Industry would also have to invest in the most effective pollution control devices available. Current law is less stringent in this respect *(Doing Business in Europe, Par. 23,547D)*.

Another planned regulation would impose on employers the obligation to better protect workers against exposure to dangerous substances and to inform consumers about such substances in products. The concentrations of 54 dangerous substances, such as formaldehyde and asbestos, would have to be checked regularly at work places. Workers would have to be informed about the risks involved and the precautions they must take in handling any of these substances, and they would have to undergo regular medical checkups. (This portion of the planned regulation is based on the 1980 Toxic Substances Control Act - *Doing Business in Europe, Par. 23,548A.*)

Concerning consumer protection, the regulation would go beyond the requirements of EEC legislation on toxic substances. Labels would have to inform buyers not only about any dangerous substances in products, such as formaldehyde in furniture, but also about the inherent dangers and the necessary precautions. Since this extended labeling requirement might be a barrier to intra-EEC trade, the German government has refrained from formally proposing the regulation. Instead it has informed the European Commission about the plan, as required under an EEC Council Directive. The Commission may request a delay in enactment of three months to one year.

France: Paris May Consider Sale of Nationalized Units

France's Socialist government appears to be considering selling off parts of the country's nationalized companies in the near future. Rumors of such a move began in March when Industry Minister Edith Cresson said she is "not against a decrease in the state's ownership in industry." In April, the state-owned glass and engineering group Saint-Gobain announced that it planned to offer on the stock exchange a 15% share in Saint-Gobain Emballage SA, its packaging subsidiary. The announcement prompted Cresson to emphasize that the government has no intention of denationalizing prior to the parliamentary elections in March 1986. At the same time, however, she said that the government "had nationalized the parent companies but not the subsidiaries" three years ago. Private shareholders own minority interests in several state-controlled companies, including a recently sold 15% share of Société Européenne de Propulsion, a unit of the aircraft engine maker Snecma.

Any moves toward denationalization would garner election support for the Socialists from the increasing number of conservative voters. Major sales of state-owned companies are not expected, however, because of opposition within the Socialist Party. Another advantage of denationalization would be the resulting infusion of capital into the companies at a time when the government is trying to maintain a tight budget. Cresson said that "it is important that the enterprises and their subsidiaries be able to find fresh money that would let them continue to invest."

Greece: Economic Projections; Shipyard Takeover Talks

In a report on the current and future situation of the Greek economy, Economics Minister Gerassimos Arsenis said this month that the assessments of both the European Commission and the OECD deviate only insignificantly from the government's own projections. These slight differences concern GNP growth in 1985 (Athens: 2.5%; EEC/OECD: 2%) and the rate of inflation (16% and 17%, respectively). As for GNP, Arsenis said the government is optimistic because it expects a better performance in the construction sector. An accurate forecast of price development is more difficult, the minister indicated, because of the uncertainty of the dollar exchange rate. The continued strength of the dollar would obviously have a negative effect on inflation in Greece, he said.

Observers were critical of Arsenis' comments concerning the development of the Greek payments balance. They described as unrealistic the minister's prediction that the government would succeed in reducing the deficit to $1.7 billion this year, from $2.2 billion in 1984. Arsenis conceded that the foreign debt and debt servicing will continue to rise this year and that foreign exchange revenues from services will be lower than in 1984, with the notable exception of tourism revenues. The minister insisted, however, that Greece's international credit rating continues to be "very good" and referred in this connection to the close cooperation with the leading international banks.

In other news, the government has started talks on the possible state purchase of Hellenic Shipyards SA from Stavros Niarchos, the shipping magnate, to forestall the closure of the facilities, which employ nearly 5,000. The shipyards suspended operations in early April after reportedly incurring losses totaling at least $42 million in three years. Hellenic Shipyards at Scaramanga, near Athens, is the country's ninth-largest industrial company and the second-largest employer.

Luxembourg: Ban on Transit Shipments of Certain Drugs

The Luxembourg government has imposed a ban on the transit trade of certain drugs. It has rescinded a regulation under which it was previously possible to transport through Luxembourg shipments of drugs that may not be legally sold in the Grand Duchy. These transit shipments were allowed only on the condition, however, that the drugs could be legally distributed in both the exporting and the importing country.

By taking the latest step, Prime Minister Jacques Santer said, the government wants to prevent Luxembourg from becoming a transfer point for the trading of illegal drugs. Newspaper reports said that the measure affects, among others, a company called Dipha, which is allegedly being investigated by Belgian authorities.

Britain: Draft Standard on Depreciation Accounting

The U.K. Accounting Standards Committee has issued for comment Exposure Draft 37, "Accounting for Depreciation," which is intended to replace SSAP 12. The revision of the standard is meant to clarify the way in which depreciation is calculated and to end certain controversial accounting practices that have developed in this area.

One of the main changes would require that the depreciation charge in the profit-and-loss account be based on the carrying amount of the corresponding asset. Thus, the revaluation reserve could not be charged directly with the element of depreciation that relates to any revaluation surplus. ED 37 would also prohibit carrying back to the profit-and-loss account the depreciation already charged prior to the revaluation of the asset. An exception would be made when the depreciation relates to a reversal of the provision for permanent diminution of value.

ED 37 states that a business enterprise is quite likely to have a few fully depreciated assets still in use. If the omission of the depreciation of these assets would fail to give a "true and fair view," the assets should be reinstated and the amount credited directly to reserves. The document also recognizes that in very restricted circumstances it may not be appropriate to judge depreciation on an asset that is regularly maintained to such a standard that the estimated residual value is equal to, or greater than, its net book value.

ED 37 places particular emphasis on the method of depreciation to be adopted. Provision for depreciation should allocate the cost or revalued amount of an asset having a limited useful economic life, less its estimated residual value, as fairly as possible over the periods expected to benefit from its use. Identical asset lives should be used to calculate depreciation, both on a historical cost basis and on any basis that reflects the effect of changing prices. The useful economic lives of assets should be "reviewed regularly and, where necessary, revised."

The document makes clear that there should be disclosure in the financial statements for each major class of depreciable assets, showing the calculation methods used, the length of economic life and the depreciation rates applied, the total depreciation charge for the period and the gross amount of depreciable assets, and the related accumulated depreciation.

Another U.K. Government Setback on Insolvency Bill

The British government suffered another significant defeat on its new insolvency bill in the House of Lords this month, when a majority voted to reduce the privileged status of the public sector as creditor in insolvency cases. The Lords approved a reduction in the period of Crown preference for value-added tax debts from a year before the date of insolvency to six months. The move followed statements that VAT collection could often eliminate what was left of a company's assets.

It is not yet clear whether the government will now acquiesce to the amendment, having already conceded that local authority rates will no longer be given preference.

The change has been warmly welcomed by the Confederation of British Industry, which has described it as "a logical step forward."

Spain: Plan Aimed at Raising Consumption, Investment

Spanish Economics Minister Miguel Boyer has presented to the cabinet a package of measures designed to boost the economy, mainly through increased industrial investment and consumer spending. Previously, Boyer had predicted that the economy would begin an upturn this year without any additional help from the government. Lately, however, experts have been saying that Madrid's 2.5% growth target for 1985 is unrealistic and that 1.5% is more likely. Private consumption fell by 1% in 1984 and continues to stagnate, partially due to the high inflation rate.

The central point of the plan is an attempt to spur a quick increase in consumption by reducing the amount of income tax withheld from paychecks, effective July 1. The reductions, which would affect mainly lower-income taxpayers, would be backed up by income tax cuts later in the year. To make up for the resulting 100-billion-peseta loss in revenue, Boyer advocates a clampdown on tax evasion and reductions in public-sector spending on imports and on subsidies to nationalized companies.

Foreign companies would be able to invest up to 500 million pesetas (currently 25 million pesetas) in Spanish enterprises without government approval. The measure would also apply to majority holdings. Foreigners could invest up to 100 million pesetas in Spanish property without permission, and the rules governing bank accounts of nonresidents would be simplified. Other measures would deregulate loan repayment schedules for companies that raise investments by at least 20% in 1985 and 1986. To provide more jobs for younger workers, employers' social security payments would be reduced for employees under age 25.

Sweden: Civil Servants Threaten Strike; Trade Balance

The Swedish civil servants' union has threatened to call a strike in key sectors beginning on May 2 unless the government meets its demand for a 3.1% pay hike. Of the union's 265,000 members, the strike would include over 20,000 white-collar workers in such areas as air traffic control, telecommmunications, schools, and postal services. The union says a 3.1% increase is necessary to bring the pay of its members in line with that in the private sector.

The government has rejected the demand, saying a 3.1% increase would endanger the possibility of holding inflation to the targeted 3% this year. Most observers agree that, even with the general price freeze instituted in March, the chances of meeting the 3% goal are slim. Inflation amounted to over 8% last year, which was twice the target of 4%.

In the private sector, Stockholm has succeeded in getting the LO trade union federation to agree to a 5% limit on 1985 wage increases, but individual unions and employers are setting the final amounts. A recent survey by PKBanken, one of the country's leading commercial banks, estimated that wage costs will rise by 6.5% generally this year.

In other news, the Swedish balance of trade showed a SKr 1.6 billion surplus in the first quarter, down significantly from the SKr 9.4 billion surplus for the same period in 1984. Stronger domestic demand has pushed imports up by 15% in value. At the same time, poor shipping conditions and an end to the advantage caused by the 1981 and 1982 devaluations have limited the rise in the value of exports to 1%.

EURO COMPANY SCENE

Chase Manhattan Bank is reportedly considering purchasing the 51% share in Banco di Roma per la Svizzera, of Switzerland, that is owned by Istituto per le Opere di Religione (the Vatican bank). The Vatican bank is raising funds to make $242.2 million in payments to creditors of the failed Italian Banco Ambrosiano.

Scovill, Inc., of the U.S., plans to acquire a 20% stake in Moulinex SA, a French household appliances group, in a joint venture agreement. A 20% share of Moulinex is currently valued at almost FF 240 million. As part of the deal, Scovill's Hamilton Beach division would market the French company's products in the U.S.

Nixdorf AG, a German computer company, is considering producing its own semiconductors in Germany in a joint venture with RCA Corp. or LSI Logic Corp., both of which are Nixdorf suppliers. LSI, of Milpitas, Calif., makes semiconductor logic circuits.

Common Market Reports

EUROMARKET NEWS

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Community: Competition Report Focuses on State Aid

The European Commission's recently published competition policy report for 1984 focuses on Member State violations of state aid rules, the Council of Ministers' failure to act on competition policy issues, and a positive record in the application and refinement of EEC competition rules *(Common Market Reports, Par. 10,680)*. In a number of cases, the States failed to report planned state aids beforehand, especially subsidies granted by regional governments. On occasion the States ignored the suspensory effect of Treaty Articles 92-93, which empower the Commission to examine and prohibit a notified aid project. Not all of the States complied with the 1980 Commission directive on the transparency of financial relations between national governments and public undertakings, according to the report.

The Commission is disappointed over the Council's failure to adopt the modified merger control proposal *(Common Market Reports, Pars. 10,364, 10,560, 10,569)*. Commissioner Peter Sutherland does not expect an agreement on the measure in the foreseeable future and is therefore pondering the possibility of

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suing the Council before the Court of Justice. Whether a merger control instrument is needed may be questioned since the report registers a standstill in the process of concentration of economic power.

The Commission also notes stagnation in the air transport sector of competition policy. Last year the EC Executive submitted to the Council a second memorandum on liberalizing access to and fares in air transport. Initial discussions in the Council have revealed that the Member States are not prepared at this point to subject their airlines to EEC competition rules *(Common Market Reports, Pars. 10,574, 10,635).*

On a positive note, the Commission reports the conclusion of several significant antitrust cases, the most important being the settlement with IBM *(Common Market Reports, Par. 10,608).* In addition, four block exemption regulations were adopted in 1984. Two of them, relating to research and development and to patent licensing agreements, were adopted in order to ease cooperation in spreading new technologies and innovation. Another exemption concerned distribution and servicing agreements in the motor vehicle sector. The fourth regulation replaced an earlier one on specialization agreements and widened the scope for such cooperation *(Common Market Reports, Pars. 2743, 2747, 2751, 2753).*

European Parliament Backs Unit Pricing Proposals

The European Parliament has endorsed two Commission proposals on consumer protection through unit price marking and at the same time recommended a number of amendments. The first proposal would require the Member States to legislate a requirement for unit pricing of non-food household products *(Common Market Reports, Par. 10,550).* The second measure would establish criteria for exempting certain quantities of prepacked products, which the States would have to incorporate into national law. The two measures constitute an answer to a 1979 Council resolution that asked the Commission to come forward with a proposal that would extend to non-food items the field of application of the 1979 directive on foodstuffs *(Common Market Reports, Par. 3326).*

The EP has proposed a total of 13 amendments to the two proposals, and Commissioner Stanley Clinton Davis said the Commission would incorporate nine of them. One amendment would allow owners of small stores to show prices on posters rather than pricing every article. Davis accepted this amendment but could not agree with another one: Article 7 of the price indication draft directive for non-food items would exempt from the unit-pricing requirement certain products, such as perfumes, sold in quantities of a maximum of 50 grams or 50 milliliters or other products, such as detergents, sold in quantities of a maximum of 10 kilograms or 10 liters. The EP's resolution calls for an amendment exempting multipacks of units that are themselves exempted. Davis said that such an amendment would lead to complete circumvention of the directive itself.

Davis tried to alleviate the concern expressed by several MEPs over the sheer scope of the directive seeking to achieve across-the-board unit pricing. There were also doubts as to whether such a directive would be understandable or enforceable. The Commissioner said, however, that a similar system has been in force in Germany for more than a decade *(Doing Business in Europe, Par. 23,534B)*, and France, too, recently adopted the principle of unit pricing. Furthermore, there are exemptions to cover special cases, Davis said.

In Brief...

The Commission is reportedly prepared to take to court those Member States that fail to provide information needed for an investigation into restrictive practices of national airlines. Seven States have been given a deadline for furnishing data about airline pooling agreements, thought to be contrary to Treaty Articles 85-86. The Commission's move must be seen in the context of its efforts, so far futile, to extend EEC competition rules to air transport *(Common Market Reports, Pars. 10,574, 10,635)* + + + The EEC finance ministers agreed on April 24 to seek additional funds totaling ECU 1.98 billion from the national parliaments. Most of the funds are needed to cover higher farm spending in the current budget year. The revised 1985 Community budget of ECU 27.93 billion must still be approved by the European Parliament. By agreeing to additional funds, the finance ministers approved the increased farm policy expenditures requested by the Commission. (However, the revised budget makes no allowance for any additional farm price increases, which are still being negotiated by the agriculture ministers.) Another development coming out of the finance ministers' meeting was the agreement that Britain will indeed be granted a promised budget rebate of ECU 1 billion by way of reductions in its budget contributions. The European Parliament has been opposing such a rebate + + + A five-year, ECU 100 million trade and aid program for the overseas territories of France, Britain, and the Netherlands has been presented by the Commission. Still requiring Member State approval, the package is to come into effect in 1986 and includes direct aid, loan subsidies, and limited access to EEC markets for certain products. The program would parallel the new Lomé convention signed late last year with 66 independent developing countries.

Germany: Monopolies Commission Report Attacked

Never before in its 12-year history has Germany's Monopolies Commission provoked so much criticism as with its recent report on the concentration of economic power in the country's retail food trade. In the report, four of the commission's five members reach the conclusion that none of the country's five biggest food store chains has a dominating position and that there is plenty of competition among them. Declining prices of some food items are not the result of abusive practices to drive competitors from the market but are caused by intensive competition, according to the commission majority. (The dissenting member believes that several food store chains have a market-dominating position and are abusing it.) The big chains are in a position to negotiate lower prices with food producers and processors, and these lower prices are passed on to the consumer, the commission says. Although the concentration trend in the retail food trade continued in 1984, the Monopolies Commission sees no need for legislative or regulatory action or even voluntary action by the food store chains at the suggestion of the Federal Cartel Office.

The national retailers' association, the national federation of industry, and the national food producers' association have all criticized the report. They call the report lopsided in that it plays down the economic leverage of the country's ten biggest food store chains (among them, Aldi, Co-op, Tengelmann, Edeka, and Rewe) in negotiating contracts with suppliers. The three associations term the expertise inconsistent in that it recognizes the continuing trend of mergers in the retail food sector, while denying the need for any action.

Although the Federal Cartel Office has so far declined to comment, its lawyers are surprised by the report's conclusion that no regulatory action need be taken. For years the Office has followed a two-pronged strategy to maintain free and fair competition in the retail food sector. It has prohibited some planned mergers, and it has extracted commitments from the big chains to guarantee fairness in competition. In its most spectacular action in this respect, the Federal Cartel Office, using the widened powers given to it by the 1980 amendments to the Cartel Law *(Doing Business in Europe, Pars. 23,510, 23,510B, 23,510C)*, barred the planned Metro-Kaufhof merger. FCO officials also uncovered and stopped large-scale payments by manufacturers to big retail chains to procure and prominently display food items. Last October the Office made the chains agree to refrain from selling below the purchase price.

Britain: Document Details Takeover Code Revisions

The U.K. Panel on Takeovers and Mergers has announced major changes in the rules governing corporate acquisitions. After 18 months of consultations, it has issued a document, "The City Code on Takeovers and Mergers," which will effectively update and simplify the original Takeover Code introduced in 1968 as a form of corporate self-regulation *(Doing Business in Europe, Par. 24,015)*.

The essential framework of regulations remains much the same, but sections of the original code have been revised to ensure greater fairness and to get rid of rules that were impractical to enforce. The revision removes the provision by which a bidding company cannot acquire further shares in the target company for seven days after the announcement of the bid. (There have been cases where speculators were able to amass substantial share holdings in the target company during the seven days and then sell them at a large profit to the bidder or even a potential rival.)

As concerns the building up of a share stake in a target company, the rules introduced in 1980 relating to a "substantial acquisition" of shares have been relaxed. Previously, after the 15% mark was reached, the bidder could obtain within any seven-day period only a further 5% of the voting shares. It will now be possible to acquire up to 10% in any week, but still subject to the proviso that a full-scale bid must be mounted once the maximum permitted 29.9% stake has been passed.

A bidding company has so far been prohibited from indicating that its offer is final until after the first closing date of its offer. This ban has deprived the stock market of early information on whether the bidder is prepared to pay more. It is now to be dropped. However, once a company has said that its offer is final or will not be extended, it will now generally be held to that commitment. The document makes clear that "neither extensions nor revisions will be permitted" unless the bidding company reserved the right to do so in the original offer.

When companies make forecasts of their performance in a takeover battle, they will now be required to include estimates of taxation, extraordinary items, and minority interests, where these are expected to be significant. Under the earlier code, they were only encouraged to do so.

A ban will generally be imposed on "shut-offs," which have permitted a bidder to close its main or alternative offer earlier than the normal timetable would allow in order to put pressure on shareholders to accept the offer. Now, once the offer has become unconditional, it must remain open for acceptances "for not less than 14 days" after the date on which it would otherwise have expired.

Ireland: New Royalty Terms for Marginal Oil Fields

Irish Energy Minister Dick Spring has announced new provisions for the treatment of marginal oil fields discovered in Irish territorial waters. In order to attract more bidders for the third licensing round in June, the new terms clarify details of royalties payable and the degree of state participation in smaller fields.

A marginal field is defined as one where the ratio of net revenue to capital expenditure is less than 1:84. Where such a field produces less than 75 million barrels, the first 25 million barrels will not be subject to royalty payments.

Under the licensing terms drawn up in 1975, the Irish government is entitled to 50% of production. It can, in addition, require the operator to pay 100% of development costs, later repayable out of the state's production revenues. However, a field of any size designated as marginal will now have a reduction in the amount of state participation involved, to encourage investment by major oil companies.

The new provisions will apply to any licenses issued after April 25.

Netherlands: Lower Budget Deficits Awaited in '85, '86

Because of higher than anticipated revenues, the Dutch budget deficit for the current year is expected to be smaller than originally foreseen, according to a Finance Ministry report. Revenues are now projected to be 3.984 billion guilders higher, mainly because of improved earnings from natural gas exploitation (up 1.95 billion guilders). Also contributing to the deficit reduction are the central bank's profit transfers (plus 466 million guilders) and higher tax revenues.

These improvements should lower the budget deficit from 8.5% of GNP, as originally budgeted, to 7.9%. The Ministry said that revenues are expected to rise by 4% over the original projections, and expenditures by 2.4%. The spending increase is attributed mainly to shifts in social welfare cutbacks (retirement benefits).

The developments in the current budget and the general economy have prompted the government to set guidelines that would trim the 1986 budget by another 14% over previous projections, or by 8 billion rather than 7 billion guilders. The reduction represents 50% of the 2-billion-guilder cut sought by the Finance Ministry in an effort to lower the public-sector borrowing requirement as much as possible. The original projections had been fixed in 1982 as part of the policy agreement negotiated at the time of the formation of the present center-right coalition government. Political observers say that the new guidelines will give the 1986 draft budget a better chance for passage in Parliament's budget debate in October and also will enhance the government's prospects in the 1986 general elections.

The coalition of Christian Democrats and Conservatives can point to substantial advances in Holland's economic situation. Last year's current-account payments balance wound up with a surplus of 15.67 billion guilders, a 42% improvement over 1983. Exports expanded by 15% to 199.9 billion guilders, while imports increased by 13% to 188.68 billion guilders.

France: Renault Loses FF 12.5 Billion in 1984

When Renault, France's nationalized car maker, recently reported 1984 losses of FF 12.5 billion, it became apparent that a major financial overhaul of the company is imminent. Last year's losses, amounting to 10% of the FF 117.5 billion turnover, bring the company's total deficit to FF 40.7 billion. Over the past few years, Renault has been continuously sliding downhill - its share of the Western European car market dropped from 14.7% in 1980 to 10.9% in 1984, and its production was cut from 2.05 to 1.78 million vehicles over the same period.

The government is pinning its hopes for Renault on Georges Besse, who became chairman of the company in January. Prior to assuming that position, he was head of the state-owned Pêchiney aluminum group, which he turned from loss-making to profit-making through a two-year restructuring program. Some observers believe that Besse may opt for the disposal of Renault's most loss-ridden units, such as those producing machine tools, tractors, and trucks. It is expected that as many as 20,000 of the car maker's 98,000 jobs would be eliminated during any restructuring. Union members are protesting the suggestion of such layoffs, particularly in light of Besse's recent promise that Renault will maintain its costly 46% share in American Motors Corp. At the same time, Besse announced the temporary closures of two French plants in June.

The government recently announced that it will lift curbs on car prices as of July, a move that should slightly improve Renault's financial situation.

Austria: Tax Relief to Encourage Share Investments

Austrian Finance Minister Franz Vranitzky has made proposals to reduce the double tax burden on shares and to encourage investors to purchase newly issued shares in an effort to improve industry's capital and financing structure. Vranitzky would like, as of 1986, to halve the income tax rate on shareholders' dividend income. (In 1966, the Austrian government halved the corporate tax rate on profit distributions of stock corporations.) At the same time, Vienna proposes tax relief for newly issued shares and the raising of venture capital.

A first move to promote the raising of risk capital had been made in 1982 by Vranitzky's predecessor, Herbert Salcher, who sponsored participation fund legislation *(Beteiligungsfondsgesetz)* through which bonus certificates in the amount of 3.6 billion schillings were issued by the end of 1983. The capital thus raised was used for participations in more than 200 small and medium-size businesses.

Under Vranitzky's proposal, the favorable tax treatment so far accorded the purchase of bonus certificates would also apply to new shares issued as part of capital increases of existing or newly established corporations domiciled in Austria. Such investments would be fully tax deductible up to 40,000 schillings per year each for resident investors and their spouses. A 10,000 schilling deduction would be granted for each child eligible under the family allowance system. Dividend income from such investments would be freed from both interest yield tax and income tax for up to ten years.

As with bonus certificates, the investment in shares would be for ten years, with the share certificates held on deposit. However, shareholders would be free (though not encouraged) to sell their certificates within the ten-year period, and no tax obligation would arise if the proceeds were shifted into other new shares or bonus certificates. To reflect the greater risk of investments in shares, Vranitzky wants to reduce the tax deduction for bonus certificates from 40,000 to 30,000 schillings annually per person.

European Investment: Improvement in Climate Reported

At an international investment seminar, held in Brussels on April 25-26, it was reported that there are definite signs of improvement in the investment climate in most European countries. Cosponsored by Plant Location International, the Brussels-based consulting firm, and the International Herald Tribune, the seminar featured contributions from 16 European countries. The general consensus was that government incentives, in the form of loans and cash grants, are increasingly less important in many investment decisions by industry and, in some cases, stand very low on the list of priorities.

The director general of EEC regional policies, Pierre Mathijsen, said that the European Commission favors more emphasis on the improvement of the industrial infrastructures and environments of the Member States, rather than the continued use of direct financial assistance.

Referring to the prospect of lower interest rates in the United States and of a diminished power of attraction of the dollar, Premier Wilfried Martens of Belgium said that "the reduction of capital outflows in Europe can mean more investment in Europe. I am deeply convinced that Western European countries should rapidly use this opportunity to overcome their 'Euro pessimism' and to take steps that improve their investment climate and their economic prospects."

Other speakers at the seminar included Baron Bekaert of Belgium; José Viana Baptista, chairman of the Portuguese Foreign Investment Institute; and S. Papaefstratiou, governor of the Hellenic Industrial Development Bank of Greece.

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EUROMARKET NEWS

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Community: Bonn Summit Fails on Date for GATT Talks

The heads of the world's leading industrial nations agreed on a number of objectives at their Bonn Summit on May 2-4, but they failed to break the deadlock on one of the most important issues - setting a date for new GATT talks early next year. All seven leaders agreed on the need for a new round of talks to avert a further rise in protectionism. French president François Mitterrand declined to accept a proposal backed by his six counterparts (from the U.S., Canada, Germany, Italy, Japan, and the U.K.) that negotiations should start early next year. (The European Commission and the six EEC Member States not represented at the Summit also favor early GATT talks.)

Mitterrand would have agreed to early talks only if the other leaders had consented to a firm date for a conference aimed at restoring stability to the world monetary system. U.S. President Ronald Reagan refused to commit his administration to such a conference, and German Chancellor Helmut Kohl and Japanese Prime Minister Yasuhiro Nakasone supported him on this point. Summit observers agree that Mitterrand's refusal was dictated mainly by his fear that the talks, which would also

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focus on protectionism in agricultural trade, would further jeopardize the chances of a Socialist victory in the French national elections in the spring of 1986.

The Bonn Summit communiqué contains a number of goals that the seven leaders agreed on, namely to (a) increase job opportunities, (b) strengthen the economies' ability to respond to new developments, (c) reduce social inequalities, (d) correct persistent economic imbalances, (e) halt protectionism, and (f) improve the stability of the world monetary system. Some of these objectives, such as correcting economic imbalances, reducing social inequalities, and halting protectionism, are also EEC Treaty objectives or Community policies. Those EEC Member States not present in Bonn (the Benelux countries, Denmark, Greece, and Ireland) would pursue these goals in any case.

While urging policies "conducive to sustained growth and higher employment," the communiqué emphasizes progress in lowering inflation, prudent budget policies, more productive investment, and reducing excessive public spending. An important element in this context is that in return for Reagan's promise to reduce the U.S. budget deficit (and thus curb the flight of European capital to the U.S.) the other six promise to loosen the rigidity of their economies. The six leaders hope to do away with some of the bureaucratic controls that stifle investment and job creation. Germany made the first move in this direction by enacting legislation easing stringent employment rules and putting curbs on relief plans *(Doing Business in Europe, Par. 40,628)*.

Parliament Presses for Action on European Union

The European Parliament has overwhelmingly approved a resolution calling on the Member States to decide by June whether to convene an intergovernmental conference on the European Union (EU). The EP wants the conference to use its draft treaty as a working document. To expect a decision by June on setting up such a conference is far too optimistic, observers say, but the heads of government and state are expected to make the EU their main talking point at the Milan Summit on June 28-29. The Parliament hopes that all Member States will become EU members, a goal that the government leaders vowed to strive for at the Stuttgart Summit in June 1983. Those Member States that could not join the EU on the date agreed on by the majority should be given the option of acceding later without new negotiations being required, the EP says.

One of the main issues that would have to be resolved in a workable European Union would be the conditions under which Community decisions may be taken by majority. The current practice under the 1966 Luxembourg Compromise, which France extracted from its partners, allows a State to veto proposed legislation likely to undermine its vital national interest. This practice has led to delays and compromises on the road to "an ever closer union," as provided in the Treaty of Rome. The EP's resolution calls for a return to majority voting.

In a second resolution, also approved by a broad majority, the European Parliament calls on the national legislatures to support the draft treaty on a European Union, which they would have to ratify. The EP points out that the national parliaments, in ratifying the Paris and Rome Treaties, surrendered to the Community rights that the Council of Ministers exercises for the most part without any parliamentary control. The draft treaty gives the EP a genuine voice in lawmaking.

The legislatures of all ten Member States are considering the EU draft treaty, according to an EP committee report. The national lawmakers are convinced that a large number of pressing issues, including unemployment, environment, transport, internal market, and industrial and R&D policies, can be far better resolved by Community action than by national measures.

In Brief...

The European Parliament has postponed action on a proposal that would further restrict the use of polychlorinated biphenyls (PCBs) and terphenyls (PCTs) *(Common Market Reports, Par. 10,631)*. By referring back to committee a report and resolution calling for various amendments, the EP is exercising a formal right that prevents the Commission from submitting an amended proposal to the Council of Ministers, which in turn is prevented from adopting the measure. A 1976 directive bans the use of PCBs and PCTs, which damage the human liver and have carcinogenic effects, except when used in closed systems such as electrical transformers and generators or in hydraulic and heat transmission fluids *(Common Market Reports, Par. 3450.41)*. The EP's draft resolution would move up the deadline for permissible PCB and PCT uses from the end of 1989 (as proposed by the Commission) to the end of this year. The EP also wants lower limits of concentration of the two substances + + + Reservations on the part of Germany are delaying formal Council approval of the agreement raising from 1% to 1.4% as of 1986 the ceiling on the Member States' value-added tax revenue contributions to the Community budget. The agreement also incorporates the accord on the U.K.'s reduced budget contributions as well as the agreed system of budget discipline.

Germany: Experts Sketch Outline of Labor Law Changes

Labor law experts of the German government coalition parties have agreed on an outline for legislation that would allow executives in lower and middle management to nominate and elect a committee of their own to represent their interests in the company. Such a committee, called *Sprecherausschuss* (spokesman's committee), would have rights similar to those accorded to works councils by the 1972 Works Council Act. The employer would have to inform the committee at least once a year about the enterprise's financial standing, and the committee would have to be told in advance about important changes, such as plans to close down plants or divisions, production cutbacks combined with layoffs, or the relocation of production facilities. The employer would also have to consult the committee before giving an executive a notice of termination.

Committees could be set up in enterprises with at least ten executives in lower and middle management. Their size would depend on the number of executives employed by the enterprise. In an enterprise with ten to 20 executives, the executives would be represented by one individual. In companies with 21 to 100 executives, the committee would be composed of three members.

The experts have also made a rough sketch of proposed amendments to the 1972 Works Council Act that would change works council election rules. A candidate for election to the council would have to obtain the signatures of at least 5% (currently 10%) of the employee group he wants to represent, but in any case no more than 100 signatures. The lowered requirement would be advantageous to persons from small, and usually nonorganized, employee groups. Although the unions remain opposed to the planned amendments, the experts point out that the legislation must be seen as an indirect reponse to a judgment of the Federal Constitutional Court. Last year the court held unconstitutional a requirement in a Hesse state law providing for the election of civil service councils in state agencies. Experts consider it only a matter of time before the court strikes down the current requirement in the Works Council Act.

Britain: Retaliation Sought Against U.S. Unitary Taxation

More than 250 members of Parliament, mostly Conservatives, are supporting an amendment to this year's Finance Bill that proposes retaliatory fiscal measures by the U.K. against the unitary taxation system practiced by certain U.S. states. This system, which allows local subsidiaries of multinational companies to be assessed for tax purposes on the basis of their worldwide profits, is encountering greater hostility in Britain than in the past, and mounting pressure is being placed on the U.K. government to take positive action.

The proposed measure would mean that a U.S. company subject to tax in a unitary tax state would no longer be entitled to claim a refund of advance corporation tax levied on dividends received from its U.K. subsidiaries. A similar proposal was put forward last year, but observers believe that there is a greater chance of its being approved this year, unless some agreement can be reached between Washington and the British government.

Greece: President Orders Early Elections for June 2

Following the request of Greek Prime Minister Andreas Papandreou, President Christos Sartzetakis has ordered the dissolution of Parliament and the holding of early elections on June 2. Sartzetakis cited proposed constitutional amendments and the breakdown of Greek-Turkish talks on Cyprus as the "national issue of exceptional importance" required for the disbanding of Parliament. Observers believe, however, that the governing Socialists called the early elections because their chances of maintaining their popular support are better in June than they would be if the ballots were cast in October, as previously scheduled. The opposition New Democracy Party supports the early elections as a means of challenging both the proposed amendments and Sartzetakis' election to the presidency in March.

The proposed amendments would eliminate several of the president's powers, including his right to dissolve Parliament. On April 6, Socialists and Communists pushed the proposals through the legislature in the first vote. The second vote was scheduled for May 6. After the June elections, the new Parliament will have to ratify the changes before they become final.

France: Downward Revision of Economic Forecasts

The French national statistical institute INSEE has issued a downward revision of the government's official economic forecasts for this year, and the governor of the central bank has warned the administration not to relax its economic austerity policy. These statements follow criticism by the Patronat employers' federation a few weeks ago that the administration tends to paint too optimistic a picture in its economic projections. The employers demanded that Paris "put the cards on the table," prompting an angry rebuttal by Economics Minister Pierre Bêrêgovoy, who said that the Patronat's charges had damaged French interests abroad.

INSEE had only recently marked down last year's GNP growth rate to 1.6%, from the 2% projected originally. Now the institute is predicting a 1% rate for 1985, and it is also forecasting a foreign trade deficit of about FF 25 billion. Such a shortfall would not only contrast sharply with the government's prediction of a FF 2 billion surplus but would also be worse than the 1984 result, a deficit of FF 19.6 billion. INSEE concedes that inflation will continue to decelerate to a rate of 5.3-5.5%, as compared with the 1984 average of 6.7%. Nevertheless, even that estimate exceeds appreciably the official target of 4.5%. For the labor market, INSEE predicts the loss of 170,000 workplaces this year and a monthly rise of 20,000 in unemployment. At that pace, France would have to report an unemployment count of about 2.7 million at the end of the year.

Despite improved business results, INSEE expects profits to be used mainly to reduce short-term debts. Overall investment is forecast to drop by another 0.5% because of sharply reduced activity in agriculture (minus 1%), construction (minus 3%), and the public sector (minus 5%). Private industrial investment is forecast to expand by about 2.9%. Because of the new income tax relief, private consumption should pick up slightly, but only later in the year, according to INSEE.

The INSEE report coincided with the annual report of the Banque de France, which lists the economic advances undeniably made since the Socialist takeover in June 1982 but also points out the shortcomings and failures. Among these, the central bank includes the high inflation differential vis-à-vis France's trade partners and the payments and budget deficits. Michel Camdessus, the new governor of the Banque de France, warns the government not to sacrifice its economic austerity to a more expansive policy - for instance, by lowering interest rates faster than indicated by the slowdown in inflation. (Nevertheless, the bank rate was cut from 10.5% to 10.25% on April 25.)

Luxembourg: Private Banking Business Grows in Importance

Most experts agree that Luxembourg has about reached its growth limit as a Euromarket banking center: the number of banks in this tiny country of 360,000 has stabilized at 116, and banking profits last year were expected to be roughly on the same level as those of 1983 (LF 68 billion). Business volume is currently expanding at an annual rate of some 10%, which is a distinctly slower pace than that recorded between 1972 and '81, when it rose nearly twelvefold. By most standards, the 11% increase in balance sheet assets during the 12-month period ending last October (to LF 7,240 billion) still represents a respectable achievement. However, these figures were artificially boosted because of the strong dollar and have to be compared to growth rates of 50-60% in the early '70s.

Luxembourg's domestic and international bankers are, of course, sensitive to the trend, but they are not worried. More and more, private customers abroad are discovering the advantages of the Grand Duchy as a retail banking center, where money can be invested safely and discreetly and at lower costs than, for instance, in Switzerland. Among customers from neighboring Belgium and France, Luxembourg has long had this reputation, but now Luxembourg's customers include an increasing number of Germans, who have the choice of 30 German bank subsidiaries and no language problems in the Grand Duchy.

The international debt crises and their impact on the banking business have prompted many of the Eurobanks to reshape their strategies, taking advantage of the generous legal framework for banks in Luxembourg. Both the banks and their customers benefit from the fact that there are no minimum reserve requirements on deposits, no withholding tax for nonresidents on interest income, dividends, and capital gains from securities, and no tax on securities transactions. In contrast to Germany, gold transactions are not subject to value-added tax, and banking secrecy is guaranteed by law.

The 1981 revision of the bank secrecy law did, in fact, broaden the protection of depositors. Luxembourg authorities do not generally give legal assistance in foreign tax investigations, with the exception of criminal cases. Luxembourg has also profited from the discussions in Switzerland over the possible softening of the Swiss bank secrecy provisions. All these factors have contributed to the fact that private deposits equivalent to some LF 1,640 billion now account for 20% of total deposits in the Grand Duchy, and 80% of the private funds come from abroad.

Arbed Steel Reports First Profit in Ten Years

Much of Luxembourg's economic well-being depends on that of Arbed, the small country's largest industrial company and No. 1 employer. After a long string of losses as the result of the European and worldwide steel crisis, the company in April reported a net profit of LF 645 million for 1984 - the first positive result in ten years. At the same time, Arbed improved its cash flow, which will help it draw on its own capital to reduce some of its large debt.

Arbed's net earnings position was achieved through larger sales plus cost savings. Crude steel production increased by 12.9% to 10.99 million metric tons and production of rolled steel by 13% to 9.02 million tons. Management was able to achieve cost reductions in all areas except raw materials - for instance, cuts of 12.9% for labor and 26% for debt servicing.

Nevertheless, Arbed's balance sheet is still burdened by a loss carryover of LF 18.4 billion, which amounts to half of the company's capital. Net interest payments total LF 3.685 billion. For these reasons, said Emmanuel Tesch, board chairman, it is necessary for management to keep a tight rein on the company's finances in the years to come. (Tesch will relinquish his position as chief executive to Georges Faber on Jan. 1, 1986, but will carry on as chairman.)

Arbed is continuing an ambitious financial restructuring program, one part of which is expected to be the raising of its equity from LF 10.2 billion to LF 18.2 billion by boosting the state's equity to 42% of the capital and 33% of the voting capital. Previously, the government had lifted its participation from 2% to 24.5%, and it is proposing to inject LF 9.1 billion into the company, LF 6.1 billion of which would be in the form of new capital.

Switzerland: Insider Trading Bill; Fiduciary Deposits

The Swiss government has proposed legislation that would make insider trading in stocks and bonds a criminal offense punishable by up to three years in prison and unlimited fines. Penalties would apply to individuals who disclose confidential company information for any reason, not just those who hope to profit through trading based on that information. The bill's definition of insiders includes company directors, management, auditors, and public officials as well as other parties who benefit from the information. Enforcement of the law would be left to cantonal authorities. Eliminated from the bill was a clause that would have given profits made through insider trading to the company involved.

The legislation carries the support of much of the Swiss banking and business communities as well as U.S. authorities. The legality of insider trading within Switzerland, together with the country's banking secrecy laws, has long caused difficulties for the U.S. in investigating insider trading by persons dealing through Swiss banks. In 1982, the two countries signed an informal agreement waiving secrecy rules for bank clients clearly guilty of insider trading, but the red-tape problem remained. It took three years of legal procedures and negotiations before Switzerland agreed in March to hand over to the U.S. Securities and Exchange Commission documents pertaining to the insider trading case involving Santa Fe International. (The SEC alleged that customers of three Swiss banks reaped over $5 million illegally during the 1981 takeover of Santa Fe by Kuwait Petroleum Co.) The SEC is still working to obtain similar information in a case involving the Zurich-based Ellis AG brokerage firm.

In other news, deposits in Swiss fiduciary accounts jumped 25% last year to SF 256.2 billion, according to the Swiss National Bank. Analysts cited the strength of the U.S. dollar and concern about the international debt crisis as reasons behind the increase. Money deposited in a fiduciary account is invested outside the country in short-term Euromoney deposits, thus exempting the interest income from a 35% withholding tax.

Sweden: 20,000 Public-Sector Workers Strike Over Pay

Less than five months before the next general elections, some 20,000 Swedish public-sector workers went on strike on May 2 to enforce the demand of their union, the TCO-S, for more pay. In retaliation, the state employers' organization prepared to lock out up to 100,000 public-sector employees. The walkout affected virtually all public services - air and ground transport, customs and border controls, police, schools and universities, and even tax offices.

In previous negotiations, the Social Democratic government had insisted on not raising public-sector wages this year in order to hold pay increases generally to 5%. However, the two-year agreement with the unions signed in 1984 included the usual clause for renegotiation in the event that private-sector employees won better terms. The TCO-S is now saying that its 250,000 members fell 3.1% behind in 1984, and it has called the strike to enforce its claim for a retroactive pay award of this percentage.

Common Market Reports

EUROMARKET NEWS

Issue No. 853 *Report No. 527, May 23, 1985*

IN THIS ISSUE

Community: Consensus on Simplified Standards System

The Council of Ministers has reached a consensus on a new, simplified way of attaining common industrial standards for manufactured goods to spur intra-Community trade. The Council agrees with the European Commission's new approach to standards, which is set out in a resolution: instead of legislating every detail of technical specifications for each individual product, the Community should confine itself to legislating the basic standards covering health, safety, the environment, and consumer protection *(Common Market Reports, Par. 10,666)*. Drawing up EEC standards for technical details such as dimensions would be left to the two Geneva-based European standards institutes - CEN (for establishing norms for general products) and CENELEC (for electrical equipment).

In the absence of EEC standards, the Member States would mutually recognize their national standards over a transitional period. (This would resolve the long-standing row between Ger-

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many and France over whether German DIN norms should apply to imported products.) A committee of national experts would decide by majority vote which national standards pertaining to a particular product should be recognized by all other Member States. The Commission would publish those standards on which the committee has decided.

The EC Executive has indicated that in preparing legislation setting forth basic EEC health, consumer, and environmental protection standards, it intends to concentrate on three areas - mechanical engineering, building materials, and electrical appliances. Commission officials hope to complete the first proposals, dealing with individual construction materials, before the end of the year. They expect that the CEN would take several years to draw up detailed EEC standards. Nevertheless, the simplified system would save time. Under the current system, aimed at regulating every aspect of harmonization of national standards, a directive on the standardization of a particular product could be pending for as long as 12 years before final adoption.

EP, ESC Favor Amendments to Road Safety Legislation

The European Parliament and the Economic and Social Committee have come to a general agreement on amendments to EEC road transport legislation to improve road safety. The amendments, proposed by the Commission, concern truck drivers' hours at the wheel and rest and break periods, and they are now being considered by the Council's working group.

Both the EP and the ESC agree on the need for stricter legislation to improve safety by reducing the risk of accidents. The two EC institutions want the daily rest periods for truck drivers to be 12 hours. Five Member States would go along with this proposal, while three States prefer 11 hours and two favor ten hours. The EP and the ESC recommend a minimum weekly rest period of 48 hours. The majority of the Member States lean toward 42 hours. Parliament and the committee suggest 60-minute breaks between driving periods of 4.5 hours, and the Council appears to agree.

In Brief...

The Council of Ministers has formally adopted the agreement raising the ceiling on the Member States' value-added-tax contributions to the EC budget from 1% to 1.4% as of 1986. The breakthrough came after a concession to Germany concerning how additional Community research and development programs not funded by the EC's own revenue sources (VAT contributions, customs duties, and agricultural levies) should be financed by additional Member State payments. A clause in the agreement requires unanimity not only on the volume of such R&D programs but also on how much each Member State has to pay. In effect, this clause gives each State the right to veto any R&D project to be financed by additional national contributions + + + The European Commission wants trade and cooperation between the EEC and EFTA expanded. On April 9, 1984, government representatives of the ten Member States and the seven EFTA countries (Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland) had expressed their political will for more trade and cooperation. The Commission now recommends abolition of technical obstacles to trade by harmonization of industrial standards and mutual recognition of certificates for tested products. Administrative hurdles could be overcome by introducing a single customs document and simplifying the rules of origin. The EC Executive also suggests cooperation in the scientific and technological sectors, and it favors the idea of a common stand in negotiations under GATT and the OECD.

Germany: No Change in Two-Stage Tax Cut Legislation

German Finance Minister Gerhard Stoltenberg has ruled out any change in the timing or size of tax cuts provided under pending legislation. Germany's five leading economic research institutes and a number of Free Democrats in the lower house of Parliament wanted to move forward by two years the second stage of the proposed individual income tax cuts, so that the entire DM-20-billion program would be enacted on Jan. 1, 1986 *(Doing Business in Europe, Par. 40,615)*. A major argument of the supporters of earlier tax cuts is their belief that the predicted 2.5% economic growth this year will not be enough to reduce unemployment (around 2.4 million at the end of April). In fact, the institutes foresee even a slight rise in the jobless rate, a prediction that the government and its council of economic advisers do not share.

Stoltenberg's decision is backed by Chancellor Helmut Kohl as a method of limiting federal borrowing. Stoltenberg has had some success in cutting back borrowing since the Kohl administration came to power in October 1982 (down to roughly DM 25 billion in 1985, from around DM 38 billion). Less borrowing and fewer tax cuts are part of the government's long-range objective of reducing the public-spending portion of the gross national product (49% in 1985, when the U.S. figure is 32.5%). The goal is to leave more money in the hands of private and corporate investors as well as consumers. (A decision on further tax cuts, especially in the corporate sector, will be made in early 1987, Stoltenberg has revealed.)

Speaking before the national tax advisers' convention in Bonn, Stoltenberg acknowledged that foreign policy commitments might slow his drive for reduced borrowing. Germany's contribution to the EC budget will rise substantially as a result of the increased VAT revenue share (from 1% to 1.4%) starting in 1986 and also because of Spain's and Portugal's accession to the Communities. Stoltenberg estimates that Germany's share will rise from the current DM 16.5 billion to some DM 26 billion by 1989.

Rigid Store Closing Hours to Remain in Germany

The German government has given its final decision on the efforts to relax the country's rigid store closing hour rules. Responding to a written question posed by a member of Parliament, the administration said it sees no need for a change in the legislation because all concerned - store owners, employees, and consumers - are satisfied with the present arrangement. Critics say, however, that the government has failed to substantiate this claim with recent surveys. It would have been worthwhile knowing whether store owners are still against a change. It is generally thought that consumers favor an opportunity to shop at least one evening a week. There is no need to ask store employees or their unions about relaxing the current system, critics say, because they have been opposed to a change all along.

There have been a number of attempts to bring about relaxation of the store closing hour rules. Some have taken a spectacular form, especially last year's protest by some 100 Bremen store owners, who kept their shops open several evenings. Local authorities responded to this violation of the law with fines of up to DM 1,000.

Current law limits store hours to 7 a.m. to 6:30 p.m. Monday through Friday and to 7 a.m. to 2 p.m. on Saturdays, except the first Saturday of the month, when stores may stay open until 6 p.m.

Belgium: Discount Rate Cut; Foreign Exchange Market

After more than a year of unchanged rates, the Belgian National Bank has lowered its discount rate from 11% to 9.75% and its Lombard rate from 12% to 10.25%. At the same time, the central bank announced that the discount rate will now be linked to the rate for three-month treasury bills, currently 9.5%. The latest discount rate will be posted each Wednesday after the treasury bill rate is announced on Tuesday. However, the bank will retain the power to alter the rate, within certain ranges. Dealers were expecting the bank to cut the discount rate to 9.5% on May 15, following a quarter-point fall in short-term treasury bill rates the day before.

The bank had two reasons for establishing a floating discount rate - the need for quicker reaction to market changes and the desire to reduce the importance of the rate. Because the discount rate has been changed rarely and irregularly in recent years, it has attained a greater significance than the central bank believes it merits. Actually, the discount rate has become less indicative because the bank has been using other methods to lower interest rates.

Belgian bankers have welcomed the rate cuts, which they had expected as the market rates grew more out of line with the discount rate. Observers also view the move as a sign that the bank believes the franc has stabilized within the European Monetary System.

In related developments, Jean Godeaux, governor of the Belgian central bank, said that the split foreign exchange market could be gradually eliminated over the next two to four years. This was the first official indication that such a move is being considered. The Belgium-Luxembourg Exchange Rate Institute, which supervises the foreign exchange market in the two countries, reportedly has been discussing such a change for two years.

Britain: British Gas to Be Sold to Private Sector

British Secretary of State for Energy Peter Walker has announced that the country's gas industry is to be denationalized. Legislation will be introduced "at the earliest opportunity" to authorize the transfer of the assets of British Gas Corp. to a new private-sector company. Shares will then be sold to the public.

Walker said that the government's privatization program has achieved major progress. Management and enterprise have been "freed from bureaucratic intervention" through the sale of such companies as British Telecom, British Aerospace, and Jaguar.

The proposed legislation seeks to protect the consumer by establishing a regulatory body to oversee gas prices and conditions of supply. The new company will be obliged to supply consumers with gas, and safety provisions will include a requirement that emergency services be maintained.

After the denationalization, the opportunities for greater competition opened up by the Oil and Gas (Enterprise) Act will be maintained and kept under review. The government wants competitors to be able to supply large industrial customers as well as smaller commercial and household consumers in areas not already serviced by British Gas.

The new company will be able to develop other areas of its business in a competitive environment. Observers expect that the gas company will become increasingly involved in oil exploration and production. British Gas has been barred from those areas.

Special opportunities to purchase shares are to be given to gas consumers and smaller investors, in line with the government's policy of wider share ownership. The government will retain a "golden share" that will enable it to block any hostile takeover attempt. The legislation will probably be introduced in the fall session of Parliament, and shares are likely to be offered in the second half of 1986. The privatization is expected to raise about £9 billion.

U.K. Tax Break Extended for Onshore Oil Exploration

The U.K. government has extended until April 1, 1986, the relief granted from the petroleum revenue tax for onshore exploration and appraisal. This represents an about-face from the March 19 Budget statement, when it was announced that the tax relief would be abolished immediately.

The government's concession follows complaints by a number of companies that had entered into various onshore commitments under the assumption that the tax break would be continued. John Moore, financial secretary to the treasurer, said that the original decision was correct in principle because the tax break distorts the position of companies and involves the Exchequer in providing an unnecessary subsidy. However, he said, it became clear that withdrawing the relief on March 19 would have created difficulties for corporations.

Austria: Banking Law Reform Would Boost Bank Profits

Austrian Finance Minister Franz Vranitzky has proposed a reform of the banking law *(Kreditwesengesetz)* to supplement the current voluntary limits on lending and savings rates. The proposed change, which is meant to improve the banks' capital ratios and thus their international standing, would compel financial institutions to maintain a capital base equal to 4% of their consolidated balance sheets. Vranitzky, who headed the Österreichische Landesbank before becoming finance minister in September, also hopes to get the banks to concentrate on profits rather than growth. The proposed legislation will be presented to Parliament this summer and would take effect in mid-1986.

Since the liberalization of the then highly restricted banking system in 1979, banks have become more concerned with increasing their market shares than with maintaining profits. The ratio of equity to lending has fallen to 2.2%, one of the lowest rates among the OECD countries. Several financial institutions have failed while trying to keep up with the pace of the larger banks. Adding to the problem is the interest yield tax *(Zinsertragsteuer)* on savings deposits and bonds. Although the tax has been reduced from 7.5% to 5%, savings are still much lower than previously. These factors, along with pressure from Vranitzky and the central bank, caused the banks to voluntarily place minimum limits on lending rates and ceilings on savings rates in February.

Portugal: New Foreign Banks; Industrial Production

The Portuguese government has given three foreign banks and a foreign life insurance company permission to begin full operations in Portugal. In line with the government's measures for opening certain state sectors to private competition, authorization was given Britain's Barclays Bank PLC, France's Banque Nationale de Paris, and the U.S.'s Citicorp and American Life Insurance Co. Also authorized was a new private domestic bank, Banco Comercial Portugues.

Early last year, Portugal cleared the way for the reestablishment of a private banking sector. At that time, about 20 foreign banks had representative offices in the country. Three foreign banks were already fully operational; they had not been affected by the bank nationalizations in 1975. In March Banco Portugues de Investimentos became the first private bank to open since the 1974 revolution.

In other news, only 12% of Portuguese industrial companies are utilizing more than 90% of their production capacities, according to a recent survey by the Portuguese Industrial Federation. Of 900 companies surveyed, about 39% reported a significant under-utilization of existing capacities. Approximately 36% of the companies expect to make investments in the near future, mainly to improve production facilities.

Spain: Economic Package Eases Foreign Investment Curbs

The Spanish government has passed decree measures for the stimulation of private consumption, employment, and investment that partially exceed the announcements made last month by Economics and Finance Minister Miguel Boyer. Under the new rules of the 107-billion-peseta program, which anticipates Spain's accession to the European Communities as well as the general elections next year, the existing upper limits on foreign investments will be waived, regardless of the country of origin. Only investments in certain sectors will remain subject to special approval - for instance, refineries, pharmaceuticals, broadcasting, and areas of "strategic importance."

Other measures approved by the cabinet include income tax reductions, lower social security contributions, and hiring incentives. Depreciation limits for businesses engaged in new investment projects will be lifted; the establishment of companies will be eased; and commercial opening and closing hours will be liberalized.

The Socialist government is battling to achieve its economic growth target of 3% in 1985, compared with last year's 2.5%. Export growth this year is down to 4.5%, from a record 20% in 1984, and Madrid felt it had to boost domestic demand. However, Prime Minister Felipe Gonzalez claims that the government is not about to abandon its tight monetary policy, which had been successful in containing inflation to a rate of 9% last year, from 14.5% in 1982, when the Socialists took over.

In other news, the government has indicated its acceptance of Cocom controls on high technology re-exports within East-West trade. Earlier, Washington had blocked several investment projects by U.S. companies in Spain (among them, AT&T and Hewlett-Packard) because of Madrid's reluctance to bow to such controls. The agreement coincided with President Ronald Reagan's visit to Madrid.

Switzerland: Extradition Talks With U.S. Stalled

Swiss and U.S. justice officials met in early May in Bern to discuss the broadening of the current extradition treaty between the two countries. However, the delegations were unable to reach a consensus, beyond agreeing that the present treaty, which dates from the year 1900, is insufficient for effectively combating international crime.

Washington wants to extend the treaty to cover fiscal violations, among others. The Swiss government opposes such an extension, pointing to its Federal Law on International Legal Aid in Criminal Matters, which precludes extradition where an individual is accused of fiscal offenses or of violating currency or economic policy regulations. In its present form, the U.S.-Swiss extradition treaty excludes political crimes, foreign exchange violations, and tax offenses.

The delegations agreed to present their positions in writing and to continue negotiations at a later, as yet unspecified, date.

EURO COMPANY SCENE

Tenneco, Inc., has reached an agreement with the French government concerning its takeover of International Harvester Co.'s ailing French farm equipment unit. Tenneco will assume control of and invest FF 600 million in two of the three Harvester plants in France. The French government's concessions include a FF 40 million subsidy, loans of about FF 130 million, and the conversion or cancellation of some of the unit's debt.

As part of a cost-cutting program, Caterpillar Tractor is making a major production shift to Europe. The first Caterpillar plant for backhoe loaders will be based in Leicester, England, and BF 4-4.5 billion will be invested in the Gosselies, Belgium, plant. Output will be increased at the tractor and loader plant in Grenoble, France, and the foundry in Vernon, France, and production of bulldozers will be raised at Glasgow, Scotland.

Citicorp is working on an agreement for the purchase of Banco di Roma's 74% share in Banca Centro Sud for a reported price of about $120 million. Banca Centro Sud is part of Istituto per la Ricostruzione Industriale, the Italian state industrial group that also owns Banco di Roma. IRI is currently selling off its "non-essential" assets.

Common Market Reports

EUROMARKET NEWS

Issue No. 854 *May 31, 1985*

IN THIS ISSUE

Community: Partial Agreement on Farm Produce Prices

The Council of Ministers has reached agreement on prices of all agricultural commodities except cereals for the 1985-86 marketing year. Germany blocked agreement on cereal prices because it viewed as unacceptable even the latest compromise formula providing for grain price cuts of 1.9%. (The European Commission had originally proposed a 3.6% reduction.)

The agreed prices for most agricultural commodities differ substantially from those proposed by the Commission in order to curb surplus production. The Community's farm price support system was about to go bankrupt last year due to overproduction. Since milk production quotas and the "superlevy" proved insufficient to curb milk output, the Commission proposed cutting the butter price by 4%. The Council agreed on a 2% reduction and, despite the current oversupply of milk, settled for a 1.5% rise in the milk price. For fruits and vegetables, the Commission had asked for cuts of 6%, but the Council said 3% is enough. The Commission maintains that the Council's decisions on the various farm produce items will not entail an additional burden for the EC budget, but most experts challenge this view.

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This year's farm price debate has been dominated by the fact that, for the first time, Germany has opposed the other States on this issue, although Bonn, by far the main contributor to the EC budget, has been advocating a reform of the runaway common agricultural policy. A first step toward reforming CAP was made in March 1984 with the imposition of milk production quotas *(Common Market Reports, Par. 10,581)*. The German government wholeheartedly backed this measure and agreed to a gradual phase-out of monetary compensatory amounts. (The MCAs are a system of border taxes and subsidies that protect German farmers from low-priced imports and help them sell abroad at competitive prices.)

German farmers heavily criticized the milk production quota system, which was one reason their incomes fell by 18% in 1982-84. In 1984-85 their incomes rose by less than 10%. About 200,000 farmers who have traditionally voted Christian Democratic showed their deep dissatisfaction by staying away from the polls in the May 12 state election in North Rhine-Westphalia and thus contributed to the Social Democrats' landslide victory. In the EC's farm price talks, the German government thus showed little willingness to compromise.

French Car 'Supertax' Held Illegal by EC Court

The European Court of Justice has held illegal the French law that subjects owners of large foreign-made cars to an exceptionally high rate of vehicle registration tax. The EC tribunal said that the tax, commonly referred to as the *super vignette* (supertax), is protectionistic and discriminatory. The law is incompatible with the Treaty of Rome on several counts, the Court ruled (judgment of May 9, 1985, Case No. 112/84).

Under a French law enacted 25 years ago, owners of small and medium-size cars, whether French-made or foreign, pay the same vehicle tax. Owners of cars with engines of at least three-liter displacement are required to pay up to five times as much. Since France's two car makers produce models with engines of no more than 2,500 cc displacement, the tax is, in effect, imposed only on owners of large imported cars. This tax may come to FF 9,000 a year for cars with five-liter engines.

A French owner of a Mercedes-Benz challenged the assessment notice in court. The French court, which doubted whether the discriminatory provision is compatible with the Treaty of Rome, suspended proceedings and asked the EC tribunal for its interpretation of various Treaty articles.

The provision imposing the high tax rate violates Treaty Article 95, among others, according to the Court of Justice. That article bars a Member State from levying on products from other States charges that by their very nature indirectly protect the State's own products *(Common Market Reports, Par. 3,001)*.

As a result of the EC Court's decision, France must stop collecting the high rate of tax. The French government has been pressured since last December to stop the practice. The Commission threatened to take France to court because it saw in the excessive tax not only discrimination against large foreign-made cars but also strong support of Paris' "Buy French" campaign.

In Brief...

Belgium, France, Germany, Luxembourg, and the Netherlands have reached a consensus on an agreement that will considerably ease the movement of people and goods across their common borders. The Commission-proposed agreement will allow cars and passengers to cross borders freely if the cars display an "E" sticker indicating that the occupants are EC nationals complying with customs and immigration rules. Trucks displaying a similar sticker will be subject only to spot checks. The signing of the accord is expected soon so that the agreement can take effect on June 15 + + + The flood of applications from all Member States for Community funds to support national job creation and training efforts has forced the Commission to reexamine its guidelines for distributing aid from the Social Fund. The Commission has some ECU 2 billion at its disposal for the program, but the volume of aid requests for qualifying projects has exceeded ECU 5 billion. The new guidelines, which will take effect as of 1986, will tighten the criteria for depressed regions eligible for assistance so that only those suffering the most will qualify. They will also contain tightened qualitative rules on projects such as job recruitment and training programs.

Germany: Unions, Employers Debate Employment Ideas

German union leaders and officers of the employers' associations have closed ranks on one of several issues in the current debate about changing the rules governing the collective bargaining process to reduce unemployment. They have vehemently rejected the suggestion that employers be allowed to pay newly hired, formerly unemployed persons below union scale. This proposal was made by the manager of the Free Democrats' national party organization.

Union leaders and employers' association officers say that below-scale wages might be helpful in an individual case but would rock the legal foundation that supports not only the powers of the collective bargaining parties but also the relatively peaceful labor climate. Wages and other working conditions are set forth in collective bargaining agreements between employers' associations and the union. These agreements usually cover an entire industry in a state or region and apply to both union and nonunion workers. Individual employers may pay wages above, but not below, those negotiated in union contracts *(Doing Business in Europe, Par. 23,425)*. The unions and employers concur that paying below scale could backfire. An employee who is paid less could become a cause for conflicts on the job as union activists start working against that practice.

The two sides disagree on a suggestion by another prominent Free Democrat, former economics minister Otto Lambsdorff. He has recommended that union contracts include clauses allowing small and medium-size businesses to negotiate with works councils wages that would be commensurate with each employer's economic standing. Lambsdorff says that a small shop fighting for survival should not have to pay the same wages that successful large companies can easily pay.

Acceptance of Lambsdorff's suggestion would weaken the leverage that the unions have at the bargaining table and the prestige that union leaders enjoy among the rank and file. Nonetheless, the idea has started discussions about how to reduce unemployment (2.3 million at the end of April).

Britain: Current Cost Accounting to Be Voluntary

After its decision in March not to proceed with Exposure Draft 35, the U.K. Accounting Standards Committee has decided to change the mandatory status of current cost accounting standard SSAP 16, which ED 35 was to replace. The ASC has recommended to the six principal accounting bodies for which it regulates standards that compliance with SSAP 16 no longer be compulsory.

ASC Chairman Peter Godfrey noted that SSAP 16 is not being abolished. The committee does not want to "create a complete and utter void" in inflation accounting. However, the committee recognizes that companies have become reluctant to comply with the standard's provisions. Currently, more than 70% of U.K. corporations listed on the stock exchange fail to satisfy SSAP 16. Part of the difficulty is that company directors have been unwilling to produce annual reports under an accounting convention that results in lower figures. Another factor has been the sharp decline in the inflation rate, to about 6.9%. The Inland Revenue has also refused to accept current cost profits as the basis for corporate taxation.

Godfrey was not optimistic about the possibility of reaching a quick agreement on a new or revised standard.

France: Mortgages; Interest Rates; Foreign Securities

In an effort to bring mortgage rates down and help the stagnant construction industry, the French government has announced plans to establish a market for mortgage-backed securities. The Economics Ministry said a state-supported financial agency, similar to the U.S. Federal National Mortgage Association, would be created for this purpose. The agency would function as a refinancing institution that would issue bonds with maturities of 15 to 20 years, corresponding to the life of the average mortgage. It is estimated that the agency would issue bonds having a total value ranging from FF 10 billion to FF 30 billion in its first year.

The French housing and construction sectors have been handicapped by the fact that the mortgage market has been relying heavily on short-term money, which has meant high margins charged by the banks to protect themselves against interest-rate fluctuations. Under the new system, mortgage rates are expected to drop anywhere from one-half to two percentage points, from a current level of 16-16.5%.

Meanwhile, interest rates generally have shown a downward trend in France, the central bank having reduced its money-market intervention rate by another 1/8th of a point on May 14, to 10 1/8%. Three weeks earlier, the bank had lowered the rate by 1/4th of a point. Financial observers said that the gradual reductions follow pressures by Economics and Finance Minister Pierre Bêrégovoy, who reportedly wants the commercial banks to drop their base lending rate from 11.5%. The climate for such a reduction is favorable, Bêrégovoy says, because of the relative strength of the French franc within the European Monetary System and the progress Paris has achieved against inflation (6.4% in March, with a target of 5.2% for 1985 as a whole).

In other news, Bêrégovoy has indicated that the government may eliminate the exchange rate premium levied on foreign securities transactions, though not immediately. Addressing a business meeting, the economics minister explained that, with the franc's recent strengthening, the difference between the premium for dollar transactions and the dollar's actual rate has shrunken considerably.

Italy: Local Elections Strengthen Governing Coalition

The five-party coalition government of Italian Prime Minister Bettino Craxi emerged strengthened from the nationwide local elections held on May 12-13. The coalition parties - Christian Democrats, Socialists, Republicans, Social Democrats, and Liberals - received a total of 58.2% of the votes, up from 53% in last year's European Parliament elections. The Christian Democrats reversed their slide in popularity of the last two years to pull in 35.1% of the votes, compared with 33% in the EP elections and 32.6% in the 1983 parliamentary contest. The opposition Communists, who made the best showing of all parties in the EP elections (34.4%), dropped to second place, with 30.2%. Analysts believe that the Communists' strong finish in the EP voting can be traced mainly to the death of their popular party leader, Enrico Berlinguer, just before the election.

In voting for the coalition parties, the voters appear to have cast their ballots in favor of political stability. The administration is already the fourth longest-lived government of the 43 during the post-war period. The advancement of Craxi's Socialist Party to 13.3% (11.3% in 1984) will probably mean its withdrawal from many local alliances with the Communists in favor of coalition alliances. The coalition still faces a test of its cohesiveness, however, in next month's parliamentary balloting to replace Socialist President Sandro Pertini. The Christian Democrats will probably demand the presidency in return for their support of Craxi.

Sweden: Compromise Ends Civil Servants' Strike

Swedish civil servants returned to work on May 20 after an 18-day strike, although both employers and unions warned that the settlement could prompt similar demands for pay increases from other white-collar sectors. The TCO-S union agreed to a 2% pay raise, effective on Dec. 1, in addition to its regular 1985 increase. Employer-union negotiations had broken off earlier, and the compromise was achieved only after unofficial intervention by Prime Minister Olof Palme. The selective strike by some 20,000 union members had halted Swedish air traffic and closed most customs offices. The employers retaliated with a lockout of about 50,000 public employees, including 20,000 teachers.

The union originally demanded a 3.1% pay increase to bring the pay of its members in line with that of the private sector. The Social Democratic government had wanted to hold pay increases to a total of 5% this year in order to meet its inflation target of 3%. However, the two-year agreement signed with the TCO-S in 1984 included a clause allowing for renegotiation in the event that private-sector employees won better terms. Opposition leaders have criticized the government for permitting this clause.

Talks on the next TCO-S contract are set to begin this fall. Also scheduled for September are the next national elections, which is one reason the government agreed to a compromise ending the strike.

Swedish Banks Curb Credit to Slow Consumption

In an effort to stem rapidly rising private consumption, the Swedish central bank has raised the discount rate, and the government has proposed a supporting package of monetary measures. On May 13, the Riksbank increased its discount rate from 9.5% to 11.5% and, after lifting limits on interest rates, encouraged banks to raise their rates. The banks responded with increases of three to four percentage points. After admonishments from the central bank and Finance Minister Kjell-Olof Feldt, the commercial banks reduced the rate increases by one percentage point in two steps. The Riksbank also raised its "penalty rate" on bank borrowing above a certain level from 13.5% to 16%.

In support of the central bank move, Feldt has proposed legislation to restrict credit. To counteract soaring purchases of durable goods, he recommends that 50% down payments be required for automobile sales, with the other 50% payable within 12 months. The sales tax on cars would be almost doubled. A 30% down payment would be required for other credit purchases, which would also have a one-year payment period. In the corporate sector, total payments by Swedish industry into blocked accounts at the Riksbank would be raised from SKr 4 billion to SKr 6 billion.

Many analysts believe stricter proposals are needed from the government. With parliamentary elections just four months away, however, further unpopular economic moves are unlikely. Most experts agree that the latest measures will make it impossible for the government to realize its 1985 goal of 3% inflation. Although a price freeze slowed increases during April, the annual inflation rate is still 7.9%.

Rising private consumption has been the major factor behind the deterioration of the Swedish current account balance. At the end of the first quarter, the deficit stood at SKr 6.1 billion, compared with a SKr 3.3 billion surplus for the same period in 1984. The worsening trade deficit, together with the recently ended nationwide civil servants' strike, has caused a weakening of the krona and an outflow of capital.

Switzerland: Ruling Against Illegal Real Estate Co.

The appellate court of the Swiss canton of Obwalden has upheld a ruling of a lower court to the effect that a company established for illegal purposes has no legal existence and that its liquidation assets fall to the public. Observers said that the ruling sets a precedent in cases where foreigners circumvent the Swiss ban on the acquisition of real property by aliens.

The case at issue involves a German building contractor from Munich who, with the help of local frontmen, set up two real property investment companies to finance housing and tourism projects in the town of Giswil/Obwalden. With the knowledge and support of local authorities, one of the companies purchased 60,000 square meters of development land. However, the proposed projects were never realized because the cantonal and federal governments learned that the transaction circumvented the regulations against the purchase of Swiss real estate by aliens.

In March 1981, a federal court invalidated the purchase. Subsequently, the Obwalden cantonal government asked a local court for a ruling that the two companies had no legal existence from the very beginning and that their assets should be expropriated and transferred to the community of Giswil. The value of the properties has been estimated at SF 5 million.

The defendant has 30 days within which to appeal the latest decision to the Swiss Supreme Court in Lausanne. His counsel argues that the confiscation of the assets violates international law, and he demands the restitution of the purchase price.

Yugoslavia: Belgrade Moves to Slow Runaway Inflation

Confronted with an inflation rate of 26.9% for the first four months of the year, the Yugoslav government has announced a number of measures to slow down price expansion. Among other things, it has ordered enterprises in 18 industrial sectors to trim prices on many of their products to the level that prevailed in February. Affected will be items whose prices have risen by more than 20% this year and that are produced by manufacturers showing above-average earnings. Companies in another 17 sectors are being asked to "reconsider" prices that have risen by more than 50% so far this year. However, the profitability of these businesses is below par.

To augment these measures, Belgrade is prevailing on the governments of the country's eight republics and provinces to cut back the cost of municipal services as well as rents and public levies. Public authorities are urged to lower the number of their civil servants by 8% in 1985.

Yugoslavia's negative export balance has reduced the country's currency reserves to $536 million in April. The central bank governor commented recently that the reserves have now reached such a low level that normal trade transactions with foreign partners "are being called into question." Yugoslavia reported a payments surplus of $865 million for 1984, but only because of a rescheduling of its foreign debt of nearly $3 billion. Last month the International Monetary Fund approved another stand-by credit arrangement of some $300 million for 1985-86.

EURO COMPANY SCENE

Mobil Chemical Corp., a unit of Mobil Corp., plans to expand its capacity in Europe for making polypropylene film, which is replacing cellophane for packaging consumer goods. Capacity at the Virton, Belgium, plant will be enlarged by 15.5 million pounds per year to 67.5 million pounds.

Ford of Europe plans by 1990 to reduce by 25% the staff at its research and development centers in Dunton, England, and Merkenich, Germany, which employ 2,500 and 2,000, respectively. The reductions are to be achieved through attrition. Ford said the cuts are necessary if the centers are to remain in operation.

Kaiser Aluminium Europe, a subsidiary of Kaiser Aluminum & Chemical Corp., Oakland, Calif., has taken over Bug-Alutechnik of Ravensburg, Germany. Bug, which produces aluminum sections for use in housing construction, was formed in April 1984 from the remaining parts of the failed Uhl-Gruppe.

Blount Energy Resource Corp. of the U.S. has acquired W&E Umwelttechnik AG of Zurich from the Alusuisse group. W&E is a supplier of environmental systems, including municipal waste incineration plants.

Common Market Reports

EUROMARKET NEWS

Issue No. 855 *Report No. 528, June 7, 1985*

IN THIS ISSUE

Community: Ruling Against Council in Transport Case

In a landmark judgment, the European Court of Justice has found the Council of Ministers guilty of violating the Treaty of Rome by failing to provide for free movement of transport services in the EC. This was the first time that the European Parliament had brought suit against another Community institution under Article 175, which allows the Member States and Community institutions to sue the Council or the European Commission for inaction *(Common Market Reports, Pars. 4645, 4646)*. In upholding the complaint, which was supported by the Commission, the Court has extended the EP's ability to influence legislation.

The EP charged the Council with neglecting its duties by failing to pass 14 pending measures prior to the Dec. 31, 1969, end of the transitional period. The Court ruled that the Council violated the Treaty by neglecting to ensure that out-of-State carriers may provide transport services within a Member State's territory. However, the Court did not agree with Parliament's contention that the Council is at fault for failing to agree on

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a common transport policy. The ministers are free to set their own objectives in that area, the Court said.

Although victory was mainly on the side of the EP, it is doubtful that the decision will result in faster Council progress toward liberalization of transport services. Following the judgment, Italy proposed a transport "master plan"; however, the ministers have been unable to agree on the plan, which does not include a timetable.

The transport ministers also remain bogged down on the issue of truck drivers' working and rest hours. The Commission has threatened to withdraw its proposal if the Council changes it substantially. If the threat is carried out, it will be the first time the Commission has withdrawn one of its proposals to the Council.

Finance Ministers Closer to 1985 Budget Agreement

In the second round this year of their talks on the EC's 1985 budget, the finance ministers of the Ten have come closer to the demands of the European Parliament, so that formal approval of the budget of nearly ECU 28 billion appears likely in June. The Council fixed the allocation for the financing of the Integrated Mediterranean Program at ECU 120 million, up from the ECU 70 million originally proposed but less than the ECU 140 million demanded by the EP. The Council also compromised on the food assistance program, allocating about ECU 490 million, which is not too far away from the ECU 507 million requested by Parliament and ECU 533 million requested by the Commission.

Earlier, the budget discussions had cleared a major hurdle when the European Parliament dropped most of its reservations against the financing of Britain's budget contribution rebate of ECU 1 billion by way of that country's value-added tax revenue payments.

In Brief...

"Profoundly disappointed" by the failure of seven Member States to disclose information about the operation of their national airlines, Transport Commissioner Stanley Clinton Davis said the Commission plans to take these States before the Court of Justice. The move would be part of the Commission's efforts to improve the competitive climate in the European air transport sector. Brussels also wants the States to meet for discussion of a common civil aviation policy for the European Civil Aviation Conference (ECAC) + + + The Court of Justice has annulled anti-dumping duties imposed by the EEC in January 1983 on imports of U.S. urea nitrate and ammonium nitrate-based fertilizers. The American producers, Kaiser Aluminum & Chemical Co., Allied Corp., and Transcontinental Fertilizer Co., had challenged the valuation of their goods and denied that their sales were prejudicial to

EEC producers. The companies won cost awards from the Court + + + Industry Commissioner Karl-Heinz Narjes has indicated that the Commission will seek to extend the system of steel industry controls due to expire at the end of 1985. The extension would, in effect, constitute a transitional period between the current steel curbs (production quotas, price limits) and a return to free market conditions. However, Narjes insists that all steel subsidies must be ended by the end of the year. The Commissioner's remarks came at the start of negotiations among the Member States and with the EC Executive on the future regulation of the European steel sector; the talks are expected to reach a conclusive stage in late fall.

France: Investment Promotion Move Urged; Trade Deficit

A spokesman for the French CNPF employers' federation ("Patronat") has appealed to the Socialist government to come forward with tax incentives to stimulate stagnating domestic investment activity. Guy Brana, CNPF vice-president, pointed out that investments outside the financial sector had declined in 1984 for the fourth consecutive year, by 2.9% in real terms, for an accumulated total of 10.4%. Without housing construction, the figure would still be 9.8%, and without such "non-competitive" state enterprises as Electricité de France and the SNCF railroads, 8%. The latest prognosis by INSEE, the state statistical agency, anticipates another small decline (-0.5%) for 1985, which Brana said is another reason for the government not to wait any longer with constructive remedies.

The CNPF official said that the 10.2% dropoff in gross capital formation by businesses in 1984 (after 8.9% in '83) corresponds to about FF 20 billion in lost earnings. The government should offer compensation in this amount via durable fiscal incentives comparable to those extended by other major trading countries. Brana suggested that some of the financing could be obtained by reducing direct financial support to individual companies. A package of tax incentives valued at FF 20 billion would be likely to trigger investments of at least FF 30 billion, according to Brana.

The Patronat concedes that such fiscal measures could add another FF 15 billion to the prevailing foreign trade deficit. In April the French trade balance showed a seasonally adjusted shortfall of FF 4.2 billion, for an accumulated four-month deficit of FF 15.2 billion. Under these circumstances, it is generally felt that the government has no chance of realizing its announced target of a 1985 trade surplus of FF 1.5 billion. (INSEE predicts a deficit of FF 25 billion, and the IPECODE economic research institute, which is affiliated with the Patronat, predicts one of FF 14 billion.) Prime Minister Laurent Fabius himself has expressed doubts about reaching the surplus goal. The government names external factors as the chief cause of the negative development, foremost among them the higher cost of energy imports because of the strong dollar.

Germany: Lower House Passes DM 20 Billion Tax Relief Bill

The lower house of the German parliament has passed a government-sponsored tax reform program that would provide fiscal relief of nearly DM 20 billion in two stages, effective 1986 and 1988 *(Doing Business in Europe, Par. 40,615)*. The opposition Social Democrats and the Greens voted against the bill in the May 24 balloting, arguing that the legislation tends to favor higher-income taxpayers at the expense of others. The upper house will vote on the measure on June 14.

The liberal Free Democrats and the Bavarian CSU sister party of the ruling Christian Democrats, both members of the governing coalition, had previously urged that the tax reductions be legislated in a single stage, so as to give greater impetus to the economy and employment. However, they voted with the Christian Democrats when Finance Minister Gerhard Stoltenberg showed no signs of budging from his position that the two-stage approach is necessary in order not to upset the government's budget consolidation policy. "Whoever demands a tax cut of nearly DM 20 billion in a single step," Stoltenberg told Parliament, "would accept a drastic increase in new borrowing in 1986 and 1987. The unavoidable consequences would be rising interest rates and a massive endangering of the price stability achieved so far."

In this connection, Stoltenberg announced that his draft budget for 1986, to be presented in late June, would continue the financial austerity policy of the Kohl administration, though with more attention to efforts to aid investment and employment. In the recent state elections in North Rhine-Westphalia, the Christian Democrats suffered a stinging defeat, not least because many voters felt that Bonn has done little to combat unemployment, now at 2.47 million. Partly with these political considerations in mind, the Free Democrats and the CSU indicated that they will again campaign for tax cuts in a single step should there be insufficient progress in fighting unemployment in the coming months.

Under the newly passed tax relief legislation, the treasury would lose about 8% of its present revenue from income tax. As part of the first phase, effective next year, the tax reductions would benefit mainly households with children as well as earners of low and medium incomes, for a total relief of about DM 11 billion. For instance, tax-free family allowances would be raised from DM 432 to DM 2,484 per child. Also, the basic tax-free allowance would be increased by DM 324 to DM 4,536 for single persons and by DM 648 to DM 9,072 for married couples.

Italy: Wage Indexation Referendum More Likely

The likelihood of the Italian referendum on wage indexation being held as scheduled on June 9 increased last week when union-employer efforts to forge a compromise broke down. The referendum was sponsored by the Communist Party, which wants to restore to the *scala mobile* index a four-point reduction decreed by the government in the spring of 1984 to combat soaring labor costs and inflation. If the Communist proposal is passed, Italian employers would have to raise monthly pay by 27,200 lire across the board, and wage indexation would have to be restored to the same level that has proved so damaging to price development in the past. The Communists had collected enough signatures to force the holding of the referendum, through which they hoped to reverse "an unjustified intervention in the bargaining autonomy of the social partners."

The referendum is strenuously opposed by the government, the employers, and the non-Communist unions, and all three have been conducting intensive talks with each other and with the Communists in efforts to make the voting unnecessary. Prime Minister Bettino Craxi, a Socialist, even went on TV to discourage the voters from going to the polls: the Italian constitution provides that a referendum is valid only when more than 50% of the eligible voters participate.

In the last few weeks, it has become apparent that even the Communists are starting to have second thoughts about the advisability of the referendum. Their political position has been decidedly weakened as a result of their defeat in the recent regional elections, and they are concerned about the threat of a serious split in the Italian labor movement over the wage indexation issue. Apparently for this reason, Luciano Lama, leader of the Communist-controlled CGIL, the country's largest single labor federation, made a compromise offer just one day before the opening of the annual meeting of the national industrial federation, Confindustria. Under this compromise, low-paid workers would be given more protection against inflation, while others would have to make greater sacrifices.

The Confindustria chairman, Luigi Lucchini, did not refer to Lama's offer in his keynote address to the delegates, but he reiterated that last fall his organization had made its own proposals on a proposed reform of the wage indexation. Lucchini threatened again that in the absence of a voluntary agreement or a satisfactory referendum outcome the employers would give notice to end the payment of *scala mobile* increases altogether.

Britain: Government Reacts to Insolvency Bill Changes

The U.K. government will accept only some of the changes in the new Insolvency Bill proposed by the House of Lords, according to Alex Fletcher, minister for corporate and consumer affairs. Most significantly, Fletcher said that no attempt will be made to revive the principle of automatic disqualification for directors of companies that undergo compulsory winding up. The government's original view had been that a director who allowed his company to deteriorate to the point of compulsory liquidation had already "gone most of the way" toward demonstrating his unfitness for corporate management. The government recognizes that automatic disqualification might have occasionally affected those who had conducted themselves properly.

The new bill requires the official receiver or voluntary liquidator to report to the secretary of state any evidence that a director may be unfit for future corporate management. An application may then be made to the courts for his disqualification. The revised provision will apply to directors involved in voluntary as well as compulsory liquidation. Fletcher said the bill will also maintain the government's determination that "strict policing" of corporate insolvency must take place to ensure the protection of creditors.

The government is not prepared to accept the proposed reduction, from 12 to six months, in the preference period for value-added tax during a liquidation. The original one-year period will be reintroduced. Fletcher said that the bill will also include his earlier proposal that the principal utilities be prohibited from obtaining favorable treatment by threatening to discontinue supplies.

Ireland: OECD Survey Emphasizes Bleak Jobs Situation

Swift action is necessary to bring down the Irish public-sector debt, which is the highest among the OECD countries, according to the latest OECD economic survey. The debt currently stands at 128% of GNP and is not expected to stabilize before 1987. The OECD also advises a "substantial reduction" in the exchequer's borrowing requirement to levels more in line with the country's savings capacity to allow for sustained reductions in interest rates. Tight restraint on employment and pay in the public sector must be continued, and the current budget deficit must be brought down below Dublin's current target of 5% by 1987, according to the OECD. The Paris-based organization notes that greater emphasis must be placed on business development and a reorientation of industrial policy toward improving links with foreign-owned high-technology sectors.

Among the positive and encouraging developments in the Irish economy, the OECD survey mentions the fact that GNP grew in 1984 by about 2%, after two years of decline. The rise in unemployment slowed, the rate of inflation came down further, and there was a small reduction in the current account deficit. However, a substantial, though declining, deficit will persist, and unemployment is likely to remain very high.

"The unemployment situation in Ireland is particularly bleak," the report stresses, and at the end of 1984 over 17% of the labor force was without work (40% of these for over a year), with one-third of the jobless being under the age of 25. The relatively young population - one of the youngest in the OECD area - means a rapid growth of 1.5-2% annually in the labor force. The prospects of even stabilizing the unemployment rate are poor, given the decline in public-sector jobs as public expenditures are curtailed.

The survey highlights the emergence in recent years of a dualism in the Irish manufacturing sector. Manufacturing production is estimated to have risen by 13.3% in 1984, compared with 7.5% in 1983. However, this was due largely to foreign subsidiaries operating in Ireland, while domestic businesses continued to cope with weak domestic demand, poor competitiveness, and limited ties to new industries. The foreign subsidiaries were primarily responsible for the 19% volume increase and 30% value increase in industrial exports in 1984, and their net output now amounts to 20% of GNP.

Over 90% of U.S. multinational production in Ireland is exported (the United States being the source of 70-80% of new foreign investment), and a similarly high percentage applies to Japanese production. Multinationals now provide 80% of non-food manufactured exports. Profit repatriations by foreign companies operating in Ireland are estimated to have reached £900 million (Irish) in 1984. This, the OECD points out, has led to an upward revision in Ireland's current payments balance deficit to 6.5% of GNP.

Denmark: Foreign Exchange Restrictions Eased Again

The Danish government has again relaxed its foreign exchange regulations in the third such move since the Schlüter administration came to power. The most significant change reduced from five years to one year the minimum term for loans taken abroad by Danish corporations. Domestic companies can also now extend loans of up to DKr 2 million (previously DKr 500,000) to their foreign subsidiaries without notifying the central bank. The maximum amount that Danes can transfer abroad in a single transaction has been raised from DKr 25,000 to DKr 40,000, and Danish citizens are now able to purchase unregistered foreign securities. The longest time that Danish foreign currency deposits may be held has been increased from one to three months. The limit on foreign investments by Danes and Danish investments by foreigners has been doubled, from DKr 5 million to DKr 10 million.

The center-right government first eased the foreign exchange controls in 1983, when it agreed to allow foreigners to buy Danish state bonds. Last year Danes were authorized to purchase registered foreign securities. Bankers say the latest measures, which took effect on June 1, will be of greatest benefit to small and medium-size Danish companies that cannot afford long-term foreign exchange risks. Domestic interest rates are expected to drop as borrowers take advantage of lower foreign rates, especially in Germany.

Norway: Foreigners to Own Larger Industrial Stakes

The Conservative government in Norway plans to make it easier for foreigners to hold larger shares in domestic companies - up to one-third of voting shares and no limit on non-voting shares. The proposed alterations in legislation were put forward by the Ministry of Industry, and it is anticipated that they will be adopted by Parliament in 1986 should the Conservatives remain in power after the elections in September. The change in law would permit more foreign capital to flow into Norway and would benefit mainly companies seeking risk capital from abroad.

Industry Ministry officials said that the most important aspect of the proposed bill is the provision making a distinction between shares with and without voting rights. Under present legislation, special permission is required when a foreign investor wants to raise his equity in an industrial or commercial company beyond 20%. (Exceptions are banks, where the limit is lower, and shipping companies, where foreign ownership can be as high as 40%.) Under the new provision, official authorization would be necessary only in cases where foreign ownership would exceed 33%.

The foreign equity in the share capital of all companies quoted on the Oslo stock exchange (NKr 50.8 billion) is about 13%. Thus, with few exceptions, the presently permissible quota for foreigners is practically taken up because some of the quoted companies are under state or family control and not open to foreign participations.

EURO COMPANY SCENE

Chevron Corp. has abandoned its agreement to sell its Italian refining and marketing operations to First Arabian Corp. Chevron said the Luxembourg-based banking and investment company failed to meet certain conditions within the agreed-upon time limit. The U.S. company will now seek another buyer as part of its plan to sell off its European refining and marketing operations.

Arrow Electronics, Inc., of the U.S. is purchasing a 40% share in Spörle Elektronik of Germany for $24 million. Arrow has an option on the remaining majority stake of Carlo Giersch, Spörle's sole stockholder.

Common Market Reports

EUROMARKET NEWS

Issue No. 856 *June 13, 1985*

IN THIS ISSUE

Community: Progress on Products Liability Proposal

The Council of Ministers has made considerable progress in finding solutions to important issues involving the products liability proposal, and thus a consensus on the measure might be reached before the summer recess. The draft directive would harmonize national rules on the principle of manufacturers' strict liability *(Common Market Reports, Pars. 9891, 10,167, 10,464, 10,549, 10,554, 10,682)*.

All the Member States concur with the basic principle - namely, that the manufacturer would be responsible for injury caused by a defective product. Liability would be limited as to both the amount and the period of time. While the European Commission's amended draft directive provided for a liability maximum of 25 million European Currency Units (ECU), the Council raised the amount to ECU 70 million to cover a manufacturer's total liability for all personal injuries caused by identical products having the same defect. However, a Member State could pass legislation establishing manufacturers' liability without any ceiling on the total amount. French law already provides for such unlimited liability.

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One issue that still has not been resolved concerns the so-called development risk. In its proposal, the Commission wanted to make the manufacturer liable also for damage in cases where an injurious defect was not apparent because the product reflected the latest state of the art but where subsequent scientific and technical knowledge revealed the product to be harmful. Including this development risk in manufacturers' strict liability has turned out to be a major stumbling block in the Council's working group discussions. An Italian compromise proposal, now being debated by the Permanent Representatives, would no longer provide for the mandatory inclusion of the development risk in the producer's liability. Instead, the directive would leave it up to the Member States to retain and expand their national rules on development risk liability.

Chances Improve for Resumption of EEC-Comecon Talks

The recent statement of Soviet leader Mikhail Gorbachev calling for a "realistic attitude" toward the European Community has been taken by officials in Brussels as a prelude to reviving talks between the EEC and the Council of Mutual Economic Assistance (Comecon). The discussions have been on and off for almost a decade without any tangible results.

In 1976 Comecon took the initiative by presenting to the Council of Ministers a draft agreement to be concluded between Comecon and the EEC as well as between the EEC and individual Comecon member states. Comecon and its members wanted broad trade links covering agricultural products, preferential tariffs for industrial products, and financial matters. At the time, the move was considered by Community officials to be a de facto recognition of the EEC that could have culminated in a de jure action upon conclusion of a formal trade agreement. Talks in Moscow broke down when Comecon insisted on being recognized by the EEC as the trading negotiator. The Commission, backed by international law experts, maintained that the Comecon secretariat does not have the treaty-making powers that the Community has. This position prompted the Commission to offer trade links to individual Comecon members rather than to the Comecon secretariat itself, a stand that the EC Executive has retained to this day.

Even if the Comecon secretariat formally accepts the Commission's position and thus paves the way for trade negotiations between the EEC and individual Comecon members, Commission officials see several problems. One internal problem for the EEC would be to draw the line between trade and cooperation. (The Community has exclusive treaty-making powers for the former, the EC Member States for the latter.) Brussels observers see little chance for the East bloc countries' wish to expand sales of farm produce to the EEC, not only because of Common Market surpluses but also because increased exports would cause shortages in the East bloc. An increase of industrial goods sales would depend largely on the extent to which state-owned Comecon enterprises are capable of meeting quality standards in the Common Market, including packaging and after-sales service. Also, financing of exports to East bloc countries has always been hampered by the fact that their currencies are not convertible.

In Brief...

The Council of Ministers will hold an additional meeting later this month to take action necessary to comply with the European Court of Justice's judgment in European Parliament v. Council of Ministers (Case No. 13/83). In its May 22 judgment, the Court held the Council in default of the Treaty of Rome for failing to adopt legislation providing for the free movement of transport services + + + The European Community and the People's Republic of China have signed a five-year trade and economic cooperation agreement to replace the 1978 trade agreement. The new pact incorporates the trade provisions of the nonpreferential trade agreement concluded in 1978 for a five-year period and renewed since then from year to year. The significance of the new accord lies in the provisions laying down the objectives and means of action in areas of economic and commercial cooperation. Economic cooperation will extend to industry and mining, agriculture, science and technology, energy, transport, and communications. The agreement also provides for the encouragement of various forms of industrial and technical cooperation such as joint production, joint ventures, and technology transfer.

Germany: Challenge to State's Special Leave Law

The employers' association of North Rhine-Westphalia has lodged a complaint with the German Federal Constitutional Court alleging that a recent state law on special leave is unconstitutional. Since Jan. 1, 1985, all employees in North Rhine-Westphalia except civil servants and apprentices have been entitled to an additional five days off annually at full pay to advance their vocational or political knowledge. An employee may demand this leave at any time during the year to attend recognized courses and seminars, although management may insist on a postponement because of urgent production or office work.

The employers' association of North Rhine-Westphalia alleges violation of the constitution's equal treatment clause. The employers believe that the special leave law fails to meet a major criterion established by the Federal Constitutional Court in 1980 (declaring the 1976 Apprentice Hiring Levy Law unconstitutional - *Doing Business in Europe, Par. 40,156)* and reiterated in late 1984 (voiding the 1982 Surcharge Law - *Doing Business in Europe, Par. 40,596*). They say that the financial element, i.e., the five days' pay, must involve a specific relationship between those who pay it and the objective pursued. The special leave law's objective of advancing employees' vocational and political knowledge is a matter that society and thus the government should take care of, the association claims. The employers say they should not have to finance this type of education.

An estimated 8 million employees in North Rhine-Westphalia qualify for the special leave. (The states of West Berlin, Bremen, Hamburg, Hesse, and Lower Saxony also have this type of legislation.) Several thousand employees have already taken advantage of such leave. In two cases where employees "broadened their political knowledge" by traveling to East Germany and Cuba, management refused to pay for the leave on grounds that the trips served political indoctrination. Both cases are pending before lower labor courts.

Partial Victory for Flick in Tax Deferral Case

The Flick group's legal battle against the German government over a DM 456-million tax deferral for profits from a stock sale has ended in the Cologne administrative court with a partial victory for the company. The court found that the Economics Ministry's decision revoking the tax deferral it had granted in 1978 was illegal, but the court upheld the ministry's reversal of its 1976 tax deferral. Flick Corp. should never have been granted a tax deferral in the first place, the court said, because the company made false statements in its first application after investing in W.R. Grace & Co. some DM 290 million of the DM 1.9 billion gain derived from the sale of Daimler-Benz (Mercedes) stock.

The ministry's revocation of the tax deferral for that portion of the investment was justified, according to the court, but the revocation of the second tax deferral decision concerning Flick's additional purchase of Grace stock amounting to some DM 500 million was not. The court said that after the first tax deferral Flick could reasonably assume that the second tax deferral was also lawful. In revoking the second tax deferral decision, the Economics Ministry failed to take this assumption into account, according to the court.

Only Flick's trust in the validity of the second tax deferral decision spared the company from a defeat before the lower court. (The federal government is considering an appeal.) In both tax deferral applications, Flick failed to present proof that it had met the statutory conditions for receiving the deferral, the court pointed out. These conditions include, among other things, an improvement in the structure of a certain sector or industry and international division of labor. Although the two investments had made Flick the largest single stockholder of Grace & Co., the German holding depended on Grace management's good will. The cooperation with Grace that Flick had described in support of its application did not materialize, the court said.

Britain: Auditors' Duties Concerning Fraud Clarified

The Consultative Committee of Accountancy Bodies, the umbrella body for the various British accounting organizations, has published a discussion document clarifying the responsibilities of auditors in preventing, detecting, and reporting corporate fraud. The document comes in the wake of a $270 million claim earlier this year by the government against Arthur Andersen & Co., the Big Eight accounting firm. The suit alleges professional negligence by Arthur Andersen in relation to the financial collapse of the De Lorean sports car venture in Northern Ireland.

The document admits that there is a significant gap between auditors' actual responsibilities and the expectations of those who consult financial statements. The committee stresses that "this difference in perception should not be ignored." However, the CCAB emphasizes that the primary responsibility for detecting fraud lies with a company's management. A checklist is offered for identifying potential irregularities, and auditors are urged to watch out for evidence of particularly lavish lifestyles of a company's directors or employees. Close attention should also be paid to cases where disputes have arisen or where unsatisfactory explanations are offered in reply to auditors' inquiries.

The discussion paper concentrates on current practices and does not itself seek to extend auditors' legal responsibilities. However, a 19-point questionnaire raises a number of important questions, especially on the likely effects of broadening the auditor's role in reporting fraud. It seeks clarification on what changes could be made to the auditor's responsibilities without changes in the law. Also raised is the issue of whether an auditor should be expected to report fraud or any other irregularities to shareholders, interested third parties, or the general public. At present, professional and legal regulations can often make it difficult for auditors to report fraud.

U.K. Labor Shift From Manufacturing to Service Sector

Preliminary results of the U.K. Dept. of Employment's latest labor force survey highlight the continuing drift from manufacturing industry into the service sector. In mid-1984, when the survey was conducted, over 60% of British employees were in non-manufacturing work. Among women the figure was well over 75%.

An analysis of work sectors indicates that the metal goods, engineering, and vehicle industries, which were once regarded as the backbone of the economy, employed just over 2.5 million out of the total workforce of 23.2 million. In other sectors, 1.76 million workers were engaged in construction work; 4.7 million in distribution, hotels, catering, and repairs; 1.96 million in banking, finance, and insurance; and 1.43 million in transport and communications.

There has also been a significant increase in the number of self-employed. In line with the government's policies of encouraging small businesses, more than 2.6 million people, or 11% of the workforce, were self-employed. According to the survey, 3% of all workers held second jobs, although observers believe the figure is considerably higher. The Inland Revenue is becoming increasingly concerned over the size of the "black economy" because taxpayers often do not report this second source of income.

Denmark: Government Pushes Income Tax Reform Talks

Denmark's Conservative-led minority government has started the final round of negotiations with the Social Democratic opposition on a sweeping reform of the country's income tax system. The existing system, with its high tax margins and antiquated avoidance provisions, is "brittle at the core," according to Prime Minister Poul Schlüter. The government wants to commit all major parties to a long-range restructuring of the tax system in order to avoid disruptive changes should the Social Democrats return to power in the next general elections.

The steep marginal tax rates are considered particularly "demotivating" by most Danish tax experts. Taxpayers in the first category, with an annual income of up to DKr 111,300, pay an aggregate 40% to the central, county, and local governments. For incomes of DKr 111,301 to DKr 182,600, the rate jumps to a flat 63%, with no graduation in between. Above DKr 182,600, the rate stands at 73%. (See also *Doing Business in Europe, Par. 21,869*.)

Most Danish taxpayers can reduce the tax bite by claiming full deductions for interest paid. This is virtually the only remaining legal way of lowering the tax burden, according to Tax Minister Isi Voigel, and is of particular benefit to home owners. However, those in the higher income brackets benefit proportionately more from the deductions - a situation the Social Democrats would like to see changed with the reform.

Under discussion by the political parties is a proposal for a uniform 50% tax rate on all incomes of up to about DKr 200,000 annually. Above this level, marginal tax rates of between 63% and 68% would apply. Interest paid would no longer be fully deductible. Family allowances would be increased to stimulate the country's declining birth rate.

While both the government and the opposition are basically in agreement about the revisions in the tax structure, they differ on the financing of the reform, which will mean revenue losses for the central and local governments. The coalition parties advocate budget cutbacks and an increase in the value-added tax rate (now 22%). The Social Democrats oppose both, without having a firm counter proposal. They argue that the reform should be "cost neutral" but, at the same time, redistribute income in favor of low-income groups. This concept conflicts with the government's idea of a general easing of the tax burden. Finance Minister Palle Simonsen intends to cut large portions of the budget by 2% annually over the next few years, without reducing public services. The difference would be made up by productivity improvements, as already demonstrated by the postal and rail services.

France: RPR Party Outlines Budget, Tax-Cut Plan

France's largest opposition party has put together an economic platform for the March 1986 parliamentary elections that borrows heavily from U.S. President Reagan's tax-cut and deregulation measures. The right-wing opposition, led by the neo-Gaullist Rassemblement Pour la Rêpublique party, is currently expected to oust the governing Socialists in the elections. RPR is headed by the mayor of Paris and former prime minister, Jacques Chirac.

At a party congress the first weekend in June, the RPR called for FF 40 billion in budget reductions in 1987, to be offset by business and individual tax cuts totaling a similar amount (about 1% of GNP). The unpopular *taxe professionnelle* on businesses *(Doing Business in Europe, Par. 22,843)* would be slashed by 25% prior to eliminating it entirely. Individual income taxes would be cut by about 8%. Within six months of the elections, the RPR would lift price and exchange controls.

A major priority of the neo-Gaullist party would be to denationalize the country's banks, insurance companies, and radio and television stations as well as the companies nationalized by the Socialists in 1982. This represents a turnaround in policy for the leading conservatives, including Chirac, who advocated state intervention when they were in power in the 1970s. The RPR has also promised to make it easier for companies to dismiss workers and for employees to become shareholders in their companies. Other measures would encourage youth employment and crack down on illegal immigrants.

Also on the election scene, Raymond Barre, another conservative former prime minister, has become the first major candidate for the 1988 presidential election. (Even if the Socialists lose the 1986 elections, President François Mitterrand can remain in office until 1988.)

Greece: Socialists Retain Majority in Early Elections

Greece's Socialist Pasok party won a surprisingly clear majority in the June 2 parliamentary elections, allowing Prime Minister Andreas Papandreou to continue implementing his controversial economic and political policies. A Pasok victory had been expected, but it was also predicted that the Socialists would have to band together with the Communist parties to maintain a controlling majority. Voters apparently heeded Papandreou's appeal to cast their ballots for Pasok rather than the Communist parties to prevent a takeover by the conservative New Democracy Party.

Pasok's 45.8% of the vote gave it 161 seats in the 300-member Parliament, down from the previous 172. New Democracy received 40.8% of the vote and 125 seats (up from 115); the Moscow-leaning Communist Party had 9.9% and 13 seats; and the Eurocommunists won 1.8% and one seat.

In early May Papandreou called for the elections to be moved up from their scheduled October date. Most observers believe that the Socialists' popular support would have dwindled if the elections had been held as first scheduled. New Democracy also supported the early elections and promised to try to oust Socialist President Christos Sartzetakis if it received the most votes.

Italy: Action Urged on Rising Public-Sector Deficit

Prompt measures are needed to push the Italian economy out of its stagnation and cut back on the mounting public-sector deficit, the Italian central bank governor said in his presentation of the bank's annual report. Carlo Azeglio Ciampi reported that the public-sector borrowing requirement reached 37,000 billion lire in the first four months of the year, up 9,000 billion lire from the same period last year. If this rate of borrowing continues, the government will be unable to meet its goal of keeping the deficit under 99,900 billion lire this year. Economic experts are warning that Italy's total public-sector debt could rise above 100% of GDP this year.

The cabinet is studying a set of proposals by Treasury Minister Giovanni Goria that he says would save the government 10,000 billion lire this year and hold the state-sector deficit to 100,000 billion lire. The proposals include raising prices for state-run services, streamlining the civil service system, holding down defense spending, and reforming the health and old-age pension systems. Goria said that if external conditions remain favorable, his plan would halve the deficit to 7.5% of GDP by 1990. The public debt would hit 111% of GDP in 1990 before beginning to decline.

The central bank governor is also concerned about Italy's 8,000-billion-lire trade deficit in the first quarter, twice the deficit recorded in the first quarter of 1984. Although domestic demand is expanding faster than that of Italy's main trading partners, industrial production remains at about the level reached in the last four months of 1984. Ciampi ruled out the possibility of a lire devaluation to boost exports.

In view of a current inflation rate of 8.8%, the government's goal of an average 7% for this year is probably out of reach. Employers expect wages to rise an average of 11% this year.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Commission's Car Pollution Proposals Attacked

The European Commission's proposals on automotive exhaust limits have brought protests not only from the German government but also from the German auto industry and environmental groups in a number of Member States. For Bonn, the proposals fall short of what the Council of Ministers agreed on in its March 21 political compromise. Under that compromise, with its timetable for the introduction of low-pollution cars, the new exhaust control standards should be equivalent to U.S. standards. The Council committed itself to establishing those standards by July 1, 1985, when the States are authorized to begin granting tax incentives to buyers of low-pollution cars (for Germany, see *Doing Business in Europe, Par. 40,623*). The precarious political compromise that forced Germany to yield on two major issues (exempting small cars from the catalytic converter requirement and postponing the deadlines for introducing low-pollution cars) now appears to be in danger unless Germany or its three opponents on the issue (Britain, France, and Italy) yield ground. A Council meeting is scheduled for June 25.

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

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According to the Commission's proposal, the emission of nitrogen oxides (the most damaging component of vehicle pollution) by medium-size cars (1.4-2 liter engine displacement) would be cut to 4 grams per test cycle by 1991. The U.S. standards, which Germany wants applied, limit such emissions to 1.5-2 grams and can be met only by cars equipped with converters. The emission levels proposed by the Commission could be attained through other means, according to some experts. This would mean that the investments made so far by German car makers and suppliers who assumed that converters would be mandatory might turn out to be in vain.

There is one consolation for Germany in the Commission's proposal: the emission levels for large cars (over 2 liter displacement) would be identical to U.S. standards. Large models marketed after Oct. 1, 1988, would have to be equipped with converters in order to meet the new standards. On this matter, Britain, France, and Italy consented to the German view.

Consensus on R&D Plan for Telecommunications

The Council of Ministers has agreed in principle on launching a research program to improve the standing of the Common Market's telecommunications industry on the world market. Some ECU 22 million out of a total of ECU 42 million would be allocated during the first stage of the ten-year program. Industry would be expected to put up the remainder. (Total Community investment in telecommunications over the next ten years should come to about ECU 150 billion.) Formal agreement on the program is expected prior to the EEC's June 28-29 Milan summit.

The program, dubbed RACE (Research in Advanced Communications Technology for Europe), was proposed by the Commission to coordinate research and development in communications technology in the EC *(Common Market Reports, Par. 10,678)*. It would focus on developing an integrated, broadband telecommunications network capable of handling verbal, data, and video transmissions throughout the Community. The development of integrated communications would enable the high-speed transmission of information by means of glass-fiber cables, satellites, and digital equipment. The Member States' national postal administrations providing telephone services would play a big role in defining the type of R&D necessary to attain the objectives of the program.

In proposing RACE, the Commission envisions that telecommunications would emerge as the biggest industry in the EEC. The Commission also foresees severe drawbacks for the networks and suppliers if the market remains divided in ten different parts.

In Brief...

Applying Treaty Article 90 for the first time, the Commission has issued a decision charging the Greek government with violation of

EEC competition rules. According to the decision, Greek law contravenes the rules by requiring that all publicly owned property be insured by government-owned insurance companies and that state banks recommend that their customers insure with these companies. In the case of public undertakings, the Member States may not enact or maintain any measure contrary to Treaty rules, according to Article 90 *(Common Market Reports, Pars. 2351, 2361)*. The significance of the Commission decision lies in its potential for litigation: private Greek insurance companies as well as insurance carriers from other Member States could sue the Greek government if the law is not amended accordingly and the state banks do not stop their recommendation practice + + + In line with a decision by the European Court of Justice, the price of natural gas used by Dutch hothouse growers has been raised by 2.5 Dutch cents to 45 cents per cubic meter. The move, agreed on by the Dutch Agricultural Board, the Gas Companies Association, and the National Gas Utility, came after the Court recently upheld a Commission order requiring the government to raise the price in order to remove an unfair price cut effective last Oct. 1. Hothouse growers from Belgium, Germany, and the U.K. had complained to the Commission that the price concession to Dutch growers distorted competition. The Commission then ordered the Dutch government to raise the gas price without saying by how much. The board, the association, and the utility still have an agreement for further downward adjustments until October 1987, depending on crude-oil prices. (Gas prices for Dutch hothouse growers have been a bone of contention between the Dutch government and the Commission since 1981.)

Germany: High Unemployment Remains Hot Political Issue

Unemployment remains the most explosive political issue in Germany, a fact that the Kohl administration and the government coalition parties are finally acknowledging. Analysts of the recent state election results in the Saarland and North Rhine-Westphalia concur that the unemployment issue is largely responsible for the fact that the Social Democrats wrenched power from the Christian Democrats in the Saarland and also won a landslide victory in the Rhine and Ruhr regions. (Both states have jobless rates far above the national average.) The general sentiment within the Christian Democratic Party is that unless the administration can achieve a substantial cutback in unemployment by the end of 1986 the chances are slim that the party will be returned to power in the spring 1987 national elections.

At the moment, there are no signs of a fundamental change in the unemployment situation. The small improvement in the May unemployment figure (a drop of 112,000 jobless persons to 2.19 million, or 8.8%) was due to seasonal factors. There is no evidence that the economy's slight upward trend is creating new jobs. Last January the government was optimistic about a real improvement in the situation and predicted that by the end of 1985 overall unemployment would be lower than in December 1984. Economics Ministry officials now believe that this prediction will not be realized.

Government leaders are placing their hopes on recent legislation designed to increase opportunities for the unemployed by relaxing labor and social security rules *(Doing Business in Europe, Par. 40,628)*. Labor Minister Norbert Blüm continues to plead with employers, the works councils, and the unions to cut back overtime and hire the unemployed. The Kohl administration rejects the opposition's idea of a job creation program financed largely by credit.

Among the reasons that many branches of industry are not investing to create new jobs are weak demand and disappointment over the lack of a tax reform to lower the tax burden on businesses. All enterprises are facing higher costs, due partially to increased social security taxes *(Doing Business in Europe, Par. 40,630)*.

Britain: Overhaul of Social Welfare System Proposed

The U.K. Conservative government has submitted to the House of Commons a Green Paper containing proposals for what the Thatcher administration calls the most sweeping reform of the country's social welfare system in 50 years. The discussion document advocates substantial changes in old-age pensions and supplemental state support to low-income families, individuals, the disabled, and others as well as other welfare benefits. While Social Services Minister Norman Fowler claimed that the plan would reduce "the complexity and confusion" of the present system, the opposition Labour Party said it would erode the fundamental principles of the British welfare state.

The main provisions of the Green Paper are as follows:

- Over the next 15 years, the national earnings-related pension system would be phased out. Men under the age of 50 and women under 45 would no longer be covered by the system; instead, they would have the option of taking out private pension insurance, with minimum contributions of 4% (of which the employer would pay at least half). While the retirement age would remain unchanged at 65 years for men and 60 for women, workers would be encouraged to retire during a discretionary "decade of retirement," from 60 to 70.

- The existing family income supplements, supplementary benefits, and housing aids would be replaced by new income-related benefits. To remove disincentives to working, the government wants to cut out certain income supplements and replace them with new family credits.

Neutral observers have commented that the proposals of the Thatcher administration constitute not so much an overhaul of the basic welfare system as a means of reducing future costs and simplifying administrative procedures. Britain's current social welfare expenditures run to about £40 billion, more than one-third of total state spending, and the government would like to prevent any further increases. Also, it is reported that present benefit rules are set out in 16,000 paragraphs and that 81,000 public-sector employees are needed to process and review the claims every year.

The government's proposals, it is predicted, could result in the most serious political disputes in the six-year existence of the Conservative government, which intends to introduce the draft legislation in the current session for implementation in April 1987. (See also *Doing Business in Europe, Par. 23,965.*)

London Stock Exchange Allows 100% Outside Control

The London Stock Exchange has approved a change allowing outside banking, insurance, and other financial institutions to acquire 100% control of member stockjobber and stockbroker firms. An 83% majority supported the resolution, which was put forward by the exchange's ruling council. Previously, outside ownership of member firms was limited to 29.9%. Outside interests already own minority holdings and options on the remaining equities of many member firms. Nicholas Goodison, chairman of the stock exchange, said the members recognize that the "future health" of the national securities market depends on making changes that "will retain the bulk of securities business in this country within our competitive stock market."

The members just failed to provide the 75% majority needed to pass a measure that would have eventually transferred ownership of the stock exchange from individual members to the member firms. Each of the 4,500 members would have been allotted five shares, which could have been sold to new firms hoping to gain entry to the exchange. Creating shares would have been a means of compensating members whose firms are not large enough to attract outside buyers. These firms could have sold their shares to the various financial institutions that wanted to buy their way into the exchange.

Goodison called the second vote "less crucial." The council said, however, that it was trying to work out another proposal to get around the rejection. One method would be for executives of firms to become exchange members. The firms could also become members but not owners. The council will probably issue a statement on the matter after the council elections are over at the end of June.

France: Jobs Program Expanded; Capital Rules Eased

The French government has approved a FF 3.3-billion package of measures that would provide jobs for 100,000 young adults and extend some unemployment benefits for the long-term jobless. The package is Paris' latest attempt to curb unemployment, which has risen from 1.8 million in 1981 to a record 2.4 million.

The government has proposed opening the community job program *(travaux d'utilité collective)* to persons aged 21 to 25 who have been jobless for at least one year. The program, which provides part-time work, is currently limited to those aged 16 to 21. Another measure would raise the "solidarity allowance" allotted to persons who have exhausted their regular unemployment benefits. Those older than 57-1/2 would also receive higher unemployment benefits. Additional funds would be made available to enable certain single women to take job training courses.

In other news, the Economics Ministry has loosened its capital controls to allow French companies to borrow up to FF 5 million abroad without prior authorization from the treasury. French borrowers will also be able to make prepayments of up to FF 5 million on their foreign debts without treasury approval. This change applies only to debts outstanding for over one year and on which the earliest scheduled payment date is three months away.

Greece: Papandreou Appoints Streamlined Cabinet

Following the Socialist victory in the Greek parliamentary elections on June 2, Prime Minister Andreas Papandreou appointed a new, considerably smaller, cabinet. Although Papandreou had originally said he would cut the cabinet from 52 to 10 members, he announced at the last minute that he would name 19 ministers. This cabinet will remain in office until July, when Parliament should have passed legislation officially reducing and consolidating the ministries. The Socialists have been promising to cut back the bureaucracy since the 1981 elections.

With one exception, the new ministers were all members of the previous cabinet, and most have retained the same portfolios. The newcomer is Athanasias Tsouras, minister for public order, who was previously general secretary at the Ministry of the Interior. In addition to the defense portfolio that Papandreou previously held, he is now also in charge of the Ministry of Northern Greece. Akis Tsohatzopoulos, minister to the prime minister, has also taken over the labor portfolio.

Italy: Voters Reject Bid to Change Wage Indexation

Italian Prime Minister Bettino Craxi has hailed as a vote of confidence for the government the electorate's rejection of a Communist attempt to restore pay increase reductions decreed by Rome last year. In a national referendum on June 9-10, 54.3% of the voters supported the administration on this issue, while 45.7% sided with the Communist sponsors. Craxi had threatened to resign in the event the Communist initiative passed.

Shortly after the closing of the polls on June 10 and even before the results were known the Confindustria industrial federation formally gave notice to terminate the existing wage indexation *(scala mobile)* contract with the country's labor unions as of Feb. 1, 1986. The move means that both sides will have to renegotiate the terms of future inflation-linked pay adjustments.

If the Italian voters had accepted the Communist demands, some 15 million workers would have been given a pay boost of 27,200 lire (about $14) a month. After taxes, the increase would have amounted to about 18,000 lire.

Portugal: Social Democrats Leave Coalition

As the leader of Portugal's Social Democratic Party (PSD) had threatened, party members withdrew from the governing coalition on June 13, leaving the country with a minority government immediately after the June 12 signing of the EC accession treaty. Anibal Cavaco Silva, new PSD leader, blamed the split on the Socialists' refusal to institute the agricultural and labor reforms that the coalition had agreed upon in 1983. Despite the agreement on EC accession in 1986, Portugal faces continued economic and political uncertainty because of the breakup of the two-year-old coalition, the longest-serving government in Lisbon since the country's 1974 revolution.

After the planned PSD withdrawal was announced, President Antonio Ramalho Eanes began discussing his options with leaders of the various parties. Eanes could ask Prime Minister Mario Soares to maintain a minority government until the presidential election in December. This is probably not a viable option, however, given the Socialists' 36.7% share of parliamentary seats. The appointment of a presidential government is also viewed as likely to be ineffective. Eanes tried this three times in 1978-79 without success.

Many political experts believe Eanes will choose to dissolve Parliament and hold early elections. However, such a move could endanger the EC accession treaty, which must be ratified by Parliament before it becomes final. Polls show that no party is likely to win more than about 23% of the vote if early elections are held. Possibilities for resulting coalitions are uncertain: almost every combination of parties has been tested in the turbulent political climate since the revolution.

Sweden: OECD Cautions Stockholm on Wage Development

In its latest economic survey, the Organization for Economic Cooperation and Development cautions the Swedish government to keep an eye on wage development if it wants to avoid further krona devaluations in the future. The last devaluation, in the fall of 1982, has markedly improved the profitability of Swedish enterprises. If, however, these higher profits are followed by "exaggerated" pay increases, then the devaluation benefits for Sweden's international competitiveness will be only temporary, the OECD warns.

The collective bargaining agreement for 1985 between the Swedish employers and labor unions provides for pay increases of up to 5% (compared with 10.25% in 1984). This reduction in the rate of wage boosts came, however, only after the government's intervention and does not reflect a basic change in attitudes, the OECD says. Nevertheless, the OECD experts feel that the government will always be compelled to intervene in the future in order to protect its dual goal of full employment and full competitiveness on the world markets.

The Paris-based organization expresses doubt about Stockholm's official inflation target of 3% in 1985, given the fact that the rate was already 2.5% at the end of March. The temporary price freeze imposed that month will not prevent the inflation rate from reaching some 6.5%. The government should do everything in its power to contain the present rate of price expansion, the OECD says; otherwise, the country's major economic goals will be endangered. "Moreover, sustained efforts must be made to bring down the budget deficit further and pave the way in the long run for reducing the tax pressure, which in several respects would seem to distort resource allocation," the report concludes.

EURO COMPANY SCENE

Kraft SpA, the Italian subsidiary of Kraft, Inc., Glenview, Ill., has taken over Milan-based Invernizzi SpA through a stock transaction. A 25% share in the company is being retained by Chairman Romeo Invernizzi. Invernizzi had 1984 sales of 330 billion lire in cheese, butter, and meat products.

Pan American World Airways has signed the final agreement for the acquisition of 28 Airbus jets from Airbus Industrie, a consortium of mainly French, German, and British aerospace companies. Financing details of the $1.1 billion deal have not been released. Pan Am may lease the planes through a third company.

General Motors Corp. and Alfa Romeo of Italy are discussing the possibility of a joint venture. Two options the companies are reportedly considering are the production in Italy of engines for Pontiac cars or the manufacture of a special model for sale in the U.S. Although IRI, the state industrial holding group, has denied plans to sell loss-making Alfa Romeo to a foreign company, GM may take a small share in the Italian car maker.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Implications of Germany's Cereal Price Veto

Germany's veto of the EEC proposals for a grain price reduction has added to the inconsistencies of the Kohl administration's attitudes toward the Community farm policy. In the past, Germany, together with Britain, has been the prime mover behind efforts to reform the common agricultural policy (CAP), the cost of which has often brought the EEC to the brink of bankruptcy. These efforts so far have resulted in the adoption of a partial reform, with the introduction of milk quotas, among others. However, as soon as German farmers were forced to reduce milk deliveries by up to 9%, Bonn softened the penalizing effect of quotas and "superlevies" by granting farmers a tax break that will cost German taxpayers some DM 20 billion into the early 1990s. Bonn's recent veto not only delays enactment of cereal price reductions but generally casts doubt on the possibility of a successful conclusion of the CAP reform discussions.

German Agriculture Minister Ignaz Kiechle's veto at the Council of Ministers' June 12 meeting was the first time that any German minister invoked the so-called Luxembourg compromise

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- a de facto amendment to the Rome Treaty allowing a Member State to block a decision touching on vital interests. Although Kiechle did not formally invoke the compromise, he cited "important interests" necessitating continued discussions to find a solution.

The proposed 1.9% cut in cereal prices would be against Germany's vital interests, according to Kiechle, because it would come in addition to the reduction of the Monetary Compensatory Amounts (MCAs) and the German farmers' drop in income (some 20% in 1984). (Last year's farm policy reform measures provided for dismantling the trade-distorting MCAs, the border taxes used to offset price differences between Member States caused by monetary fluctuations. The first cuts were introduced last year, and the remaining MCAs are due to be phased out over the next three years.)

Council officials reportedly believe that Kiechle's refusal to consent to the price reduction for cereals was prompted not only by the financial implications of the measure for German farmers but also by the fact that tens of thousands of German farmers in the Rhine and Ruhr regions did not go to the polls in the May 12 state elections and thus contributed to the landslide victory of the opposition Social Democrats.

Kiechle's veto also means a setback for the efforts to move the European Community toward greater coherence by reforming the decision-making process and achieving greater political cooperation. A major element of these efforts is the scrapping of the Luxembourg compromise in the Council of Ministers' voting. At the Brussels summit on March 29-30, Chancellor Helmut Kohl supported the conclusions of the Dooge Committee, which believes that the Ten will not make progress in achieving certain goals, such as a genuine common market, unless the decision-making process is accelerated. The way to accomplish that will be one of the items on the agenda of the EEC summit in Milan on June 28-29.

Council Fails, But Five States Still Relax Border Checks

At its June 10 Luxembourg meeting, the Council of Ministers failed to agree on a European Commission proposal that would have considerably relaxed border controls for EC nationals traveling within the Common Market. Customs and passport controls would have been reduced to spot checks as of July 1. Because the Council failed to agree, relaxed rules for motorists crossing from one Member State to another became applicable in only five States - France, Germany, and the three Benelux countries. On June 15, these States put into effect an agreement that incorporates prior bilateral accords. In essence, the agreement restricts border controls to spot checks. The waiting time for truckers at crossings between these five States has been shortened since June 15 when the States agreed to forego checks verifying trucks' road-worthiness and weights and measurements as well as compliance with drivers' rest periods.

When the Commission submitted its border-check proposal last February, it was skeptical that the July 1 deadline would be met. The content of the proposal was taken largely from a French-German accord signed in July 1984 and in effect since last Oct. 1. At border crossings between the two countries, automobiles bearing a green "E" sticker are regularly waved through, and only occasionally is a car flagged down. The "E" sticker indicates that the driver and passengers are EC nationals and are not bringing in more than Community residents are entitled to import tax-free under EEC rules.

In Brief...

The Council of Ministers has adopted the architects directive providing for mutual recognition of diplomas and other formal qualifications to give architects established in one Member State the right to establish themselves in another State or provide services there without moving there. An architect must have at least four years of full-time study or six years of study, three of which must be full-time. A German national who has graduated after three years from any of the country's higher institutions of learning other than a university *(Fachhochschulen)* will nevertheless be recognized as an architect so long as his post-graduate training lasted at least four years. This concession to Germany was necessary to reflect the unique position of the *Fachhochschulen*, and it was the Germans' insistence on a satisfactory solution that dominated the Council working group's discussions. The Member States have two years to bring their national rules in line with the directive + + + The European Court of Justice has told the Italian government to abolish automobile registration rules aimed at preventing Italians from importing cars from France, Germany, Belgium, and the Netherlands at prices below domestic rates (order of June 10, 1985, Case No. 154/85 R). The Court's order was requested by the Commission, which had moved against Italy under Treaty Article 169 for breaching Treaty Article 30 (Case No. 154/85). Italy's car registration rules, introduced in July 1984 and tightened late last year under pressure from domestic car makers, effectively curtail so-called parallel importing by anyone outside the dealer network. Under these rules, a person who buys a car abroad and imports it has to procure a certificate of origin and a technical certificate, both of which are provided only by authorized dealers in Italy. The registration practice also violates the Commission's own rules adopted last December that, in effect, give buyers the right to shop around in the Community to find the lowest prices *(Common Market Reports, Par. 2751)*.

Germany: First Move to Cut Subsidies to Industries

The German government wants to make good its earlier promise to cut back subsidies to business and industry, a large item in the budget (around DM 29 billion in 1985). The Economics Ministry will lead the way in cutting public subsidies by trimming its 1986 budget to DM 4 billion, from DM 5 billion this year. Shipyards, coal mines, steel mills, and the aerospace industry would be affected most by the planned cuts.

Several circumstances are helping the Economics Ministry to reduce support in some sectors. Subsidies to steel mills may not be granted after Dec. 31, 1985, as provided in the Community steel aid code. This year's financial support to the steel mills comes to DM 385 million. The high dollar rate has made German coke exports cheaper, and, assuming this trend continues in 1986, the Economics Ministry will reduce subsidies by DM 300 million in the following year. All in all, the German coal mines would receive DM 370 million less in subsidies next year. (This year's total of government aid comes to DM 1.5 billion.) The subsidies to the aerospace industry would be cut by nearly DM 200 million, to DM 490 million. Aid to German shipyards would drop DM 30 million, to DM 200 million next year. By contrast, financial support to help small and medium-size businesses offset research and development costs would be increased by DM 20 million, to DM 520 million.

Several attempts since early 1983 to cut back industrial subsidies have failed. In fact, the subsidies have increased since the Christian Democrats were returned to power in the 1983 national elections, and most of the additional outlays went to help the ailing shipyards and steel and coal-mining industries. Chancellor Helmut Kohl promised in October 1982 and again in May 1983 to make efforts to reduce subsidies, especially those granted to industries whose roles and significance have changed, such as the shipyards and steel mills.

Of this year's DM 29 billion subsidy total, around DM 13 billion are outright financial grants to industry, while DM 16 billion are in the form of tax rebates. Among the latter, the program of tax-supported savings by individual taxpayers alone accounts for some DM 8 billion each year.

France: Bills to Raise Foreign Investment, Competition

Faced with increasing competition from other European countries, the French government is trying to make it easier for foreign companies to invest in France. The cabinet has adopted several measures that would cut back on red tape; similar fiscal measures may follow. One of the main reasons for the proposals is the hope that foreign companies will create more jobs in France, which has an unemployment rate of over 10%. (Foreign investment created or saved 13,400 French jobs in 1984. The U.S. was the top investor in terms of jobs, accounting for 36%.)

Under the proposals, a single official would be in charge of administrative procedures for foreign investment in each *département* (region). Registration would be speeded up so that the business permit *(carte de commerçant - Doing Business in Europe, Par. 22,795)* would be available within 15 days of application. Double taxation would be limited by allowing foreign managers to deduct such expenses as children's school fees, and the government would begin negotiations with other countries (including the U.S., Japan, and Canada) to work out agreements for avoiding double contributions to social security plans.

The cabinet has also adopted a bill that would increase competition by making it easier for the government to limit monopolies. Any company that controls more than 25%, rather than the current 40%, of the market for one particular product would be subject to investigation *(Doing Business in Europe, Par. 23,021)*. One amendment to the bill would mean more competition among banks for loan commissions. Another amendment, which would have allowed comparative advertising, was eliminated, however, because it was expected to create problems for small businesses.

Ireland: Bill Requires Disclosure by Limited Companies

The Irish government has issued its first bill requiring private companies to publicly disclose their accounts. The proposal follows increasing trade union demands and pressure from the European Commission to conform with the Fourth Council Directive on company law *(Common Market Reports, Pars. 1371-1375)*. The principal reasons for the delay in implementing the directive have been the legislative overload and resistance from business interests.

The new Companies (Amendment) Act would affect all private limited companies, including the subsidiaries of multinational corporations based in Ireland. The amount of information to be disclosed would vary depending on the size of the company. It would therefore be possible for a company to reduce, or even eliminate, the disclosure requirements by dividing itself into a number of smaller companies or by switching from a limited to an unlimited status.

Subsidiaries of EEC-based foreign companies would have the option of making the information available on a consolidated basis in the parent company's accounts. However, this course would be open only if the parent company guaranteed the debts of the Irish company. Units of non-EEC-based foreign companies would have to publish their own accounts if the unit is incorporated in Ireland.

Declan Bourke, technical director of the Irish Institute of Chartered Accountants, said the accounting bodies are stressing the need for an 18-month transitional period after the bill becomes law. He does not think that many companies would avoid the requirements by splitting into smaller units or discarding their limited liability because of "all the administrative complications involved as well as subsequent...tax effects." He said that, in spite of the exemptions allowed, the changes would probably reveal a lot about the activities of subsidiaries of foreign companies.

Spain: Mounting Opposition to Social Security Reform

Last fall Spain's employers, unions, and government agreed on an economic-social pact *(Acuerdo Económico y Social - AES)* designed to promote mutual cooperation and labor peace for at least two years. After initial successes in the form of few labor disputes, the pact now shows signs of disintegration, with the Socialist government of Premier Felipe Gonzalez encountering increasing opposition to its policies even among its political allies. The latest confrontation in this conflict was the calling of a general strike for June 20 by the Communist labor organization, Comisiones Obreras. The protest campaign also has the support of the Socialist UGT union, which thus openly broke rank with the Socialist government on certain issues.

At the heart of the confrontation are the Gonzalez administration's legislative proposals for a financial reform of the country's costly social security system. It is generally conceded that a reform has become necessary following the rise of expenditures in this sector from 1,000 billion pesetas in 1977 to 3,500 billion pesetas today in current prices. During that period, average monthly old-age pension benefits rose by 8,400, to 31,660 pesetas, and the number of retirees went up from 3.8 million to 5.5 million. The latter figure is expected to climb to 7 million within the next eight years.

To prevent unchecked increases in the future, the government wants to reduce by 8-11% the benefits of those who will retire after the new law takes effect. The period of obligatory insurance contributions would be raised from ten to 15 years. Benefits would be calculated on the basis of contributions paid over the previous eight years, rather than the present two years. In addition, an inflation adjustment would be made for the previous six years of contributions. Finally, there would be an annual cost-of-living adjustment for new old-age pension benefits.

The labor unions argue that the partial cuts in benefits would violate workers' established rights. UGT leader Nicolas Redondo said he will break party discipline and vote against the bill in parliament. The employers, too, are taking issue with the draft legislation, saying that it falls far short of the fundamental reforms they have always demanded and complaining that the government has failed to consult them. They also point out the need to adapt the Spanish system to those prevailing in the EEC, which Spain will join next year.

In defense of its own reform proposals, the Ministry of Labor and Social Insurance refers mainly to the bleak financial situation: so far this year, the government has been forced to allocate an extra 773 billion pesetas to social security, and the system's bankruptcy is a distinct threat unless action is taken soon.

Switzerland: OECD Recommends Relaxing Bank Secrecy

Switzerland is again facing an attack on its banking secrecy laws, mounted this time by the Organization for Economic Cooperation and Development. The Swiss government is considering a recommendation by the OECD Fiscal Affairs Committee that the "excessive" secrecy laws be lifted in OECD countries when information is needed concerning possible tax evasion. The committee believes that this move would effect greater international cooperation among tax authorities. If accepted, the recommendation would not be binding on member countries.

Swiss bankers view the recommendation as an attempt to puncture the banking secrecy laws and eventually allow practically free exchange of the currently protected information. The Swiss government is expected to abstain from voting on the measure, a move that would allow the proposal to stay alive in the OECD Council. A veto would mean the end of consideration of the measure. Switzerland is almost obligated to veto or abstain since the voters last year rejected a proposal to relax the secrecy law.

The recommendation was proposed by Sweden and is supported by the U.S., which has pressed Switzerland to release protected information concerning several tax cases over the past few years. The proposal would also affect Luxembourg and Austria, which also have fairly strict banking secrecy laws. The OECD is concerned over the competitive disadvantages to countries that do not have secrecy laws as well as the laws' indirect protection of criminals.

EURO COMPANY SCENE

ITT Corp. plans to sell about $100 million of its European assets as part of a $1.7-billion divestiture program. Although specifics have not been disclosed, a company official said the sale would include a minority stake in one of the telecommunications subsidiaries and a 100% stake in "some small industrial products companies." ITT also recently made a $309-million public offering of a 48% share of Abbey Life Group PLC, its Bournemouth, England, life insurance subsidiary.

Citicorp is continuing its European expansion with the purchase of a 74% holding in Italy's Banca Centro Sud and a 70% share of Belgium's Banque Sud Belge. The Italian majority stake was bought for an estimated $125 million from Banco di Roma, part of IRI, the state industrial holding group. As part of the Belgian deal, Citicorp agreed to raise Banque Sud Belge's capital by

BF 50 million, to BF 300 million, and to make a BF 300 million subordinated loan to the bank. The Belgian bank's deposits more than doubled in 1978-83, while lending remained stable.

Allied Corp., the U.S. chemicals and technology company, is negotiating the purchase of Renault's 51% holding in Renix, a car electronics company based in Toulouse, France. Renix was established in 1978 as a joint venture between Renault and Bendix, the U.S. electronics and engineering corporation that Allied took over three years ago.

Du Pont & Co. has acquired Amonn Fitochimica SpA, an Italian maker of anti-parasite chemicals. Amonn had 1984 sales of 30 billion lire.

Electronic Mail Corp. of America, Old Greenwich, Conn., is establishing a company headquartered in Luxembourg to handle the European end of its "Gemservice" message and document distribution service. The parent company plans to invest $5 million in Electronic Mail Europe SA over the next three years.

Black & Decker GmbH, of Idstein, Germany, is planning to lay off as many as 1,400 workers as a result of slower-than-anticipated growth. The German company, a unit of Black & Decker, Towson, Md., expected to hold 50% of the European market by this time, but its market share rose only 3% in 1984, to 40%.

General Refractories Co., Bala Cynwyd, Pa., is selling its European subsidiary, General Refractories Co. European Group AG, for about DM 75 million to Hellmut Longin, manager at the Vienna headquarters. The European group, which manufactures fireproofing and building materials in Austria, Germany, and Greece, had 1984 sales of about DM 600 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 859 *Report No. 530, July 3, 1985*

IN THIS ISSUE

Community: Car Exhaust Compromise Reached

Working under the pressure of a June 30 deadline, the Council of Ministers reached a tentative agreement on car exhaust standards after a 21-hour marathon of negotiations. The agreement, which took many, including Commission officials, by surprise, became possible only after Germany once again yielded ground in order to avoid disintegration of the Community's internal automobile market. Such a disintegration was a dangerous possibility after Britain and Germany resumed their positions and threatened to impose standards of their own.

Under the compromise, emission standards for hydrocarbons and nitrogen oxide in the medium-size car category (1,400-2,000 cc engines) are lumped together: 8 grams per test. (The Commis-

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sion's proposal had provided for a separate standard for nitrogen oxide: 4 grams per test; *Common Market Reports, Par. 10,691.*)

Combining the nitrogen oxide standard with that of hydrocarbons will leave manufacturers enough flexibility so that the joint standard can be met even more easily by lean-burn engine technology. The British government had insisted all along on this alternative for reducing toxic automotive exhausts, whereas Germany was holding out for catalytic converters. London feared that the Commission's original plan would not have this flexibility. Earlier, Germany made major concessions with respect to the standards for low-pollution cars and the timetable for introducing them. (Germany originally insisted on adopting U.S. standards by making catalytic converters standard equipment on all cars by 1987.) The German government's further concession on standards makes it look very weak, critics say. The Opposition, environmental groups, and other nature conservationists point to the big gap between what the government originally wanted and the final compromise. However, the Kohl administration explains that it was impossible to attain more, and the compromise prevented a split in the Common Market's auto sector, always the keystone of the economy and currently the motor of economic recovery. The compromise does allow Germany to go ahead with granting tax incentives to buyers of low-pollution cars *(Doing Business in Europe, Par. 40,604)*. Motorists concerned about the preservation of the forests can bring about what the government failed to achieve at the negotiating table by buying cars equipped with catalytic converters.

Ambitious Program for Genuine Internal Market

The Commission has revealed a program proposing ways of turning the Common Market into a genuine internal market by the year 1992. This program, a topic of the June 28-29 Milan summit, includes a comprehensive timetable for the abolishment of all border controls between Member States, a reduction in the differences between the national value-added and excise tax rates, and removal of all remaining restrictions on the free circulation of goods, freedom to provide services (notably in the transport sector), and access of out-of-State bidders to public supply contracts in each individual Member State.

The Commission's program is far more ambitious and goes considerably further than many States have so far been willing to go in abandoning national controls over such key areas as immigration and taxation. Brussels observers consider the envisaged moves in the taxation area to be the most ambitious and controversial. For almost two decades, the Member States' tax experts have been discussing, on and off, Commission proposals calling for the harmonization of certain rules on indirect taxation *(Common Market Reports, Par. 3026)*. The widely differing national rules governing excise and value-added taxes, especially the highly varying VAT rates, are the reason the national finance ministers have been insisting on border controls. These controls are made to impose VAT on imports from Member States with a lower VAT rate than that applied by the importing State. In all the Member States, the revenue from the import VAT plays a substantial role in the national budget. A complete harmonization of the national VAT rates would cut off a revenue source that no Member State can forego at this point. Thus, the Commission is suggesting a reduction of the differences in the VAT rates.

Another item of the program that has caused a lot of controversy among the Member States in the past is the liberalization of services. Britain has been advocating the removal of restrictions preventing banks and insurance companies established in one Member State from offering services in other States. Germany is prepared to consent to a liberalization of banking and insurance rules if customers are adequately protected against abuse. France and Italy still restrict the export of their currencies.

Brussels observers are generally skeptical about the chances of a realization of the Commission's program. Too many programs were conceived in the past with few or no results, they say.

In Brief...

The Commission has moved to enact price reduction measures for oilseeds and cereals after the Council of Ministers failed to pass proposals because of Germany's veto. New prices for rape seed and grains (as of July 1 and Aug. 1, respectively) will be exactly what the Commission had proposed in its last compromise (an average 1.8% lower than current prices). The Council will meet again on July 11, and agreement could preempt the Commission's move. Council lawyers say that EEC agricultural market management rules empower the Commission to take "conservative" measures but not to assume the lawmaker's role + + + The Council of Ministers has allocated ECU 500 million to be spent over the next four years for the development of new energy sources and conservation of energy to further reduce the Community's dependence on crude oil imports. Some ECU 140 million will be appropriated to finance research and development for technologies based on the use of hydrocarbons.

Germany: Supreme Court Contradicts EC Court's Case Law

The German Supreme Tax Court has handed down a decision contradicting case law established by the European Court of Justice with respect to the direct effect of Council directives. The Sixth Council VAT Directive *(Common Market Reports, Par. 3165)* did not override the 1967 German Turnover Tax Law or its 1973 amendments, the German high court ruled, nor is such a consequence implied by a preliminary ruling given by the European Court (judgment of April 25, Case No. VR 123/84). The decision amounts to a ruling that EEC directives attain the force of law only after the German Parliament passes legislation conforming to those directives.

A German credit broker had claimed a VAT exemption for her services as provided for in the Sixth Directive. Such an exemption was not introduced into German law, however, until 1980, one year later than required by the directive. The tax office refused to grant a refund, and the broker sued. The tax court requested a preliminary ruling from the Court of Justice, asking whether the particular directive's clause exempting the negotiation of credit was directly applicable. The EC tribunal's answer was in the affirmative, as in similar cases, especially when a Member State misses the deadline for compliance (judgment of January 19, 1982, Case No. 8/81, *Common Market Reports, Par. 8789)*.

The case then came before the German Supreme Tax Court, which denied direct applicability of Council directives in Germany on the ground that the German Act Ratifying the Treaty of Rome does not include the transfer of powers necessary to accord direct effect to Council directives.

Kohl Administration Slipping in Opinion Polls

The popularity of German Chancellor Helmut Kohl and his administration is slipping. According to a recent poll, some 60% of the German voters feel that Kohl lacks leadership. Analysts see several causes for the poor showing. One of them is the constant bickering among the three government parties over various issues, among them the planned tightening of rules governing public demonstrations. Continued high unemployment is another reason. In the hope of cutting unemployment, the Christian Social Union (CSU), the Bavarian sister party of Kohl's Christian Democrats (CDU), wanted the recently passed bill providing for a DM 19.4-billion income tax reduction for individuals to be effected in one step instead of two - in 1986 and 1988 *(Doing Business in Europe, Par. 40,615)*. To gain the CSU's consent to the tax bill in the upper house, the Kohl administration had to agree to fund next year's urban renewal and construction program with DM 1 billion in grants instead of DM 300 million. This injection of funds, plus a reduction in the depreciation period for buildings from 50 to 25 years (planned for 1986), is meant to help the ailing construction industry.

The belief that the government is not doing anything to reduce unemployment is widespread. At the administration's initiative, however, Parliament has passed legislation increasing employment opportunities by relaxing labor law and social security rules *(Doing Business in Europe, Par. 40,628)*. The Social Democrats and the Greens believe that a public spending program would be more effective in lowering the jobless rate. The Kohl administration is sticking to its position, supported by most economists, that a public investment program financed through borrowing would not bring lasting relief on the unemployment front. Even Bundesbank President Karl-Otto Pöhl, a Social Democrat, is against any such program because he believes that only increased investments by businesses, leading to sustained economic growth, will improve the unemployment situation.

Many staunch Kohl supporters are now taking a more critical position because they do not see the changes forthcoming that Kohl promised after the coalition parties won a resounding victory in the March 1983 elections. One of the pledges was to cut back government subsidies so that the revenue could be put to other uses, such as increased offsetting of businesses' research and development costs. Kohl's promise to free businesses from "unnecessary" bureaucratic burdens has so far been confined to repealing some marginal provisions. A broad plan to cut red tape is not in sight.

Britain: Stricter Supervision of Banks Proposed

As a result of last year's collapse of Johnson Matthey Bankers, British Chancellor of the Exchequer Nigel Lawson has proposed far-reaching changes to strengthen the Bank of England's supervision of the banking system. Lawson emphasized that it is "certainly not the case" that any bank which gets into financial difficulties in the future will automatically be rescued. The central bank injected £34 million into JMB to cover losses and provided additional working capital of £100 million. JMB and its former parent company, Johnson Matthey PLC, are suing Arthur Young, JMB's auditing firm. In a subsequent report, however, Price Waterhouse found no prima facie evidence of fraud.

The proposals are in line with the recommendations of a committee set up last December to study the system of banking supervision. They would end the current two-tiered system, established by the Banking Act 1979. The Bank of England switched to the dual system so that it could continue its traditional style of supervision over the major banks, and, at the same time, have greater control over the licensed deposit-takers, many of which were not subject to supervision before 1979. Supervision of recognized banks takes account of the experience and standing of the institutions and relies considerably on mutual trust and the cooperation of management. According to the committee, JMB's position as a recognized bank was a factor in the supervisors' delay in becoming aware of and reacting to its growing problems.

The two-tiered system would be replaced by a single authorization to take deposits, and the Bank of England would assume broader supervisory powers over all authorized institutions. A "regular dialogue" would take place between the central bank and the auditors of the various institutions to give the supervisors a clearer picture of the banks' financial affairs. The measures would also remove the current confidentiality restraints, under which bank auditors are prevented from disclosing certain information to third parties, including the supervisors. All banks would have to appoint an audit committee and a finance director, neither of which JMB had. No credit exposure to a single borrower or group of closely related borrowers could exceed 25% of capital, "except in the most exceptional circumstances." Large exposures to borrowers connected with the bank would be closely scrutinized.

A White Paper concerning the proposals will be issued in the fall, and new legislation will be introduced in the 1986-87 parliamentary session.

France: Continued Commitment to Economic Austerity Course

Despite the forthcoming parliamentary elections in the spring of next year, the French Socialist government will continue in 1986 the economic austerity course it charted in 1983. As previously reported, Paris was recently forced to lower its economic projections for the current year; nevertheless, the administration has no intention of instituting demand-stimulating measures at this time or next year. By adhering to its present policy, the government hopes for a gradual restoration of the economic balance, with positive effects on growth and employment.

According to Economics and Finance Minister Pierre Bérégovoy, the medium-term aim is to have France return to the top group of the eight most important industrialized western countries. The inflation rate is to be lowered to 3.4% next year (5% in 1985) and the budget deficit by 3%. Economic growth is now forecast at 2.5% in 1986, compared with 1.5% expected for this year.

The guidelines for the 1986 budget, recently approved by Premier Laurent Fabius, will allow for a slight "controlled" rise in domestic demand as a result of a 1.1% reduction in taxes and social insurance contributions. To enforce a strict limit on the deficit, government ministries and other public-sector administrations have been instructed to cut their expenditures next year by 3%. This cut is to be achieved by way of modest pay increases and by not filling certain vacancies created by retirements.

One area in which the government might allow a softening of its strict austerity stance is the selective promotion of investment, according to Industry and Foreign Trade Minister Edith Cresson. She also held out the possibility of some tax relief for export-intensive high-technology sectors - for instance, industrial robots and numerically controlled machinery.

In other developments, the National Statistical Institute (INSEE) has pointed to the de-indexation of wages as the reason for the inflation and budget improvements of the French economy so far. More moderate pay increases contributed "very substantially" to the slowdown in price expansion, the latest INSEE survey notes. The 6.4% rise in blue-collar wages remained below the 6.7% inflation rate last year, whereas the year before the increase had been 1.1 percentage points higher than inflation.

Austria: Vienna Insists on Early Car Emission Changes

The Austrian government is holding fast to its early timetable for introducing strict auto emission standards, despite EEC delays in agreeing on its own plan. The opposition People's Party, however, is pressing for a two-year delay in implementing the standards. Many Austrians object to their country's taking the initiative, since Austria has no auto industry of its own. Car buyers are expected to have difficulties in complying with stricter standards, since few small cars currently manufactured are equipped with catalytic converters. Another objection is the limited availability of lead-free gasoline in other European countries.

The government points out that this would not be the first time that a small country has led the way in auto emission controls. Switzerland has adhered to the 1973 U.S. standards for years, and Switzerland and Sweden are both considering adopting the stricter 1983 U.S. standards in the near future.

Under the Austrian proposals, gas stations would have to begin offering lead-free, regular-grade gasoline by Sept. 30. As of Jan. 1, 1987, all new cars with an engine capacity of more than 1.5 liters made in or imported into Austria would have to be equipped with converters. All other new cars would be required to have the equipment after Jan. 1, 1988. Beginning on Oct. 1, persons buying new cars that conform to the anti-pollution rules before the deadline would receive tax refunds. Those purchasing cars without converters after Oct. 1 would pay a higher road tax.

Switzerland: Corporation Law, Broker Fee Alterations

A Swiss parliamentary subcommittee has proposed guidelines for a reform of the laws governing stock corporations. The most important change would lower the minimum share value to SF 10 from SF 100 *(Doing Business in Europe, Par. 29,215)*. At the same time, the minimum capital required for a new stock corporation would be raised from SF 50,000 to SF 100,000. Existing companies would have the option of adhering to the lower capital requirement.

The publication requirements for annual reports would apply only to corporations listed on the exchange. To protect minority interests, stockholders would be able to call special audits at any time, although they would have to bear the costs of such audits. Finally, a corporation would be allowed to refuse to record a transfer of registered shares only when it could state a reason listed in the pertinent statute. In that case, the company would have to offer to take over the shares itself "at the actual value."

In related developments, the Swiss Stock Exchange Federation is considering a proposal for a more staggered schedule of commissions that would mean a price break on larger transactions, while smaller deals would become more expensive. The changes are intended to make Swiss banks more competitive with foreign banks and brokers. Swiss brokerage fees are still based on the Brokerage Convention of 1947 *(Courtagekonvention)*, which was last revised in 1976. As a result, commissions in Geneva and Zurich are among the lowest in the world for small investors. For institutional investors, however, Swiss fees are no longer competitive.

Under the proposal, effective as of Jan. 1, 1986, the basic fee for stock transactions would be 1%, instead of the current 0.63-1%. However, fees for large orders would be discounted down to 0.38%, and fees on transactions of over SF 1 million would virtually be deregulated. The basic rate for bond sales, currently 0.38-0.5%, would be raised to 0.7%, although fees could be discounted down to 0.16%. Charges on bond sales of over SF 2 million would not be regulated. Special rates would also go into effect for foreign bond and securities sales, and fees for Eurobonds would essentially be deregulated. The basic fee for investment fund shares would drop to 0.3%.

EURO COMPANY SCENE

H.J. Heinz Co. intends to spend over $125 million during the next five years to automate many of its British facilities as part of an extensive cost containment program. Heinz's work force in Britain, the company's largest overseas market, will be slashed by 50% to about 2,000 employees. Heinz wants to increase its operating profit margin by two percentage points, to 13.5% over the next two years.

Timex Corp. plans to lay off 400 of the 1,110 workers at its plant in Scotland, which assembles computers and pocket TV sets for Britain's Sinclair Research Ltd. The layoffs are a result of slower-than-anticipated sales.

Ford Motor Co. is closing its wheel plant in Dagenham, England, resulting in a loss of 200 jobs. Ford said that if the company had decided to keep the plant operating it would have had to invest at least £9.5 million in modernization.

Chronar Corp. of Princeton, N.J., a high-technology company specializing in photovoltaic solar energy systems, is planning a FF 100 million joint venture in Lens, France, with several French partners. Chronar will own 51% of the plant, which will begin production early next year.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Milan Summit Ends Without Concrete Results

The EEC's Milan summit on June 28-29 did not produce any concrete results for Community development (the original purpose of such summits), but the leaders of the ten Member States did lay some groundwork for the future. The leaders of the Benelux countries, France, Germany, Ireland, and Italy voted in favor of a plan for an inter-governmental conference in October to prepare a draft treaty on the European Union; Denmark, Greece, and the U.K. voted against it. The major aims of the draft treaty (in effect amending the Treaty of Rome) would be to speed up the Community's cumbersome decision-making procedure and to ease cooperation in several areas, especially in foreign policy.

German Chancellor Helmut Kohl, backed by French President François Mitterrand, submitted a plan for improving decision-making in the Community. The proposal calls for an end to the veto and more majority voting on key issues. Member States unwilling to support Council decisions taken by majority vote would be granted a grace period for implementation.

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The foreign ministers from the seven countries backing the intergovernmental conference will now draw up a mandate for that meeting. At this point, no one can say whether representatives of Denmark, Greece, or the U.K. will attend. These three States, which for differing reasons are against any amendments to the Rome Treaty, could effectively block them by failing to ratify the European Union Treaty.

Commission's Plan for Technological EEC Gains Support

At the Milan summit, all ten State leaders gave their support to the European Commission's plan for a European Technology Community, although the plan is still far from realization. The proposal calls for the coordination of the ten Member States' research and development efforts in order to close the widening technology gap that separates the Community from the United States and Japan. The plan, called Eureka, would also complement the French government's initiative for greater cooperation in advanced technology research.

Coordination of R&D efforts would cover ten broad areas, among them information and computers, optics and lasers, telecommunications, biotechnology, new materials, space research, and new generations of transport, such as high-speed trains. Realization of the plan would require substantial additional funding from the Community budget. Commissioner Karl-Heinz Narjes, responsible for industry and research policies, estimates that the current EEC R&D outlays, amounting to some ECU 570 million or just over 2% of the total Community budget, would have to be increased to 6-8% over the next five years. The Commission wants to double spending on specific Community (rather than national) research programs over the next three years and to raise expenditures even further in the two following years. Although Britain and Germany are fully behind the idea of coordinating R&D efforts, they have reservations about the financing. Both countries are determined to stick to the strict budgetary discipline to which the Council of Ministers has committed itself.

In Brief...

The Council of Ministers has agreed on the Integrated Mediterranean Program providing for ECU 4.1 billion to be spent over seven years in the Mediterranean regions of France, Italy, and Greece. Greece will receive ECU 2 billion of the total. The European Investment Bank will make available ECU 2.5 billion in low-interest credits. The program is intended to help regions that, because of their fruit, vegetable, and wine production, will be most affected by the accession of Spain and Portugal + + + Cooperation between businesses from different Member States will be considerably easier after July 1, 1989, when companies will have access to a new legal form of cooperation. On that date, the regulation providing for the "European Economic Interest Grouping" will take effect. Formal adoption of the regulation, on which the Council of Ministers agreed on June 27, is expected later this month + + + The Council has amended EEC legislation governing the working hours and rest periods of truck and bus drivers. The amendments bring greater flexibility to drivers' working hours, but they also increase the daily and weekly rest periods. Instead of the rigid 48-hour workweek, a driver can be at the wheel a total of 90 hours over two weeks or 180 hours over four weeks. The maximum daily driving period is nine hours, with the possibility of driving up to ten hours twice a week.

Germany: Changes in Depreciation to Boost Construction

The German government has agreed on a number of measures to give the ailing construction industry a boost. (Of 900,000 construction workers, 240,000 are jobless.) One measure would amend the rules governing depreciation of buildings *(Doing Business in Europe, Pars. 23,320, 23,334-23,336)*. A business that builds or buys a new plant or office building after April 30, 1985, could write off the cost of construction or acquisition over a 25-year period. The current standard rate of straight-line depreciation for buildings is 2% of cost over a 50-year period.

The government has also decided to raise the fixed percentages that taxpayers may apply under the declining-balance method of depreciation. These increased percentages are geared to the planned halving of the depreciation period under the straight-line method. A taxpayer who invests in a new building for which the building permit was applied for after April 30, 1985, could claim depreciation of 10% during the first four years after completion or acquisition, 5% during the following three years, and 2.5% during the remaining 18 years.

The planned changes would cost the treasury an estimated DM 2 billion annually, depending on how many taxpayers take advantage of them. The government has the power to decree the lowered rates through regulation, requiring only the upper house's approval.

Since the building trades are also feeling the effects of the construction sector's deep depression, the government has proposed an investment stimulant for owners of private homes and other buildings. Taxpayers who invest in new heating systems, for example by converting from conventional heating to any of the less-polluting and energy-saving systems, could deduct 10% of the annual cost from income for ten years. Taxpayers could claim on their 1985 tax returns the deduction for costs incurred through investments made after June 30, 1985.

Britain: Retaliation Against U.S. Unitary Taxation

The British government has indicated that it is prepared to take retaliatory measures against corporations operating in Britain that are based in U.S. states which levy unitary taxation. Financial Secretary to the Treasury John Moore said that the government would show "considerable sympathy" to such an amendment to the 1985 Finance Bill. This position represents a turnaround from last year, when the government refused to support a similar amendment. In view of mounting pressure from industrial interests, the government has apparently lost patience with what it regards as U.S. "prevarication" over the abolition of unitary taxation.

The new amendment, to be proposed this month, would give the government the power to withdraw tax relief on advance corporation tax *(Doing Business in Europe, Par. 23,806G)* from those U.S. corporations that receive dividends from U.K. subsidiaries and are based in states which impose unitary taxation. Six states, including California, still follow this system. (Under unitary taxation, a company is taxed on the percentage local operations represent of its worldwide turnover and profits. U.K. multinational companies are concerned that this leads to double taxation.)

The amendment is expected to be passed by Parliament, where it has widespread support.

Denmark: Government, Parties Agree on Tax Reform Package

After many years of negotiations and discussions involving successive governments, the present Danish center-right administration and two opposition parties have agreed on a tax reform bill that would bring stiffer taxes for businesses and some relief for individuals. Prime Minister Poul Schlüter called the agreement "absolutely remarkable" and a turning point in the country's fiscal history. Business leaders said the reform would prove damaging to both investments and exports. The package is virtually certain to pass Parliament and would take effect in 1987.

The reform legislation would lower to an aggregate 68% the maximum tax rate for individuals with an income of more than DKr 200,000. The present top rate is 73% for those with an income in excess of DKr 180,000. On lower incomes, tax rates would also be generally reduced, to 50-55%. At the same time, deductions - for instance, for interest paid on private loans - would be cut back. (See also *Doing Business in Europe, Par. 21,869.*)

For businesses, the most drastic measure would be an increase in the corporate tax rate from 40% to 50% *(Doing Business in Europe, Par. 21,825)*. Deductions for business entertainment expenses would be curtailed to 25% of present levels, while taxes on dividend and interest income would rise. Foundations and labor unions would be taxed for the first time, at a rate of 50%.

The reform package, which would cost the Danish treasury some DKr 5.8 billion annually, is being sharply criticized by the business community and independent economic experts. While some point to the proposed higher corporation tax rate as effectively detrimental to investments and exports, others say that the tax relief for individuals would drive up private consumption and thereby fuel inflation (via higher imports). Still others claim that the government and the opposition Social Democrats and Radicals missed an opportunity to achieve a really fundamental reform; they term the agreement a package of piecemeal measures.

Danish Parliament Approves Unemployment Compensation Cuts

Over the protest of the labor unions and the opposition Social Democrats, the Danish four-party coalition government has won parliamentary approval for legislation that will result in the reduction of unemployment compensation when an individual remains out of work for a long period. Eventually, Copenhagen hopes to save some DKr 2.8 billion a year, or about 10% of the present expenditures for unemployment compensation and early retirement benefits.

In general terms, persons who have been unemployed for two years lose their eligibility for unemployment compensation. Seven years ago, the then-governing Social Democrats introduced a system under which the state Labor Office is obliged to repeatedly offer the jobless person a job after this two-year period - either in the public sector or in the private sector. In the latter case, the state pays the employer a subsidy of DKr 40 per workhour for a maximum of seven months.

The present Conservative-led government believes that this system discourages the active search for a permanent job, encourages job hopping, and still costs an average DKr 104,500 annually in unemployment benefits. After taxes, this amounts to about DKr 5,225 a month, compared with the DKr 3,250 received by a social welfare recipient.

To curb abuse, the new law limits the Labor Office to a one-time job offer to the unemployed. After the seven subsidized months, the insured must be in employment at least half a year within the next 30 months or his unemployment compensation will be reduced to 70% of the maximum, or DKr 3,995. If, after another year, the insured still cannot claim six months' work during the three-and-a-half-year period, his benefits go down to 55%, or DKr 3,320, which roughly corresponds to social welfare benefits.

The labor unions have reacted to the new legislation by saying that the government is trying to rehabilitate the state budget at the expense of those with the lowest incomes. (The bulk of the long-term unemployed are women with primary school educations and no job training.)

The government, in turn, points out that the law also offers the unemployed the chance to improve their qualifications by undergoing vocational training without jeopardizing benefit rights. The state will pay maximum unemployment benefits for up to 18 months to those undergoing training. Half the benefits will be paid for up to three and a half years as startup assistance to those going into self-employment.

France: Stalled Talks on Layoff Rules, Retraining

Talks between French unions and employers on layoff regulations and retraining programs came to a sudden halt shortly after opening on June 22. The employers' federation (Patronat) is demanding more flexibility in laying off workers, while the unions want to keep on the books the current law requiring government approval before employees are let go *(Doing Business in Europe, Par. 22,952)*. As a tradeoff for more flexible regulations, the employers are willing to accept a one-year retraining program for laid-off workers as proposed by the unions and backed by the government. Workers would receive 70% of their previous pay for the first six months of the program and 60% for the rest of the year.

The unions have accused the employers of trying to stall the talks until after the March 1986 elections in the hope that a more sympathetic conservative government will be elected. The government, on the other hand, wants to put the retraining program into effect this year so that an estimated 300,000 laid-off workers could be kept off the official unemployment list (currently numbering 2.4 million), at least until after the elections.

The breakdown in talks on the retraining program is also hurting Renault's and Citroën's chances of cutting the workforces at their car manufacturing plants without outright dismissals. Recently Citroën announced plans to cut 1,300 jobs this year, and Renault expects to cut 17,000 jobs by the end of 1986.

Greece: Papandreou to Step Up Government Intervention

Greek Prime Minister Andreas Papandreou, in laying out his newly reelected government's economic targets for the next four years, has emphasized the importance of slashing inflation and shoring up certain industrial sectors. The government expects to reduce inflation, currently at 17%, to below 10% by 1989. Experts say that this can be achieved only with the help of rigorous price controls and restrictive treatment of profits, assuming that wage increases are moderate and that the public-sector deficit is brought under control. Papandreou said the various state-run intervention organizations will become more active in regulating prices and profits.

The government is particularly worried over the decline of the shipping industry and is planning on additional aid for that sector. Greek ships transported 32,335 million tons of cargo in 1984, down from 36,806 million tons in 1983. To aid small and medium-size companies in all sectors, Papandreou plans to establish a new state-run bank to serve as a "leasing system for the generation of assets." The prime minister also promised the creation of 173,000 to 200,000 new jobs to reduce unemployment, which officially rose to 8%, or 300,000 jobless, last year. The opposition New Democracy Party, however, claims that over 380,000 Greek workers are unemployed.

Since the June elections, Papandreou has avoided commenting on Greece's rapidly growing foreign debt, currently $12.35 billion, or 32% of GDP. If this situation does not improve, many financial experts say, Greece will have to seek rescheduling of the debt or help from the International Monetary Fund within the next two years.

Italy: OECD Warns Rome on Inflation, Borrowing

The Italian government cannot let its success in controlling prices and wages in the past year obscure the fact that the still-high inflation rate and state borrowing requirement must be brought under control, the OECD warns in its latest economic survey. Rome's first priority must be to stabilize the growth of the public sector and then to cut back on its expenditures while implementing unpopular tax increases, according to the OECD. Until these steps are carried out, the survey says, the government will have to continue to rely on monetary rather than fiscal policy in steering the economy. For the time being, high interest rates will have to be maintained, pushing the government's debt servicing burden even higher.

The OECD advises Rome to pursue a more active incomes policy to help rein in inflation. The rate of price increases has already dropped from 16.1% in the first half of 1983 to 9.3% in the second half of 1984. The organization forecasts a drop in inflation to 8.25% this year, considerably above the government's target of 7%. The state borrowing requirement, on the other hand, has grown to 13.5% of GDP, while the public-sector debt has reached 91% of GDP. Overall growth should amount to 2.25% this year, down from 2.6% in 1984. Increases in industrial production are expected to slow to 2.75%, from 3.2% last year. The current account, which ended 1983 with a slight surplus, showed a deficit of $3 billion for 1984.

Sweden: Riksbank Sets Public Limit on Krona Variations

In order to provide greater stability in the financial markets, Sweden's central bank has for the first time made public the margins by which it will allow the krona to fluctuate against a basket of currencies before intervention. Since the 16% devaluation of the krona in October 1982, the official benchmark against the basket has been 132. The Riksbank said it will allow the index to fluctuate between 130 and 134, or 1.5% above or below the benchmark. Previously, the bank said, it has intervened only when the index rose or fell by 2.25%.

Earlier this year, the index rose sharply in response to the strengthening of the U.S. dollar, resulting in a weakening of the krona. On May 13, the Riksbank raised interest rates in a successful attempt to slow capital outflows and boost the krona.

Austria: U.S. Capital Investment Continues to Rise

U.S. capital investment in Austria has been continuing its growth of the past decade, so that American companies now employ about 1% of the country's workers and 3% of its industrial workers, according to a recent survey by the American Chamber of Commerce in Austria. The survey was answered by 238 companies, accounting for 95% (28,600) of the workers employed by Chamber members. These companies originally imported capital of 5.9 billion schillings, which has grown to actual assets of 11.8 billion schillings. Most of the companies are in the electrical, chemical, machinery, and service sectors. Sixty percent of the employees work in industry, 28% in trade, and 11% in the service sector.

The pace of U.S. investment in Austria has been quickening since the early 1970s. In 1981-84, U.S. investors started 54 new businesses there. This growth stands in contrast to European investment in Austria, which has stagnated since the spurt of growth following the dissolving of many trade barriers between Austria and the EEC, begun in 1972. According to the survey, most U.S. firms established units in Austria to facilitate their Austrian trade or to continue their worldwide expansion.

Portugal: Eanes to Call Early Parliamentary Elections

Portuguese President Antonio Ramalho Eanes has decided to disband Parliament and call early elections in an attempt to solve the crisis begun when the Social Democrats pulled out of the governing coalition on June 13. The formal dissolution of Parliament will have to wait until after July 10, when the debate on the ratification of the EC accession treaty is scheduled to begin. After the vote, however, Eanes has only until July 14 to make his move, since the constitution prohibits the president from dissolving Parliament in the last six months of his regular term of office. (Presidential elections are set for December.)

For Eanes this decision was apparently a last resort, after he vainly appealed to all political parties to agree on a new coalition government. Prime Minister Mario Soares' Socialist Party is the only group opposed to early elections, citing high political and economic costs. Observers expect the elections to alter Parliament's political makeup only slightly. Several new coalition possibilities, however, could be created if the newly formed Eanes Party wins enough of the vote.

Eanes must still determine the composition of the government that will hold administrative powers until the elections. The president has neither accepted nor turned down Soares' resignation as prime minister.