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Community: Germany Partly in Default on Labor Rules

The European Court of Justice has held Germany in default of the Treaty of Rome for failing to take measures required by EEC equal treatment legislation concerning indication of those occupational activities where sex is a determining factor, such as modeling. On four other grounds also invoked by the European Commission in its action, the Court found no fault on Germany's part (judgment of May 21, 1985, Case No. 248/83).

The Commission decided to sue Germany after years of wrangling over what legislation was necessary to comply with the Council directive on equal treatment of men and women in employment, vocational training, promotion, and working conditions as well as with the directive on equal pay for men and women (Directive 76/207 of Feb. 9, 1976 - *Common Market Reports, Par. 3910.123*; Directive 75/117 of Feb. 10, 1975 - *Par. 3942.15*).

Germany failed to define the area of application of the exceptions provided for in Article 2(2) of Directive 76/207, the Commission alleged. The Court found that Article 2(2) does not impose an obligation on the Member States but rather reserves

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to them the right to exclude certain occupations from equal treatment. On the other hand, Article 9 does impose such an obligation, the Court found. The Member States have to provide a complete and verifiable survey of occupations excluded from application and thus enable the Commission to assess national exclusionary practices. Germany had failed to draw up a list of these occupations.

In its action, the Commission also charged that Article 3 of Directive 76/207 requires subsequent legislation to apply the equal treatment principle in the civil service sector. The Court found, however, that the German constitution's equality clause, together with legal redress, offers an adequate guarantee for safeguarding the directive's equal treatment principle. No further legislation is necessary, according to the Court.

The Commission maintained that for the sake of legal security Germany should also have enacted legislation to ensure the directive's equal treatment principle with respect to access to independent occupations and the liberal professions. However, the Court agreed with the German government's argument that access to the liberal professions is guaranteed by the constitution, and admission is governed by laws providing full guarantees against bias and allowing for redress.

The Court of Justice rejected the Commission's allegation that Germany also flaunted the 1976 directive by its failure to enact provisions regarding offers of employment. The directive does not impose any obligation on the Member States to introduce general legislation regarding offers of employment, the Court ruled.

Ministers Reach Consensus on Broadened PCB, PCT Ban

The Council of Ministers has reached agreement on amendments to current EEC legislation that would further restrict the marketing and use of polychlorinated biphenyls (PCBs) and polychlorinated terphenyls (PCTs). A 1976 directive bans the use, except in certain instances, of PCBs and PCTs, which damage the liver and have carcinogenic effects. Exceptions include low-concentration usage and use in closed systems and hydraulic and heat-transmitting fluids *(Common Market Reports, Par. 3450.41)*.

The amended draft directive, which might be formally adopted before the summer recess, would ban the use of PCBs and PCTs in closed systems as of June 30, 1986. The proposal also includes a ban on the sale of second-hand appliances and fluids containing the two substances. Because proper disposal facilities for PCBs and PCTs are available in only three Member States, however, the measure authorizes the use of both substances in existing equipment until the end of their service lives. The measure would also lower the limits of concentration of PCBs and PCTs wherever they could still be used as primary materials and intermediate products for further processing into other products.

The health and environmental hazards stemming from the continued use of PCBs and PCTs, plus the fact that substitute products are available, prompted the European Parliament to push for an early ban: Dec. 31, 1985. The Commission's proposal provided for a ban at the end of 1989.

In Brief...

The Commission has authorized the U.K., Italy, and the Netherlands to grant State aids to national shipyards, but a decision on the planned French aid system has not been reached. The aid from the three approved plans will be used solely to help the shipbuilding industry restructure and become competitive again, the governments have assured the Commission. These two objectives are the conditions for granting aid under Council Directive 81/363 on shipyard aids + + + The Commission is investigating alleged dumping of acrylic fibers by Israel, Mexico, Romania, and Turkey. The European Fiber Producers Assn. claims that 1984 imports from these four countries were 200% above 1981 levels. Prices of EC synthetic fibers have been undercut, the association charges, and the imports have blunted the impact of capacity cuts made in the past four years to reorganize the industry + + + The Commission has proposed a new approach in EEC legislation on mutual recognition of diplomas. Instead of defining the specific criteria governing the equivalence of university degrees for each individual profession, the Commission proposes that Member States mutually recognize the diplomas of nationals: if a graduate qualifies to exercise a profession in the home State, he or she should be equally qualified to engage in the same profession in another State. If adopted, the new approach would help those professionals who are not already governed by EEC rules, such as accountants and psychologists.

Germany: Compromise on Parental Leave Legislation

Bonn's coalition parties have reached a compromise on planned legislation that would entitle employees to parental leave to take care of a newborn child. A DM 600 cash grant would be given monthly for up to ten months to whichever parent gives up his or her job to take care of the baby. Unemployed wives having a baby would likewise receive the cash grant. The government would pay the social security and unemployment contributions. The grants will start in 1986 if the bill is passed.

The cash grant would be paid for six months without regard to the recipient's income. When a married couple's annual income exceeds DM 29,400, the cash grant would gradually decline. A single person's income ceiling would be DM 23,700; the income ceiling of either married or single persons would be extended by DM 4,200 for each child in the family. Officials estimate that about 40% of the qualifying recipients would get the full amount

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for ten months, another 40% of them would get less than DM 600 from the seventh to the tenth month, and the remaining 20% would receive nothing after the sixth month because of the income ceiling.

The first draft, presented by Family Minister Heiner Geissler last year, contained a clause that would have guaranteed the parent's job after he or she returned from leave. The Free Democrats' objection to this full-fledged job guarantee has been the major reason that the bill was not presented to Parliament before the summer recess.

The compromise comes close to a full job guarantee. The employer could not give notice during the ten-month leave, except when state permission is given in exceptional cases. (The employer is already prohibited from giving notice to a mother for four months after the birth - *Doing Business in Europe, Par. 23,436.*) The exceptional situations would be listed in administrative guidelines that the state governments would have to follow in processing employers' applications for giving notice to persons on leave. A number of possibilities were described in the compromise: the survival of the business is at stake; a plant or division will be closed; or the business will be relocated. Small businesses would be justified in giving notice whenever retaining the employee would be an undue burden or a substitute who is willing to accept an employment contract of limited duration cannot be found.

Britain: Government Reversal on Capital Gains Tax

The British government has unexpectedly announced plans to abolish the capital gains tax on government gilt-edged securities and qualifying corporate bonds *(Doing Business in Europe, Pars. 23,856-57)*. Earlier this year, Chancellor of the Exchequer Nigel Lawson had proposed a series of new rules for indexing gains to allow for inflation. At that time, he emphasized that the changes would ensure a "broadly acceptable and sustainable basis" for the capital gains tax. Lawson said the government is now afraid that the allowable losses from trading in gilts would mount because of the inflation adjustment provided in the Finance Bill. Under those rules, a gilt-edged stock that was bought and sold at par within a year would have attracted a qualifying loss.

Existing rules impose a 30% capital gains tax on government stocks held for less than a year and a day. Accordingly, taxable profits are rarely generated because investors usually hold stocks until they become exempt.

The most significant aspect of the new regulations is that losses on gilts would no longer be set off against profits in equity shareholdings. Insurance companies, which hold about 30% of all gilt-edged stocks, would be particularly hard-hit, as would other tax-paying institutional investors.

The changes would clearly hold long-term implications for the gilt-edged markets. Some financial observers say that the attraction of investing in gilts instead of equities would be reduced, resulting in increased interest in preferred shares. Institutional investors would be liable for higher levels of capital gains tax, so that government revenues would rise while taxes would fall.

France: Paris Steps In to Curb Drug Consumption Abuse

The French government has published a list of 98 drugs for which the national health insurance system will no longer offer reimbursement. For another 379 pharmaceutical items, the cost contribution of the insured has been raised from 30% to 60%. The government justifies the measures on the ground that many drugs are no longer up to the latest pharmaceutical standards and that it is necessary to contain "excessive drug consumption."

Most of the products which the user will have to pay for himself, or pay more for, have been labeled as bagatelle drugs or "luxury medications" *(médicaments de confort)* by the health authorities. However, many physicians say that the major purpose of the government's intervention is to limit the deficit of the national health insurance system. The labor unions, especially the Communist-led CGT, have criticized the measure as another step toward the dismantling of the social welfare system. The overwhelming public reaction, however, appears to be favorable: observers point out that most of the French population is tired of the regular annual increases in health insurance contributions, which indirectly encourage abuses in drug consumption.

Bank of France Moves to Slow Money Supply Growth

On July 7, the Bank of France imposed measures to curb the growth of the money supply and thus inflation. Foreign borrowing by French banks is being limited to slow capital inflows by an estimated FF 10 billion. Another FF 15-billion reduction in monetary expansion is being sought through an increase in the amount of reserves banks must hold in the central bank, which will result in a drop in lending. New loans for housing are an exception, although the rising number of housing loans has been a major factor in the rapid money supply growth. The government is also switching its financing emphasis from the issuing of short-term treasury bills - which boosted monetary expansion - to the issuing of bonds. The government expects to raise about FF 95 billion through bonds by the end of the year.

In March, April, and May, the growth of the French M2 money supply averaged 8% above the previous year, well over the 4-6% upper limit set by the government. This rapid growth has held back progress against inflation, which is targeted at 4.5% for this year but remained at 6.5% in May.

Finance Minister Pierre Bérégovoy favors the tougher credit policies, although they are bound to damage his efforts to lower interest rates. Observers believe that if the measures prove successful during the second half of the year the Bank of France will withdraw them prior to the 1986 elections.

Spain: Finance Minister Resigns During Cabinet Changes

The reshuffling of the Spanish cabinet, expected for two weeks, was finally carried out on July 4 and included the surprise resignation of Finance Minister Miguel Boyer. Political sources said that Boyer, called "super minister" because he also held the economic and commerce portfolios, resigned because his request to be named to a new post of deputy prime minister for economic affairs was turned down by Prime Minister Felipe Gonzâlez. Gonzâlez, however, has denied that report. Major changes in economic policy are not anticipated as Industry Minister Carlos Solchaga takes over the economic, finance, and commerce ministries.

Another important alteration in the cabinet was the dismissal of Foreign Minister Fernando Moran, an outspoken opponent of Gonzâlez's campaign to maintain Spain's membership in NATO. Gonzalez can count on more support from the new minister, Francisco Fernandez Ordonez, who was finance and justice minister under the former Social Democratic government and became a member of the Socialist Party shortly before the last elections.

Switzerland: Bern Foils OECD Vote on Banking Secrecy

Swiss government resistance has caused the Organization for Economic Cooperation & Development not to bring to an OECD Council vote a recommendation of the organization's fiscal affairs committee that banking secrecy be relaxed or abandoned to counter international tax evasion. The decision not to vote on the proposal came as a surprise to most observers; nevertheless, the text of the committee's report was released to the public.

Switzerland had planned to use a veto in the voting, or at least abstain, and it had the support of both Austria and Luxembourg, two other European countries where aliens benefit from extensive banking secrecy rules. The proposal has now been formally sent back to the fiscal affairs committee, thus preventing an open confrontation between the OECD Member States. Swiss sources indicated that the matter is now "off the table," at least for the time being.

The Swiss ambassador to the OECD, Jean Zwahlen, in a Paris news conference on July 3, sharply criticized the fiscal affairs committee, saying that the recommendation showed "a lack of balance" and had been drafted from the one-sided viewpoint of tax experts. Under no circumstances would the Swiss government have been able to accept the recommendation, Zwahlen indicated, because the Swiss electorate had explicitly voted for the retention

of banking secrecy in a 1984 national referendum. The ambassador pointed out that his country has been cooperating with foreign authorities, notably in the U.S., in cases where banking secrecy was abused in tax frauds and other criminal activity.

The United States, Britain, and Sweden were seen by observers as the major proponents of the rejected OECD proposal, which also favored a more intensive exchange of bank information in order to curb tax evasion and fraud. Work on the document, "Taxation and the Abuse of Banking Secrecy," had been progressing for about six years, but the issue came out in the open recently when a leaked draft appeared in the Swiss press. Observers said it was the first time that Switzerland has opposed a majority of the 24 OECD Member States on a controversial issue.

Swiss Propose Ban on Phosphates in Textile Detergents

The Swiss government has agreed on a proposal to ban phosphates in textile detergents as of July 1, 1986. The measure is expected to reduce the phosphate content in waste water by over 10%, or 4,000 tons per year. Switzerland first enacted maximum phosphate limits in 1977 and toughened these restrictions in 1981 and 1983. After it was determined that other less-damaging substances could also soften water and hinder calcium residues, the Interior Dept. recommended a complete ban on phosphates in textile detergents.

The proposal would also limit to 5% the content in detergents of nitrilo triacetate, a common substitute for phosphates. In addition, the phosphate concentration in treated waste water disposed of in lake drainage areas would be limited to 0.8 mg per liter, reduced from the current 1 mg per liter. Recommendations will be made to farmers in an attempt to lower the amount of phosphates going into Swiss waters from agricultural sources. (See also *Doing Business in Europe*, *Par. 29,548E*.)

EURO COMPANY SCENE

Citicorp is tripling its investment in Citicorp International Bank Ltd., a U.K. capital markets subsidiary, to £250 million. The British bank will be renamed Citicorp Investment Bank and become the parent company for six other units.

In its first major overseas acquisition, Maryland National Bank is buying the Luxembourg subsidiary of Norwest Bank of Minneapolis for an undisclosed sum. The takeover of Norwest American Bank of Luxembourg, which holds assets of $178 million, must still be approved by Luxembourg and U.S. authorities.

Ford of Europe has decided to build its "third-generation" lean-burn engines in a £157 million plant in Dagenham, England. Initial output, beginning in 1987, is expected to be around

200,000 units annually. Production of Ford's standard overhead cam engine, now based at Dagenham and Cologne, Germany, will gradually be transferred to Cologne, which was also considered as a site for the new plant.

Mellon Bank's branch in Frankfurt, Germany, will close on Sept. 30. The branch has a balance sheet total of about $200 million. In the future, Mellon's European business will be handled mainly by the London office.

Following Spain's agreement earlier this year that technological goods useable for both civilian and military purposes will not be exported to potentially hostile countries, the U.S. Commerce Dept. has licensed Hewlett-Packard Española to export sensitive computer equipment. The company, the Spanish unit of Hewlett-Packard Corp. of the U.S., plans to invest $12 million in a Barcelona plant to produce digital plotters.

Due to rising competition from imports and comparatively high production costs, Ex-cell-o Corp. of the U.S. plans to concentrate in Europe its manufacture of machine tools. The company currently operates Ex-cell-o Corp. Ltd. in Leicester, England, and Ex-cell-o GmbH in Eislingen, Germany.

Inductotherm Industries, Inc., a U.S. industrial heater producer, has an option to buy four subsidiaries of Ateliers de Constructions Eléctriques de Charleroi SA, a Belgian electrical engineering company. The subsidiaries, specializing in induction heating for industry, are Elphiac of Belgium, Hochfrequenzwärme Schmidt & Cie. of Germany, Elphiac do Brasil, and the Electrothermics division of ACEC France.

Wurlitzer Co., the U.S. piano and organ company, has sold its Deutsche Wurlitzer GmbH unit to the Nelson group of Australia. The German company will continue to make and sell Wurlitzer vending equipment and related products.

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Community: Controversial Farm Policy Paper Withheld

The European Commission has temporarily defused a potentially explosive paper on a major reform of the common agricultural policy by withholding it from public release. Farm Commissioner Frans Andriessen has presented to the press only the introduction to the 60-page Green Paper, but enough of the document's content has become public to provoke protests from several national farmers' associations and criticism from Member State governments. Commission officials have been discussing whether elements of the document should be toned down to avoid severe criticism.

The paper suggests far-reaching changes in the common agricultural policy to avoid the annual disputes over how to manage surpluses and farmers' declining incomes. There are basically only two ways of coping with the problem - cutting back surpluses and costs through price reductions or imposing quotas on the volume of production protected by price guarantees. The paper concludes that the latter choice, exemplified by the 1984 milk superlevy, does not really help and, moreover, causes political,

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economic, and administrative problems as well as reductions in farmers' incomes. The authors of the Green Paper believe that market prices must play a bigger role where surpluses exist. Price cuts would have to be substantial to lower costs and output, the authors say, although they foresee detrimental consequences for farmers' incomes, the employment situation, and land cultivation.

The paper suggests a series of changes in the current system governing cereals (now the main bone of contention between Germany and the other Member States because of a proposed 1.8% price cut). These changes would include large price cuts combined with income support to owners of medium-size farms, new punitive levies in years of big harvests, and restricted access to guaranteed prices toward the end of a season. Small farmers affected by price cuts should be compensated by government aid, the authors believe.

With respect to the EEC's external trade in farm commodities, which has brought on strong disagreement with the United States, the paper says that the costs and risks of trading agricultural products must be assumed by the producers and not be left to the Commission. A way of bringing Community prices down to world market levels would be to restrict the quantities eligible for export subsidies, the authors suggest.

German, Turkish Experts Discuss Free Movement

The Commission is taking a wait-and-see attitude toward the outcome of German-Turkish talks seeking a solution to the crucial issue of free movement of Turkish workers in the European Economic Community. German Chancellor Helmut Kohl and Turkish Prime Minister Turgut Ozal failed to make any headway on the matter during their recent discussions in Ankara, and now the issue is in the hands of German and Turkish experts. If the two sides reach an understanding on free movement, the Commission will step in and conclude an agreement with the Turkish government. This formal approach is necessary because only the Commission has powers of negotiation in trade relations with third countries.

Under the 1964 association agreement between the EEC and Turkey and an additional accord signed in 1970 *(Common Market Reports, Par. 5346)*, Turkish workers would, as of Dec. 1, 1986, have the right to enter the Community and move freely therein. German governments, however, have refused to live up to the commitment. As host to half a million Turkish workers and another million dependents (85% of all Turks living in the EC), the German government objects to unrestricted free movement. The government has taken a rigid stand because of persistently high unemployment and the prospect of entry by another million Turks who have indicated an interest in going to Germany after the 1986 date.

During his recent visit to Turkey, Kohl offered financial aid and vowed to use his influence to convince the other Common

Market partners to release some ECU 600 million in promised aid. These funds have been withheld since 1981 because of the military regime's attitude toward human rights. Kohl said the new government that emerged from the April 1984 Turkish national elections has made significant progress toward democracy. Many Brussels observers are skeptical about Kohl's chances of swaying his colleagues on the aid issue. However, they and Commission officials see a good chance of resolving the free movement issue if Germany is generous in granting aid to Turkey.

In Brief...

Luxembourg, holding the Council's presidency in the second half of 1985, is determined to push plans for amendments to the Treaty of Rome. Involving increased use of majority voting, voluntary restraint on exercising the veto, and new powers for the Commission and the European Parliament, these plans suffered a setback at the June 28-29 Milan summit. Only seven States voted in favor of an inter-governmental conference on the amendments, to start in October. The U.K., Denmark, and Greece oppose such a conference + + + The Commission has prepared proposals that would lift the minimum price controls on steel but would retain production quotas for most steel products beyond 1985. Dec. 31, 1985, is not only the date set for phasing out steel industry aid but also the deadline set by the Council of Ministers in 1980 for a return to normal market conditions. Although the Community's steel industry has cut capacity by 30 million tons since 1980, this does not necessarily mean that all controls will be abandoned, according to the Commission. Production quotas would be abolished on three categories of products - reinforcing bars, wire rods, and merchant bars. The proposals are expected to go to the Council in a few weeks.

Germany: Government Proposes Tougher Detergent Laws

Draft legislation prepared by the German government would considerably stiffen existing rules on detergents and other cleansing agents and would extend statutory provisions and regulatory powers to cover auxiliary products, such as softeners. Under the 1975 Detergent Law, manufacturers may market only those detergents and cleansing agents that do not pollute rivers and lakes or hinder the operation of sewage plants beyond what is absolutely unavoidable in normal use *(Doing Business in Europe, Par. 23,547F)*.

The planned legislation would compel manufacturers to develop substitute products that have a higher degree of biodegradability. The government would have the power to bar the marketing of certain products "if it has reason to fear a negative impact on the aquatic environment." Current rules authorize the government to prohibit the sale of a product only when a negative impact

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"can be expected from it." In line with Bonn's policy, the planned legislation would also permit detergent manufacturers to enter into agreements with the government, thus voluntarily committing themselves to action that they could be forced to take.

Since the government's appeals to consumers to be sparing in the use of detergents and similar products have gone largely unheeded, Bonn has decided to try a different approach by asking for regulatory powers over manufacturers. Makers of washing machines could be compelled to install devices that automatically control the volume of detergent or softener used in one washing.

In addition to about one million tons of detergents and cleansing agents, approximately half a million tons of softeners and other auxiliary products are marketed annually in Germany. Softeners have turned out to be more detrimental to rivers and lakes than assumed a decade ago when the Detergent Law was enacted. These products have also aggravated the problems of sewage plants.

Britain: London Backs Move Against Unitary Taxation

As anticipated, the British government has given its backing to retaliatory action against the unitary tax system imposed by California and other U.S. states. A new clause has been added to this year's Finance Bill which could result in U.S. corporations having to contribute an extra £500 million a year to the U.K. treasury. Financial Secretary to the Treasury John Moore said, however, that he hopes it will prove unnecessary for the U.K. to invoke these reserve powers and that the U.S. states involved will instead "be able to secure a satisfactory solution."

The new provision, which can be brought into effect only by a further parliamentary vote, would deny tax credits (equivalent to £15 on a £100 dividend) to certain parent companies in the U.S. that would otherwise benefit from the repatriation of profits from their U.K. subsidiaries *(Doing Business in Europe, Par. 23,806G)*. The companies affected would be U.S. corporations having a "substantial presence" in unitary tax states. "A substantial presence" is deemed to be 7.5% or more of a company's property, payroll, or sales of its principal place of business. The corporation would have to prove that it is entitled to tax relief. In addition, the enabling powers would be backdated to April 1, so that companies that are judged to have accelerated dividend payments to avoid the new provision may be subject to a fine amounting to twice their advance corporation tax relief.

Observers believe that the clause would cover most U.S. multinational companies with U.K. operations. Moore emphasized that the continuation of unitary taxation would damage inward investment in those states that impose it. He objects to state tax authorities having the power to demand information about the financial records of U.K. companies and their subsidiaries which is

unrelated to activities within the U.S. The U.S. states are taxing profits earned outside of their jurisdictions, Moore said, and thus are "breaching the internationally accepted principles" and often effecting double taxation.

France: Bill Would Institute Worker Retraining Program

The French government has presented to Parliament a bill that would establish a retraining program for laid-off workers, keeping them off the unemployment list for six to ten months. When employees are laid off for economic reasons, their contracts would be considered suspended rather than terminated while they undergo retraining. The workers would receive at least 65% of their previous pay, as much as half of which would be paid by the state. Employers would not have to make social security and payroll tax contributions on this pay. Only after the participants complete the retraining program would they be placed on the unemployment list. The law would become effective on Sept. 1.

The government had hoped that the retraining program could be laid out in a union-employer agreement. Talks broke off, however, shortly after opening in June, due to a disagreement on flexible layoff regulations. The scope of the program proposed in the bill is much narrower than the one originally supported by the unions and government. Probably not more than 30,000-50,000 workers would be eligible for the program, compared with an estimated 300,000 for the earlier proposal. Still, keeping even the smaller number of workers off the unemployment rolls would be of help to the governing Socialists in the 1986 elections.

INSEE, the state statistical institute, recently predicted that slower-than-anticipated economic growth in France would lead to the loss of about 160,000 jobs this year. Unemployment is currently at about 2.4 million, or 10%. INSEE anticipates growth of 0.8%, while the government expects growth of 1.5% again this year. Inflation should drop to 5.5% from 6.7% in 1984, according to the institute; the government, however, is forecasting inflation of 4.5%.

Greece: Economic Policy Rift Within Papandreou's Party

Athens reports say that economic policy differences have become apparent between Greek premier Andreas Papandreou and some leading members of his governing Socialist Party (PASOK) following the June 2 elections. The dispute emerged prior to the final formation of Papandreou's new cabinet, which will replace the interim cabinet installed early last month. Papandreou reportedly wants to lean more heavily on ministers with strong qualifications, while certain PASOK politicians would prefer a more "ideological" course.

The government has now sent to Parliament a bill providing for a restructuring of economic policy-making within the adminis-

tration. The legislation, which is expected to be passed in the near future, calls for the establishment of a High Council for Economic Policy (ASOP). The council would, in effect, constitute an "economic cabinet" headed by the prime minister and comprised of the economics, labor, and agriculture ministers as well as the central bank governor. Also established would be a Commission for Prices and Incomes, headed by the economics minister and including the ministers of finance, agriculture, industry, energy, technology, and trade. In addition, there would be changes in the responsibilities of various ministries.

At the heart of the policy differences within Papandreou's party lies the dissatisfaction within the government itself with the country's economic development. Some PASOK factions favor a more pronounced deficit spending policy in the public sector in order to stabilize the labor market. Papandreou, on the other hand, advocates a balanced reduction of the budget deficits as well as a ceiling on the foreign debt. He wants to reduce the deficit of the current-account payments balance from $2.182 billion, or about 6% of the national income, in 1983 to 3.5% by 1988. To help achieve this goal, Papandreou and Economics Minister Gerassimos Arsenis plan to curb the generous subsidies now extended to the state sector and communities.

Economic observers in Athens say that Papandreou is beginning to concede that some of the government's original projections for this year were far too optimistic. In the January-April 1985 period, the capital goods sector showed a decline of 9.3%, retail trade dropped by 4.5%, and construction output by 1%. The official rate of unemployment now stands at 9%, a figure that many experts say is far too low.

Against this background, Papandreou and Arsenis would like to boost the competitiveness of private industry by a successive lowering of interest rates, so as to reduce credit costs. The PASOK ideologists are pushing for an expansion of the state procurement programs to favor domestic businesses over international competitors. Such an expansion would be no problem in administrative terms because the Greek state controls 80% of the domestic capital and credit market through its majority participations in the country's banks.

Belgium: Cabinet Offers Resignation; Election Date Moved Up

After King Baudouin turned down the government's resignation on July 16, the Belgian center-right coalition agreed to remain in office until early elections can be held in October. The crisis began with demands for the resignation of Interior Minister Charles-Ferdinand Nothomb following the May 29 riot at the European Cup soccer championship in Brussels, where 38 people were killed. (Nothomb held general responsibility for security at the match.) When Nothomb refused, Deputy Prime Minister Jean Gol led a walkout of the other five ministers who are members of the

Francophone Liberal Party. Prime Minister Wilfried Martens then offered the resignation of the government. Only after the resignation was refused did the Liberals agree to participate in an interim government.

Martens said that the cabinet's agenda until the elections (moved up from Dec. 8) will be "limited." The long-awaited tax reductions, however, will still be discussed, and a parliamentary vote is expected later this month.

Portugal: Outgoing Parliament OKs Accession, Tax Moves

In its last session before its dissolution, the Portuguese Parliament ratified the accession treaty with the European Communities and passed a number of fiscal measures. New parliamentary elections will be held in early October to resolve the political crisis that resulted from the withdrawal on June 4 of the center-right Social Democrats (PSD) from the government coalition. Until the elections, Prime Minister Mario Soares will continue as acting prime minister.

Before its adjournment, Parliament approved government-sponsored draft legislation for a reduction of interest rates and of the capital gains tax imposed on income from interest. The latter measure has no immediate impact, however, since the capital gains tax change will not take effect before Jan. 1, 1986. At that time, the tax on interest income from time deposits will drop from 18% to 13% for residents. For nonresidents (Portuguese emigrants and workers domiciled abroad), the tax rate will go from 10% down to 3.3%. Interest rates on loans will decline too, by 2.3-3 points. The government wants to stimulate savings activity, lower financing costs for businesses, and reduce the interest burden on new issues. However, considering Portugal's system of prepaying interest on loans, the reduction of the basic rate from 29% to 26% for a bank loan with a life of 180 days still means an effective credit rate of 38.16%, it has been pointed out.

At the same time, Parliament approved a number of modifications for value-added tax. The introduction of VAT, which originally had been scheduled for July 1, has been postponed until Jan. 1, 1986. Newly exempted from VAT will be a number of items, such as newsprint, books, bread, dried fish, pharmaceuticals, and unbottled wines retailing for less than 80 escudos per liter. The VAT rate for foodstuffs was lowered from 16% to 8%.

Spain: Employers Demand Help to Raise Competitiveness

Spain's CEOE employers' federation is pushing the government to institute reforms of labor legislation and social security financing in order to keep Spanish companies competitive following the country's accession to the EEC (scheduled for Jan. 1, 1986). In a report requested by Prime Minister Felipe Gonzãlez, Josẽ

María Cuevas, CEOE chairman, says that current restrictions make it difficult for Spanish companies to compete with those operating in countries that have less demanding regulations. This is true particularly in the case of rigid hiring and firing rules, "abnormally high" social security contributions, and insufficient fiscal and budgetary measures to encourage investment, Cuevas says. (According to the central bank, the self-financing capacity of Spanish companies is 28%, compared with 40% for French and 60% for German companies.) Giving employers any relief from social security contributions could be impossible, however, since the old-age pension system is fast approaching bankruptcy.

In other news, González has promised that his government will not back down from its budget austerity program, despite the recent resignation of Finance Minister Miguel Boyer. There is speculation, however, as to whether this devotion to austerity could lapse as the 1986 elections draw closer. The International Monetary Fund cautioned against easing these policies in a report given to Boyer just before his resignation. The IMF praised the government's progress in the areas of inflation, exports, and state spending, while expressing concern over continuing high unemployment.

EURO COMPANY SCENE

Ford of Europe plans to stop its production of heavy truck axles in the U.K. by the end of 1987. Voluntary layoffs and attrition are expected to achieve the necessary elimination of 470 jobs at its plants at Langley and Leamington Spa in England and at Swansea, Wales. Ford's decision is in anticipation of a switch from drum to disc brakes for trucks in the late 1980s.

Esso AG (Exxon) may have to close one of its three remaining German refineries due to heavy losses. Most German refineries experienced large losses last year, and capacity has fallen from 160 million tons in 1978 to 105 million tons at the beginning of this year.

National Gypsum, a Dallas-based construction materials group, will become the largest shareholder in Lafarge Coppée when it acquires a 10% stake later this year. At the same time, Lafarge, a French cement company, will take over the last 40% of their joint French subsidiary, Compagnie du Plâtre.

Textiles y Confecciones Europeas SA, the Spanish maker of Lois jeans, has signed an agreement with Blue Bell, Inc., of North Carolina to produce the American company's Wrangler jeans and market them in Germany, Austria, and Portugal. In a separate agreement, the Spanish company agreed to handle the European distribution of sportswear made by the Gloria Vanderbilt division of New York's Murjani.

Common Market Reports

EUROMARKET NEWS

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Community: EEC Impatient Over Trade Deficit With Japan

During his recent European tour, Japan's prime minister Yasuhiro Nakasone heard many critical remarks reflecting the Community's growing impatience with its $10 billion trade deficit with Japan. Government leaders of five Common Market states (Germany, the U.K., France, Italy, and Belgium) and European Commission President Jacques Delors complained to Nakasone about the slow pace of measures to open up the Japanese market and liberalize its financial sector. The Japanese government's newly announced three-year program involving tariff reductions for some 1,500 items, less red tape in importation procedures, and fewer administrative obstacles to market access is believed to be capable of bringing only marginal relief to the trade imbalance. Japan has carried out seven such programs in the past without improving the situation.

The Commission told the Japanese prime minister that the EC Member States will formulate a common approach in late fall after the details of Japan's new program are known and an early

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assessment can be made. Germany, which in the past has been reluctant to support tougher measures because of its own trade surpluses with some of its Common Market partners, is reportedly no longer against a more aggressive European stance. Brussels observers are expecting the Commission to propose anti-dumping measures against Japanese exports and increased tariffs on particularly sensitive products.

Commission officials appreciate Nakasone's determination to bring about substantial progress in improving trade relations through the three-year program, but they also point to opposition among ranking Japanese bureaucrats. The latter's resistance was responsible for the fact that some of the previous programs did not produce the desired results. Nakasone is the first Japanese prime minister to take a special interest in foreign trade relations. However, Japan will hold national elections in 1986, and Nakasone's return to office is by no means certain. No Japanese prime minister has held that office for more than three years.

European Countries, Commission Discuss Eureka Project

Ministers of 17 European countries met with Commission representatives on July 17 in Paris to discuss the French government's Eureka initiative. The participating countries were the EC Member States plus Spain, Portugal, Austria, Finland, Norway, Sweden, and Switzerland. The purpose of Eureka is to foster collaboration between national researchers and industrialists in the fields of information technology, communications, robotics, biotechnology, and development of new materials. More details of the Eureka program will be drawn up at the representatives' next meeting in Bonn on Nov. 15.

France put forward the Eureka initiative in May 1985 with the notion that a collective effort is necessary to master new technology as a way of maintaining Europe's competitiveness. The project was also devised to counter the possibility that the U.S. government could widen the high-tech gap and entice European scientists with its Strategic Defense Initiative. Eureka would be funded from government, industrial, and banking sources, including the European Investment Bank.

Although several Member States viewed the Eureka plan with skepticism at first, the idea is now backed by all ten States, and other European countries are interested. The June 28-29 European Council Summit in Milan gave its support to the Eureka project for creating a "technological Europe." (The heads of government also supported the Commission's own proposals pointing in the same direction - to coordinate the Community's high-tech efforts - although it has not been decided how this will fit into the Eureka plan.)

Since the Milan Summit, a number of large European companies have signed letters of intent for high-tech collaboration. Among

them are France's Aérospatiale, Thomson, Matra, and Bull; Germany's Siemens and Messerschmitt-Bölkow-Blohm; Britain's GEC; Holland's Philips; and Norway's Norsk Data. Several of these companies have made no secret of their interest in SDI projects.

France's original idea of setting up an agency for running Eureka is no longer even considered a possibility because Britain and Germany oppose yet another new bureaucratic setup. Instead, individual Eureka projects of high-tech collaboration would be handled by the participants themselves, with the possibility of a small secretariat as a central point of communication between all projects.

In Brief...

For the first time in the Community's existence, the Commission has assumed a legislative role by setting prices for agricultural products. After the Council of Ministers failed to establish prices for the 1985-86 marketing year because of Germany's veto, the Commission went ahead on its own and enacted lower prices for some cereals as of July 1 and for wheat, barley, and oats as of Aug. 1. The prices for the latter are 1.8% below those set for the 1984-85 marketing year. For German farmers, the price cut will be smaller (around 0.9%) because of several accompanying measures that Germany insisted on and to which the other Member States did not object + + + The Commmssion has proposed legislation aimed at a further reduction of the sulphur content in heating oil and diesel fuel. Sulphur dioxide emissions from heating units of homes, commercial buildings, and plants as well as from trucks account for roughly 6% of the total sulphur dioxide pollution in the Community. The proposal would reduce sulphur dioxide emissions from these sources by 20-25%.

Germany: Metro Dispute Goes Before the Courts

The 15-year dispute between the German national retailers' association and the Metro wholesale organization over the latter's alleged unfair competitive practices is now before the courts. The retailers' association has brought separate suits in the district courts of Düsseldorf, Cologne, Bochum, Hamburg, and Munich against the Metro establishments located in those cities. Metro, a Swiss-controlled cash-and-carry wholesale chain and, with 40 stores, the market leader in Germany, is alleged to have violated German competition rules *(Doing Business in Europe, Par. 23,525)* by selling to individuals not entitled to buy at Metro stores. Metro issues passes only to persons who resell or otherwise use the products commercially. Authorized pass holders may buy any item from a broad range of food and nonfood products at a discount. The association says that many non-retailers have passes and that friends of pass holders have used their entry cards.

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The retailers' association, representing some 150,000 retailers, also says that Metro is misrepresenting facts by pretending to be a wholesale organization and yet charging prices on many items that are practically identical to those demanded by retail outlets. It is further alleging that some Metro stores still violate labeling rules occasionally by not indicating the value-added tax in the price. (In 1984, in an agreement with a Hamburg-based organization devoted to upholding fairness in trade, Metro promised to abandon its net pricing practice.) The association also claims that Metro violated business hours rules by allowing customers to enter its premises before 7 a.m.

In support of its five actions, the retailers' association has presented evidence collected largely through some 150 purchases made at various Metro stores. The association hired individuals, mostly housewives, who were given Metro passes issued to different retailers, mostly craftsmen and owners of other small businesses. The passes were not checked at any of the Metro stores, and on a number of occasions the buyers entered Metro stores as early as 6:30 a.m.

OECD Advises Bonn to Reduce Taxes, Subsidies

Although the German government has made advances in the past two years in consolidating public finances and improving the business climate, "this should not lead to complacency," according to the OECD. In its latest economic survey, the organization warns Bonn that it needs to go beyond its planned personal income tax reform, which will lower taxes by DM 20 billion in two steps in 1986 and 1988 *(Doing Business in Europe, Par. 40,634)*. The reduction will lower the tax burden compared with this year, the report says, but "it compensates for fiscal drag only since 1982," when the Kohl administration took office.

The OECD recommends that a reduction in business taxes be combined with decreases in state subsidies to promote growth and create jobs. Although the Kohl administration has been promising for two years to cut subsidies, that aid still rose by 17% last year. Economic growth of 2.6% in 1984 was not enough to significantly reduce unemployment. GNP is expected to expand by 2.5% this year and 2.8% in 1986, while unemployment should fall slightly from 8.2% in 1985 to 7.9% in 1986.

Exports will lead the continuing economic expansion in the next 18 months, according to the OECD. While the government is hoping for a jump in domestic demand, the organization expects unusually strong growth in the current-account surplus due to the strength of the dollar against the mark. The OECD forecasts a rise in the surplus from $6.2 billion in 1984 to $12.2 billion this year and $18.5 billion in 1986.

The OECD praises the reduction in the German budget deficit to DM 25 billion but notes that the decrease "has not been accompanied by an improvement in the 'quality' of public expenditure."

Instead of lowering the public borrowing requirement even further, the report recommends, Bonn should reverse the trend of declining public investment, which has dropped by 25% since 1980.

Belgium: Poor Participation in Tax Amnesty Program

The amnesty granted to Belgians who illegally exported money in order to avoid taxes has ended with disappointing results. The government had allowed these persons to repatriate their capital for investment in domestic industry, so long as at least 9% of the funds was used to purchase treasury bonds maturing in five years. The person reimporting the money was guaranteed anonymity and thus freedom from paying back taxes or penalties.

From July 1, 1984, to June 30, 1985, the government took in just BF 193 million through "amnesty treasury bonds," meaning that approximately BF 2 billion was reimported through the program. Uncertainty is probably the main reason that more Belgians did not take advantage of the amnesty offer. The Socialists said that if they gain power in the parliamentary elections this December they will rescind the amnesty granted.

Britain: Proposed Capital Gains Tax Changes Dropped

The U.K. government has decided not to proceed with intended changes in the capital gains tax rules that would have severely penalized investing institutions and reduced the attractiveness of British equities. The decision to drop the measures comes in the wake of strong opposition from stockbrokers, major institutional investors, and insurance companies.

This year's Finance Bill had proposed that the capital gain be calculated for tax purposes as if the shares sold were the first of that holding which the investor bought. Since 1982 capital gains tax liability has been assessed on the increase in value of the shares since the most recent purchase - the "last-in, first-out" method *(Doing Business in Europe, Par. 23,856)*.

The protests against a change to the "first-in, first-out" method centered on the argument that institutional investors would have been locked into holdings that they have held for many years because of the large tax liability they would incur upon disposal. These investors would also have been dissuaded from adding to existing holdings in major U.K. equities, resulting in a pronounced effect on stock market liquidity.

Ireland: Smaller Companies Exempted From Merger Rules

The Irish regulations controlling corporate mergers, takeovers, and monopolies have been amended so that more small companies are

exempt from their provisions. Previously, companies had to notify the authorities of a proposed takeover when both companies had gross assets of Ł1.25 million (Irish) or annual turnover of Ł2.5 million. Notification will now be necessary only when both companies have either gross assets of Ł5 million or a turnover of Ł10 million. In the case of a monopoly seller or purchaser of a product, the government may now investigate such an operation only when the company's sales or purchases total Ł6 million or more. The previous threshold was Ł1.5 million.

The original limits were laid down in the Mergers, Takeovers, and Monopolies (Control) Act of 1978. Although 88 notifications were made in 1984, only two of them were subsequently referred to the examiner of restrictive practices. Both takeovers were eventually allowed.

Italy: Lira Devalued by 7.8% Against EMS Currencies

After the Italian lira fell by 20% against the U.S. dollar on July 19, the EC Monetary Committee devalued the lira by a total of 7.8% against the other currencies that are full members of the European Monetary System. When the lira took its dramatic drop, the Italian treasury quickly closed the foreign exchange market. In a surprisingly smooth meeting the next day, the Monetary Committee (with telephone approval from the ten finance ministers) agreed to lower the lira's value by 6%. At the same time, a 2% upward revaluation was effected for the currencies of Germany, the Netherlands, France, Belgium, Luxembourg, Denmark, and Ireland. The net effect was a 7.8% devaluation of the lira.

This represents the eighth realignment since the EMS was established in March 1979 and the first realignment since March 1983, when 2-1/2 days of tense negotiations were necessary to reach an agreement. Following this latest change, the lira is still permitted to fluctuate 6% in either direction. The other member currencies are limited to changes of 2.25%.

In the past few weeks, the Italian government secretly reached the decision that the lira would have to be devalued in the near future. That action came when the state-owned industrial group ENI began purchasing $125 million on July 19 to make a debt repayment. The Bank of Italy advised ENI not to carry out this purchase, especially since the payment was not due until July 24. In the face of the impending devaluation, the central bank did not intervene to support the lira, resulting in its 20% fall against the dollar.

To support the devaluation, Rome has announced a decree package that should reduce the public-sector budget deficit (estimated at over 100,000 billion lire in 1985) by 6,266 billion lire. The wage adjustments made under the *scala mobile* indexation system will now be made every six months, rather than every three months. The country's three largest union federations have agreed to this change.

Even before "Black Friday," the government had been discussing measures to support the lira and reduce the deficit. In the past six months, the lira has fallen below the 2.25% limit allowed for other EMS currencies due to Italy's poor economic development. The trade deficit reached 14,554 billion lire in the first five months of this year. Although the inflation rate is now below 10%, it is still well above the rate of Italy's main EEC trading partners.

Spain: New Economics Minister Reconfirms Top Priorities

The reduction of the budget deficit and the fight against inflation will remain the top priorities of Spain's economic policy, according to the new economics minister, Carlos Solchaga, who succeeded Miguel Boyer in that post earlier this month. In his first press conference, Solchaga emphasized the absolute need for deficit cutbacks, the extent of which would determine the "believability" of Spanish economic policy at home and abroad, particularly with regard to the country's accession to the EEC next year. The 1986 draft budget must be presented to Parliament by Sept. 30.

Solchaga indicated that the government continues to encourage joint agreements with industry and the labor unions as preferable to unilateral decisions by the Socialist administration. However, Madrid's willingness to engage in such dialogues would not include the readiness to raise the public-sector expenditures, he indicated. This remark was apparently in reference to the recent demands of the national labor organizations, which turned into strong critics of the government's economic policy after the administration insisted on a pension reform with reduced benefits.

Solchaga's call for cooperation also includes the difficult problem of labor market flexibility. The employers are pushing hard for a relaxation of dismissal rules, while the unions staunchly oppose all changes in this area. Whatever stand the government takes, it is sure to be castigated, observers say.

Concerning price inflation, the government has had to revise its original target of a 7% inflation rate for 1985 and now predicts a rate of 7.9%, which Solchaga would regard as a good result. The economics minister said that the introduction of value-added tax in January 1986 will not necessarily mean new inflation pressures because of the compensating effect offered by the elimination of some taxes and the reduction of customs tariffs in connection with Spain's EEC accession. It should be possible, Solchaga said, to achieve the same rate of price expansion in 1986 as in this year. (After coming to power, the Socialist government had been able to lower inflation from 14.2% to 12% in the first year (1983) and to 9% in the following year.)

EURO COMPANY SCENE

Compo Industries, Inc., a U.S. synthetic materials company, and Ausimont SpA, an Italian producer of high-performance materials and chemicals, are forming a new Dutch holding company following their merger. Montedison SpA, Ausimont's parent company, will hold 86.5% of the new venture, and Compo shareholders will own the remaining 13.5%.

GTE Corp. of the U.S. and Siemens AG of Germany are discussing the possibility of forming a "business affiliation" for the research, development, and marketing of telecommunications network equipment. The discussions reportedly involve telephone switching equipment for local phone companies and possibly for offices.

Pyramid Technology Corp., Mountain View, Calif., and Nixdorf Computer AG of Germany have concluded an agreement for technology exchange and cooperation on the development of "super-mini" computers based on AT&T Co.'s Unix System V operating system. The arrangement also includes a seven-year contract for the delivery of electronic components to Nixdorf.

IBM Europe plans to begin developing products that allow IBM computer networks to communicate with non-IBM networks. The company is establishing a center at Heidelberg, Germany, for intercomputer connection research.

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EUROMARKET NEWS

Issue No. 864 *August 8, 1985*

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Community: Products Liability, Grouping Measures Adopted

In its final week before the summer recess, the Council of Ministers adopted several pieces of legislation, including the products liability directive. Under that measure, all States will have to introduce within three years the strict-liability principle for defective products. There will be no limit on the total amount of compensation payable by a manufacturer for injuries caused by identical articles having the same defect, but the Member States have the option of putting an ECU 70-million limit on damage awards. Manufacturers will not be liable for development risks - defects in the products not detectable under the state of the art at the time the product was put on the market. However, the Member States will be able to enact legislation holding the producer liable for development risks. Both options are part of the compromise that changed the European Commission's amended proposal substantially *(Common Market Reports, Par. 10,167)* in order to ensure adoption of the directive.

The Council also formally adopted the Regulation on the European Economic Interest Grouping (EEIG). This regulation sets

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forth the rules on a new form of doing business across national frontiers. The objective of the new instrument is to facilitate cooperation between businesses, including individuals, from different Member States. Limitations have been set on the business purpose of an EEIG and on the number of its partners. The business of the EEIG may never be more than ancillary to the business of the partners, and enterprises with more than 500 employees may not be partners of an EEIG. Since the regulation gives the Member States four years to amend their laws to introduce the new instrument, no grouping may be established before July 1, 1989. *(Common Market Reports, Par. 10,616.)*

The Council also reached agreement in principle on two draft directives that would grant pharmacists the right to practice anywhere in the Community. Formal adoption is expected in early September following consultations with Spain and Portugal. One directive would coordinate national provisions governing the exercise of the pharmacist's profession, and the other would provide for the mutual recognition of diplomas. Agreement on the two measures became possible only after important concessions were made to Greece: a grandfather clause provides for a ten-year exemption, to be followed by another two-year period during which the Commission will have to come up with a new compromise that will satisfy Athens.

Aid for Collaboration Between Industry, Universities

The Commission has proposed an action program to give a new impetus to cooperation between industry and universities on advanced training for new technologies. Most Member States have already launched programs of their own to foster such cooperation, but these programs vary considerably and lack the Community dimension.

Called COMETT (Community in Education and Training for Technology), the program would stimulate the placement of students in businesses located in other Member States. It would also organize joint training programs to alleviate specific skill shortages resulting from rapid technology changes and stimulate the inter-State exchange of experiences in the field of university-industry training cooperation.

Under COMETT, the Community would make available some ECU 80 million in 1986-88 to help finance various projects. COMETT would offer grants of as much as ECU 50,000 to those university-industry training partnerships that collaborate with similar partnerships in other States, receive students, teachers, and business personnel from other States, and develop cross-national cooperation projects. Students could receive grants averaging ECU 4,000 for up to one year of on-the-job training with a business from another State. (Total placements planned would be 2,000 in 1987, 3,000 in 1988, and 5,000 in 1989.) Joint training projects involving businesses in different Member States could

receive cash grants from the EC of up to 35% of the total costs, with an ECU 500,000 ceiling on individual projects.

All the States favor the new action program, and those groups consulted prior to and during the drafting, such as UNICE (the Brussels-based, European joint umbrella organization of the national industrial associations and the universities), have expressed their support. The preliminary draft budget for 1986 contains an open line for funds to be spent next year.

In Brief...

A new commercial cooperation agreement between the EEC and Pakistan was signed in Brussels on July 23. The accord, which replaces a 1976 agreement, puts more emphasis on economic cooperation. (More than half of Pakistan's exports to the Common Market are already duty-free.) While the Member States are counting on easier investments in Pakistan, Pakistan is looking forward to more aid + + + The Council of Ministers will discuss early next month the EEC's position in the renegotiation of trade agreements with ten countries (mostly Mediterranean) scheduled for October. The countries involved are Morocco, Algeria, Tunisia, Egypt, Israel, Jordan, Syria, Cyprus, Malta, and Yugoslavia. The talks will concentrate on wine, olive oil, potatoes, tomatoes, and citrus fruit, since most industrial products from these countries enter the Community duty-free. The Commission opposes any changes in trade preferences for the agricultural products, while Greece and Italy, the States most vulnerable to fruit and vegetable imports from other Mediterranean countries, are demanding adjustments, such as curtailment of imports or compensation to Greek and Italian farmers.

Germany: Stricter Industrial Air Pollution Standards

The German government has proposed rules that would require industrial polluters to further reduce toxic emissions over the next three to ten years. Existing factories, such as steel mills, chemical plants, cement factories, and oil refineries, would have to make the necessary investments by the end of 1990. This would mean improving anti-pollution devices or changing to less-polluting production methods. Existing plants emitting highly toxic substances would have to meet the new standards by Dec. 31, 1988. Only in exceptional cases, such as in plants emitting less-dangerous pollutants like dust, would management have ten years to comply with the tightened standards.

Plants put into operation after the effective date of the proposed rules would have to meet the new standards immediately. A new factory with its own small power plant or large heating unit would not be given a license to operate unless the expected sulphur dioxide emissions are at least one-third lower than those

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permissible under present rules *(Doing Business in Europe, Par. 23,544A)*. Agro-industrial farms engaged in large-scale production of eggs, pigs, etc., would also face stricter standards with respect to odors they emit.

Britain: Investor Protection Bill Exemptions Studied

The British Dept. of Trade and Industry has published a consultative document examining the conditions that should apply for exempting members of certain professions from the requirement of authorization under the proposed legislation giving greater protection to investors.

Last January, a White Paper on financial services stated that all who are involved in the investment field or the sale of savings mechanisms should have to be specifically authorized by two new bodies - the Securities and Investments Board and the Marketing of Investments Board. However, members of "designated" professional bodies could be exempted. Such an exemption would be granted when the professional body is already recognized for purposes of other statutes and maintains and enforces professional standards offering equivalent protection to investors. In addition, a company's investment business could not amount to a "significant" part of its overall activities. The question of what proportion amounts to a "significant" part must still be settled, either by the legislators or by individual professional bodies.

The latest document stresses that a requirement for all members of professional bodies who "occasionally" undertake investment business either to obtain direct authorization or to become members of a self-regulating organization would greatly increase the numbers subject to the principal regulations. It also points out that unnecessary costs would be incurred.

If a professional body were "designated," there would be an extension of its role in regulating the investment business aspects of its members' operations. Detailed rules would be necessary for the conduct and monitoring of investment business. To protect investors, provisions for compensating clients and for segregating their assets would be necessary.

France: Tax on Reinvested Profits to Be Reduced

The French income tax on corporate profits that are reinvested is to be lowered from 50% to 45% in 1986, according to Finance Minister Pierre Bérégovoy. The tax on other corporate profits would remain at 50% *(Doing Business in Europe, Par. 22,807)*. Although the measure would cost the government some FF 4-5 billion, no corresponding budget reductions are being planned. Instead, the government would allow the expiration at the end of this year of a 1983 measure permitting companies to depreciate certain new

investments by 70% in the first year, compared with the usual 40% *(Doing Business in Europe, Par. 22,809C)*. Paris favors the outright tax reduction as a better investment incentive because it represents real savings for the company, rather than just an accounting measure.

The Socialist government, eager to show gains in the economy before the March 1986 elections, hopes that a pick-up in industrial investment will prompt overall growth. The government's ability to stimulate the economy is limited, however, by an austere budget that includes large spending reductions. INSEE, the national statistical institute, recently estimated that the economy is expanding by just 0.8% this year, following 1.5% in 1984. Bérégovoy, however, said that that figure should improve in the second half due to rising consumption caused by income tax cuts and a gain in the franc's value against the dollar.

Greece: Arsenis Ousted in Cabinet Streamlining

On July 26, Greek Prime Minister Andreas Papandreou announced the long-awaited final reorganization of his cabinet, including the surprise removal of Economics Minister Gerassimos Arsenis. Arsenis has long been the center of controversy among the leaders of the governing Socialist (PASOK) Party as well as of clashes with Stelios Panagopoulos, the central bank governor. Observers believe Arsenis is being made the scapegoat for failures in the Socialists' economic policy. The economics portfolio is now held by former agriculture minister Kostas Simitis.

Since the 1981 elections, Papandreou has been promising to streamline the cabinet. Following the Socialist victory in the parliamentary elections held in early June, Papandreou appointed a new, considerably smaller, cabinet to serve until the permanent reform could be effected. Most of the recently announced changes were expected, but the reductions are less extensive than Papandreou had announced earlier. After various ministries were consolidated or eliminated, the number of cabinet members, including the deputy ministers, still stands at about 40.

Italy: Rome Tables Economic Package Until Fall

The five-party governing coalition in Italy has once again delayed its discussion of measures needed to bring the country's economy in general and the public-sector deficit in particular back into line. The coalition members are generally in agreement that the only realistic way to lower the deficit is through budget reductions. (Opposition from Finance Minister Bruno Visentini defeated Prime Minister Bettino Craxi's proposal for instituting a wealth tax. Increases in indirect taxes, such as those on gasoline and tobacco, have contributed to inflation and have not made much of a dent in the deficit.) Due to disagree-

ments within the coalition over where the actual cuts should be made, however, the discussion will not begin until after the summer recess.

Observers believe that a package of drastic economic and budget-cutting measures is necessary to back up the 7.8% devaluation of the lira on July 19. The major economic problems that figured in the devaluation, and that Rome still faces, are the high public-sector deficit, rate of inflation, and trade deficit. At the time the lira devaluation was carried out, the government announced a decree package to reduce the state deficit by 6,266 billion lire. However, the deficit is still expected to amount to 100,000 billion lire, or 13.5% of GDP, this year. The inflation rate of 9-10% shows no signs of nearing the government's 1985 target of 7%. The chronic trade deficit reached 14,554 billion lire in the first five months of this year as the competitiveness of Italian products fell on the world market.

Austria: New System of Direct Investment Incentives

The Austrian government is overhauling its system of direct investment promotion to make it more coordinated, uniform, and selective than the existing programs, many of which are overlapping and therefore wasteful. Officials in the Ministry of Trade, Commerce, and Industry say that there are no less than 160 national incentive measures, in addition to those offered by the individual regions and the communes. "It's an impenetrable jungle," one official was quoted as saying. "Certain 'professionals' are taking advantage of this situation by often cashing in several times for the same project."

Direct investment promotion in Austria has grown substantially over the past years. Federal incentives rose from 2.3 billion schillings in 1970 to 12.2 billion schillings in 1984, not counting nearly 6.5 billion schillings in special incentives for the agricultural sector. However, even this total represents no more than one-sixth of all incentives offered, which consist mostly of indirect tax benefits. Under the present system, many of these tax benefits accrue to businesses and individuals not entitled to them, and this is where the new system will bring changes by becoming more project-focused.

With the help of a survey among businesses, the government has pinpointed major weaknesses in the existing system that it hopes to be able to correct: too broad an institutional distribution of benefits, a mounting influence of regional policy considerations, and a lack of sufficient selectiveness of projects.

An inter-ministerial committee, in which the finance and transport ministries are represented as well, has proposed the principal coordinators of the new incentive system, which is to be formally presented in the fall:

(1) Three agencies will have jurisdiction over industrial incentives - the European Recovery Program (ERP) fund, the state-

controlled Finance Guarantee Corp. (FGG), and the Austrian Investment Credit Corp. (Österreichische Investkredit AG).

(2) The Bürges agency, which so far has also covered tourism, will be responsible solely for the commercial sector.

(3) The Hoteltreuhand agency will have sole jurisdiction over the tourism sector.

38-Hour Workweek in Some Austrian Industry Sectors

The gradual proliferation of the reduced workweek in Western Europe has now reached Austria, where the employees of some 1,200 printing and graphic industry businesses have been working a 38-hour week since April. The reduction ranges from one to two hours, depending on the contracts previously in force, and small businesses with up to 19 workers have the option of not offering the reduction if they pay an extra 1.25% on top of the contractual wages. Along with the shorter workweek, the employers and unions in the printing industry also negotiated new overtime compensation rules, which offer some additional worktime flexibility for the employers.

The contract does not provide a workweek reduction at full pay. Prior to the agreement, within the collective bargaining contracts for 1985, both sides had already negotiated pay deductions of 1.25% and 2.50% to compensate businesses for the worktime cuts. In effect, observers say, the overall arrangement amounts to a "cost sharing" of the worktime reductions, possibly with a slightly heavier burden on the employees.

A tentative workweek reduction, from 40 to 38 hours, is currently in force for some 2,200 full-time workers in the six plants of Austria's sugar refining industry. However, the provisional arrangement will end on Sept. 1, and permanent arrangements still have to be made for the new worktime schedules applicable as of Jan. 1, 1986. The employers will calculate the extra cost of the provisional workweek reduction in September and plan to "present the bill" at the time of the contract bargaining for 1986.

Experiments with worktime reductions are also being conducted in various industries on a regional and company level. Some of these arrangements are of a seasonal nature. For instance, employees at one of the leading Austrian ski manufacturing plants, Arnsteiner ("Blizzard"), work 36 hours per week in the first third of the year, 40 in the second, and 44 in the third. This schedule corresponds to production needs, saves personnel and inventory costs, and enables employees to enjoy three-day weekends during the skiing season. Elsewhere, some construction companies alternate between four-day and five-day workweeks, claiming that it is inefficient to bring in workers for only half a day on Fridays.

Austria's labor unions view the arrangements as small steps on the road to the long-range target of a 35-hour workweek. However, most of their leadership has apparently quietly buried the argument that worktime reductions automatically help to bring down unemployment by creating the need for additional jobs. At most, they can save threatened workplaces, it is now conceded.

Spain: Parliament Approves Pension Reform Bill

Spain's Parliament has passed the controversial bill designed to improve the health of the financially ailing social security system. Beginning this month, contributions must be made for 15 years instead of the previous ten years before a participant becomes eligible to receive old-age pension benefits. The amount of these benefits, previously averaging 31,660 pesetas per month, is also being reduced.

The bill was passed by a 190-4 majority, although 119 abstentions were recorded, mainly from the right-wing opposition. The reform proposal had caused an attack against the Socialist government from all sides, particularly from the labor unions and employers. The unions argued that the benefit reductions would violate workers' established rights. Nicolas Redondo, head of the Socialist-led UGT union, broke with party discipline and abstained from the vote. The Communist-led CCOO union was more adamant in its opposition, calling a 24-hour general strike on June 20 to protest the reform proposal and high unemployment. The employers, on the other hand, complained that the overhaul falls far short of the fundamental reforms they have always demanded.

It was generally conceded that some sort of reform of the old-age pension system was necessary to prevent its bankruptcy following the rise of expenditures in that sector from 1,000 billion pesetas in 1977 to 3,500 billion pesetas today at current prices. During that period, the number of retirees rose from 3.8 million to 5.5 million, and a further increase to 7 million is expected within the next eight years. In the first half of this year, the government was forced to allocate an extra 773 billion pesetas to social security.

Common Market Reports

EUROMARKET NEWS

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Community: Council Makes Decisions on Trade Policy

The Council of Ministers has made a number of decisions that will have an impact on the Community's future trade relations with third countries. The Council has reached a tentative agreement under which the duty on imported Japanese video cassette recorders would rise from 8% to 14% in 1986. The current voluntary export restraint agreement between Japan and the EEC expires on Dec. 31, 1985. That accord limits the number of Japanese VCRs imported in 1985 to 2.25 million and the number of VCR kits imported to 1.7 million.

The ten foreign ministers unequivocally supported a modified extension of the Multi-Fiber Arrangement (MFA), which will expire on July 31, 1986. The MFA, concluded in 1973 and extended twice since then, provides a legal framework that the textile importing and exporting countries may use to negotiate the annual trade volume. This framework has been used by the Western industrialized nations as well as the 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 tex-

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tile trade growth rate. The EEC has bilateral agreements with 28 textile exporting countries; its main suppliers are Hong Kong, Macao, and South Korea.

The negotiations for an MFA extension take place in the GATT Committee on Textiles in Geneva. The Community's common stand in these negotiations indicates that members like Germany and the Netherlands, both strong free-trade advocates, have succumbed to pressure from the other States, notably France and Italy, and abandoned all hopes of reviving free trade by letting the MFA expire.

In related developments, the European Commission and the U.S. government reached an agreement on Aug. 5 concerning EEC exports to the U.S. of 16 "consultative" steel product categories Under this agreement, which was initialed by the Commission, Washington may impose a quota of 198,000 short tons on all EEC steel exports from Aug. 1 until the end of 1985. The Community's exports to the U.S. of these consultative products (including alloy wire rods, rails, wheels, and axles) rose from some 475,000 tons in 1982 to 1.4 million tons last year. Until now, no limit had been imposed on such exports, and the continuous increases prompted Washington to negotiate the new quota.

The Council of Ministers is still facing the problem of how to allocate the quota shares among the Member State steel industries.

In Brief...

The Commission has initiated the procedural steps required under Treaty Article 169 before taking Greece to court. The Greek government was given two months to abolish an import control practice that the Commission considers to be contrary to Treaty Article 12. That article requires the Members States to refrain from introducing any new customs duties or charges having an equivalent effect. The Commission contends that the Greek requirement demanding from importers a fee of at least 0.1% of a product's value (at least 250 but not more than 5,000 drachmas) is equivalent to a customs duty. The fee is paid to the bank that handles payment. The Commission says that Greece is violating Article 28 of the Accession Treaty, under which Athens assumed the commitment to abolish measures having effects equivalent to customs duties + + + According to Community statistics, overall unemployment from the end of May 1984 to the end of May 1985 declined by some 300,000 - from 12.6 million to 12.3 million. The drop was due to the fact that the Netherlands, Denmark, and Belgium have been successful in slightly reducing their jobless rates. In all other Member States, unemployment rose, most seriously in Italy, Ireland, France, and the U.K. In Germany, the number of registered unemployed also went up over the 12-month period, but the increase was considerably smaller than in other States.

Germany: Car Makers Promise Many Low-Pollution Models

The five German automobile manufacturers have assured the government that by October they will market a broad range of models equipped with three-way catalytic converters. Those who want to purchase a car with an engine displacement of up to 1,400 cc will have several choices of low-pollution models. The automakers' commitment is considered a boost for the Kohl administration's efforts to control pollution and to slow damage to forests. Volkswagen, Germany's biggest car manufacturer, was originally not prepared to offer catalytic converters in the small-car category. (Under the Council of Ministers' June 28 agreement, the emission standards for the small-car category can be met without a catalytic converter.)

The automobile industry is not optimistic about the potential market for small, low-pollution cars. Buyers have to expect to pay an additional DM 1,500-1,800 for any model equipped with a converter. The price difference between a low-pollution German car and a conventional French or Italian model could be the decisive criterion for the buyer, the auto companies say.

The German government is now taking a wait-and-see attitude. Should the vast majority of new-car buyers in the next three to four months choose models without converters, Bonn would consider proposing a further reduction in the excise tax for unleaded gasoline *(Doing Business in Europe, Par. 40,623)*. So far, the sales of cars with converters (slightly more than 1%) have fallen far short of expectations.

German car manufacturers have called on the government to issue regulations certifying those pollution-control devices that can be installed in existing models. Without certification, these devices, mostly catalytic converters lacking electronics, may not be put on the market.

The German oil companies plan to step up their efforts to increase the number of gas stations offering unleaded fuel, especially in rural areas away from the major motorways. Only 1,500 of the 12,000 gas stations in Germany sell unleaded gasoline at this time.

Belgium: Interest Rates Raised to Support Franc

The Belgian National Bank raised its key interest rates by half a percentage point on Aug. 1 to support the franc. The discount rate was raised to 10% and the Lombard rate to 10.5%. The rates were also increased from 8.75% to 9.25% for one-month treasury bills, from 8.9% to 9.25% for two-month bills, and from 8.9% to 9.5% for three-month bills.

The central bank said the increases were intended to help the franc "over a momentary weakness" and to counter speculation that the Belgian franc would be devalued within the European

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Monetary System. In the most recent EMS adjustment, the values of all the member currencies except the Italian lira were raised by 2% on July 20 as part of a lira devaluation. This move, in addition to the relative strength of the German mark after the U.S. dollar's recent fall, led to speculation that the Belgian franc was overvalued and would have to suffer a downward adjustment.

In May the central bank instituted a floating discount rate linked to the rate for three-month treasury bills to enable it to react more quickly to market changes. At the same time, the discount and Lombard rates were lowered after more than a year of unchanged rates.

Britain: Accountants Demand Protection From Suits

The U.K. accounting profession is increasing its pressure on the government to legislate changes in the auditing of corporate accounts to protect accounting firms from possible bankruptcy if claims for negligence are proved against them. In the past few months, a substantial claim was filed against the Big Eight accounting firm Arthur Andersen over the auditing of the accounts of the failed DeLorean sports car venture in Northern Ireland. Another Big Eight firm, Arthur Young, has been charged with negligence in its auditing of Johnson Matthey Bankers, which was rescued by the Bank of England after its collapse. (The latest development in the JMB case is a suit by Arthur Young against Chancellor of the Exchequer Nigel Lawson for libel.) As a result, accountants are finding it increasingly difficult to obtain adequate insurance coverage against negligence claims.

Brian Jenkins, president of the Institute of Chartered Accountants, said that there is a "very severe shortage of capacity" in the indemnity insurance market and that U.K. firms are "increasingly vulnerable to large claims which are now fashionable in many countries." The institute is reviewing the proposal that the traditional partnership structure of accounting firms be replaced by a new corporate structure involving limited liability. Such a recommendation is to be made to the Dept. of Trade and Industry by the end of the year.

Italy: Treasury, Central Bank Heads Offer to Resign

Twelve days after the Italian Treasury temporarily closed the country's foreign currency market on July 19, the government faced another, related, crisis as the Treasury minister and central bank governor handed in their resignations. The two officials were responding to indirect criticism from Prime Minister Bettino Craxi, who found it "dismaying and inexplicable" that a state bank sold foreign currency to a public company "at a fancy price" outside the market, eventually resulting in the devaluation of the lira within the European Monetary System. Craxi,

however, did not accept the resignations, saying that he still has confidence in Treasury Minister Giovanni Goria and central bank chief Carlo Ciampi.

The market closure was prompted when the ENI state industrial holding group began purchasing $125 million to make a debt repayment, thus helping the lira's value to fall by 20% against the dollar. ENI lost about 35 billion lire on this transaction. Since "Black Friday," it has become known that other major companies were also making large dollar purchases that day: state-run Alitalia airlines bought $10 million, IBM bought $15 million, and Esso bought $5 million.

The Finance Ministry views the incident not as intentional but rather as a result of faulty communications, misunderstandings, and errors. The central bank had warned ENI not to carry out its dollar purchase that day. ENI, on the other hand, claims it did not know about the high rate it was paying for dollars until the market was closed.

The Christian Democratic coalition members have criticized Craxi for accusing the central bank of irresponsibility in a case where the facts may never be clear.

Austria: Scandal Prompts Proposal for Tougher Wine Law

The Austrian government has proposed "the strictest wine law in Europe," prompted by the recent scandal involving the sweetening of certain wines with diethylene glycol, normally an ingredient in anti-freeze. The bill, to be presented at a special parliamentary session in late August or early September, would toughen restrictions on the export, sweetening, and labeling of Austrian wines. Chancellor Fred Sinowatz has also reiterated his confidence in Agriculture Minister Günter Haiden, whose resignation has been demanded by the opposition ÖVP Party on charges that he did not act quickly enough to resolve the crisis.

As of Aug. 1, some 5 million liters of tainted Austrian wine had been seized, 28 people had been arrested in connection with the scandal, and wine exports had been halted. Diethylene glycol has also been found in at least 11 German wines, and the Austrian government has begun testing grape juice and *sekt* (a sparkling wine) for traces of it. Authorities believe the doctoring of wines with diethylene glycol may have begun as early as five years ago. So far, the chemical has been discovered mainly in sweeter, high-quality wines.

Spain: Reprivatization of Rumasa Nearly Completed

Virtually all of the more than 200 companies and 18 banks once held under the umbrella of Rumasa, Spain's largest conglomerate, have found new private owners since the group was expropriated by the state in early 1983. All but five of the businesses have

been sold in the year since the sell-off started, according to Javier del Moral, who heads the operation as the government's chief Rumasa administrator.

The Socialist government had expropriated the Rumasa empire in February 1983 under constitutional provisions permitting such actions for reasons of economic emergency. At the time of the enforced takeover, the conglomerate accounted for 1.8% of Spain's gross national product. By the time the sell-off started, it had reportedly accumulated 440 billion pesetas (about $2.7 billion) in losses. The financial collapse of the group would have threatened 60,000 jobs in companies ranging from retail chains to industrial manufacturing plants.

After the temporary takeover, Madrid spent about 80 billion pesetas to cover costs and more than 500 billion pesetas altogether to sell the various parts of the group to new private owners. Some businesses were sold to foreign investors - for instance, Rumasa's No. 1 banking institute, Banco Atlántico, to Arab Banking Corp. of Bahrain and the Galerías Preciados department store chain to Organización Diego Cisneros of Venezuela.

Rumasa's ex-owner, José María Ruiz-Mateos, fled the country at the time of the expropriation and is now fighting extradition proceedings from his present domicile in Frankfurt, Germany. The Spanish government has charged him with monetary and commercial fraud, alleging massive overvaluation of assets and tax evasion, among other things.

Sweden: Economy Poses Election Test for Social Democrats

Under Sweden's legislative system there are only three years between parliamentary elections, which does not give a new incumbent government much time to win voters over to its political and economic course. The governing Social Democrats, who were returned to power only three years ago, are again faced with this situation as the next general election date of Sept. 15 approaches. While political observers give a slight edge to the Social Democrats, they say that any outcome is possible and that the opposition center-right parties have a good chance to regain control, not least because of Sweden's current economic problems. These problems include an above-average inflation rate, stagnant growth, and declining competitiveness.

Olof Palme's Social Democrats had vowed to limit inflation to 3% this year, and last March they imposed a provisional price freeze to achieve this target. The various industrial and service sectors had the option of getting around the freeze by consenting to limit price increases to the extent of higher wage costs (for which the government had set a 5% ceiling) and raw material costs minus any productivity gains. In the meantime, Stockholm has lifted the formal price freeze for a number of sectors, including automobiles, hotels, restaurants, book publish-

ers, rail services, and construction, after these sectors agreed to use the recommended price calculations. Nevertheless, many experts believe that Sweden's inflation rate will be at least 5% this year.

Critics siding with the political opposition blame the government's allegedly poor budget discipline and "excessive" pay increases for the renewed price pressures, which are stronger than the West European average. Because of these shortcomings, the critics say, Stockholm has been unable to compensate for the inflationary effect of the 16% krona devaluation in the fall of 1982. Finance Minister Kjell-Olof Feldt, for his part, is pointing an accusing finger at business and industry, complaining that about 1.5 percentage points of inflation last year were triggered by excessive profit taking.

The 16% devaluation of 1982 initially gave a big boost to the competitiveness and profitability of Sweden's export industry. However, the government's warning to business and labor to give priority to cost and wage stability was not sufficiently heeded, the result being that Swedish pay increases of 10.3% last year were exceeded only by those of Italy and Norway (10.9% each), whereas the European average was 7.2%. This year, the Swedish industrial federation forecasts an increase of 8.2% at home and 6.5% for the rest of western Europe.

Switzerland: Low Level of Real Estate Sales to Aliens

Swiss cantonal authorities continue to issue a low number of real estate purchase permits to nonresidents. Last year only 2,316 permits were issued, down slightly from 2,480 in 1983, according to a report by the Justice Ministry. In previous boom years, aliens obtained nearly 6,000 permits annually for the acquisition of vacation and retirement homes (mostly condominiums) and other real property. The drastic decline is being attributed to a combination of continuing weak demand and tightened regulations. Since the beginning of the year, new legislation has put further clamps on real estate sales to foreigners, and the government has already decided not to allow the available quotas to be fully used up.

The reduced number of permits issued is particularly evident in the tourism centers. Purchase authorizations for condominiums and other apartment units totaled only 1,551 in 1984, compared with 1,767 in 1983, mainly in the cantons of Wallis, Waadt, Tessin, and Graubünden. The total value of real property transactions involving nonresidents, SF 1.375 billion, was about the same as the year before (SF 1.35 billion).

EURO COMPANY SCENE

Digital Equipment Corp. of the U.S. is investing £82 million in a new plant to be built near Edinburgh, Scotland, for the pro-

duction of microchips. Scheduled for completion in 1988, the plant will supply chips mainly for Digital computers sold in Europe.

Damon Biotech, Inc., Needham, Mass., also plans to build a plant near Edinburgh for the production of monoclonal antibodies (artificial proteins used by the drug industry). The £30-million plant, which is expected to begin production in December 1986, will be operated by Damon Biotech Ltd., a new unit to be about 80%-owned by the U.S. parent. The U.K. government and the Scottish Development Agency are helping to finance the project.

Borg-Warner Corp. is transferring production of industrial and marine transmissions from Muncie, Ind., to its plant in Kenfig, South Wales. The move represents a reversal of Borg-Warner's almost complete withdrawal from the European market since the late 1970s. The company had announced in December 1984 that the Kenfig plant would be closed down.

USAir, Inc., has ordered 20 F-100 airplanes, worth more than $350 million, and taken an option for 20 more from Fokker B.V., the Dutch aircraft maker. The F-100 is a twin-engine, fuel-efficient plane carrying 105 passengers.

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EUROMARKET NEWS

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Community: New Measure on Excise Tax Harmonization

Following the Council of Ministers' failure to adopt the draft directive on wine excise taxes, the European Commission has prepared a new, broader proposal that includes an excise tax on beer. The new measure, not yet submitted to the Council, proposes that those Member States levying an excise tax on wine be restricted to applying only one rate. All of the States except Germany, Greece, and Luxembourg currently impose an excise tax on wine. It was essentially Germany's resistance to the Community-wide introduction of such a tax, as provided for in the Commission's 1969 proposal, that led to the impasse in the Council. The new proposal no longer contains a requirement that a common excise tax on wine be introduced.

Under the revised draft directive, the Member States would be prohibited from levying discriminatory excise taxes on wine and beer. The proposal would incorporate case law established by the European Court of Justice. The EC tribunal held in 1980 that there may be no discrimination between imported and domestic products with respect to excise tax (judgment of Feb. 27,

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1980, Case No. 170/78; *Common Market Reports, Par. 8651*). In that case, the Commission charged the U.K. with imposing a discriminatorily high excise tax on imported wine. The Court's decision settled the last of a series of Commission actions against Denmark, France, Italy, and Ireland intended to spur efforts to harmonize excise taxes.

In order to prevent Member States from evading the proposed nondiscriminatory excise-tax treatment of wine and beer by subjecting each to different value-added tax rates, the Commission proposes identical VAT rates for both. The Commission's ultimate objective is to have all alcoholic beverages subject to the same VAT rate.

EP, ESC Criticize Tax Law Discrimination Against Women

Discrimination against women in the Member States' income tax laws should be eliminated, according to the European Parliament and the Economic and Social Committee. The EP says the principle of separate taxation of husband and wife should be incorporated into Community legislation, and the costs of child care should be made an income-deductible item. The European Commission had earlier started taking a closer look at the national income tax systems to eliminate indirect adverse effects on employed women. The EP, however, criticizes the Commission for merely producing a memorandum on the question rather than proposing positive action by submitting a draft directive.

A resolution and report adopted by the EP on July 11 point to the various forms of direct and indirect discrimination against women in the Member States' tax laws. The report is based on and generally agrees with a similar Commission study. In looking at the ten State tax systems, the EP finds only Italy's satisfactory on this point because it does not discriminate against women earning income from employment. The other systems discriminate against married women by including the wife's income in that of her husband. The exemption granted on the basis of the taxpayer's marital status is accorded to the husband but not to the wife. Tax deductions are often set against the husband's income rather than the wife's. This means that the wife's withholding tax may be higher than that of the husband.

This is the EP's third demand in recent years to end such discrimination. In 1981 and 1984, Parliament called for Community legislation in the field of taxation to ensure compliance with existing EEC rules on equal pay and equal treatment in jobs (*Common Market Reports, Pars. 3910.123, 3942.15*).

According to the Economic and Social Committee, the present discrimination against the lower income earner in a family, usually the wife, could be removed only by assessing the two incomes separately. All of the States must ensure that their tax laws are absolutely neutral with regard to a person's family or marital status, the ESC says. To eliminate such discrimination, the

committee proposes that Community legislation incorporate the following principles: (a) individual taxation of husband and wife, with no joint liability for tax debts, and (b) fair and realistic tax deductions for dependents.

In Brief...

The European Commission has authorized the governments of six Member States (Italy, France, Belgium, Luxembourg, Ireland, and Germany) to give an additional ECU 4.7 billion in aid to the steel industries this year. The aid is intended to assist corporate "financial restructuring" in hopes of making the Community steel industry profitable by the end of the year. One condition for the aid is that capacity be cut by another 2 million metric tons, bringing total capacity reductions since 1980 to 32 million tons. State financial support (now totaling ECU 37.5 billion since 1980) was supposed to be halted in 1984, but the industry ministers agreed last March to extend the deadline to Dec. 31, 1985 + + + The Commission has launched an investigation into alleged Japanese dumping of photocopiers in the EC market. The Committee of European Copier Manufacturers says that the Japanese share of the $1 billion EEC photocopier market has jumped by 185% since 1980, while the share of Community manufacturers has fallen from 28% to 18% + + + The Commission has approved the German government's plan to provide grants to help offset the cost of personnel in research and development. The program is designed to encourage enterprises to hire additional R&D personnel. Grants would pay 55% of the hired person's salary in the first year and would gradually be reduced to 25% in the sixth year. In February the EC Executive launched an investigation under Treaty Article 93 to determine whether the program could be reconciled with the Treaty's state aid rules.

Germany: Bonn Considers Extending Jobless Benefits

Persistently high unemployment has prompted the German government to consider extending unemployment compensation, especially for older jobless persons. An unemployed individual over 54 years of age would receive jobless benefits for up to 24 months (the current maximum is 18 months); those over 49 for up to 20 months (now 18 months); and those over 39 for up to 16 months (now 12 months) *(Doing Business in Europe, Par. 23,456)*. The Kohl cabinet's decision on the matter is expected in September or October. The necessary funds, estimated at around DM 1.3 billion annually, would be provided by the Federal Labor Office. The FLO has accumulated a surplus of over DM 3 billion despite the large number of persons receiving unemployment compensation.

Critics see in the proposed changes an indirect admission on the government's part that it was far too optimistic last year in

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predicting a slow but steady decline in unemployment. The Economics Ministry lowered its sights months ago and now forecasts an overall unemployment figure of 2.2 million for this year, which would be about the same as the 1984 figure. Observers believe that the Federal Labor Office's June unemployment figures (2.16 million, or 8.7%) have convinced the last optimists in the government that the administration and some renowned economic research institutes erred in their predictions that unemployment could be lowered by some 100,000 annually in the next few years.

Government officials say that the poor unemployment statistics detract from the fact that the economy is well into its third year of recovery. Investments are up considerably over last year, with the automotive, chemicals, and machinery industries leading the way. The machinery sector has hired roughly 100,000 additional workers since August 1984. These new jobs were the result of filled order books, introduction of the 38.5-hour workweek, and a cutback in overtime. The country's five car manufacturers have hired around 25,000 additional workers since the end of the 1984 walkout in the automotive and engineering industries. Most industries, however, are investing more to rationalize production than to create new jobs. Labor costs are still high in Germany, despite the fact that the minor raises agreed on in the last three years did not even make up for inflation.

Bonn Revives Talks With Unions, Management

The German government has succeeded in reviving the tripartite talks that since the 1960s have brought together representatives of the unions, the employers' association, and the government to discuss matters of common interest. The unions, however, are approaching the discussions only half-heartedly. The talks were discontinued during the Schmidt administration's term of office when the national employers' association lost its challenge of the constitutionality of the 1976 Co-determination Law before the country's highest court *(Doing Business in Europe, Par. 23,222C)*. Last year government-union relations may have hit an all-time low when Chancellor Helmut Kohl termed the metalworkers' demand for a 35-hour workweek at the same pay "dumb and stupid."

Leaders of the national union federation (DGB) will meet with employers' association representatives and members of the cabinet in early September. The topics of the discussions are expected to be unemployment, technological advances, and the government's legislative program in the labor law field. Labor has been demanding a DM 50-billion investment program to help create 200,000 jobs. The Kohl administration has rejected the idea, not only because the program would have to be financed through borrowing but also because it doubts the lasting effect on the unemployment situation.

Another topic of discussion will be cutting back overtime as a way of creating new jobs. The government is against legis-

lation forcing businesses to reduce overtime, as some union leaders and the opposition are demanding. Instead, the government has confined itself to urging both management and labor to reduce overtime on their own. As a conciliatory gesture to the unions, Bonn is reportedly prepared to eliminate overtime in the two biggest enterprises it owns - the railroads and the post office. Experts estimate that some 10,000-15,000 jobs could be created, for the most part in the postal service, if overtime were eliminated.

The biggest bone of contention between the unions and the government is the latter's legislative program. A bill introduced by Christian Democratic and Free Democratic members of the Bundestag would grant minorities among an enterprise's workforce improved chances of nominating candidates for works council elections. The bill would also allow members of lower and middle management to establish their own bodies to deal with employers *(Doing Business in Europe, Par. 40,637)*. The unions are heavily opposed to the bill because the composition and running of works councils in many companies would no longer be controlled by DGB-affiliated unions. Even some Christian Democratic members of the lower house as well as some corporate executives doubt the merits of the bill.

The unions oppose even more strongly a bill introduced by over 100 CDU-Bundestag members that would expressly commit the Federal Labor Office to neutrality in labor disputes. If a union called for a walkout in a particular region and, as a result, employees of suppliers in areas outside the struck region were laid off or put on short workweeks, the FLO would not have to pay unemployment compensation. In last year's dispute, the office first advised its local labor exchange offices not to pay but later reversed itself after losing before a lower and an appellate court. The matter is now pending before the Supreme Social Security Court *(Doing Business in Europe, Par. 40,573)*.

Britain: Red-Tape Reduction for Business Proposed

The U.K. government has published a White Paper identifying possible moves toward business deregulation for the purpose of creating jobs by reducing bureaucracy. The changes would particularly affect small firms, for which government requirements constitute a major drain in terms of direct costs and management time. The document, titled "Lifting the Burdens," is the result of inter-departmental discussions and is thought to have been influenced by the Reagan administration's bureaucracy-reduction campaign in the U.S. It follows a report released by the Dept. of Trade and Industry in March indicating that the most common grievances put forward by companies relate to employment protection provisions, value-added tax, government statistical surveys, and local planning requirements.

The White Paper proposes some 80 measures covering a wide range of subjects, including planning, taxes, social security, employment protection, and trade and industry. Each is designed "to allow firms to divert scarce resources away from complying with bureaucratic requirements and toward developing and expanding their business." A new system, centered in the Enterprise Unit of the Cabinet Office, would be set up to assess proposed and existing regulations from the point of view of the burden they might impose on business.

Negotiations are under way with the EEC Commission on one proposal for increased flexibility on VAT thresholds. A pilot plan will be started within six months to extend the option for traders to make monthly VAT payments. Improvements are also planned to reduce VAT form-filing by retailers and to expedite VAT paperwork on imports.

Another proposal would eliminate the requirement for employers to provide a sick-pay plan, so long as employees are paid at least the official rate. The criteria for determining whether a person is an employee or self-employed would be clarified to end conflicting judgments by the Inland Revenue and the Dept. of Health and Social Security.

Further proposals include the abolition of restrictions on shop hours and the establishment of "simplified planning zones." The latter would allow local authorities to specify the types of development permissible in particular areas, thus enabling developers to proceed without submitting a plan for approval.

Measure Would Cut Pay-Setting Powers of Wages Councils

In the wake of the U.K. government's White Paper on deregulation (see story above), Employment Secretary Tom King has proposed that wages councils no longer be allowed to set minimum rates of pay for employees under age 21 *(Doing Business in Europe, Par. 23,953A)*. The councils' powers to dictate pay rates for other workers would also be greatly reduced. The councils would still have the power to decide basic pay rates for the industries concerned and to set single minimum hourly and overtime rates, but they would no longer be able to establish a total wage structure.

The controversial deregulatory step is intended to lead to job creation by allowing employers to pay lower rates to trainees and less-skilled, younger workers. King believes that work prospects for teenagers are hampered by artificially high minimum-wage levels that cannot be justified by experience, productivity, or potential. He estimates that the deregulatory move could produce 50,000 to 100,000 jobs, which would be particularly welcome to the government following a further marked rise in unemployment in July. About 500,000 employees under 21 would lose their protected pay status.

Norman Willis, general secretary of the Trades Union Congress, condemns the proposed changes as a "triumph of dogma over

reason" and says they will not lead to the creation of more jobs but rather to employees working longer hours for less money.

Employers' groups have been pressuring the government to abolish the wages councils altogether. Although London has refused to do so, King did say that he intends to submit the whole wages council system and the associated wages inspectorate to "further review."

France: Political Unions Losing Worker Support

The final tally of the 1984 works council elections in France supports the trend of the past few years away from the two major political unions toward the nonaffiliated unions and independent candidates. At the same time, according to Labor Ministry statistics, participation in the elections is falling off. In the 1984 elections, 68.7% of the 2.5 million eligible workers cast ballots, down from 71.1% in 1978.

The 11,000 French *comités d'entreprise* are elected in even-numbered years in those companies having 50 or more employees, with replacement votes held in the other years *(Doing Business in Europe, Par. 22,944)*. The Communist-led CGT remains the most popular union in France in terms of the works council elections, although its share of the voting workers dropped to 29.3% in 1984, from about 32.3% in 1982. In the past six years, the CGT has lost around one-fourth of its ballot share in virtually all regions and employee categories. The basis for this decline, however, is not totally political: many of the sectors that have had to lay off large numbers of workers in the past few years, such as the steel industry, are CGT strongholds. Votes for the second-largest French union, the Socialist CFDT, dropped by 1.8 percentage points to 21% from 1982 to 1984.

The politically nonaffiliated Force Ouvrière profited from the losses of the largest unions to capture 13.9% of the votes in 1984, compared with 11.7% in 1982. The Christian CFTC received 3.8%, up from 2.9%; independent candidates won 19.7%, compared with 18.4% in 1982. The executives' CGC union remained almost stable at 7.1%, although it received nearly 50% of the votes among the *cadre supérieurs* (executive employees).

Spain: VAT Introduction Expected to Push Up Inflation

The replacement of various Spanish indirect taxes with a value-added tax when the country joins the EEC on Jan. 1, 1986, could force the country's inflation rate up by three to four percentage points, according to economic experts. Originally, a rise of 1.5 to two points had been expected. (Prices were increasing at an annual rate of 9% at the end of 1984.) The government is studying various measures to limit the inflationary effects of the VAT introduction.

On the positive side, Madrid expects revenues to rise by about 1.5 billion pesetas with the introduction of the VAT. The CEOE employers' organization anticipates a lower level of tax evasion and thus an increase in tax revenues of some 2.1 billion pesetas.

The Spanish VAT - *Impuesto sobre el Valor Añadido* - will replace 24 indirect taxes, including the cumulative turnover, luxury, and import equalization taxes *(Doing Business in Europe, Par. 28,381)*. In addition to the approximately 700,000 persons or companies currently affected by indirect taxes, an estimated 1.7 million professionals, farmers, retailers, cattle ranchers, and fishermen will be encompassed by the value-added tax. Three VAT rates will be charged - 6% on such goods and services as food, public housing, and hotels; 33% on luxury goods and services, such as cars, cruises, and furs; and 12% on most other items. The 33% rate will be the third-highest in the EEC, after Italy's 38% and France's 33.3%.

Switzerland: Low Car Sticker, Truck Tax Receipts

The revenues from the new Swiss car sticker levy and truck tax during the first half of the year fell short of expectations, according to the Swiss Finance Ministry. Since Jan. 1, all passenger cars, whether domestic or foreign, using Swiss expressways have had to bear an official sticker *(Autobahnvignette)* costing SF 30. All trucks weighing more than 3.5 tons are now subject to an annual tax of SF 500-3,000, depending on the vehicle's weight *(Doing Business in Europe, Par. 40,564)*. Car sticker sales were supposed to raise SF 250-300 million for the treasury each year. By the end of June, however, only SF 110 million had been collected, and additional sales during the second half of the year are expected to produce less than SF 50 million.

The truck tax revenue picture is even bleaker. Some SF 150 million was expected for 1985, but the tax yielded only SF 17 million during the first six months of the year. Swiss officials put some blame for this low figure on the fact that a majority of the cantons are behind schedule in assessing truck owners. In addition, 14 European countries have taken countermeasures against the truck tax, so that Swiss trucks entering those countries are subject to an equivalent levy. Several Swiss trucking firms have moved to Liechtenstein or southern Germany to escape taxation when driving in those countries. Both the low yield of revenue from the truck tax and the retaliatory measures of the other countries have encouraged Swiss citizens who are seeking a repeal of the truck tax law through a plebiscite *(Doing Business in Europe, Par. 40,610)*.

Common Market Reports

EUROMARKET NEWS

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Community: Bundesbank Worried About Growing EC Budget

The German Bundesbank is concerned about the drastically rising expenditures of the European Community. In its recent monthly report, Germany's central bank points out that the additional revenue expected from the increase in the Member States' value-added tax contributions (from 1% to 1.4% of VAT revenues, as of 1986) will not be enough to balance the budget for long. In fact, the EC central bankers believe that the Community will again run short of funds in 1987. For this reason, the heads of government at their June 1984 Fontainebleau Summit talked about a further VAT-share increase to 1.6% as of 1988; however, no decision has been made on the matter.

Germany has always been the biggest contributor to the Community budget, although its share dropped from 30.5% in 1981 to 28.5% in 1984. The reason for this decrease lies in the fact that the VAT assessment base - the criterion for contributions - has risen more slowly in Germany than in the other Member States. Still, Germany's VAT contribution to the EC came to DM 9.5 billion in 1984.

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

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The Bundesbank does not say how much Germany will transfer to the Community in VAT revenue in 1985, but it generally assumes an increase over 1984. Germany's financial obligations to the Community stand to rise with the accession of Spain and Portugal next year as well as through other measures enacted, such as the Integrated Mediterranean Program. Finance Minister Gerhard Stoltenberg anticipates an additional annual burden of DM 3-4 billion for Germany alone. The central bank is concerned that the increased contribution to the EC budget in the coming years might jeopardize the government's objective of another tax cut during the 1987-91 legislative session.

EC Committee Emphasizes Economic, Social Tie

The EC Economic and Social Committee has reiterated the importance of interdependence between economic and social policy, particularly the need to maintain the social fabric as a precondition for economic growth. In a recent opinion, the ESC emphasizes that the European Community not only pursues economic objectives but is also committed to pursuing improved living standards for all citizens.

Reviewing the European Commission's Annual Economic Report for 1984, the ESC notes with some satisfaction that the Community recorded an economic growth rate of over 2% last year, the highest rate since the end of the 1970s. Inflation continued to drop, public expenditures declined in real terms, productivity rose, wage restraint was exercised, and profits increased. In spite of these developments, however, unemployment continued to rise to an average of 12.7 million, or 11% of the workforce. This rise in unemployment, together with demographic trends (fewer people in employment to pay for the social security benefits of a rising number of retirees), has led to more people becoming dependent on public support.

The ESC is concerned that some of the tendencies implicit in the policy approach described in the Commission's report might contribute to a worsening of the social picture. The Commission is recommending an economic policy providing for further wage restraint, more real cuts in public (and therefore social) expenditures, and deregulation of employment in order to promote further investments by enterprises, overall economic growth, and the creation of new jobs. The committee emphasizes that the EEC was established not solely to promote trade; it also has a vital social purpose - the support of weaker groups. Policies for economic efficiency must be matched by concern for the well-being of those less able to protect themselves in an age of radical transition, according to the ESC.

Although the committee welcomes any new proposals for resolving the crucial issue of unemployment, it nevertheless sees social cohesion and solidarity as essential elements of a policy for sustained economic growth. Any new approach directed at im-

proving the economic standing of enterprises should be combined with the maintenance of social protection standards and the use of collective bargaining methods, the ESC says. These methods should be applied to the reduction and reorganization of working time as well as to the adoption of measures to increase workers' mobility, the committee recommends.

In Brief...

The European Court of Justice ruled recently that Treaty Article 85(1) is applicable to a set of agreements between an agency distributing newspapers and periodicals in one Member State, a majority of newspaper and periodical publishers in that State, and several publishers in another State. The article applies if the effect of the agreements is that the agency or body to be set up retains the power to approve newspaper sales outlets. The Court also held that Article 85(1) bans a selective newspaper and periodical distribution system affecting inter-Member State trade if resellers are chosen on the basis of quantitative criteria or if the parties are to observe fixed prices. However, the Commission could consider an exemption under Article 85(3) + + + The Commission has taken the necessary preliminary steps prior to bringing before the Court of Justice an alleged German violation of the Treaty of Rome. The Commission contends that a recent media law passed by the Hamburg legislature violates Treaty Article 7 in that it bars nonresidents from setting up private radio and TV stations. The Commission's move puts the German government in an awkward position because the German constitution gives the states sole jurisdiction over broadcasting. Under Treaty rules and case law, however, the Member States must fulfill their obligations and refrain from discriminating against nonresidents, regardless of the constitution's delegation of power + + + The Commission is seeking the Council of Ministers' approval for two draft framework agreements on scientific and technical cooperation with Sweden and Switzerland. The agreements would provide for a continuous exchange of information and consultation on objectives and priorities of scientific policies, coordination of scientific research programs, and participation in each other's programs. Actual cooperation in ad-hoc projects would be negotiated in special agreements that would define the objectives of and rules for the reciprocal exchange of views and information. These agreements would also tackle other issues, such as ownership of intellectual property or new scientific results emerging from cooperation, and set forth rules on solving financial questions.

Germany: Central Bank Reduces Key Rates by Half Point

Effective Aug. 16, the German central bank lowered its key lending rates by half a percentage point and urged the country's

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banks to follow its lead. In the first adjustment since June 1984, the discount rate was reduced to 4% and the Lombard rate to 5.5%. The Bundesbank also cut from 4.8% to 4.6% the rate on a new short-term securities repurchase facility. At the same time, the Dutch central bank, which normally follows the German monetary policy, reduced its major rates by half a point, resulting in a discount rate of 5%, refinancing rate of 5.5%, and promissory-note rate of 6%.

Bundesbank President Karl-Otto Pöhl said the reductions are intended to stimulate the German economy, particularly the construction sector. The move had long been expected in order to bring the key lending rates in line with money market rates. With inflation moving down toward 2%, real interest rates were also high. Another factor influencing the central bank's decision was the U.S. dollar's fall from 3.47 marks in February to under 2.80 marks.

The opposition Social Democrats criticized the cuts, saying the rates should have been lowered by at least one point to encourage a greater improvement in the employment situation. Even with the half-point reduction, however, the German discount rate equals the Swiss rate as the lowest in the world.

Flick Committee to Recommend Tax Deferral Changes

The German Bundestag's Flick Committee plans to submit its taxation report to the full house after the summer recess. In addition to reporting on the committee's findings on alleged improprieties by members of the former Schmidt administration in connection with tax deferral decisions, the document is expected to contain several recommendations. One suggestion, backed by the committee's Christian Democratic majority, apparently favors cutting the red tape surrounding the tax deferral of reinvested capital gains. The Social Democrats on the committee are likely to recommend some restrictions on the deferral, while the two Free Democrats would like to see an expansion of the deferral system.

A taxpayer may obtain an income-tax deferral on 80% of the gains realized from the sale of stock if he reinvests the proceeds in another business, domestic or foreign. To obtain the deferral, he must receive a certificate from the Economics Ministry. The certificate may be issued only if the planned reinvestment is in the interest of the economy as a whole *(Doing Business in Europe, Par. [illegible])*.

The Christian Democratic members of the Flick Committee say that the certification procedure introduces an alien element into the taxpayer's decision-making process. When the taxpayer decides to reinvest the gain, he cannot be sure that he will receive the deferral and thus be able to finance the investment with the untaxed proceeds. The certification procedure is time-consuming and often works like a government control over investments, according to the Christian Democrats. Without wanting to

prejudice the outcome of the trial of former Economics Minister Otto Lambsdorff, the committee majority contends that the certification procedure creates an environment for an improper influence. (Lambsdorff is charged with bribery and tax evasion in connection with granting the Flick Corp. a tax deferral certificate.)

Critics of the deferral system contend that the Flick case vividly demonstrates that businesses, politicians, and high-ranking civil servants have made decisions during the certification procedure which were based on considerations not covered by the law. Several of these irregularities were the main reason that the government in 1985 revoked one such certificate that had been issued to Flick. (The company has appealed the Cologne administrative court's decision upholding the revocation - *Doing Business in Europe, Par. 40,684.*)

The Social Democratic members of the committee are also expected to recommend abolishing the certification procedure. They want tax deferrals restricted to reinvestments in domestic businesses. They also advocate a detailed report from the government to Parliament every five years about its tax deferral practices. The Social Democrats believe the government should be relieved of the duty to keep statutory tax secrecy in making such a report.

The two Free Democratic members are also expected to suggest elimination of the certification procedure, but at the same time they want to restore the former rule under which a taxpayer could obtain a tax deferral for the entire proceeds of the sale.

Bonn Takes Steps Against Import of Adulterated Wine

The German government has taken steps to prevent the importation of adulterated wine from Austria and has instituted improvements in the intra-governmental wine information system. At border crossings, a sample is taken from all trucks importing wine from Austria and checked for traces of the chemical diethylene glycol. Sampling will continue until the Austrian Parliament passes planned legislation that would ban the export of Austrian wines in tank trucks and railway tank cars.

The four-month delay before the full extent of the wine scandal became known in Germany was apparently due to an inefficient exchange of information between state and federal authorities and lack of concern by the state officials who were informed. Over 800 Austrian wines were found to contain varying amounts of the chemical diethylene glycol, which can cause brain and kidney damage when large amounts are consumed. The toxic chemical was also discovered in some 20 German wines. Several German authorities contend that the adulteration, minute in most cases, was due to the bottling having been done with equipment that had previously held contaminated Austrian wine, which had been imported in tanks. In one instance, an employee of the Pieroth group, Germany's largest wine seller, had deliberately blended German wine with Austrian brands.

Germany has had a series of wine scandals in the past, but they involved sweetening quality wines with sugar or illegally blending low-quality German wines with imported wines. In most instances, the accused received fines and suspended sentences.

Britain: Accountants Recommend Anti-Fraud Measures

A working party set up in December 1984 by the Institute of Chartered Accountants in England and Wales has made sweeping recommendations to help combat fraud at a time when the number of negligence cases against company auditors is growing. The working party's report advocates a statutory requirement for directors and employers to report cases of suspected fraud by their employees to the appropriate authorities. Auditors should be encouraged to report suspected cases of fraud by a client or its management, the report says. At present, the institute discourages such action, holding that client confidentiality is an auditor's main priority.

The document recommends that satisfactory internal controls be made a legal necessity for enterprises handling depositors' and investors' assets as well as for all public companies and those above a certain size. In addition, clients' funds should be held in separate bank accounts to discourage misappropriation. Several professions, such as solicitors, are already required to do so.

The report proposes that a new company be required to appoint an auditor within three months of the time it begins trading. The working party also advocates more zealous pursuit of companies that do not keep proper accounting records. Public funds should be made available to finance liquidators' inquiries into suspected fraud in insolvent companies, the report says.

The financial services legislation to be introduced later this year is expected to include many of the working party's proposals as well as another recommendation to abolish jury trials for complex fraud cases.

Denmark: 1986 Draft Budget Slashes Deficit Again

For the third successive year, Denmark's draft budget includes unchanged expenditures in real terms and a major reduction in the budget deficit. In presenting the 1986 draft to Parliament on Aug. 15, Finance Minister Palle Simonsen forecast the elimination of the deficit by 1990. Since the center-right Schlüter administration took office in 1982, the budget deficit has been reduced from DKr 55 billion, or 11% of GDP, to an estimated DKr 36 billion, or 6% of GDP. The draft budget would further slash the deficit to DKr 26.5 billion, or 4.2% of GDP.

State revenues would rise by 6% next year, from DKr 204.4 billion to DKr 217.7 billion. The main impetus behind the in-

crease would be the additional DKr 7 billion in revenues from the corporate income tax after it is raised from 40% to 50%. Additional revenues would also result from increases in the special oil tax paid by companies drilling in the North Sea and the tax on the interest income of insurance companies and pension funds. Spending on housing, agriculture, industry, and education would be cut back, while defense expenditures would be frozen and social welfare spending would be increased by 0.7%.

The opposition Social Democrats criticized the budget for failing to attack the deficit in the balance of payments, which is expected to reach DKr 17-18 billion this year, exceeding the government forecast of DKr 15 billion. Although Simonsen said there would be a "clear improvement" in the deficit next year, he did not specify any figures. He reiterated an earlier promise to achieve a balanced account by 1988.

The government predicts that inflation will fall from 4.7% this year to 1.8% in 1986, mainly as a result of a restrictive incomes policy. Real business investment is forecast to grow by 6%, exports by 5%, and private consumption by 1.5%. Unemployment, currently above 9%, could fall to as low as 247,000, from the 255,000 expected for this year.

Spain: Government to Ease Foreign Investment Rules

Madrid plans on lifting most restrictions on foreign investment when Spain joins the EEC on Jan. 1, 1986, according to Guillermo de la Dehesa, secretary of state for trade. The liberalization would open to foreign investors the sectors of shipping, oil refining, commercial aviation, mining, insurance, and banking. Currently, foreigners are either excluded from these sectors or required to undergo lengthy authorization procedures before investing. Another major revision would allow foreign companies to offer shares on the Madrid stock exchange. Finally, foreign investors would be permitted to use regular pesetas instead of special convertible pesetas backed by foreign exchange.

Spain must lift certain foreign investment restrictions following its entry into the EEC, although it need not do so immediately. In May the government moved toward deregulation by raising the maximum limit on foreign investments and eliminating the requirement for prior authorization in most sectors. These changes, together with those promised for 1986, are intended to encourage foreign investment and thus help the country maintain its current-account surplus, which amounted to $2 billion in 1984.

EURO COMPANY SCENE

A merger arrangement has been completed between Ariola, a subsidiary of Bertelsmann AG of Germany, and RCA Records, a unit

of RCA Corp. A new company, RCA-Ariola International, owned 75% by RCA, will handle music business in the U.S. and other non-European countries. Another company, Ariola-RCA-Musik, owned 51% by Bertelsmann, will be responsible for Germany, Austria, and Switzerland. Other European business will be divided between the two new companies.

Tenneco, the U.S. energy and industrial conglomerate, has agreed to take a 50% share in a NKr 650-million float glass factory to be built in central Norway. Unspecified Norwegian industrial groups would own the other 50% of the factory, which is expected to begin producing 70,000 metric tons per year by 1988.

The Spanish government has approved Chase Manhattan Bank's planned takeover of financially ailing Banco de Finanzas, a small Madrid-based industrial bank. Chase plans to operate the bank as a commercial institution after expending 6.03 billion pesetas to purchase stock and inject new capital.

Aetna Life & Casualty Co., Hartford, Conn., plans to acquire 40-49% of La Estrella, a Spanish insurance company, for $8-10 million. Banco Hispano Americano owns 89% of La Estrella; the remaining shares are held by the public.

Hadco Corp., a U.S. producer of printed circuits, is purchasing a 49% interest in Comelin SA, a French manufacturer of high-density, multi-layer printed circuits, for about $2 million. Comelin is a subsidiary of Matra SA, a French defense and aerospace company.

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Community: Bonn Seeks Support in Cutting Truck Exhausts

Germany is asking for support from its partners in the Common Market for its plan for lowering toxic exhausts from trucks, buses, and motorcycles as well as farm and forestry equipment. Bonn would like to see such exhausts reduced in two stages. Starting in 1986, new trucks and buses over 3.5 tons would have to meet standards that would reduce emission of nitrogen oxide and hydrocarbons by 20%. (German truck manufacturers say that trucks and buses rolling off assembly lines after Jan. 1, 1986, will meet these standards.)

With the beginning of the second stage (the date has not been set, but Bonn hopes a decision will be made by the end of 1989), new heavy trucks and buses would have to meet further tightened nitrogen oxide and hydrocarbon exhaust standards as well as new soot particle emission standards. Meeting the particle emission levels would require special filters, which should be available by the end of 1989, since German automobile makers plan to speed up efforts in research and development. The planned standards for heavy trucks would also become appli-

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cable to tractors and other equipment used on farms and in forestry. Neither sector now has any exhaust standards whatsoever.

Trucks under 3.5 tons and small buses would also have to meet the new standards at the start of the first stage, but by the second stage they would have to comply with limits on both gaseous and non-gaseous emissions that would be stricter than those for heavy trucks. In fact, they would be identical to those applicable in the United States as of Jan. 1, 1987.

As far as motorcycles are concerned, the German government also counts on support from its EEC partners for the suggested standards calling for a drastic reduction in toxic emissions. Here, Bonn is optimistic about getting early and strong support for enactment of the first stage of reducing toxic exhausts as of 1986. The United Nations Economic Commission for Europe (ECE), which has been instrumental in establishing standards for a variety of products, including cars, is in favor of corresponding rules that previously did not exist.

The German government's approach this time is quite different from the method applied in its drive to lower exhausts from cars. That campaign was marked by threats of unilateral action, promises to German auto buyers about tax benefits that Bonn could not fully provide, and, in the end, a compromise. This time, no threats or promises have been made.

Should the German government get the backing of its EC partners, the European Commission would draft proposals, but they would not necessarily be submitted to the Council right away. Instead, the Commission would present them to the ECE at Geneva, where the Community is an active participant. Only after the ECE has actually adopted the particular standards would the ECE parties implement them, after which the Council of Ministers would become involved.

EC Air Shippers Losing Business Because of Red Tape

Unless red tape at Community airports is reduced, air freight companies will continue to lose business to the trucking industry, the Commission warns in a recent report and makes a number of suggestions to avoid this prospect.

Air freight's speed advantage is reduced to practically zero because of red-tape delays, according to the Commission. Truck delivery is often more advantageous because hauls in the Community are relatively short, the road network is well-developed, and truck freight allows door-to-door service. Trucks can be driven all night, while night flying is generally prohibited at most European airports. Although the longest flight between Community airports takes 90 minutes, two working days are sometimes needed before the goods can be claimed at the airport.

The many documents required by government and airport authorities are the greatest obstacles to faster freight movement,

according to Commission experts who,visited 13 airports in the Community. The lengthy procedures, especially for imports, are often due to a lack of contact and coordination among consignees, agents, and carriers. Whether goods are flown to a point in the Community or to a third country makes little difference. Virtually the same formalities must be completed to fly cargo from Brussels to Copenhagen as from Brussels to New York. This absence of preferential treatment for intra-EEC air cargo will not change until Jan. 1, 1988, when a single administrative document will replace many individual forms used by national customs authorities. Detailed rules for bringing that single document into use have still not been set.

Differences in customs offices also create delays, the experts discovered. Some airport customs offices are understaffed, located far from the stacking areas, and open only four to eight hours a day, five days a week. To reduce such problems, the experts suggest, among other things, an expansion of computerized procedures, although computerization solves problems only when it is coordinated between the parties concerned. More goods should be placed under EEC transit rules so they can be shipped with a minimum of formalities to the end destination and cleared there. The experts also recommend greater use of existing options for simplifying procedures in customs arrangements for goods, especially by using electronic data processing equipment.

In Brief...

The Commission will propose legislation that would practically eliminate veterinary and phytosanitary inspections at border crossings between Member States. Meat, livestock, plants, and plant products would be checked at the place of shipment prior to export to another Member State. Only where there is reason to believe that the health certificate was obtained through fraud or that the transporting firm's driver acted negligently in transporting the product could customs of the importing state hold up shipment and inspect the goods again. The Commission proposals would establish common product standards as well as common inspection procedures and verification by inspectors appointed by the Community + + + The accession of Spain and Portugal as of 1986 will require substantial additional funding of the European Regional Development Fund. In its preliminary draft budget for 1986, the Commission plans to propose appropriations 45% above those allocated this year. (Total spending in 1985 will approach ECU 2.1 billion.) Both countries already have access to the Fund's financial resources, but the Commission's proposals would provide each with considerably more financial support as of 1986.

Germany: Follow-up on Strike Matters Expertise Delayed

During the remainder of the current legislative session, the Kohl administration will not consider a follow-up on strike-related

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matters recommended by a recent expertise. Prof. Gerhard Müller, former president of the Supreme Labor Court, has suggested an amendment to Sec. 116 of the Employment Promotion Act that would ensure the Federal Labor Office's neutrality in labor disputes. Müller also favors legislation that would allow employers to further their interests by locking out employees, just as the unions may call for a walkout to improve members' pay and working conditions. Current doctrine established by case law of the Supreme Labor Court, especially by its first senate presided over by Müller, allows employers to resort to a lockout only in response to a walkout.

Prof. Müller justifies his recommendations for legislation on constitutional grounds. He contends that the Federal Labor Office violated its neutrality last year during the strike in the steel, engineering, and automotive industries when it reversed itself and instructed its 146 local labor exchange offices to pay unemployment benefits to employees outside the struck regions. These employees had been laid off or put on short workweeks because the struck automobile plants did not need the parts their employers supplied. After originally denying applicants unemployment benefits, the Labor Office had to reverse itself when it lost in two social security appellate courts *(Doing Business in Europe, Par. 40,573)*. The cases are now pending before the Supreme Social Security Court.

The expertise considers unconstitutional the idea of the government's becoming even indirectly involved in a labor dispute and, in fact, supporting a union's strike tactics by paying benefits to employees indirectly affected by a strike. Prof. Müller also believes that denying employers the right to take the initiative by locking out employees before the union has formally called for a walkout is against the principle of equal weaponry available to both labor and management. This principle, developed by the Supreme Labor Court in the late '50s and'60s, also has the rank of constitutional law, according to Müller.

For Labor Minister Norbert Blüm, who commissioned the 435-page document, and Chancellor Helmut Kohl, the expertise was not well-timed. Government leaders and union and management representatives were scheduled to get together on Sept. 5 to discuss a broad range of topics, with emphasis on searching for further ways of cutting unemployment.

The expertise and its author have been the target of criticism from the unions and the political opposition. A legislative follow-up at this point would once again ruin the climate of reconciliation and cooperation that government leaders have worked so hard to create, observers say. Even as things stand now, Kohl and Blüm will need to do a lot of talking to persuade some 130 Bundestag members to put their legislative plan aside. This plan, like Müller's suggestions, is aimed at ensuring the Labor Office's neutrality in labor conflicts by not paying benefits to workers indirectly affected by strikes elsewhere. Even if the plan has little chance of succeeding at the moment, its mere existence has greatly annoyed union leaders.

Belgium: New Government to Face Difficult Budget Task

The Belgian government to be chosen in the early elections on Oct. 13 will immediately face the major task of producing a draft budget for 1986. According to Prime Minister Wilfried Martens' strict austerity plan outlined in March 1984, new indebtedness should be limited to 9% of GDP in 1986 and 7% in 1987, following approximately 10.6% this year. Already anticipated are major reductions in social welfare payments, the elimination of one of the four annual inflation-indexed wage raises, and an easing of the interest burden. Even with these cuts, however, the 1986 deficit would amount to some BF 530 billion, or 10.6% of GDP, meaning that the new government would have to slash expenditures by about BF 80 billion.

In the past five years, state interest payments have doubled to almost BF 500 billion, or about one-fourth of total expenditures. Although the government was able to reduce these payments through a financial restructuring earlier this year, the difference was too small to make much of a change in the deficit. According to the Budget Ministry, expenditures have been trimmed so much in the past few years that further cuts will have to be minor. Thus, most observers believe the new government will have to resort to increasing the already high tax burden in order to reduce the deficit.

France: Easing of Labor Laws, Further Austerity Urged

France must continue its unpopular economic austerity program "for a good many years to come" in order to maintain and improve upon the progress made in the past two years, according to the Organization for Economic Cooperation and Development. At the same time, the government should introduce more flexibility into the labor market to prevent untrained persons from being "locked into unemployment."

According to the OECD, the restrictive French budget and monetary policies begun in 1983 have been successful in reducing inflation, improving the balance of trade, and raising corporate profits. Although inflation is currently down to half the 1982 rate of 12%, however, the organization expects the rate to remain about the same for the rest of the year, exceeding the government's target of 4.5% by about 1.5 percentage points. Economic growth is forecast at 1.1% this year and 1.9% in 1986, slightly less than government estimates.

Almost half of the report is devoted to "unemployment and labor market rigidities" in France. Reducing the unemployment rate of over 10% is dependent upon not only a general upturn in economic activity but also "a reduction in the major rigidities affecting labor market operations," the report says. One example of the "extremely complex body of legislation" governing employment is the rule that the government must approve any dismissal

based on economic reasons *(Doing Business in Europe, Par. 22,952)*, which often causes employers to avoid creating new jobs.

The OECD advocates varying the minimum wage according to the age or skill of the worker in order to help bring the youth unemployment rate of 25% closer to the 15% average of the seven main OECD countries. The organization also recommends further moves toward negotiating wage increases on a company-by-company basis to prevent the "excessive real wage growth" that caused profits and investment to fall when wages were tied to inflation.

Greece: Strict Measures Recommended to Boost Productivity

The Greek central bank governor has called for strict austerity measures to stabilize and improve the health of the economy in general and productivity in particular. Dimitris Chalikias urged the government to institute a program that would encourage higher capital investments. He pointed out that while average real-term wages jumped by 83% between 1974 and 1984, productivity rose by only 23%.

Although Chalikias warned in April against continuing "unsustainable" foreign borrowing, he indicated the central bank may have to seek another loan on the international capital market before the end of 1985. So far this year, Greece has borrowed $450 million on the international market, and the country's total foreign debt has passed $13 billion. In addition, the state-run Organization of Telecommunications of Greece and the Public Power Corp. are both pursuing foreign loans of $170-180 million.

Chalikias also recommended a revision of the wage indexation system, saying that the current version is inflationary. He advised tying wage increases to productivity, investment activity, and competitiveness. The inflation rate is currently about 17.7%, still well above the 1985 target of 16%.

In other developments, state-owned Hellenic Industrial Development Bank has agreed to buy financially ailing Hellenic Shipyards for $13 million. The yard, one of Greece's largest industrial employers with some 4,800 workers, suspended operations in April after chronic labor problems and financial losses.

Italy: Budget Planners Face Worsening Economic Data

As the Italians return from their traditional August summer vacations, they are bracing themselves for the autumn round of price increases that have been quietly implemented during their absence. This annual occurrence has been an accepted feature of economic life in Italy for a long time, and this year proves no exception. The ISCO economic research institute has predicted an inflation rate of at least 9% and possibly 10% for 1985, which compares with the official target of 7%. For next year, the ISCO projection stands at 8%, while Rome has set its sights on 5%.

Other economic data in the second half of 1985 are also deviating from one-time expectations. The brief upswing in the early part of 1985 has long since flattened out, so that the experts are now expecting a growth rate of 2.2%, following last year's 2.6%. The payments balance deficit for the first six months of 1985 came to 6,521 billion lire, compared with a surplus of 282 billion lire for the same period in 1984. Through the month of May, the foreign trade deficit amounted to 14,537 billion lire. The budget shortfall has exceeded the planned 100,000 billion lire by at least 10%. Unemployment, finally, has reached 2.35 million.

Alarmed by these negative developments on several fronts, the government has brought back early from their vacations key officials of the economics, finance, and treasury ministries to lay the groundwork for the new budget and finance bills, on which discussions will begin this month. The experts will have a tough time making ends meet because it is generally accepted that the government's financial commitments will make it impossible to contain the budget deficit in 1986.

Most observers expect Rome's upcoming budget and economic policy program to be short of definitive action, anyway: since May, no new measures have been introduced, and the lira devaluation of 7.8% on July 19 has not helped to strengthen the five-party coalition of Prime Minister Bettino Craxi. Although Craxi had not accepted the resignation offers of Treasury Minister Giovanni Goria and central bank governor Carlo Azeglio, the whole devaluation affair has caused bad blood within the administration. Craxi himself stands accused of having failed to follow up the devaluation with additional buttressing measures, except for fiscal moves worth only 6,000 billion lire.

Norway: Election Showdown on Economic Issues

Norwegian voters have a clearly defined choice of economic programs in the Sept. 9 parliamentary elections - between the continued tax reductions and deregulation promised by the governing center-right coalition and the increased social welfare and industrial subsidy expenditures that make up the platform of the Social Democrats. The governing coalition of Conservative, Christian People's, and Center parties wants to lower personal and corporate income taxes in small steps over the next four years. Despite the government's "sweeping reform" of personal income taxes in 1981, the rates for most income levels have fallen by only two percentage points and remain comparatively high. For example, the basic tax rate on an annual income of approximately $16,000 is 53%.

The coalition parties hope to garner votes on the basis of their success in liberalizing the capital market, opening the country to foreign banks, loosening foreign exchange controls, and reducing the power of Statoil, the state oil company. The government has also made progress in cutting industrial subsi-

dies - from 5.2% of GNP in 1981 to 4.3% in 1984. The subsidy level, however, remains high. An estimated 14% of manufacturing jobs are maintained through subsidies.

Both the coalition parties and the Social Democrats agree that Norwegian industry is lagging behind other countries in its modernization efforts. The research and development sector accounts for 1.5% of GNP, compared with 2-2.5% in Sweden, the U.S., and Japan. The Social Democrats propose to solve this problem by injecting Nkr 20 billion of oil tax revenues into research and development over the next four years. The funds would be equally divided between the support of domestic development and the "internationalization" of Norwegian companies. According to Social Democratic leader Gro Harlem Brundtland, the program would result in additional GNP growth of 0.75% in each of the next four years. The Conservatives, however, view the proposed fund as a "delusion" that would lead to a new surge in inflation.

Sweden: IMF Report Intensifies Political Battle

A controversial report by the International Monetary Fund has added new fuel to the conflict between Sweden's Social Democratic government and the political opposition just a few weeks before the Sept. 15 national elections. The report was intended to be confidential, but Finance Minister Kjell-Olof Feldt released the entire document after critical portions of it were leaked to the press.

In the annual report, the IMF advises the government to implement this fall fiscal measures to reduce the rising current-account deficit and inflation rate. The report forecasts a SKr 9 billion deficit in the balance of payments this year, almost triple the government's goal of SKr 3.1 billion. The IMF predicts inflation of 6%, well above Stockholm's estimate of 3%.

The report praises Sweden's "impressive achievement between 1982 and 1984" in the areas of profitability, investments, exports, and industrial production. These gains were primarily a result of a 16% devaluation of the krona in 1982, a move that the IMF had initially criticized. The organization also notes the "remarkably low" unemployment rate of under 3%, although it remains concerned about "various rigidities and the lack of flexibility and mobility" in the labor market. The IMF expects wage costs to rise by 7% this year, compared with the government's estimate of 5%.

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Community: Improved GSP Trade Offers Proposed

The European Commission has submitted its proposals for the Community's generalized system of trade preferences (GSP) for 1986. The proposals contain not only a number of improved offers to the developing countries (in addition to reflecting Spain's and Portugal's accession to the EC) but also for the first time an important change in the system. *(Common Market Reports, Par. 10,716.)*

The GSP is a tariff arrangement that assures some 90 developing countries duty-free access to the Common Market for their manufactured and semi-manufactured goods and processed agricultural products. If the Council of Ministers approves the proposals and these countries make full use of the potential offered to them, the 1986 volume of their total exports to the Community could reach some ECU 19 billion. (The 1985 total is expected to be near ECU 18 billion.)

The Commission proposes updating the value or volume of existing quotas and ceilings on industrial products, except for steel and textiles. More important, the Commission also would

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like to liberalize the system by abolishing individual country quotas for the so-called least-developed countries (LDCs). Abolishment of these quotas (leaving a total of 37) would reduce red tape at the Community and Member State levels.

For the first time since the system took effect, the Commission is proposing the withdrawal of GSP benefits for 26 products from Hong Kong, South Korea, Singapore, and Brazil. These countries have achieved a degree of competitiveness equal or superior to that of the Community in certain sectors - Brazil and South Korea in alloy and high carbon steel, and Hong Kong and Singapore with respect to radio and TV receivers.

The Commission proposes making an across-the-board increase of 1.4% in the ceilings of textile import quotas due to Spain's and Portugal's accession. The proposals would also place Costa Rica and Argentina on the list of beneficiaries that are parties to agreements concluded with the Community under the Multi-Fiber Arrangement (MFA). The MFA provides a legal framework that the textile importing and exporting countries may use to negotiate a year's trade volume. The EEC has bilateral agreements with 28 textile exporting countries that provide for quotas; Costa Rica has agreed to accept a similar commitment, and negotiations with Argentina are under way.

Varied Agenda Set for Parliament After Recess

The European Parliament will debate a broad range of topics after the summer recess ends. Lively discussions are expected concerning the upshot of the Parliament v. Council decision. On May 22, the European Court of Justice held that the Council violated the Treaty of Rome by failing to ensure the freedom to provide services in international transport and to establish the conditions under which an out-of-state carrier might provide transport services within a Member State *(Common Market Reports, Par. 10,700)*. A draft resolution tabled by the EP's transport committee would call on the Council to comply with the judgment "as soon as possible." A substantial number of MPs consider this phrase too weak, and some advocate setting a deadline for compliance.

Air transport will be another topic of debate. The EP, which has called for action on the matter several times in the past, favors a liberalization of the current system. A Commission proposal that would make the Rome Treaty's competition rules applicable to air transport has been before the Council for some time. In a draft resolution, the EP has summed up its advice to the Council about the proposal. Close to 200 amendments to the resolution have been presented to the full house so far.

Also on the agenda will be a report by the committee on youth, education, and information concerning the establishment of Community media policy. Last year the Commission had produced a

Green Paper entitled "Television Without Frontiers." This paper asked whether the expansion of television (including advertising) via satellite should be left on its own or whether there is scope for Community legislation. (The Member States currently have differing standards.) The committee's report concludes that the Rome Treaty does offer scope for action and that a Community media policy should be established. Cultural diversity in the Community should be the leading criterion in forming that policy, the committee says.

In Brief...

The Greek government has decided to reopen its drive to seek a revision of Greece's accession treaty rules of transition. Under these rules, Greece is to remove by Jan. 1, 1986, all customs duties and quotas for industrial products imported from the other Member States. Greece also committed itself to implementing by that date the rules of the common agricultural policy and to abolishing its restrictions on the free movement of capital. The Socialist government, which has always resented the EEC commitments assumed by its Conservative predecessor and at one time even considered withdrawing from the Community, wants at least some industries shielded against EEC competition. Athens also wants more money from the Community to help its underdeveloped areas. Under the Integrated Mediterranean Program, Greece is already assured of receiving ECU 2 billion of the ECU 4.1 billion to be spent over seven years in the Mediterranean regions of Greece, France, and Italy + + + West Germany's iron and steel manufacturers' association has asked the Commission for full details of its decisions authorizing $3.8 billion in steel mill subsidies, planned largely by France and Italy and linked to production cuts of two million metric tons. German steelmakers have always been critical of the subsidies program because they believe they have been put at a competitive disadvantage. They contend that the Commission's latest authorizations may be contrary to the steel aid code's ratio of the size of the subsidy to the extent of the capacity cut. Alleged violations of the steel aid code are the subject of an action brought by the German steel manufacturers' association and the German government, which is now pending before the European Court of Justice.

Germany: Truce in Kalkar Fast-Breeder Reactor Dispute

Germany's Kohl administration and the state government of North Rhine-Westphalia, led by Social Democratic governor Johannes Rau, have reached a temporary truce in the controversy over the fast-breeder nuclear reactor at Kalkar, near the Dutch border. The dispute had gained momentum as the start-up date approached, but neither side will say anything further until the state government is actually faced with operating applications from the reactor's

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management. It might be several months before permission is requested to stock the reactor with plutonium fuel.

Leading Social Democrats, including Rau, have doubts about the reactor's safety and about the economic need for a fast breeder as a source of electricity. The Kalkar project was conceived as a cheap, self-sustaining source of energy. With a 300-megawatt capacity, it is viewed as a prototype for further such projects. Of the DM 6.5-billion construction costs run up so far, the federal government agreed to pay DM 3.7 billion, Belgium and Holland DM 470 million each, and the utility companies the remaining DM 1.86 billion.

Despite the temporary truce between the federal government in Bonn and the state government in Düsseldorf, the utilities expect that the latter will drag its feet when it comes to giving the go-ahead for the breeder's start-up. The constitution, however, grants the federal government the power to override state decisions in nuclear matters. Only recently, Bonn exerted its constitutional powers against the government of the state of Hesse in a similar case. The economics minister of the Social Democratic minority government of Hesse, supported by the Green Party in the state legislature, had denied a private nuclear-processing firm in Hanau the license it had applied for in order to start up a second facility. When German Interior Minister Friedrich Zimmermann threatened legal action in what was considered a clear-cut case, the state interior minister relented and issued the license.

It is certain that Zimmermann would react in a similar manner should the state government in Düsseldorf refuse to grant the license needed for the next stage of operation in Kalkar. Still, the state could cause delays if it decided to go to court and challenge the federal government's order overriding its refusal to grant the license. It might also encourage anti-nuclear-energy protesters to take court action challenging the commissioning of the Kalkar breeder.

Britain: Smaller Accounting Firms Unite; Advertising

Some small and medium-size British accounting firms have decided to set up a separate trade association to represent their interests in the face of increased commercial competition from the major accounting partnerships. Membership in the new body, the Association of Practicing Accountants, will be open to firms of chartered or certified accountants having at least four partners.

The founding members emphasize that the association is not intended as a challenge to the Institute of Chartered Accountants but will be concerned with commercial problems - publicity and marketing in particular - that cannot be effectively dealt with by a professional body. The new organization will forward various detailed proposals to the ICA later this year.

Observers believe that this move has come about due to business pressures following the relaxation last year of the restrictions on advertising and publicity. Since then, many of the principal firms have undertaken major advertising and promotional campaigns aimed particularly at smaller companies, which until now have largely been the preserve of medium-size accounting firms.

In related developments, the Council of the Institute of Chartered Accountants in England and Wales has approved a relaxation of the advertising restrictions imposed on its members. Effective on Oct. 1, 1985, accounting firms may use full-page newspaper advertisements to publicize their services. Currently, they are limited to quarter-page ads. The Scottish and Irish institutes have not yet decided whether to take similar steps.

The original limit was established last year when advertising was first allowed. The institute then believed that the amount of space should be related to the need to inform and that the limit was necessary to safeguard "the competitive positions of all firms, regardless of their financial resources." Opposition to the change is expected from smaller firms that already feel threatened because they lack the funds for advertising, as evidenced by their setting up a separate representative body.

London Exchange Favors Harmonized International Market

The London Stock Exchange has responded to a "concept release" put out earlier this year by the U.S. Securities and Exchange Commission relating to possible ways of internationally harmonizing methods of issuing and distributing company shares. The London Exchange favors the reciprocal method, in which offer documents drawn up in one country would be completely acceptable for offers made in the other participating countries.

The London Exchange stressed that the SEC may have to make some concessions in order to reach an agreement on harmonization. The exchange said that if the reciprocal approach is to be successful, which it feels is "highly desirable," the SEC must consider relaxing some U.S. requirements. (While more than 150 U.S. corporations are listed in the U.K., fewer than 20 British companies are registered with the SEC.)

George Hayter, head of the exchange information services, said, "There is no way that an international market can develop if the full force of the SEC requirements is imposed from the beginning." In that case, he said, the market would simply move to other exchanges that were not so restrictive.

Another SEC suggestion for common prospectus requirements is opposed by the London Exchange, which argues that such a move might take several years to negotiate and at the same time would lessen the flexibility of the regulatory authorities.

France: Exchange Controls Relaxed; Foreign Banks

The French government is continuing its slow reduction of the foreign exchange controls established when the Socialist administration took office in 1981. The latest relaxation, effective on Sept. 1, lowered from 75% to 50% the minimum amount of French capital investments in foreign countries outside the EC that must be financed through foreign currencies. The minimum for investments in EC Member States was reduced to 50% last November. Although Finance Minister Pierre Bérégovoy has ruled out the possibility of further liberalization measures in the near future, some observers are predicting a relaxation prior to the March 1986 parliamentary elections.

The latest measure was made possible by the steady performance of the franc in the foreign-exchange market and is intended to spark further foreign investment. French investment abroad picked up slightly last year to FF 16.8 billion, after sliding from FF 25 billion in 1981 to FF 14 billion in 1983.

In other developments, the number of foreign banks in France grew from 136 in 1983 to 142 in 1984, according to the annual report of the French bankers' association. Foreign institutions now represent 40% of the banks in France, although they account for only 18% of the balance sheet total.

Ireland: Dublin Urges Virtual 12-Month Pay Freeze

The Irish government has proposed freezing the pay of all public-sector employees through the end of the next annual pay period and limiting further pay raises to 1-2% for private-sector workers during the rest of 1985. According to the Public Service Ministry, the government "is not in a position to make any offer" on wages and would not pay out any increase that involved additional taxation.

For the present, it appears that the proposal is only a guideline and that no statutory incomes policy will be introduced. A government statement says that while it is accepted that the basis for determining pay and employment conditions should be free collective bargaining, Dublin will continue to lay down certain parameters to take account of the public interest and national employment requirements. In this regard, the government's objective is that increases in average pay "should not exceed the rate of increase in pay in competitor countries." The statement says that for most firms, given the size of the carry-over from existing agreements, "there is little or no scope" for new pay increases this year.

In the case of public-sector workers, the impact of pay settlements on state finances is an additional consideration. Even without any further wage increases, the carry-over from the last round of settlements and committed special increases will lead to a significant rise in the public-service pay bill over the next

year, exceeding the sum budgeted for 1986. The government therefore concludes that there should be no pay rises in the public sector for at least 12 months from the expiration date of the last contract.

The government's statement has met with predictable opposition from the Irish Trades Union Congress. Greg Maxwell, chairman of the public services committee, said that the unions would totally reject the proposals. Observers are skeptical over how successful the guidelines will prove, particularly in the private sector.

Italy: Banks Cut Prime Rate at Craxi's Request

In the first major economic move following the Italian government's summer recess, the country's leading banks have answered Prime Minister Bettino Craxi's call for lower interest rates. On Sept. 1, most banks cut their prime rates by one percentage point to 16%. Although the reduction had been expected due to the lower rates prevailing in the money market, Craxi's plea appears to have speeded up the decision.

At the same time, the prime minister also called on employers and unions to avoid wage increases and thus help to hold down inflation. The official inflation target of 5% for 1986 has already been revised upward to 6-6.5% as the cabinet continues its economic planning for next year.

The government faces a difficult task in attempting to reduce the public-sector deficit, which amounted to 54,328 billion lire in the first half, up 45% from a year earlier. As far as reducing expenditures is concerned, Craxi has already made known his intention of slashing old-age pension and health spending by several trillion lire. (Currently, about one-third of all Italians are eligible to receive old-age pensions; nine out of 100 receive disability payments.) It is expected, however, that total expenditures will still rise according to the forecast inflation rate.

Belgium: Parliament Dissolved Until October Ballot

The Belgian Parliament was dissolved on Sept. 3 at the request of Prime Minister Wilfried Martens following the coalition government's failure to achieve a consensus on constitutional reform issues. The government will remain in office until early elections are held on Oct. 13, although its powers will be limited by the absence of a parliament.

The December election date was moved up in July when the center-right coalition became divided over the question of the political responsibility for the riot at the European Cup soccer championship in Brussels. The government then faced a new crisis

in August when the coalition members failed to agree on constitutional reforms that would change the control of education from national to regional.

Portugal: Poor Investment Climate Reported by Industry

The negative effects of the Portuguese government's austerity policies and the country's rapidly approaching accession to the EEC have reduced the readiness of businesses to make new investments, according to the central bank and the Portuguese industrial association. The Bank of Portugal reports that gross capital investments declined by 20% from 1983 to 1984. Especially affected were equipment investments, which were down 31%. Plant investments declined at a slower rate of 10%.

In its May-June report, the industrial association confirms this trend. More than half the questioned companies said they plan no investments in the near future due to the "poor" economic climate. For a majority of the construction companies, the economic outlook is "exceptionally poor." In the manufacturing sector, 54% of the respondents have lowered production to less than 70% of capacity and 33% to 70-90%.

About 44% of the industrial companies consider their financial situation poor, due mainly to an insufficient credit supply and high interest rates. Some 45% of the respondents foresee encountering new problems as a result of Portugal's accession to the EEC on Jan. 1. They are particularly concerned about the possibility of losing their preferred status on exports to the United States.

In other developments, the Bank of Portugal reports that the economic stabilization plan worked out with the International Monetary Fund in 1983 has had "better results than expected." The deficit in the balance of payments was reduced from 165 billion escudos in 1983 to 70 billion escudos in 1984. Inflation was slowed to 29.3% in 1984, and the government recently revised its 1985 inflation forecast from 22% to 19.8%. Only in the area of public indebtedness was the goal not reached: this figure amounted to 353 billion escudos in 1984, well above the planned 64.4 billion escudos.

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Community: Ministers Begin Debate on Treaty Changes

On Sept. 9, the ten Member States' foreign ministers gathered at the first of a series of meetings, to be spread over several months, to consider changes to the Treaty of Rome. Key elements of these changes are an improved decision-making process on the part of the Council of Ministers, more consultation rights for the European Parliament, and increased legislative powers for the European Commission. One amendment to the Treaty of Rome would give the EEC express powers to protect the environment and to promote research and development.

At the Milan Summit on June 28-29, the European Council decided by a vote of seven to three (the U.K., Denmark, and Greece) that an inter-governmental conference should be convened to consider amendments to the Rome Treaty. First drafts of these amendments, prepared by a number of Member State governments and the Commission and based on the Dooge Committee's suggestions, were discussed in Milan, but not in any detail. Great differences exist between the amendments suggested by the Commission and those put forward by the various national govern-

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ments, notably France, Germany, and the U.K. Still, all of the proposals dealing with the decision-making process have one common goal - more majority voting by the Council of Ministers and less use of the veto. For this reason, an amendment to this end would have the greatest chance of being approved by the inter-governmental conference and eventually by the Member States' legislatures.

The Commission is quite specific in its draft amendments concerning majority voting. An amendment to Treaty Article 57(2) would repeal the unanimity requirement and thus speed up decisions. An amendment to Treaty Article 100, which deals with directives to approximate national provisions affecting the Community's internal market, would substitute the majority vote for the unanimity requirement *(Common Market Reports, Par. 3301)*.

The foreign ministers will also be discussing a draft treaty that would commit the parties to a common foreign and security policy. That draft would codify political cooperation among the Member States. Political cooperation, not provided for in the Rome Treaty, has developed since the 1970s because government leaders felt that the Member States have joint responsibilities in this area as well. This cooperation is believed to have suffered since Greece's accession in 1981, largely because the Greek government has been less anti-Soviet and more pro-Arab than the other States. The draft treaty would also provide for the establishment of a secretariat to help in the coordination of foreign policies. The proposal, sponsored by Germany and France, calls for a large general secretariat with a staff of around 100, while the U.K. favors a small staff of 20.

EC Court to Hear Arguments in German Beer Case

Next month the European Court of Justice is expected to hear oral arguments in the German beer standard case (Commission v. Germany - Case No. 178/84). In July 1984, the Commission brought suit against Germany, charging that the German beer standard constitutes a restriction on intra-Community trade within the meaning of Treaty Article 30. That article bans quotas and similar quantitative restrictions *(Common Market Reports, Pars. 321, 322)*. The Commission maintains that the retention of the beer standard violates Treaty Article 30 also in light of Court of Justice case law established in 1979 in the "Cassis de Dijon" case *(Common Market Reports, Par. 8543)*.

The German beer standard issue goes back to 1981, when an Alsatian beer producer wanting to sell his beer in Germany complained to the Commission that German law prevented him from doing so. Germany's 1952 Beer Law, which incorporates a Bavarian king's 1516 decree on beer, allows only four ingredients: hops, malt, yeast, and water. No additives or malt substitutes (such as corn or rice) used by breweries outside Germany are permissible. As a result, foreign breweries wanting to sell their product in Germany must make beer that meets the German standard.

Bonn has defended the retention of the standard on grounds of public health and has even recommended that the other States incorporate it in their national laws. Not only has the German government invoked Treaty Article 36, which grants a Member State the right to restrict imports from other States for reasons of public health or consumer protection *(Common Market Reports, Pars. 351, 352)*, but it has also cited Court of Justice case law to support its stand. In 1981 the Court saw no Treaty violation in a Dutch law that banned an additive in cheese as a potential health hazard due to the above-average consumption of cheese in the Netherlands *(Common Market Reports, Par. 8743)*. Since Germans drink more beer than other EC nationals, those who drink foreign beer containing additives would be exposed to a similar health risk, the German government says.

The Commission has taken the health argument seriously and has commissioned several studies on the health risk potential of additives commonly used in beers outside Germany. These studies in general support the Commission's stand that the additives represent no hazard to health. In fact, German law allows domestic breweries to use additives in beer destined for exportation. In the Commission's view, the German government contradicts itself in defending the standard. The Commission does not seek repeal of the standard, but it wants the law amended so that foreign beer containing additives permissible under national law may be sold in Germany.

In Brief...

The Greek government has asked its EEC partners and the Commission for another two-year postponement of its introduction of the value-added tax system. If Greece succeeds, the deadline would be moved to Jan. 1, 1988. This is the second time that Greece has sought postponement of its VAT commitments. Under the Treaty of Accession, Greece was supposed to have introduced the tax by Jan. 1, 1984. The Greek government sought and obtained a two-year delay for "technical reasons," largely involving the repeal of a number of other indirect taxes. Since Athens has not made headway in drafting the VAT bill, it is seeking another reprieve + + + A widely known German economics institute, the Deutsche Institut für Wirtschaftsforschung (DIW), has joined the growing number of voices critical of the chances of turning the Common Market into a genuine internal market by 1992. Last June the Commission revealed an ambitious internal-market program that was endorsed at the Milan Summit on June 28-29. In a recent report, the DIW says that the planned measures do not include alignment of national monetary, fiscal, and social policies and do not tackle differences in national labor-management relations or the state's role in economics. Only when the differences in these policies are removed could a genuine internal market become a reality, according to the DIW.

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Germany: Government, Unions, Management Discuss Jobs

The recent meeting between German government leaders and union and management representatives did not produce any spectacular results, due to the opposing views on the agenda's No. 1 topic - unemployment. Union leaders reiterated their demand for a government investment program of some DM 50 billion to provide jobs for up to 200,000 unemployed persons. Government leaders rejected the program with two arguments: it would not bring lasting relief on the unemployment front, and it would have to be financed through borrowing, since raising taxes is considered out of the question at this time.

The delegates did agree that a portion of the Federal Labor Office's accumulated revenue surplus from employees' and employers' contributions (an estimated DM 5 billion by the end of the year) should be spent on training the unskilled. It is estimated that some 300,000 of Germany's 2.2 million unemployed will never have a chance of finding a job unless they learn a trade or improve their skills. A commission comprised of government, union, and management representatives is to decide how much of the total should be spent and how many jobless should take part. There was also agreement that the older unemployed should receive unemployment benefits for up to 24 months instead of 18. A bill setting forth the details should be submitted to Parliament within a month or so.

The representatives disagreed on a number of issues. Union leaders demanded legislation to ban overtime and thus force management to hire unemployed persons instead; the Social Democratic Party supported this view. The government, upheld by management representatives, rejected the idea but promised to consider a cutback of overtime by the national postal service and railroad. Another point of disagreement was the union leadership's demand for amendments to the 1972 Works Council Act to extend the councils' say over the introduction of new production methods controlled by computers and other cost-saving technologies. Government leaders do not want to interfere in any way with management decisions, even if these result in the elimination of jobs. Labor Minister Norbert Blüm and Economics Minister Martin Bangemann are confident that management and works councils in most enterprises would seek an amicable agreement to avoid laying off workers in such situations.

On the issue of the Federal Labor Office's neutrality in labor disputes, government leaders told union and management representatives to seek an agreement among themselves. The government did not specify the details of such an agreement in light of the vast difference of opinion between the collective bargaining partners. (The unions want the FLO to pay benefits to employees put on short workweeks or dismissed by employers outside the struck regions; management believes the Office should not pay in such a case.) Chancellor Helmut Kohl told both union and man-

agement representatives that he would give them a year to come to an agreement. By September 1986, the political parties will be into the most important phase of their campaigns for the national elections (scheduled for January 1987), and no one expects the government to antagonize labor with a controversial bill at that time.

Britain: Cabinet Changes More Extensive Than Expected

The Sept. 2 reshuffling of the British cabinet by Prime Minister Margaret Thatcher was more wide-ranging than originally anticipated. Thatcher said that the changes were designed to make clear the government's "greater emphasis on enterprise and employment," but she rejected any suggestion that changes in fundamental economic policy are needed. She said that these would probably be the last major cabinet shifts until the next election, which "may be nearly three years away." (Thatcher's Conservative administration was reelected in the 1983 general elections, but it is highly unusual for a U.K. government to serve out its full five-year term.)

The shake-up of ministers comes at a time when the Conservative Party has been trailing the Labor Party and the Liberal/Social Democratic Alliance in the polls. Thatcher said she believes that her "new" team will revive the Conservatives' sagging popularity. The major cabinet changes are as follows:

- Norman Tebbit gave up the trade-and-industry portfolio to become the Conservative Party chairman.
- Leon Brittan moved from the Home Office to the Dept. of Trade and Industry.
- Douglas Hurd, Northern Ireland secretary for the past year, was appointed home secretary.
- Employment Secretary Tom King became the new Northern Ireland secretary.
- Lord Young, formerly a minister without portfolio, took over the Dept. of Employment.

Thatcher said that the appointment of Young, who has been spearheading the government's drive for job creation, will ensure that the Employment Dept. will "no longer just give out the employment figures and oversee the job centers" but will have "much more to do with enterprise." Young's former responsibilities for deregulation and small business are also to be incorporated within the department. The minister said he "approached with an open mind" the subject of employment protection legislation.

France: Paris Set to Open Commercial Paper Market

The French Economics Ministry has asked the country's banks and financial institutions for their comments on its tentative pro-

posals for a new market in commercial paper. The financial community is to respond by the beginning of October, and the final proposals would go into effect several weeks later. By asking for comments and then introducing the market gradually, the government hopes to avoid the disruption that occurred when certificates of deposit were introduced last year.

Opening a commercial paper market would allow companies to raise short-term funds directly in the market, thus avoiding higher-cost bank loans. The government proposes that issues be made in amounts of about FF 10 million for up to six months. The minimum amount would effectively limit the market to larger companies. Although banks would not be able to issue commercial paper themselves, as they can in the U.S., they would still receive some commission because issuing companies would need a bank guarantee.

Observers expect the new market, with its lower interest rates, to lure short-term borrowers away from commercial lenders and force banks to set more competitive interest rates. Because of the current lack of a French commercial paper market, many companies finance their short-term needs abroad.

Norway: Governing Coalition Achieves Narrow Victory

Norway's three-party, Conservative-led government showed a slight loss in popularity in the Sept. 9 parliamentary elections but still managed to win a one-seat majority. Prime Minister Kaare Willoch's Conservatives, together with the Christian People's and Center parties, won 78 seats in the Storting, compared with a total of 77 for the Labor, Socialist Left, and Liberal parties. The governing coalition's tenuous majority is made slightly more secure by the two seats held by the Progressive Party. The Progressives generally vote with the coalition, although they are not part of the Willoch administration.

With 49.5%, the left-wing opposition actually won more of the popular vote than the governing coalition, which received 48.9%. Because of the electoral system, however, the incumbent government was returned to office. The Conservatives' share of the vote fell from 31.8% in 1981 to 30.2%. The Labor Party was actually the most popular party, with 41% of the vote, up from 37.1% in 1981.

Spain: Central Bank Reports Economic Improvement

Mariano Rubio, governor of the Bank of Spain, said preliminary figures for the first half showed a definite improvement in the Spanish economy, although it was too early to ascertain the extent of any recovery. The first-quarter GDP figure was 1.5% higher than that of a year earlier, and a further improvement was evident for the second quarter. Rubio said the increase could be

traced mainly to higher foreign demand. The current-account deficit was down to 262.8 million pesetas, compared with 494.3 million pesetas in the first half of 1984.

Abel Matudes, vice president of the Alianza Popular (the strongest opposition party), warned the government against judging the figures too optimistically. Although unemployment fell by some 36,000 in the first half, Matudes believes the drop was due mainly to seasonal jobs in tourism and agriculture and that the jobless total will rise again dramatically in October. Lawrence Klein, a winner of the Nobel Economics Prize, predicted at a conference in Madrid that Spanish unemployment would reach 22.75% by the end of the year, rising to 25.48% before it begins a gradual decline in 1989.

The mixed economic indicators come at a time when the government is concentrating on planning the budget in general and reducing the budget deficit in particular. The González administration wants to cut the deficit from its current 5.2% of GDP to 4.5% in 1986. Spain's budget shortfall has risen from zero in 1975 to some 1.3 billion pesetas this year. The public debt has jumped from 11.6% of GDP in 1978 to 32.7% in 1984.

In other developments, the main Spanish employers' federation has threatened to withdraw from its wage agreement with the unions and the government. José María Cuevas, chairman of the Confederation of Business Organizations, said the government has failed to implement "key clauses" in the pact. The disagreement reportedly involves the country's strict labor laws and their adaptation to EEC standards when Spain accedes to the EEC on Jan. 1.

Sweden: Price Freeze to Continue Through December

The Swedish government has extended until at least Dec. 20 the price freeze that was supposed to be lifted two days before the Sept. 15 elections. At the same time, the freeze was eliminated for fertilizer, household capital products, particle board, plywood, and several other goods. The limit now covers about 30% of consumer goods.

The price freeze was enacted last March at a time when the government was negotiating 1985 wage settlements with the unions. Stockholm said then that the freeze would gradually be lifted for those industries that agreed to hold price increases to amounts justified by the maximum 5% wage increase the government was seeking. Experts now expect wage costs to exceed the 5% target by at least two percentage points. The government also has little hope of meeting its goal of reducing inflation from 8% in 1984 to 3% this year. The 1985 inflation rate is now expected to amount to as much as 7%.

EURO COMPANY SCENE

Esso AG, a German subsidiary of Exxon, plans to close its Hamburg oil refinery in the fall of 1986 due to the continuing

overcapacity in the industry. The refinery has an annual capacity of 4.5 million metric tons and employs 450 workers.

Esso has also announced that its ethylene plant in Cologne, which has an annual capacity of 450,000 tons, will be shut down by the end of the year, with a loss of 350 jobs. Esso and Shell are opening next month in Mossmorran, Scotland, a jointly operated ethylene plant with a 500,000-ton capacity. Shell has already announced the imminent closure of its 145,000-ton-capacity plant in Carrington, England.

Phillips Petroleum Co. of the U.S. is selling two Dutch subsidiaries to Det Norske Oljeselskiap AS of Norway as part of its plan to raise $2 billion by March 1986 in order to reduce its long-term debt. Phillips is to receive an estimated $50-100 million for GAO North Sea Ltd. and GAO North Sea Exploration Ltd., which consist mainly of acreage and exploration licenses on the Dutch continental shelf.

Mobil Development Norway AS, a unit of Mobil Oil Corp. of the U.S., said it does not intend to withdraw from Norwegian operations despite its recent refusal to accept the Norwegian government's offer of two new blocks in the North Sea.

Sears World Trade, Inc., the trading division of Sears, Roebuck & Co., is purchasing a 75% interest in the European trading operations of Hagemeyer NV of the Netherlands. The transaction is part of a deal in which Sears will also acquire a share of the Dutch company's North American, East Asian, and Southeast Asian trading operations.

State-owned Cie. Générale d'Électricité of France has asked the French government for approval of an agreement giving American Telephone & Telegraph Co. a 15% share of the French market for digital switching equipment. AT&T would then aid CGE's Alcatel-Thomson subsidiary to get equipment orders in the U.S. At the same time, AT&T, CGE, and NV Philips of the Netherlands would collaborate on a project involving the production of microwave transmission equipment.

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Community: Commission Demands Loosening of Air Rules

The European Commission is determined to bring about a relaxation of the heavily regulated air transport and airfare system in the Common Market. Commissioner Clinton Davis told the European Parliament that if by June 1986 the Member States have done nothing to revise bilateral agreements controlling airfares and capacity, the Commission would sue the national airlines and the States before the European Court of Justice. The Council of Ministers has set the goal of acting on two Commission proposals on air transport by the end of the year. According to Treaty Article 84, the Council, acting unanimously, may decide whether, to what extent, and by which procedures appropriate provisions may be laid down for sea and air transport *(Common Market Reports, Par. 1941)*.

In March 1984, the Commission submitted a memorandum to the Council of Ministers together with a number of proposals designed to introduce a significant relaxation of the present Community air transport system *(Common Market Reports, Par. 10,574)*. Two of the proposals would make EEC competition rules

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applicable to civil aviation. According to one measure, airlines would no longer be required to conclude agreements among themselves on the distribution of capacity, volume of traffic, and revenue. The Member States could guarantee their domestic airlines not more than 25% of the traffic volume. A Council draft regulation would empower the Commission to grant block exemptions to agreements in civil aviation relating to capacity sharing, revenue pooling, and consultation on tariffs.

The Commission wants to achieve a compromise between a bureaucratic straitjacket and total deregulation. An open-skies policy, as practiced in the United States, is ruled out for the Community since the airlines of most Member States are government-owned. The Commission would like to limit government interference in so-called capacity arrangements, which determine the size of planes flying and the number of flights. Airlines should be free to set fares so long as they are genuinely cost-related, the Commission says. In order to guarantee that airlines compete under equal conditions, the Commission has proposed guidelines for the control of state aids in the air transport sector.

The Commission's drive will gain early support if the European Court of Justice hands down an early decision reinforcing the supremacy of EEC law over national law on the question of price-fixing by airlines. Five such cases are pending before the Court (Case Nos. 209-213/84). A number of travel agents and agencies were fined by French authorities for selling tickets below the prices approved by the French government. A Paris court suspended the defendants' appeal proceedings and requested from the EC tribunal a preliminary ruling on whether certain provisions of the French Aviation Code are compatible with Treaty Articles 85-86.

EP Endorses Enlargement With Critical Comments

The European Parliament has officially agreed to Spain's and Portugal's accession to the Community in a vote that has only declaratory meaning for the enlargement. Still, the report drawn up by the EP's political affairs committee on the ratification of the Treaties of Accession with Spain and Portugal contains some highly critical comments, particularly from the agricultural committee.

The accession of Spain and Portugal will present the Community with major challenges with respect to its future common agricultural policy. These challenges will result from the integration of Spanish and Portuguese agriculture into CAP, the social and economic situation of farmers in the two acceding countries, and the effect of the enlargement on third countries in the Mediterranean. The agricultural committee believes that a considerable number of small and very small farms in Spain and Portugal will be driven out of business. Since large proportions of the working populations of those two countries are employed in farming (20% in Spain and 31% in Portugal), unemployment will

jump considerably. (The jobless rate is now 20% in Spain and 7.7% in Portugal.) A special program along the lines of the Integrated Mediterranean Program must be adopted for both countries in order to bolster their agricultures and help create jobs outside the farm sector, according to the committee.

The accession of the two new Member States will have varying effects on the common organizations for individual agricultural commodities. Spain's entry, for example, will mean a considerable increase in the Community's level of self-sufficiency in the fruit and vegetable sector, particularly for citrus fruit. At present, the Community produces about 45% of its citrus requirements, while Spain has a surplus production of some 235%. Coping with surplus production of citrus fruits as well as of other products, such as wine and olive oil, will be a major challenge, according to the authors of the report.

Other Mediterranean countries linked with the EEC by cooperation or association agreements will be seriously affected by Spain's and Portugal's entry, especially in the farm produce export sector. The agreements guarantee access of agricultural products from these countries at greatly reduced tariffs. For example, 65% of Israel's farm produce exports, 80% of those from Morocco, and 58% of those from Tunisia are sold in the Common Market. The exports are vitally important for the three countries, but Spain's and Portugal's accession will make the EEC virtually self-sufficient in these products. The report stresses the need for starting negotiations with the Mediterranean parties to these agreements to alleviate the detrimental consequences of enlargement.

In Brief...

Germany has become the second country to commit funds in support of the Eureka high-technology project. Seventy million D-marks are allocated for the project in Germany's 1986 draft budget, and the Kohl administration will seek Parliament's approval for a maximum of DM 2 billion. The money will be provided through credits to German companies that decide to participate in Eureka. Proposed by the French government as an alternative to participation in the United States' Strategic Defense Initiative, Eureka is envisaged as a pooling of European high technology for civilian use. France has committed itself to a FF 1-billion credit for Eureka as of 1986. There will be a second conference of foreign and research ministers in Hannover in early November to discuss the project + + + A legal dispute has developed between the Commission and the Council of Ministers over the EC Executive's powers in the social policy field. Last July the Commission issued a decision requiring the Member States to inform the EC Executive about planned legislation concerning the entry, residence, employment, equal treatment, and voluntary return of third-country workers and their dependents. The Commission also

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wants to be informed about draft agreements with third countries on the subject. Germany contends that the Commission exceeded its powers when it issued the decision, and Bonn is determined to sue the Commission on the matter. Germany is hoping the other States will join in the Council action. Treaty Article 118, the legal basis used by the Commission in making the decision, permits the EC Executive to make studies, deliver opinions, and arrange consultations but never to effect legislative acts, Council lawyers say.

Germany: Officials Suggest Broad-Ranging Tax Reform

German Economics Ministry officials have made a rough outline of a tax reform that would entail basic changes in individual and corporate income taxes, net worth tax, and business tax. The authors of the internal paper, which was leaked to the press, emphasize lowering a corporate tax burden that they consider far too heavy and detrimental to new investments. If the current government is returned to power in the January 1987 national elections, the paper has a good chance of being turned into a bill during the 1987-91 legislative session.

The authors suggest a uniform corporate tax rate of 46% for retained and distributed profits, thereby eliminating the current system providing for a 56% rate on retained profits and a 36% rate on distributed profits *(Doing Business in Europe, Par. 23,339)*. Realization of this suggestion would cause nearly half of the overall DM 30-billion loss to federal and state treasuries that the authors anticipate would occur if their plan is implemented.

Also important for companies would be the changes in the net worth tax. The authors would like to restore the former system, which was repealed in 1971. Corporate taxpayers would be entitled once again to deduct the net worth tax from income on their corporate income tax returns. The authors would prefer to abolish the net worth tax altogether, but because of the revenue loss involved (1984 total was DM 9 billion) they believe that the suggestion does not have much chance of success.

The authors discuss several models for a reform of the business tax. They suggest transforming the tax into a sort of value-added tax (an idea heavily opposed by the business community) and allowing taxpayers to be credited with the business tax on their turnover tax returns. Repealing the business tax without creating another source of revenue is also discussed but given no chance of realization because the business tax is an important revenue source for local governments *(Doing Business in Europe, Par. 23,385)*.

The authors recommend that the maximum tax rate applied to individuals in the high-income bracket be reduced from the present 56% to 49%. They believe that the high rate acts to deter

business owners from working hard and investing their earnings. The authors also recommend a substantial increase in the basic exemption granted to individual taxpayers.

While most of the suggestions would be welcomed by taxpayers, one is likely to provoke protests - the creation of a withholding tax on interest paid by banks to holders of deposits. The Schmidt administration had toyed with the idea of proposing such a tax but quickly abandoned it after massive criticism.

Britain: Trades Union Congress Avoids Partial Break-Up

At the annual Trades Union Congress held earlier this month in Blackpool, England, a permanent split in the U.K. labor movement was narrowly avoided - at least for the time being. Also, the congress noted that the prolonged miners' strike has not proved as disastrous for the union movement as some observers had predicted. The decline in union membership over the past few years has slowed down: the current total is 9.7 million members.

The dominating issue of the congress was the strong possibility that a separate organization might be set up by the Amalgamated Union of Engineering Workers (TUC's largest affiliate, with over 1 million members) and the Electrical, Electronic, Telecommunication, and Plumbing Union (400,000 members). The dispute centered on the engineering union's acceptance of £1.2 million from the government for holding internal postal ballots, even though the TUC had endorsed a boycott of the government funds. The union justified its acceptance of the money by pointing to the overwhelming majority of members who had voted to do so. A somewhat uneasy compromise was finally hammered out, and the AUEW is to hold a further ballot on the question.

To general surprise, the TUC backed by a slim majority a demand from the National Union of Mineworkers that any future Labour government should immediately reimburse all unions involved in court actions as a result of the current Conservative government's industrial relations legislation. This move was in opposition to the recommendation of the general council (the TUC's governing body, which is dominated by the larger unions) and could be politically damaging to the Labour Party. However, Neil Kinnock, leader of the Labour Party, said that the possibility that retrospective payments would actually be legislated is "very remote."

The TUC laid the foundations of a pre-election accord with the Labour Party, including a framework for incomes. A resolution was passed which calls for free collective bargaining "within the framework of a planned and agreed economic strategy." The resolution also includes plans for an economic summit of employers, unions, and any incoming Labour government. David Basnett, chairman of the TUC economic committee, said that "income determination would have its place in that process of agreed planning."

Netherlands: One-Point Cut in Corporate Tax Proposed

The Dutch government has proposed to Parliament that the corporate income tax rate be reduced from 43% to 42% *(Doing Business in Europe, Par. 26,813)*. If the legislation is approved, as is expected, it will take effect on Jan. 1, 1986. At the same time, the government has quashed hopes for decreases in the income and wage taxes as well as additional cuts in the corporate tax in the near future. The corporate rate was lowered to its current level from 48% in 1983.

The proposed reduction in the corporate tax rate is one of two tactics intended to shore up the international competitiveness of Dutch companies. The first was the shifting of more of the social insurance burden from the employer to the employee. Observers view the plan as at least initially successful, as average corporate profits continue to rise this year. In 1984 profits of Dutch companies quoted on the Amsterdam exchange increased by an average of 20%.

Austria: High Foreign Ownership of Domestic Stocks

Almost 30% of the shares of Austrian companies are owned either directly or indirectly by foreigners, according to a study published recently by the Austrian Workers' Chamber. The report covers some 20,700 companies with capital of 104.8 billion schillings. The proportion of direct foreign investment in Austrian companies rose from 22.5% in 1969 to 25.6% in 1978. At the same time, the number of workers employed by foreign-controlled companies jumped from 149,200 to 218,700. Foreign involvement is particularly high in the electrical, leather, clothing, paper, and chemical industries. The largest number of foreign investors is from West Germany, followed by Switzerland/Liechtenstein and the United States.

The chamber also reports that almost 43% of Austrian company shares are publicly owned - a uniquely high percentage among Western industrialized countries. The fact that only 22% of the shares are held by private Austrian investors explains why private industry holds relatively little political influence in Austria, observers say.

Spain: Madrid Proposes Overhaul of Income Tax System

The Spanish government has proposed income tax reductions that would affect 60% of the country's taxpayers plus a crackdown on tax fraud to offset the resulting revenue losses. The changes, expected to be approved by Parliament this fall, would be applied to 1985 incomes. Low-income taxpayers would receive the largest benefits from the bill, since the lowest tax rate would drop from

17% to 8%. Other rates would change less dramatically, and the top rate would remain at 45.96%.

The government has also proposed eliminating the provision allowing individuals to deduct capital losses from their taxable incomes. Other suggested changes include a flat-rate system for deductible expenses, an easing of rates for two-income families, and an 800,000-peseta limit on the deduction of interest paid on housing loans.

Finance Minister Carlos Solchaga said the government plans to offset some of the 150-billion-peseta revenue loss that would result from the tax cuts by cracking down on rampant tax evasion. The program will be aimed mainly at professionals, businessmen, and farmers.

The proposed tax overhaul is the second part of a plan introduced this year to boost the Spanish economy. In July Madrid reduced the amount of income tax withheld from paychecks in an effort to spur a quick increase in consumption.

Sweden: Close Win for Social Democrats, Communists

Swedish Prime Minister Olof Palme's Social Democratic Party lost its parliamentary majority in the Sept. 15 elections but, with the aid of the seats held by the Communist Party, will still remain in power. The two parties won a total of 178 seats, against 171 seats for the Conservative, Center, and Liberal opposition parties. All the major parties have lost voter support since the last election, although the Social Democrats remained the most popular, with 45% of the vote. They were followed by the Conservatives, who received 21.3%. The small Liberal Party was the big winner, gaining 30 new seats and 8.4 percentage points for a total of 51 seats and 14.3% of the vote.

Although the Social Democrats have maintained control of the government (either alone or as part of a coalition) for 50 of the past 56 years, opinion polls of a year ago showed that their voter support had dropped dangerously low. Palme managed to regain enough of that support to win "a victory for the welfare state" by concentrating his campaign on a defense of welfare programs and the large public sector. Despite the high tax burden carried by Swedish voters, they still turned down the Conservatives' promise of tax cuts, reduced public spending, and a move toward privatization.

Switzerland: Employers Optimistic on Business Climate

In a recent informational meeting, the Swiss federation of employer organizations reported a positive business outlook for the country in the near future. According to the employers, the favorable demand development and exchange rate have offset the neg-

ative effects for Switzerland of last year's strikes in West Germany, the country's most important trading partner. The federation warned, however, against losing sight of the economic structural changes that are necessary as well as the burden placed on the economy by union demands, state intervention, and the expansion of the social security system.

According to the federation, improved productivity has increased the latitude for negotiation in the wage talks due by the end of the year. The talks will be handled in individual sectors on a regional or company-by-company basis. The federation said that more and more bargaining partners are linking wage increases to improvements in productivity rather than to inflation. Observers expect average wage increases this year to amount to about the same figure as in 1984 - 3-4%.

The employers reported labor shortages in the areas of data processing, sales, and, to a lesser extent, in manufacturing. The overall unemployment rate of 1%, low by international standards, is still considered high in Switzerland. However, the employers said most jobless persons are older, less skilled, or difficult to employ for some other reason. Consequently, the employers said, they oppose a campaign to include a maximum 40-hour workweek in the constitution as a means of opening up more jobs. The federation prefers continuing to include the subject of worktime reductions in regular collective bargaining arrangements so that specific conditions in the individual sectors can be taken into account.

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Community: Court Backs Commission Against Ford Corp.

The European Commission acted lawfully when it refused to exempt Ford-Werke's German car distribution system from the ban of Treaty Article 85(1), the Court of Justice has ruled. Thus, the European Court has confirmed the Commission's position in the legal dispute with Ford-Werke AG, Cologne, and Ford of Europe, Inc., Wilmington, Del. In the Court's view, Ford's refusal to supply German car distributors with right-hand-drive cars amounted to an artificial partitioning of the Common Market (judgment of Sept. 17, 1985, Case Nos. 25 & 26/84).

Ford first breached EEC competition rules in May 1982 when it stopped supplying German dealers with right-hand-drive models. British and Irish customers had been buying new cars on the Continent, especially in Germany, because Ford's U.K. prices were as much as 20% higher. In an August 1982 interim order, the EC Executive told Ford-Werke to resume the supply of right-hand-drive cars to German dealers pending a final decision by the Commission on whether there had been an infringement of Treaty Article 85(1) *(Common Market Reports, Par. 10,419)*. Ford-Werke and Ford of Europe challenged that order. On Sept. 28, 1982,

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the Court of Justice, in an interim order of its own, instructed Ford to make 4,800 right-hand-drive cars available for sale in Germany over the following 12 months.

In November 1983, the Commission issued a decision saying that Ford had violated Article 85(1), that it must discontinue its distribution system, and that it did not qualify for an exemption *(Common Market Reports, Par. 10,539)*. Ford-Werke and Ford of Europe challenged this decision as well.

The Court's latest judgment has been welcomed by the Commission, and consumer organizations believe the EC Executive is now in a stronger position to cope with infractions of EEC competition rules by automakers. The economic impact of the judgment has been lessened by two developments, however. First, a Commission block exemption regulation in force since July 1 exempts car distribution agreements from the ban of Treaty Article 85(1) when certain conditions are met, one of these conditions being that customers be allowed to buy cars anywhere in the Common Market *(Common Market Reports, Par. 2751)*. (Ford, along with other European car manufacturers, was given until Oct. 1 to sign new distribution agreements complying with this regulation.) Second, careful pricing by Ford and the appreciation of the German mark against the British pound have diminished the price differentials between cars sold in the U.K. and cars sold in Germany. (There were 5,000 right-hand-drive models imported from Germany in 1982 but only 400 in 1984.)

Nevertheless, the Commission is still receiving hundreds of complaints from consumers about the refusal of various manufacturers' dealers to supply cars, delivery delays, and price quotations well above recommended prices.

Council Action Favoring German Farmers Seen Illegal

The Council of Ministers breached Community law in adopting a regulation to compensate German farmers for losses arising out of a 1984 decision to abolish monetary compensatory amounts (MCAs), according to the European Parliament's legal affairs committee. The committee wants the Commission to sue the Council to have the regulation declared invalid.

As a guardian of the EEC Treaty, the Commission must ensure that all EC institutions act within the law, if necessary by bringing actions under Articles 173 and 175. So far the Commission has declined to do anything in this case because it views itself more or less as an outsider. A private action has been brought by a French farmers' association against the Council and Commission to make certain that the European Court of Justice will take up the issue.

For many years the Commission sought to abolish MCAs because they were considered incompatible with the common price structure for agricultural products. MCAs had been introduced

in 1971 as a border tax system to offset currency fluctuations in the export and import of farm products. It was acknowledged that German farmers would suffer the most financially if MCAs were phased out, and thus the Commission decided that these farmers should be compensated through increased value-added tax rebates. In late 1983 the Commission proposed amendments to Reg. No. 974/71, the measure establishing the MCA system: the compensation was to do no more than balance the loss of income. In its March 1983 opinion, the Parliament emphasized that it wanted to be consulted again should the Council make substantial changes.

The regulation adopted by the Council in March 1984 bore hardly any resemblance to the Commission's original proposal, according to the EP committee. The Council not only departed from the text but also raised the compensation to DM 3 billion. (The estimated loss of revenue was DM 2.2 billion.) This would have been reason enough for the Court of Justice to void the regulation, in the committee's view, and it should have prompted the Commission to sue the Council.

What complicated the situation was that at the Fontainebleau summit in June 1984, the European Council agreed to raise compensation to German farmers even higher through additional VAT relief. The Council of Ministers enacted the measure a few days after the summit, even though the Commission was against the idea. The Council circumvented the Commission's opposition by using Treaty Article 93(2), third subparagraph, as a legal basis. Under this article, Council decisions do not require the participation of either the Commission or the Parliament. In exceptional cases, the Council may decide that national aid is to be considered compatible with the Common Market in derogation from Articles 92-94.

The EP committee contends that the Council may use Article 93(2) only for the introduction of national measures derogating exclusively from the terms of Articles 92-94. Article 93(2) may never be used as a legal basis for measures derogating from other provisions of Community law. Consequently, the Commission should sue the Council for this action as well, the committee concludes.

In Brief...

The Council of Ministers has formally adopted two pharmacists' directives, one providing for the mutual recognition of diplomas and one for the right of establishment. The directive granting pharmacists the right to move to another Member State and practice their profession there is restricted, however: self-employed pharmacists are not allowed to open up a new pharmacy in another State; they must acquire an existing pharmacy that has been established for at least three years. The 16-year-old proposal would have had no chance of adoption if this restriction, de-

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manded by Greece, had not been accepted. The Member States have until Sept. 16, 1987, to transform the contents of the two directives into national law + + + The Council of Ministers has approved the Community's 1986 budget of ECU 32 billion and sent it on to the European Parliament, the second EC institution involved in the budget-making procedure. The approved amount falls ECU 3 billion short of what the Commission had asked for in light of Spain's and Portugal's accession but is still ECU 2.3 billion above the spending ceiling the Council had set for itself in June.

Germany: Major Investments for Railroads, Highways Planned

The German government has revealed a vast railroad and highway investment program totaling some DM 126 billion over the next ten years. About DM 35 billion would be spent on new lines of the state-owned rail system and on improvement of existing lines. The biggest project would be new tracks for high-speed trains linking Cologne and Frankfurt that would cut travel time between the two cities from three to 1.5 hours. If this project is completed, the 742-kilometer trip between Dortmund and Munich would be halved to 3.5 hours. The new Cologne-Frankfurt rail link, which would cost some DM 5.5 billion, will face strong opposition from citizens' groups and local political organizations, however.

The plan also calls for new tracks between Karlsruhe and Basel (Switzerland), Kassel and Dortmund, and Hamburg and Münster, requiring an investment of DM 13 billion. Construction of new lines between Stuttgart and Mannheim and between Würzburg and Hannover has been under way for many years and will be completed by 1991.

Bonn's ambitious rail expansion program is somewhat similar to, but on a bigger scale than, the French program. The high-speed trains operating between Paris and Lyon on almost curveless tracks allowing speeds of up to 300 km an hour carry so many passengers that is is the only profitable rail line in Europe.

The program also provides for an additional 2,500 km of express highways to be constructed over the next ten years at a cost of DM 50 billion. This would bring the total *Autobahn* network to 10,800 km, the limit set by Parliament years ago.

Bonn Moves to Stimulate Sales of Low-Pollution Cars

Slack sales of low-pollution cars have prompted the German government to propose yet another cut in fuel excise tax for unleaded gasoline. Under the proposal, the excise tax would be reduced by DM 0.03 to DM 0.50 per liter of unleaded fuel. Although the production of lead-free gasoline is costlier than

that of unleaded fuel, the proposed reduction in excise tax would enable the oil companies to offer unleaded gasoline at a slightly lower price than leaded fuel. At the moment, a liter of unleaded fuel costs DM 0.02-0.03 more than the leaded variety.

On April 1, 1985, legislation went into effect reducing the excise tax by DM 0.02 to DM 0.53 per liter of lead-free gasoline and raising the tax by DM 0.02 to DM 0.57 per liter on leaded fuel *(Doing Business in Europe, Par. 40,623)*.

German automobile club officials are skeptical that the measure will have a significant impact on prospective buyers of new cars equipped with three-way catalytic converters. Although sales of cars with converters have picked up considerably, to 1% of total registrations in May and 10% in August, overall sales are not encouraging. Some 65,000 low-pollution cars have been sold since January, only 3.8% of the 1.7 million new cars registered since the beginning of 1985. According to the automotive industry, there is still not enough interest in converter-equipped cars, even though dealers are offering a variety of models. At the recent International Automobile Show in Frankfurt, few visitors showed interest in elaborate displays demonstrating how catalytic converters work.

Britain: Retaliation Against U.S. Unitary Tax Seen Closer

Since the California legislature failed to abolish unitary taxation in its final session before adjourning for the summer, pressure has been mounting on the government in Britain to take the retaliatory action provided for in this year's Finance Bill. Under the terms of that proposal, Chancellor of the Exchequer Nigel Lawson would be empowered to deprive U.S. corporations operating in the U.K. of fiscal relief with regard to advance corporation tax *(Doing Business in Europe, Par. 23,806G)*.

California is regarded as the most significant of the six U.S. states that levy unitary tax on U.K. multinationals. Michael Grylls, a Conservative MP, who has led the parliamentary opposition to the tax, said that he will be pressing Lawson to exercise his powers as soon as the House of Commons reconvenes in November. "I think we have taken a big step nearer retaliation," Grylls said.

Report Notes Performance Lag of British Industry

The latest edition of "British Industrial Performance," published by the National Economic Development Council, a government body, indicates that the U.K. has not done as well as its main foreign competitors over the past twenty years, be it in economic growth, productivity, profits, or employment prospects. However, there are some signs that British industry is becoming

more competitive in certain sectors, according to the Council report.

The NEDC director-general, John Cassells, says that the picture is "one of contrast," with relatively slow output growth and a deep trough in manufacturing in the early 1980s. From that low point, output at home has been increasing steadily for four consecutive years, although this "has not prevented unemployment from rising to historically high levels."

Inflation has been brought down from double figures to an underlying rate "close to the post-war average, up to the first oil crisis" (in 1972-73). Cassells says that there is now an increasing awareness of the problems of innovation, research, education, design, and marketing, "but there is still much to be done." In fact, the U.K. spends a higher proportion of national output on education than Germany, Italy, or France does, but it produces fewer graduates.

The report notes the U.K.'s poor cost performance over the past ten years, revealing a consistently high growth of unit labor costs in manufacturing. However, since 1980, the U.K.'s position has improved relative to France and Italy, though not to the U.S. and Germany. Much of the recent improvement in industrial cost competitiveness has actually come from a depreciating currency, especially against the dollar.

Italy: Employers, Unions Resume Wage Cost Talks

Three months after giving notice of withdrawal from the national wage indexation system, Italy's Confindustria employers' federatation agreed to resume talks on Sept. 26 with the country's labor organizations on the future of the *scala mobile* system. The return to the bargaining table became possible when the employers agreed "provisionally" to pay a flat monthly increase of 6,800 lire per worker in September and October, corresponding to one *scala mobile* point.

The Confindustria negotiators want to conclude the discussions by the end of October. Despite their advance concession, they are in a fairly strong position because the five-party coalition government under Bettino Craxi has given top priority to the fight against inflation. Also, the voters indirectly supported a *scala mobile* reform decreed by Rome last spring when they defeated a Communist-sponsored initiative against the decree in a national referendum three months ago.

The unions themselves are not exactly aligned on the issue of wage costs. Of the country's three major labor federations, the two smaller ones, UIL and CISL, tend to follow a course roughly corresponding to that of the government, while the CGIL is torn by a dispute between its Communist majority and the Socialist minority, which has prevented all three unions from taking a joint stand.

Wage indexation was introduced in Italy as early as the 1940s, but an agreement signed in 1975 provided for the first time for uniform inflation adjustments for all employees. In the following years, this national system proved to be a major liability in effectively containing Italy's high rate of inflation. Frustrated by labor's intransigence on this issue and concerned about maintaining their international competitiveness, the employers finally gave notice that they will quit the system at the end of the year unless the unions agree to some kind of reform.

Netherlands: Lower Spending Cuts Proposed for 1986

The Dutch government's 1986 draft budget continues the austerity policies of the past three years, although the proposed spending reductions are more moderate in view of the elections next May. Presented to Parliament on Sept. 17 by the center-right administration, the draft budget proposes to lower the deficit from 8% of net national income this year to 7.8% in 1986, slightly higher than the goal of 7.4% that was set in 1982. Some 2 billion guilders would be saved by freezing civil servant wages and 1.8 billion guilders by freezing social security benefits. An additional 3.2 billion guilders would be cut from the ministerial budgets and 1 billion guilders in the public health sector. Total spending would amount to 169.4 billion guilders.

As previously reported, the corporate income tax rate would be trimmed from 43% to 42% *(Doing Business in Europe, Par. 26,813)*. The revenue loss from this change would be offset by a 20% reduction in the funds available under the Investment Account Act *(Doing Business in Europe, Pars. 26,903-26,910)*. Total receipts would rise to 143.9 billion guilders, despite a moderate drop in natural gas revenue. (In 1987, natural gas income is expected to fall by some 28%.)

Finance Minister Onno Ruding anticipates GNP growth of 2% in 1986, down from about 2.5% this year. Inflation is expected to drop from 2.3% to 1-1.5%, which would be the lowest rate since 1960. The surplus in the balance of payments should fall to about 17.5 billion guilders, from the 19 billion guilders expected this year.

France: Draft Budget Includes Spending, Tax Reductions

The French government on Sept. 18 approved a 1986 draft budget that is tough on overall spending but also includes tax reductions and expenditure increases in certain priority areas. This could be the Socialist government's last budget in the foreseeable future, since observers are predicting a Conservative victory in the March 1986 parliamentary elections. The opposition has promised to revise the budget to include its own tax and spending cuts if it wins the elections.

The draft budget would raise expenditures by 3.9% to FF 1,030 billion. Excluding debt servicing charges, spending would rise by 2.8%, less than the expected inflation rate of 3.4%. This would be the first real drop in spending since World War II. Revenues would be increased by 3.3% to FF 889 billion, resulting in a deficit of 3% of GDP.

As previously reported, the corporate rate on reinvested profits would be reduced from 50% to 45%. Personal income taxes would be cut by 3% across the board. The resulting FF 10-billion loss in revenue would be partially offset by an FF 2-billion tax on natural gas and heating oil used by industry. Most government ministries would operate on reduced budgets. Because of the overall improvement in the financial situation of the nationalized companies, the Industry Ministry would receive the largest reduction of 16%. Five areas, however, would have larger budgets next year - defense and police, scientific and industrial research, educational and professional training, justice programs, and cultural projects.

In a move that should improve voter support for the Socialists, the government has proposed early repayment of an FF 13.8-billion loan levied on all taxpayers in 1983. The loan would be repaid in January instead of in June.

The draft budget assumes an economic growth of 2.1% in 1986, after 1.3% expected this year. The anticipated 1985 trade deficit of FF 15 billion is expected to swing to a surplus of FF 5 billion in 1986.

Switzerland: Voters Approve Equal Rights for Wives

Legislation giving wives equal rights, which was passed by Parliament a year ago, was approved by a majority of 54.7% of the Swiss voters who went to the polls in a national referendum on Sept. 21-22. The vote follows the introduction 14 years ago of women's constitutional right to vote. Observers pointed out that the new law won passage only because of strong majorities in the French-speaking and Italian-speaking areas of Switzerland as well as in the larger cities.

In the same referendum, the voters rejected by a 56.8% margin a government proposal to support new business ventures with loan guarantees (Innovation Risk Guarantees - IRG). The IRG fund would have made available some SF 100 million over the next ten years to cover loans issued to newly created businesses. Conservative opponents had campaigned against the plan, arguing that it would constitute government interference with the free enterprise system.

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Community: AG Rejects Women's Forced Early Retirement

An employer whose policy is to retire men at age 65 may not force a woman to retire at 60 due to the equal treatment provision of Council Directive 76/207, according to Advocate General Gordon Slynn. The advocate general delivered his conclusions on Sept. 18 before the European Court of Justice on a case involving a British woman who was forced to retire at an earlier age than a male counterpart would have been (Case No. 152/84). Slynn said that a person required to retire, on grounds of sex, in a Member State that has failed to implement the directive may invoke Article 5(1) of the directive against that State.

The case originated in a British court. Helen Marshall worked as a dietitian for the Southampton and South West Hampshire Health Authority from 1966 until 1980. Her employer wanted her to retire in 1978 when she reached 60, but she was allowed to stay on until 1980. She was then forced to retire, although a man holding the same position would have been allowed to work until 65. When she was dismissed in March 1980, Marshall was in good health and willing to continue working.

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

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Marshall tried to recover in court her financial loss resulting from the early retirement. She contended that her dismissal and the reasons for it were contrary to the Sex Discrimination Act 1975 and Council Directive 76/207 on equal treatment for men and women regarding access to employment, vocational training, promotion, and working conditions *(Common Market Reports, Par. 3910.123)*. Both the Industrial Tribunal and the Employment Appeal Tribunal dismissed her claim under British law on grounds that her employer's act was not unlawful. Marshall's claim under EEC law was upheld by the Industrial Tribunal on the grounds that her dismissal violated the equal treatment principle of Council Directive 76/207. The Employment Appeal Tribunal, however, dismissed this claim also, ruling that the violation of the directive could not be relied on in proceedings before a U.K. court.

Upon Marshall's appeal, the appellate court suspended proceedings and put two questions to the EC Court: (a) Was Marshall's dismissal an act of discrimination barred by Directive 76/207, and (b) may she invoke Directive 76/207 in national courts, notwithstanding the inconsistency between the directive and the Sex Discrimination Act 1975?

In the view of the advocate general, the Court of Justice's answer to the first question should be an unequivocal "yes." As to the second question, Slynn said that only where national legislation is held by national courts to be inconsistent with Directive 76/207 may an individual invoke provisions of that directive in court against the Member State that has failed to implement the directive. Slynn concluded that under the EEC directive, which four other Member States besides Britain have failed to implement, women may not be penalized as to the length of their working life just because they are eligible for a pension earlier than men.

Germany Adamant About Stopping Steel Subsidies

A dispute has developed between the European Commission and the German government over the continuation of national aids to steel mills after Dec. 31, 1985. Commission President Jacques Delors favors an extension of the present system of controlled aid for a year or two, but German Economics Minister Martin Bangemann insists on phasing out national subsidies by the end of the year, as provided in the steel aid code. Bangemann points to the Council agreement of March 26-27, 1985, according to which financial assistance to the steel mills should end in December. France and Italy are reportedly seeking a modification of that agreement, and some officials in the two governments have implied that they would continue to grant assistance even at the risk of being dragged into a legal battle with the Commission.

The Commission has warned the ten State governments that unless they agree on a new steel aid code allowing subsidies to be paid after Dec. 31 it will enforce the Coal and Steel Treaty's ban on subsidies and aids. This is the first time the Commis-

sion, which controls national steel industry subsidies, has taken such an unequivocal stand. Not only Delors but also the other 13 Commissioners would like to see a continued system of controlled subsidies for closures of steel mills, plus additional allowances that mills would be granted to offset environmental and research and development spending, enabling them to catch up with other industries. Under the present system, which runs until the end of the year, Member State governments may be authorized by the Commission to subsidize steel mills in efforts to reduce capacities.

The German government is opposed to any closure subsidies, a position supported by the national iron and steel producers' association. The organization fears a spillover of such subsidies into illegal operating aids. Germany is reportedly prepared to bring suit in the European Court of Justice against any Member State that continues to aid its steel mills after Dec. 31, 1985. The Council of Ministers is scheduled to discuss the issue at its Oct. 17 meeting.

In Brief...

Unemployment in the Community rose in August from 12.36 million to 12.45 million, boosting the jobless rate by one percentage point to 11%. In August of last year, total unemployment stood at 12.11 million. The August increase was caused primarily by women who lost their jobs or could not find work upon leaving school. Of the 87,000 persons who signed up for unemployment benefits in August, 82,000 were women. Belgium has the highest percentage of unemployed women - 19.5%. Italy is second (17.2%), and Ireland is third (16.6%). Of the 12.45 million unemployed, 7.04 million were men and 5.4 million women + + + The Commission has approved grants totaling ECU 509 million as contributions to 852 investment projects in the Member States' disadvantaged regions. The money comes from the European Regional Development Fund, which helps finance individual investment projects, programs, and studies. Some ECU 450 million will go to infrastructure investments. Work on these projects should create immediate jobs, and the resulting infrastructures should provide backup facilities for industrial and service activities that will create permanent jobs. The remaining ECU 59 million will go to individual industrial investment projects that should create or maintain some 1,700 jobs.

Germany: Industry Proposes Reform of Taxes on Business

The German national industry federation (BDI) has put forward its ideas for a tax reform aimed at lowering the tax load of businesses. Key elements of the proposed reform are the abolition of the net worth tax, a revamping of the business tax, and a lowering of the corporate tax rate. Since attainment of such a re-

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form would take many years, the association recommends several interim measures, such as changes in the methods of computing the business tax and the introduction of an investment tax credit.

Taxpayers should be able to exclude or restrict debts from the tax base applied in computing the business capital tax, according to one suggestion. When computing profits for purposes of the business profits tax, taxpayers should also be able to exclude a higher amount of interest paid on debt *(Doing Business in Europe, Par. 23,385)*, the BDI says. One change that the BDI believes could be brought about easily as an interim measure early in the 1987-91 session would be to allow companies to deduct the net worth tax in computing income subject to corporation tax *(Doing Business in Europe, Par. 23,361)*. Economics Ministry officials made the same suggestion in their recently published internal paper on corporate tax reform. Implementation of this suggestion would reestablish the rules that were in force until 1971.

The association stresses that a genuine corporate tax reform must include a cut in the corporate tax rate (now 56%) and the abolition of the net worth tax. Eliminating the net worth tax would cost the state treasuries some DM 3.4 billion each year. The business tax should be reformed so that the business capital tax is abolished, the association argues; the business profits tax should be turned into a surcharge on income tax. Municipalities should retain the power to legislate local factors applied to the surcharge.

The loss of some DM 17 billion that would result from a revamping of the business tax could be compensated by raising the value-added tax rate by 1.5 percentage points and giving local governments a direct share in VAT revenue. (Currently, federal and state treasuries share the revenue under a 65:35 arrangement.) The size of this direct share would be governed by the total net worth of businesses located in a municipality and their payrolls.

Modest Amendment of Store Closing Law Proposed

The German government coalition parties have agreed on an amendment to the Store Closing Hours Law that would allow stores adjacent to railroad stations, bus terminals, and airports to open at 6 a.m. and close at 10 p.m. Currently, the law limits store hours to 7 a.m.-6:30 p.m. Monday through Friday and 7 a.m.-2 p.m. on Saturdays, except on the first Saturday of the month, when stores may stay open until 6 p.m. Under present law, newspaper and flower shops in railroad stations and airports may stay open later without a special license. Other stores in railroad stations and airports, such as food outlets, bakeries, and clothing stores, must have special permission to operate with longer hours. These licenses are granted only for limited periods and require a new application for each renewal.

If the planned amendment is enacted, reapplication would not be necessary. It would also put an end to numerous legal actions brought by competitors who want all stores to close at the same time.

The amendment would not tackle the much broader issue of a general relaxation of Germany's rigid store closing hour rules. So far all attempts in this direction have foundered under the powerful opposition of the national retailers' association and the unions, supported by a majority in Parliament. Only the Free Democrats have favored a change in the rigid system. Their major argument has been that consumers were not involved when the legislation was originally passed in 1956. It is generally thought that consumers favor an opportunity to shop at least one evening a week. Economics Minister Martin Bangemann, chairman of the Free Democratic Party, said that an amendment of the law would be made part of a coalition agreement with the Christian Democrats if the current administration is returned to power in the national elections in January 1987.

Britain: New Employment Chief Focuses on Job Creation

Further trade union legislation, including possible curbs on union action in essential services, is no longer "high on the agenda" for the British government, according to the new employment secretary. Lord Young said that his current priority is tackling unemployment and that, although he is "extremely interested" in industrial relations, he does not see "any particular urgency" at the present time for additional legislation in that area.

Young's position on trade unions is in marked contrast to that of his predecessor, Tom King, who took over the Northern Ireland portfolio early last month. In June King said that he was contemplating further legislation that would have guaranteed every union member the right to work in spite of a call to strike. The legislation would also have attempted to ensure proper management of union funds, protection against abuse of the closed shop (where employment is conditional upon union membership), and democracy within unions.

Paymaster General Kenneth Clarke echoed Young's views, saying that legislation sponsored by three previous employment secretaries has "handed the unions back to the membership." He said that further laws are not an immediate priority because the unions are still coming to terms with the provisions of the Employment Acts 1980 and 1982 and the Trades Union Act 1984.

Young also emphasized the need to accelerate the deregulation of small business and to promote jobs in that sector and in tourism. He pointed to the success of the U.K. tourist industry, which is growing at the rate of about 60,000 employees per year, while the number of manufacturing jobs has been declining.

The new employment secretary indicated that the government would strenuously oppose any EEC moves to give statutory employment rights to part-time workers or to increase parental leave. Such measures, he said, would discourage companies from hiring part-time employees and would especially hamper job creation in smaller companies.

Italy: Draft Budget Proposes Social Welfare Cuts

The 1986 draft budget presented to the Italian Parliament on Sept. 28 depends mainly on an overhaul of the social welfare system to bring the rapidly rising public-sector deficit under control. Rome aims to limit the 1986 deficit to 110,000 billion lire, or 14.6% of GNP, after an expected 106,000 billion lire, or 15.6% of GNP, this year. (A GNP growth of 2.5-3% is anticipated for 1986.) So far, however, the draft budget includes only enough measures to hold the deficit to 114,000 billion lire. The government has not yet disclosed its plans for trimming the additional 4,000 billion lire from the budget.

About 5,000 billion lire would be saved through social welfare changes. Many individuals would pay a larger share of their medical bills, and old-age pension payments would be adjusted for inflation semiannually rather than quarterly. Education fees would rise, and persons with low incomes would lose some of the concessions they receive on train fares and utilities.

The government is also counting on a lower inflation rate of 6% to reduce the interest payments on the public debt by some 3,500 billion lire. However, Rome has a chronic problem of overestimating the economic progress to be made. So far this year, the government has revised its goals on inflation from 7% to 9.2% and on the deficit from 96,000 billion lire to 106,000 billion lire. The public debt is expected to exceed GNP by about 2% in 1986.

The draft budget does not include the tax increases recommended by Treasury Minister Giovanni Goria. (The income-tax burden on the Italian taxpayer is already high in comparison to that in most industrial countries.) However, the government is drawing up legislation that would give local authorities, which are funded mainly by the state, the power to raise their own taxes. The state also plans on raising fees or rates for such services as electricity and telephones.

Rome Authorizes Start-Up of Eurolira Market

Just a few days after Italian Treasury Minister Giovanni Goria authorized the opening of a Eurolira bond market, the European Investment Bank became the first borrower to take advantage of it with a 100-billion-lire issue. The Bank of Italy is expected to allow one new issue per month of bonds with a minimum five-year maturity. At least initially, the market will be limited to non-

residents. Potential borrowers must first receive permission from the Bank and the Treasury Ministry, and preference will probably be given to those who have substantial Italian equity investments. Predominant among the potential borrowers are likely to be foreign corporations seeking to finance Italian operations.

After more than 15 months of study, the lira-denominated Eurobonds were authorized in an effort to give the lira a more important role in foreign markets. The lira has already become more popular among institutional investors since its stabilization following a 7.8% devaluation within the European Monetary System in July. Observers predict, however, that the Eurolira bonds could be difficult to market because of the comparatively high interest rates on government bonds.

Greece: Athens Still to Act on Urgent Economic Issues

The new Greek economics minister, Kostas Simitis, has rejected demands for an immediate announcement by the government of any new economic policies, saying that any hurried decisions could have a negative effect on the country's precarious economic climate. While Athens plans to take a bundle of actions to get a grip on the economic problems, it will intervene only in areas where this is absolutely necessary, Simitis said.

The minister's statement contrasts with prevailing opinion in business and industry, where it is felt that the continuously worsening economic developments require immediate structural measures. The government apparently intends to wait until the end of November, when the 1986 draft budget is to be submitted.

One of many problems confronting the Papandreou administration is the expiration at the end of this year of many of the transitional measures previously negotiated in connection with Greece's accession to the European Communities. Among other changes scheduled for Jan. 1, for instance, is the introduction of value-added tax. Observers say, however, that preparations for this move appear inadequate and wonder why Greece has not sought an extension of the deadline in Brussels.

Also scheduled to expire in less than three months are all transitional rules applying to Greek foreign trade with its EEC partners. At that time, import quotas are to be removed for a number of important products (among them, motors, pumps, boilers, generators, fertilizers), and Greece is generally to become subject to the same foreign trade rules that apply to the other Member States.

In another area, the government is still expected to move on the removal of state monopolies in the oil and fertilizer markets. In the case of fertilizers, Athens recently passed new legislation, which it believes is sufficient to liberalize the fertilizer trade, while legislation ending the state crude oil monopoly is still pending.

Sweden: Limits on Bank Shares Ownership; Foreign Banks

The Swedish banking authority has proposed to the government that strict limits be imposed on the percentage of shares of a single bank that can be held by each investor. Sten Walberg, general director of the authority, said it is recommended that legislation be introduced allowing each investor to own no more than 10% of the stock of an individual bank. Investors currently holding a greater share would be able to maintain their investments, and exceptions would be possible in special cases, such as mergers. Observers believe such legislation stands a good chance of passing.

The proposal follows a two-week period in September during which more than 1 million of the 8.73 million shares of Göta-banken, Sweden's fifth-largest bank, changed hands. A total of 32.2% of the shares are now owned by Datatronic AG and Investment AG Proventus, two closely linked foreign companies.

In related news, 14 foreign banks have applied for the first licenses to open up subsidiaries in Sweden. The group includes two U.S. banks, Citibank and Manufacturers' Hanover Trust. The banking authority is to submit its recommendations to the Finance Ministry in November, and the first license should be issued in January. Most of the banks have proposed an initial capital of SKr 50-100 million.

EURO COMPANY SCENE

AT&T & Philips Telecommunications BV, a joint venture of American Telephone & Telegraph Co. and NV Philips of the Netherlands, is planning to build a plant in Britain for the production of telephone transmission equipment. The company hopes this move will enable it to secure supply contracts in Britain. In March the company lost out on a $118-million contract to supply advanced digital switches for the country's telephone network.

OCLI, the U.K. subsidiary of Optical Coatings Laboratory of California, is investing £10 million in a new factory in Dunfermline, Scotland, for the production of optical coatings. The project is to be financed by the Scottish Development Agency, the European Coal and Steel Community, and commercial banks.

United Parcel Service began phasing in package delivery service between Europe and the 48 contiguous U.S. states on Oct. 7. UPS said that its rates on most packages of up to 70 pounds will be the lowest available and that most shipments will be delivered two business days after pickup.

Common Market Reports

EUROMARKET NEWS

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Community: Bonn Loses Suit Over Steel Aid Issue

The European Court of Justice has rejected the German government's suit aimed at voiding four European Commission decisions authorizing subsidies to steel mills in Belgium, France, Italy, and the U.K. The EC tribunal found no fault in the way the Commission authorized ECU 17.5 billion in subsidies in return for capacity reductions totaling 18.7 million tons (judgment of Oct. 3, 1985, Germany v. Commission, Case No. 214/83).

When the Commission authorized the subsidies in June 1983, the German government found fault with the decisions in several respects. Bonn alleged violations of the Community's steel aid code and discrimination against German steel mills. Germany's major argument was that the amount of subsidy should be mathematically linked to capacity cuts by the recipient of the subsidy, a position the government has held for years. (This argument is also put forward in the current general debate over the common approach to the use of subsidies and conditions for restructuring the Community's steel mills after Dec. 31, when the steel aid code expires.) Bonn contended that the Commission was

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far more rigid in authorizing Bonn's subsidies than other States' aid plans and thus discriminated against the German steel mills. German mills received ECU 720 for each one-ton capacity reduction, compared with ECU 936 for the steel mills of other States.

During the proceedings, the German government, supported by the national steel producers' association as intervener, modified its original request by asking the Court to at least void the Commission's four decisions to the extent that the authorized subsidies exceeded the four States' requests for aid. Advocate General P. VerLoren van Themaat backed Bonn on this point.

The Court of Justice rejected all of Germany's arguments and applications and found no evidence of discrimination against German steelmakers. The Court agreed with Bonn that the steel aid code established a link between subsidies and capacity cuts, but it rejected the notion of a mathematical link. In the Court's view, the code lacks rules establishing a precise quantitative link between the volume of subsidies and capacity cutbacks. In authorizing the subsidies, the Court said, the Commission may take into consideration other elements besides capacity reductions, such as technological development, the differing effects of restructuring on employment, or a steel mill's need to adapt to changed market conditions. To show the absence of discrimination against Germany's steel mills, the Court cited the following figures: while German steel mills have reduced capacity by 11.3% since 1980, mills in other States have made cuts averaging 15.9%. (The German steel mills' share in Community output of hot-rolled steel products in 1986 should be 33.1%, against 31.6% in 1980.)

Commission lawyers believe that the judgment will strongly influence the current discussion over future steel aid policy after Dec. 31, 1985. They expect the German government, which has been against any financial assistance after Dec. 31, to modify its stand. France and Italy favor continuation of aid, although on a limited scale and only for closures of steel mills. The Commission would like to see a continued system of controlled subsidies for closures, plus additional allowances for research and development and environmental spending.

Disagreement Over Trade Deal With Mediterranean States

Adaptation of the EEC's trade and cooperation agreements with 12 countries in the Mediterranean region *(Common Market Reports, Par. 3865)* in view of the Community's enlargement is turning out to be far more difficult than anticipated because of a disagreement in the Council of Ministers. The issue involved is complex, and it is questionable whether the Dec. 31 deadline can be met.

At their March 29-30 Brussels Summit, the heads of government committed themselves to maintaining the traditional trade flows from Morocco, Algeria, Tunisia, Egypt, Israel, Jordan, Syria, Lebanon, Cyprus, Turkey, Malta, and Yugoslavia. These countries fear that their exports to the EEC - especially of citrus

fruits, olive oil, and vegetables - will lose out against competition from Spain and Portugal once the products of the new Member States are granted duty-free access to the Common Market. The Mediterranean countries want to keep those farm produce exports at current levels, and they believe their products could compete with Spanish and Portuguese products only if they are granted improved tariff preferences. The heads of government also promised to negotiate an adaptation of the agreements before Spain's and Portugal's accession.

The Commission has taken the first step toward adapting the agreements by submitting proposals calling for improved tariff preferences for citrus fruit and vegetable imports from the Mediterranean countries. The Commission has also proposed a program to boost investments in both the farm and industry sectors of these countries, especially those in North Africa. The investments would help these countries to reduce their large food import bills.

The Commission is still waiting for a mandate to negotiate amendments to the agreements. So far, the Council has failed to agree on a common negotiating position. France, which is urging a quick decision by the Council of Ministers, fears that failure to agree on a new trade and investment deal before the end of the year could threaten political stability in some Mediterranean countries. Italy and Greece, supported by Spain, see no need to hurry. They want a thorough discussion of the effects of any adaptation of the agreements on the Community's internal market.

In Brief...

An EEC group of experts has recommended that formaldehyde be listed as a Class II dangerous substance as outlined in Council Directive 67/548 on the classification, packaging, and labeling of dangerous substances *(Common Market Reports, Par. 3450.05)*. The recommendation, endorsed by six of nine toxicologists, must still be approved by the adaptation committee, and the committee's decision may be vetoed by the Commission or the Council of Ministers. If the recommendation is accepted and incorporated in the directive, containers with formaldehyde would have to bear labels stating that the chemical has proven to be carcinogenic in animal tests and that it may also be dangerous to humans. The chemical would probably be given a similar classification in EEC legislation designed to protect workers. (Formaldehyde is widely used in the production of furniture and as a disinfectant and preservative.) + + + The European Court of Justice has held that Member States should amend their national value-added tax laws to reduce double VAT payments in cross-border transactions. However, the Court stopped short of holding double VAT payments contrary to principles of EEC legislation (the Sixth VAT Directive). A Belgian court considering an appeal against a VAT assessment had asked whether such double payments are lawful. A Luxembourg national who was a student in Belgium brought with him two cars that he

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used during his 1976-81 stay; he had paid VAT on the cars and registered them in Luxembourg. After the man settled in Belgium, the Belgian tax authorities demanded payment of VAT. The EC Court said that VAT cannot be regarded as a form of customs duty on a car imported from another Member State (judgment of Oct. 3, Case No. 249/84).

Germany: New Old-Age Pension System Suggested

German Economics Minister Martin Bangemann and Prof. Kurt Biedenkopf, a well-known lawyer specializing in labor and commercial law, say that a drastic change in Germany's old-age pension system will be necessary in the early decades of the 21st century because of the demographic picture. Right now 100 working persons pay for the social security checks of 45 recipients. In the year 2000, 100 contributors will probably be paying for the checks of 60 recipients. Should Germany's low birth rate continue, it is estimated that in the year 2050 one employed person would have to pay for the pension of one retired individual. Contributions to the old-age pension funds would have to be near 30% of assessed wages or salaries (currently 18.7% - *Doing Business in Europe, Par. 23,453)*.

The concepts of Bangemann (a Free Democrat) and Biedenkopf (a Christian Democrat) have in common that there would be no old-age pension fund contributions and that everyone would receive the same basic pension, regardless of how many years the recipient had worked. (At present, a retired person's social security pension depends on the years of coverage; for a person with 35 years of contributions, the pension amounts to 65% of the person's last earnings.) Since pensions would be paid out of general tax revenue, either the individual income tax or the value-added tax rates or both would have to be raised accordingly. Pensions under the new concept would be much smaller than current ones. Bangemann and Biedenkopf suggest that employees save more and live off their savings during retirement instead of leaving them to be inherited.

These suggestions for a new social security system have run into opposition from almost every political corner. Labor and Social Affairs Minister Norbert Blüm is particularly critical. Blüm's major criticism is that during the transitional period from the current to the new system those in employment would still have to contribute but, upon retirement, would receive a low pension.

The suggested basic pension concept may not have much chance of realization, but the authors have enlivened the debate over how to save the old-age pension system from bankruptcy. A number of stopgap measures have been taken in recent years - increased contributions, cutback of expenditures by the old-age pension funds, and a requirement that retired persons contribute to their health insurance. Last year, for the first time in the 94-year history

of the social security system, the old-age pension funds had to borrow to raise enough cash to pay the pensions to some 12 million people last December. The amount was small, but the necessity of borrowing was symptomatic of the system's financial state. The pension system is in a financially tight position for a number of reasons, among them the increase in benefits in the '70s and the economic recession.

Britain: Chancellor Lauds Growth in Venture Capital

The available supply of venture capital in the U.K. has expanded so rapidly over the past six years that it is now larger than that of the U.S. as a percentage of GNP, according to Chancellor of the Exchequer Nigel Lawson. Risk investment by British capital funds grew from £10 million in 1979 to £284 million in 1984, Lawson said. During the first half of 1985, £150 million was raised by independent funds in the U.K. Lawson said that it was "an extraordinary achievement" on the part of the U.K. venture capital industry "to have grown to the American scale" in so short a period.

Even more striking, according to the chancellor, is the fact that two-thirds of the total venture capital investments in the EEC were made in the U.K. Lawson said that this may be one reason why the U.K. has been more successful than other Member States in generating new jobs over the past two years. (The number of unemployed in Britain still rose to almost 3.35 million, or 13.9%, in September - the highest jobless level recorded in the U.K.) Many of the companies established through this surge in the venture capital market could be large employers by the end of the century, Lawson said.

The financial community still faces several challenges with regard to venture capital, according to the chancellor. Further capital injections are needed to help entrepreneurs expand, and "an enlightened attitude" is required from the banking industry to meet the cash demands of companies in the early growth phase, Lawson said. The availability of small amounts of equity capital should be improved, he added. Finally, the chancellor noted the benefits of wider share ownership, together with improved market access for small investors. A positive sign is the expansion of employee share plans from 30 in 1979 to over 1,000, involving 1 million employees and shares worth over £1 billion, he said.

ICAEW, Medium-Size Accounting Firms Reach Agreement

An accord has been reached between the Institute of Chartered Accountants in England and Wales and representatives of the medium-size accounting firms that earlier had announced their intention to establish a new organization - the Association of Practicing Accountants - to promote their interests. Brian Jenkins, president of the ICAEW, said his organization has been assured that

the new group "would do nothing to undermine the work of the institute on behalf of the profession as a whole."

The two groups agreed that decisions made by the new association relating to commercial matters, such as advertising or joint training programs, should be entirely its own affair. In any public activities, however, such as submitting evidence to government inquiries, members of the association will have to identify themselves.

The new association was formed by medium-size and smaller accounting firms to protect themselves against the competitive practices of larger firms.

Denmark: Trade Deficit Blamed on Increased Investments

Danish Prime Minister Poul Schlüter has expressed concern over his country's rising trade deficit but at the same time has ruled out the possibility of "panic measures" to remedy the situation. In his state-of-the-nation speech opening the new parliamentary session, Schlüter pointed out that one of the major reasons for the growth in the deficit has been the upturn in domestic industrial investments. Any emergency measures to improve the balance of trade might damage that investment trend, the premier said, thus eliminating future increases in exports that are expected to result from the rising investments.

Most economists are forecasting a Danish trade deficit of DKr 20 billion or more for the current year, which would amount to almost 3.5% of GNP. (In 1984 Denmark had a payments deficit of DKr 16.5 billion, or 3% of GNP.) Even the government anticipates a deficit of some DKr 18 billion. Schlüter blames the increase on such "exceptional" factors as heavy oil imports during the particularly cold winter, a sharp rise in the import of investment goods, and the high value of the U.S. dollar.

In the coming year, Schlüter said, the government will try to raise the level of savings by consumers. At the same time, the Finance Ministry anticipates an inflation rate of about 1.8% in 1986, less than half of the current 4%.

Italy: Controversy Over Details of 1986 Finance Bill

Various details of the Italian government's 1986 finance bill, which was submitted to Parliament on Oct. 2, have become the subject of heated discussions between the political parties, the labor unions, and the Rome administration. The unions, in fact, called a two-hour general strike on Oct. 9 to protest the proposed cutbacks in social benefits, and the health minister, Costante Degan, has threatened to resign if his department suffers the proposed 1,000-billion-lire budget reductions. By the end of the year, the finance bill most likely will undergo con-

siderable dilution and modification in the Chamber of Deputies and in the Senate, and no one can predict at this point what its final form will be.

Among the draft legislation's main provisions are higher rail, public transport, utility, and telephone rates, increased school fees, and more cost sharing by patients insured under the national health system. The bill does not foresee higher income taxes, but the government has been considering the pros and cons of taxing income from state bonds sometime in the future. (Taxpayers already have to declare on their 1984 returns any such bond holdings, although these have so far remained nontaxable.)

In its present form, the finance bill would still leave the 1986 budget with a deficit of over 110,000 billion lire, and there are many experts who maintain that even this enormous figure does not represent the true situation. The five-party coalition government under Bettino Craxi has accepted its responsibilities in trying to control the huge budget shortfalls, but it is having trouble wakening the same sense of responsibility in the average citizen and in the unions.

In a speech in Parliament, the governor of the central bank, Carlo Azeglio Ciampi, warned that Italy's financial credibility stands very much endangered by the large budget and payments deficits. At 650,000 billion lire at the end of the year, the national debt will for the first time equal the gross domestic product, and at $30 billion, the country's foreign debt exceeds the gold reserves. The only realistic way out of these problems, Ciampi said, continues to be the reduction of the public-sector deficit.

Portugal: Social Democrats to Lead Minority Government

Although the Social Democrats replaced the Socialists as Portugal's most popular party in the parliamentary elections held on Oct. 6, they still did not receive enough votes to set up a majority government. Instead, the Social Democrats, who won almost 30% of the votes (compared with 20.8% for the Socialists), were expected to ask the Christian Democrats (9.7%) to join them in a government coalition. The partnership would still fall short of a majority but could expect support from the new Democratic Renewal Party, which has ruled out joining any coalition. This party, led by supporters of President Antonio Ramalho Eanes, was formed this summer and received a surprising 18% of the votes.

The day after the elections, Socialist Prime Minister Mario Soares announced that he would hand over his duties to Deputy Premier Rue Machete, a Social Democrat. (Soares had led a minority government since early June, when the Social Democrats withdrew from the coalition, prompting the early elections.) The Social Democrats, however, protested that it would be illegal for Soares to resign and asked Eanes to settle the dispute. The Social Democrats are expected to install their leader, Anibal Cavaco Silva, as the next prime minister.

Most observers anticipate another change in the government if the new administration fails to make any progress before the next presidential elections, tentatively scheduled for January.

Spain: Lean 1986 Budget Proposed Despite Opposition

In spite of strong criticism from the unions, business, and the regional governments, Madrid has held to its original austerity proposals for the 1986 draft budget. The draft includes revenues of 5,483 billion pesetas and expenditures of 7,164 billion pesetas, resulting in a deficit of 1,681 billion pesetas. Excluding debt servicing charges, however, the deficit amounts to 1,428 billion pesetas, just meeting the government's goal of holding the shortfall to 4.5% of GNP (assuming GNP growth of 3% in 1986). The deficit is expected to total about 5% of GNP this year.

The largest expenditure increases are allotted to social security (up 250 billion pesetas, or 15%) and servicing of the public debt (up 200 billion pesetas, or 24%). These higher payments would be partially offset by a reduction of 250 billion pesetas, or 20%, in public investments. Defense payments would be trimmed by 1.7%, and the budgets of many individual ministries would suffer reductions.

The calculations contained in the budget are somewhat uncertain due to the pending introduction of a value-added tax and corresponding elimination of other taxes when Spain joins the EEC on Jan. 1. Revenues from indirect taxes are expected to rise by 12.5% and those from direct taxes by 8.9%. The government hopes to cut inflation to 8%, from 9% in 1985.

The draft budget has received criticism from almost all corners, particularly the plan to slash state investments. Both the unions and employers say this move is regressive and prevents the creation of new jobs, which was the main goal of the economic-social pact signed last fall.

EURO COMPANY SCENE

Foote, Cone & Belding Communications, Inc., of the U.S. has agreed to acquire a majority interest in Effivente, an independent French advertising group.

Immunex Corp. of the U.S. and Behringwerke AG, a unit of Hoechst AG of Germany, have signed an agreement for the research, licensing, and worldwide commercial production of colony stimulating factor. CSF might be helpful in the treatment of such diseases as anemia and immune deficiency.

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EUROMARKET NEWS

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Community: Renewed Plea to Japan to Open Its Market

The European Commission has once again demanded that Japan take "concrete, measurable, and lasting" steps to reduce its trade surplus with the Community. Japan's failure to take action would result in countermoves by the EEC, Foreign Trade Policy Commissioner Willy De Clercq told journalists in Brussels. De Clercq considers inadequate the measures Japan has taken so far, and he believes that those announced for 1986 and 1987 are also not going to bring the desired results. It is hoped that the Japanese government will come forward with additional steps at the next meeting with EEC officials in mid-November in Tokyo, De Clercq said.

Trade between the Community and Japan consists mainly of industrial goods, although the EEC also exports substantial quantities of meat and alcoholic beverages. Japan's imports from the Community are primarily chemicals, pharmaceuticals, clothing and other textiles, nonferrous metals, machinery, and road vehicles. Japan's main exports to the EEC are automobiles, sound and telecommunications equipment, office machines, and

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photographic equipment, but it also exports substantial quantities of chemicals, textiles, machinery, and precision instruments.

Trade between Japan and the EEC has increased spectacularly in the last 15 years, primarily to Japan's advantage. The Community's trade deficit with Japan rose from $500 million in 1970 to $7 billion in 1978 and to $12.8 billion in 1984. Community exporters are facing non-tariff barriers, a plethora of controls, the intricate Japanese distribution system, and the closely integrated structure of Japanese industry as well as the language barrier.

The seven liberalization measures taken by the Japanese since 1981 have not helped Community exporters to penetrate Japan's market. Japan's 1983-85 export moderation program (covering cars, light utility vehicles, fork-lift trucks, numerically controlled machines, machinery centers, TV sets and tubes, quartz watches, hi-fi equipment, and video recorders) had negative as well as positive results.

A new three-year program will be introduced at the end of October and take effect in 1986 and 1987. Duties on 76 products will be reduced or abolished, and there will be a 20% cut in duties on some 1,800 other products. Although some of the program's features are new, it still does not measure up to the Community's requests. The Community has made a number of suggestions that it believes would lead to a real improvement in the lopsided trade picture - abolishment of quantitative restrictions, opening public sector procurement to foreign bidders, acceptance of Community standards and certification, anti-counterfeiting measures, and simplification and opening up of the distribution system.

Meanwhile, France has been authorized by the Commission to bar until Dec. 31, 1985, imports of Japanese-made color TV sets from other Member States. The import ban is based on Treaty Article 115, which allows an exemption from the free intra-EEC trade principle whenever domestic manufacturers face economic difficulties *(Common Market Reports, Par. 3888, 3889)*.

Proposals on EC Rules for State Aids to Coal Mines

The Commission has proposed extending until June 30, 1986, current Community rules on state aids to coal mines, which are due to expire on Dec. 31, 1985. At the same time, the EC Executive has submitted new rules for the second half of 1986 and the following years. A limited extension of the present system would allow the Consultative Committee and the European Parliament to deliver their opinions on the proposed new rules without haste and would give the Council of Ministers sufficient time to consider the measure. The new rules would be based largely on the current ones.

Community rules governing state aids and subsidies to coal mines were first enacted in 1964 to take account of developments in the energy sector, then marked by the availability of cheap crude oil and the threat of mine closures. These rules limited state aids to what was absolutely necessary, and any aid required prior authorization from the Commission. Through the aids and subsidies, the Member States have been able to maintain coal production levels that saved them from sole dependence on crude-oil imports, wholesale closures of coal mines, regional high unemployment, and high operational losses in the mines.

Both the Community economy in general and the particular conditions in the energy market have changed since 1976, when the rules were enacted. Production costs and the price of domestic coal have risen since 1982 in the coal-producing Member States (the U.K., France, Belgium, Luxembourg, Germany, and Italy). At the same time, the price of imported coal has gone down despite the rising value of the dollar. The growing deficits of the EEC mines were countered by state aid. However, not all Member States were entirely successful in bringing their coal policies in line with changed market conditions.

The proposed rules would enable Member States and coal mines to continue the process of adjustment, with marginal changes in the types of aid that would be permissible. Aids provided under current rules to create cyclical and strategic stocks and for the recruitment of miners would no longer be allowed. There would also be differences in the criteria applied in authorizing aid. Emphasis would lie on improving the competitiveness of coal mines and on developing profitable capacities.

The Commission sees the need for a period of adaptation for both the Member States and the coal mines before the new rules take effect. An initial transitional period of one year has been proposed. During that time, the new authorization procedures would apply, but the aid authorized under current rules could be maintained.

In Brief...

The Council of Ministers has formally adopted amendments to EEC legislation that extend the existing ban on the marketing and use of polychlorinated biphenyls (PCBs) and polychlorinated terphenyls (PCTs) *(Common Market Reports, Par. 3450.41)*. After June 30, 1986, PCBs and PCTs, which damage the liver and have carcinogenic properties, can no longer be used in new closed systems such as appliances and hydraulic and heat-transmitting fluids. The amendments also lower the limits of concentration of PCBs and PCTs wherever they still may be used as primary materials and intermediate products + + + The European Parliament has, for the time being, prevented progress on proposed EEC chocolate standards by referring a report back to committee for further debate. The EP wants consultations with those African, Caribbean, and Pacific

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countries that are concerned about their exports of cocoa butter to the EEC. The EP's failure to give an opinion on the proposed measure has prevented the Commission from opening consultations. The Commission's proposal would have adopted the chocolate standards of the U.K., Denmark, and Ireland as EEC standards. These three States allow the use of up to 5% non-cocoa-butter fat in chocolate products. A report of an EP committee recommended, however, that the other seven States' standards prohibiting the use of non-cocoa-butter fats be made mandatory in the entire Community + + + The Commission has proposed amendments to Council Directive 631/84/EEC on controls of intra-Community transport of dangerous waste. The amendments would extend the scope of the directive to include exports of dangerous waste to third countries. National authorities could grant an export license only if the would-be exporter could prove that the importing country, plus any transit countries, is willing to accept the waste and has the facilities to dispose of it in a safe manner.

Germany: Dispute Over Timing of Health Cost Controls

Bonn's coalition parties agree that further measures are needed to slow the rise of German health costs, but they disagree on the time element for additional measures. The Christian Democrats would like to see further steps taken some time next year, but the Free Democrats are worried about losing the votes of doctors and druggists in the next national elections, scheduled for January 1987. Among the measures the coalition parties have been discussing are curbs on the number of doctors that may open new practices in cities and more powers for the health insurance funds to compel doctors to prescribe the lowest priced drug in a range of equally effective products.

A number of measures have been taken in the past five years to slow the rise of health costs and, in turn, keep health insurance contributions down. These measures have largely failed. Patients pay DM 2 for each prescription and the total cost of cough and headache remedies. These amounts are considered too small to make much of an improvement in the finances of the health insurance funds. The DM 10 that an individual pays for each of the first seven days he or she is hospitalized is saving the country's 1,450 health insurance funds only DM 100 million instead of the DM 500 million a year originally anticipated. Since mid-1983, recipients of old-age pensions have been making contributions toward their health insurance coverage. These contributions now amount to 4.5% of a recipient's monthly benefits; they will rise to 5.2% in mid-1986 and to 5.9% in mid-1987.

Once a year since 1978, officials of the health funds and representatives of the medical professions, hospital organizations, and the drug industry have met to decide how much of an increase in hospital costs and doctors' incomes the health insur-

ance funds would be willing to accept. Most of these meetings have ended with an agreement that was disappointing to the funds and the government.

Starting on April 1, 1986, doctors will have a list on hand describing the various drugs available and their prices. The government wants doctors to change their habit of prescribing the drug that first springs to mind, very often because of extensive promotion. Doctors would not be compelled to prescribe the cheapest drug, however. The health insurance funds wanted such a statutory requirement, but ethical rather than legal grounds prevented the government from proposing such a rule.

Labor Ministry and health fund officials figure that the contribution rate to the funds (now averaging 11.9% of assessed wages or salary) will reach 13% in 1987. In 1984 the treatment of some 25 million insured persons cost roughly DM 104 billion.

Foreign Investment in Germany Declines in First Half

Net foreign investment in Germany amounted to DM 1.76 billion in the first half of 1985, down slightly from DM 1.835 billion for the same period in 1984. The figure has declined in the first half of each year since it reached DM 2.287 billion in the first six months of 1982. The largest amounts were invested by the Netherlands (DM 424.9 million), Switzerland (DM 414.5 million), Japan (DM 362.5 million), and the U.S. (DM 167.3 million). The largest portion of the investments went to financial institutions, followed by insurance companies and holding companies.

During the same six-month period, net German investments in other countries rose to DM 6.408 billion, from DM 4.97 billion in the first half of 1984. Most of the funds went to enterprises in the U.S. (DM 3.167 billion), Italy (DM 1.137 billion), Britain (DM 781.5 million), and France (DM 220.8 million). As with foreign investments in Germany, the major investment targets were financial institutions and insurance companies. The next-largest share of the funds went to vehicle manufacturers.

Belgium: Center-Right Coalition Returned to Power

In the Belgian parliamentary elections on Oct. 13, Prime Minister Wilfried Martens' center-right coalition made a slight gain as the voters appeared to show their support for a continuation of economic austerity policies. The outcome was contrary to the predictions of most pre-election polls that the popularity of the governing coalition would slip. Martens' Christian Democrats and the Liberals increased by two the number of parliamentary seats they hold, for a total of 115. (Parliament has 212 members.) The process of choosing the actual government is only a constitutional formality, and Martens is expected to lead the coalition for another term.

The Socialists gained six seats for a total of 67. Observers believe the Socialists would have received even more votes had they been able to resolve policy disagreements between the party's Flemish-speaking faction in the north and its French-speaking group in the south. (All Belgian political parties are split into two such groups.) Most of the smaller regional parties lost support, and, for the first time in 40 years, the Communists failed to win any seats in Parliament.

Martens is expected to continue his austerity program, concentrating on reducing the public debt, which currently amounts to some 11% of GNP. Observers predict that he will extend the individual investment incentives (scheduled to expire on Dec. 31 - *Doing Business in Europe, Par. 21,352*), make further reductions in individual income taxes, and enact measures to stimulate employment. The current jobless rate is 13.7%.

Britain: Labour Explains Its Future Economic Policy

Any future Labour government in Britain would finance its program to "regenerate" the country through higher borrowing, the repatriation of overseas investments, and increased taxation of the wealthy, according to Roy Hattersley, the party's spokesman on treasury matters. Although the necessary funds would be made available to finance essential new investment and to reduce unemployment, there would be no "dash for growth," he said.

If elected in the next general election, the Labour Party would repatriate some £20 billion of investments and place the funds in a new National Investment Bank. Hattersley said that this would represent the investment of North Sea oil earnings in U.K. jobs and industry.

Labour would also increase the tax burden of that 5% of the population that has an individual annual income of at least £20,000. One possibility would be mandatory national insurance contributions on investment income above a certain amount. Some £600 million would be raised annually by lifting the £265 ceiling on employees' weekly insurance contributions. Tax breaks would be restricted, and relief for pensions and mortgage interest would be limited to those paying the lowest tax rate of 30% *(Doing Business in Europe, Par. 23,813, 23,816)*.

Hattersley visualized a "prudent" increase in borrowing but did not specify any figure. He said that the proposed National Investment Bank would encourage joint ventures between local enterprise boards and private businesses.

The shadow chancellor's statement is regarded as particularly important because the Labour Party has been climbing in the opinion polls since its annual conference at Bournemouth early this month. The next general election is widely forecast for 1987, although the current government could stay in office until 1988.

Greece: Drachma Devalued; Economic Measures Instituted

On Oct. 11, the Socialist Greek government devalued the drachma by 15% against all convertible currencies and introduced a package of economic measures designed to reduce the foreign debt and the deficit in the balance of payments. To help slow the flood of foreign goods into Greece, importers are now required to make a bank deposit equal to 40-80% of the price of their products. As of Jan. 1, 1986, the automatic wage indexation system (ATA) will be changed so that the inflation rate to which wage raises are linked will no longer be affected by price increases for imports. Also at that time, individuals earning more than 150,000 drachmas per month will cease receiving ATA pay increases. Other measures include a one-time levy of 3-10% on company profits and an effort to trim the public-sector deficit.

Domestic reaction to the measures was swift and, for the most part, negative. Although the business sector acknowledged the need for restrictions to improve the country's precarious economy, the program was criticized as lacking concrete measures to spur productivity and investment. There were also complaints that businesses, which are already hard hit, will have to shoulder additional burdens, such as the special levy on profits.

Unions sharply criticized the planned ATA modifications. A three-hour strike was held by bank employees on Oct. 15, and protest demonstrations were scheduled throughout the country. The unions pointed out that, prior to the June 2 parliamentary elections, Prime Minister Andreas Papandreou had opposed a suggestion by the opposition New Democracy Party that the wage-indexation system be changed.

Observers had for some time expected Papandreou to announce a devaluation of the drachma in an attempt to shore up Greece's ailing economy. Without some sort of economic support measures, they believed, the country would have had to ask the International Monetary Fund for aid. Greece's foreign debt has tripled since 1978 to some $13 billion. The government has abandoned its earlier prediction of a $1.7-billion year-end deficit in the balance of trade and now forecasts a deficit of $2.8 billion.

Italy: Rome Proposes Tax Cuts Despite High Deficit

Despite an expected budget deficit of 110,000 billion lire in 1986, the Italian government has proposed a tax reform package that would reduce state revenues by 4,280 billion lire in the coming year alone. Of that amount, 3,650 billion lire would be lost because of changes in the personal income tax meant to decrease "fiscal drag," whereby taxpayers are pushed into higher tax brackets by inflation. The changes, which would be most beneficial to the middle class, would go into effect in April 1986. Finance Minister Bruno Visentini said the reform would mean greater "justice in taxation."

Rome hopes to promote investment by reducing the tax load on company profits reinvested under certain conditions between 1987 and 1989, at a cost to the state of some 550 billion lire per year. The government has also proposed raising the minimum amount subject to inheritance and gift taxes from 30 million lire to 120 million lire *(Doing Business in Europe, Par. 25,840)*. This measure would result in revenue reductions of about 80 billion lire in 1986 and 200 billion lire in 1987.

The tax reform proposal comes in the face of heavy opposition from Treasury Minister Giovanni Goria, who has campaigned for higher taxes to help hold down the budget deficit. The government already spends about 40% of its revenues on interest payments on the public debt.

Norway: Interest Rate Limit Removed; Cabinet Reshuffle

The Norwegian government has eliminated its ceiling on the interest rates charged by banks and insurance companies. Interest rates on consumer loans are expected to rise, although the Finance Ministry has indicated that interest on short-term loans - especially cash credits to businesses - should be reduced. A condition for the removal of the maximum limit was that the cost of loans to businesses and home builders not be altered.

To encourage a slowdown in the strong increase in private consumption, the government has also proposed raising from 15% to 20% the primary reserve requirement for banks and financial institutions. A similar requirement would be instituted for insurance companies.

In other news, a minor cabinet reshuffle following the Sept. 9 elections resulted in Church and Education Minister Kjell Magne Bondevik being named deputy prime minister. This is the first time since 1905 that the position has not been held by the foreign affairs minister. At the same time, Petter Thomassen left Parliament to take over the industry portfolio from Jan Syse, who became the parliamentary leader for the Conservatives.

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Community: Most Member States Submit Treaty Amendments

Seven Member States and the European Commission have submitted amendments to the Treaty of Rome, the founding document of the European Economic Community. There are substantial differences in the scope of the amendments, proposed by Belgium, Denmark, France, Germany, Italy, Luxembourg, and the Netherlands. Most have in common, however, improvement of the decision-making process of the Community's institutions, more powers for the European Parliament, and expansion of the EEC's activities into new areas. The amendments will be considered by the intergovernmental conference set up by the EEC's Milan Summit last June. At that meeting, a majority of the heads of government (except those of Denmark, Greece, and the U.K.) decided to convene a conference of government representatives to draft the provisions needed to achieve progress toward a European union through a common foreign and security policy, changes in the decision-making process, and an express extension of the Community's competence in such areas as environment and consumer protection.

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Italy's proposals are the most advanced so far as the European Parliament's powers are concerned. The proposals would allow the EP to veto measures dealing with the internal market, research and development, and environmental and consumer protection. In contrast, Denmark's amendments stop short of any change in the current distribution of powers between the Council of Ministers, the EP, and the Commission. Denmark originally opposed any institutional changes. In the end, the Danish government confined itself to proposing amendments granting the EEC express powers in areas involving technological development, consumer protection, and environment.

The amendments submitted by Germany and the Commission take a middle-of-the-road approach. Both would like to see the European Parliament's powers vary according to the issues involved. The German proposal provides for a mediation committee to reconcile differences of opinion between the EP and the Council of Ministers over certain proposed legislation involving, for example, consumer protection. The Commission submitted the most progressive proposals, except on the matter of Parliament's increased powers. These proposals concentrate on ways of completing the internal market (by majority voting in the Council), additional powers for the Community, and details on increasing the powers of the Commission.

Meanwhile, there are increasing doubts that the intergovernmental conference, made up of the Member States' foreign ministers, will be able to finish considering the amendments in time for the December summit in Luxembourg. The proposed amendments are supposed to be the main topic at that summit. Commission officials expect that the government leaders will discuss only a proposal on moving toward a joint foreign and security policy. The Rome Treaty amendments would then be discussed some time in spring 1986 at a new summit to be convened under the Dutch presidency.

Bonn Urged to Take Lead in Reducing EEC Unemployment

The Commission has reiterated its belief that a substantial and durable improvement in the employment situation can be attained only through a combined strategy involving the Community, the Member State governments, and the collective bargaining parties. In its 1985-86 economic report, the Commission says that Germany should take the lead in lowering unemployment because it is best able to increase demand, both by stepping up public investment and by granting tax cuts at an early date. Other favorable aspects are Germany's low inflation rate (2.4%), higher economic growth (3% is predicted for 1986, which should increase employment by 1%), a declining budget deficit, and a sizeable balance of payments surplus.

The Commission does not want Germany to assume the function of a "locomotive," pulling the other economies along, a role always rejected by former German governments. But the EC Executive

believes that the Kohl administration could certainly increase public spending for urban renewal and environmental programs in 1986 and move up from 1988 to 1987 the second phase of its program reducing individual income taxes *(Doing Business in Europe, Par. 40,634)*. (The OECD, the German Finance Ministry's advisory council, and five German economic research institutes have also recommended moving up the second portion of tax cuts.)

On the Community level, the Commission promises to intensify the dialogue between the social partners. Lowering unemployment in the Common Market from the current 11% to 7% by 1990 can be accomplished, in the Commission's view, only if the unions in all Member States exercise wage restraint and agree to greater wage differentiation. Wage increases should be moderate and should remain so until there is a clear and lasting drop in unemployment, the Commission says; thereafter, real-term wage increases could again be tied closer to productivity growth. Reductions in working time could help lower unemployment, provided they do not raise costs. Labor mobility is also a factor in cutting the jobless rate because of major differences in regional unemployment rates in most Member States.

Commissioner Alois Pfeiffer, a former German union leader who is responsible for the EEC's economic policy, says it will not be easy for the unions in the various Member States to accept all these suggestions. He believes, however, that the unions will go along with the overall strategy if they receive assurances from employers and governments that their cooperative spirit will be reciprocated through improved employment prospects.

In Brief...

An employer's policy of granting retirement pensions only to full-time employees and not to part-time workers does not violate EEC law, according to Advocate General Marco Darmon. In his opinion on a case referred to the European Court of Justice by the German Supreme Labor Court (Case No. 170/84), Darmon says that such a pension policy is justified so long as the exclusion of part-time employees is not based on sex. The suit was brought by a German woman who had worked part time for a large German department store. She sued her former employer on grounds of discrimination, and the case eventually ended up in Germany's highest labor court, which then asked the EC tribunal for an interpretation of Treaty Article 119. Darmon maintains that current EEC law does not prohibit an employer from granting incentives to full-time employees so long as there is no discriminatory element. An employer cannot be forced to take into account the special situation of employees unable or unwilling to work full time + + + The British government has asked the Commission to estimate costs and assess the impact of draft directives before their enactment by the Council of Ministers. London also wants the EC Executive to list those measures, passed or pending, that contain excessive regulatory elements for businesses and are

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thus detrimental to employment. One case in point is the pending Vredeling directive on information and consultation rights of employees. There is no need for such a statute, the U.K. says, and the matter should be left to the shop committee and management of individual enterprises.

Germany: Union 'Action Week' Turnout Falls Short

The German national union federation's Oct. 14-19 "action week" culminated in rallies bringing together some 600,000 demonstrators in 17 cities across the country. The DGB and its 16 affiliates for various branches of industry and trade distributed five million leaflets charging that the Kohl administration has done nothing to bring down unemployment, that cutbacks in the social security sector have been hardest for the poorest (i.e., those receiving unemployment benefits or welfare), and that the proposed amendments to the Works Council Act are an attempt to destroy the unions.

Observers say that the action week's program fell short in two quantitative respects. A thousand rallies and demonstrations were planned, but only about 200 materialized. Of the "several millions of workers" that the unions hoped to bring into the streets and market squares, an estimated 1.3 million showed up. The national union leadership failed to revamp the unions' image, marked by falling membership and growing disinterest, critics observed.

Government leaders, especially Labor Minister Norbert Blüm, charged that some of the unions' allegations were based on half-truths and lies. Blüm said that cutbacks in the social sector were necessary to stave off bankruptcy of the unemployment and old-age pension funds. The labor minister added that the first cuts had been made by the Schmidt administration. Blüm, a long-time member of the powerful metalworking union, conceded that the unemployment figure has not gone down as originally anticipated but said that the government cannot be accused of doing nothing to combat joblessness. He pointed to legislation allowing employees to retire at 58 and providing employers with grants for hiring replacements *(Doing Business in Europe, Par. 40,566)*. He also cited the legislation to increase employment opportunities *(Doing Business in Europe, Par. 40,628)*. Blüm, who is reportedly not happy with the bill that would amend the 1972 Works Council Act, nevertheless defended the pending measure, which would secure for minority groups the chance of being represented on works councils and allow members of lower and middle management to elect representatives of their own *(Doing Business in Europe, Par. 40,637)*.

Britain: Committee Urges Emphasis on Manufacturing

The U.K. faces grave political, economic, and social difficulties unless the decline in the manufacturing industry is rapidly halt-

ed, according to a report by the influential House of Lords Select Committee on Overseas Trade. All members of the committee agree that immediate steps must be taken to reverse the shrinkage in the manufacturing base in order to combat the imminent fall in North Sea oil revenue.

The survey forecasts a decline in manufacturing to the point where much of the sector is at risk. The result, according to the committee, will be such an adverse balance of payments that severely deflationary measures will be necessary, while little relief from high unemployment will be available. The report predicts a stagnating economy, with an "irreplaceable loss of gross domestic product" and inflation driven up by a falling exchange rate. These prospects, the committee says, "constitute a grave threat to the standard of living of the British people."

In support of the committee's findings, the report points out that the balance of trade deficit in manufactured goods rose from £2.4 billion in 1983 to £3.8 billion in 1984 and amounted to £2 billion in the first half of 1985. This increase in the deficit has been masked, however, by the surplus in oil trade. The committee believes that oil exports will peak this year and that the oil trade surplus could shrink to zero by 1990.

The committee describes as "unrealistic and dangerously short-sighted" the Treasury's view that the decline in the oil surplus will automatically result in a recovery in the export of manufactured goods. The report also takes issue with the government's belief that the services sector will play an increasingly larger role in the economy. The committee says it regrets that a combination of tight monetary policy and high exchange rates has resulted in the loss of a sizeable piece of the U.K.'s manufacturing base. The report concludes that there must be improved consistency of government policy toward industry.

In an immediate reponse, Leon Brittan, secretary of state for trade and industry, said that the report omits certain "key facts." Since the low point of the recession, he said, manufacturing productivity has risen by 39%, and the total volume of manufactured exports has reached a record level.

Greece: Workers Strike Nationwide Against Wage Freeze

Some 300,000 Greek workers throughout the country carried out a 24-hour strike on Oct. 21 to protest the "one-sided austerity policy" of the Socialist government under Prime Minister Andreas Papandreou. Business was disrupted in Athens as bank workers, taxi drivers, telephone operators, and other workers ignored the GSEE union federation's call for a "dialogue" with the government instead of a general strike. State-owned Olympic Airways cancelled all its flights during the 24-hour period.

The cause of the unrest was the government's announcement earlier this month of a package of economic measures designed to

improve the balance of trade and reduce the foreign debt. The package includes a virtual pay freeze for all workers through the end of 1987. Most workers will still receive raises under the automatic wage indexation system, but the increases will be based on the government's estimate of inflation during the next four-month period, rather than on the actual inflation rate in the previous four months. In addition, price increases for imports will not be included in the inflation rate.

The striking workers are also protesting a new requirement that all importers must make a bank deposit equal to 40% or 80% of the price of their goods, with limited exceptions. The workers believe that this rule will result in higher prices and thus a reduction in their purchasing power.

The rest of the country has, in general, responded to the economic package (which was accompanied by a 15% devaluation of the drachma) with an air of skepticism. Observers say that the package will have to be backed up by other measures promoting production, investment, and productivity. The government, however, is now busy working out a way to achieve its promise to make large reductions in the budget deficit. The first change is expected to come soon in the form of rate increases for electricity, gasoline, and oil.

Austria: Measures to Promote Industrial Development

The Austrian government is continuing its efforts to stimulate domestic industry with several measures to encourage capital formation, streamline the state's system of direct investment promotion, and aid research and development in high technology. As of 1986, the income tax rate on distributed corporate profits would be cut in half. New stocks would be considered "special issue," within certain limits, and would be exempt from taxes, with the dividends also being tax-free for ten years. These measures would apply to all companies that concentrate on domestic production. Publicly owned companies would also be eligible, so long as at least 25% of the capital is in private hands after the new issue.

The reform of the government's system of direct investment promotion is intended to make it more coordinated and easier to use. The application period, which currently lasts up to five months, would be shortened. As previously reported, the number of agencies handling industrial incentives would be reduced to four - the European Recovery Program (ERP), the state-controlled Finance Guarantee Corp., the Austrian Investment Credit Corp., and the Institute for Labor Market Promotion. Low-interest ERP credits would be available only for those projects that would improve competitiveness on an international level.

To promote advances in the high-technology sector, research and development concentrating on areas valuable to the economy

would receive tax benefits. The government is particularly interested in encouraging research into new materials in the areas of metallurgy, ceramics, and plastics.

Norway: Falling Oil Income Means Deficit 1986 Budget

Due to declining oil revenues and rising import levels, Norwegian Finance Minister Rolf Presthus has presented to Parliament a deficit budget for 1986. After surpluses of NKr 19.28 billion in 1985 and NKr 21.53 billion in 1984, the draft budget proposes a shortfall of NKr 984 million. North Sea oil revenues are expected to drop from NKr 46.1 billion this year to NKr 35.8 billion in 1986, mainly because of falling crude oil prices and the lower dollar-kroner exchange rate. The declining oil revenues as well as rising private consumption are also to blame for the anticipated plunge in the balance of payments surplus from NKr 22.15 billion in 1985 to NKr 1.55 billion in 1986.

The budget projects an 11% rise in social welfare spending. Observers believe this increase was included mainly to ensure the support of the small Progressive Party for the minority government's draft budget. Oslo has also proposed individual tax relief of NKr 3 billion as a means of encouraging lower wage demands. Corporate tax concessions amount to NKr 160 million.

The budget is based on GNP growth of 2.5%, down from about 3% this year. Inflation is expected to be 5.5-6%, after 5.75% in the current year.

Sweden: Position of Wages Minister Created in Shuffle

Swedish Prime Minister Olof Palme has created the cabinet-level position of wages minister as evidence of the increasing importance held by public-sector wages in the government's economic policy. The first appointment to the new position, actually a deputy finance minister, is Bengt K. Johansson, formerly undersecretary of state in the Finance Ministry. Johansson has also been made responsible for the government's policy in the banking and insurance sectors.

Johansson says that there is "no flexibility for wage increases" for civil servants in 1986. The government hopes to negotiate low wage increases to help lower both unemployment and inflation. (According to a recent report by the National Institute of Economic Research, the jobless rate should rise from 2.9% to 3.2% next year, assuming wage increases of 6%. At the same time, the institute expects inflation to fall from 7.4% to 5.1%.)

One month after the elections that returned his minority government to office, Palme also shuffled other cabinet positions. Observers regarded the changes as an attempt to gain more support among the unions as well as among moderates in Palme's

Social Democratic Party. Among the changes was the elimination of the cabinet post responsible for nationalized companies.

Switzerland: Seeking Definition of Insider Concept

A parliamentary committee of the Swiss upper house will soon take up a government bill seeking the introduction of insider rules in Switzerland. One of the most difficult tasks of the committee will be to agree on a satisfactory definition of the term "insider dealing," an activity which so far does not exist under Swiss law and which the government in its bill describes as "the exploitation of the knowledge of confidential facts." According to reports from Bern, the committee plans to limit application of the rule strictly to those who "consciously" violate the provisions of the law, an interpretation that would automatically cover responsible individuals in businesses actually involved. The legal basis for the rule would be a new penal code article (No. 161).

The Swiss Bankers' Association has been one of the main advocates of the new legislation, fearing that the U.S. business of its members might suffer unless Parliament and the electorate act soon. (Any insider legislation passed by Parliament would still have to be approved by the voters in a national referendum.) Since Jan. 1, 1983, the Swiss banks have made themselves subject to a convention under which, in certain cases, they agree to provide the U.S. Securities & Exchange Commission with information to aid investigations of alleged insider dealings. In its latest annual report, the association mentions two cases in which a special committee dealt with SEC requests for information.

Bern Projects First Budget Surplus in 17 Years

For the first time since 1971, the Swiss government's draft budget for 1986 will show a modest surplus, of SF 135 million. The surplus is based on projected expenditures of SF 23.62 billion, an increase of 3%, and revenues of SF 23.751 billion, a boost of 6.8%. However, the government is already predicting a spending rise combined with stagnating revenues for the years 1987-89, so that the surplus would be of only a temporary nature.

The 1986 revenues originate from four principal sources. Taxation of private consumption is to rise by 4%, while income and net worth taxes would go up by 15.5%. Two lesser sources will be the anticipatory tax *(Verrechnungssteuer)* (up 27%) and stamp duties (up 19.4%). At the same time, investment spending of the federal government is scheduled to drop by 1% to SF 3.06 billion.

In its budget projections, Bern is anticipating a favorable economic climate for Switzerland next year. Private consumption is projected to rise by 4.5%, gross domestic product by 1.5%, retail prices by 3%, and capital investment by 4.8%.

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Community: Airlines' Proposals Disappoint Commission

The European Commission is deeply disappointed by the recent proposals of the Association of European Airlines (AEA) in response to the EC Executive's determination to bring about a change in the heavily regulated air transport and airfare system in the Common Market. In the three main areas - capacities, fares, and competition rules - the AEA's suggestions do not come close to what the Commission recommended in a memorandum and proposals to the Council of Ministers in March 1984 *(Common Market Reports, Par. 10,574)*.

The AEA offers changes in capacity agreements between national carriers that, in the Commission's view, would bring no new freedom to the airlines. The AEA's suggestions on fares are just as unacceptable, the Commission says, because fares would still be fixed under the double approval system, which gives the less efficient, less enterprising airline or government the final say. The suggested discount and deep-discount zones at roughly 60% of the economy fare would also amount to no real change, the Commission says, because similar fares already exist. Concerning EEC competition rules, the AEA suggests that

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these rules should apply to air transport so long as they do not affect the current cartel; the association also proposes group exemptions for all existing practices.

Under the Commission's proposals, there would be no U.S.-style deregulation, but national carriers would at least be freed from the bureaucratic restraints forced on them by their governments. Two of the proposals would make EEC competition rules applicable to civil aviation. One measure would free Member State airlines from capacity agreements - the government-imposed requirement that they agree among themselves on the size of aircraft used and the number of flights on particular routes. Another element of the measure proposes that airlines be free to set fares so long as they are genuinely cost-related.

(To ensure equal conditions of competition, the Commission has established guidelines it will follow in controlling state aids in the airline sector. The EC Executive has extended the directive on transparency of state aids to include air transport, effective Jan. 1, 1986. A Council draft regulation would empower the Commission to grant block exemptions for agreements relating to capacity sharing, revenue policy, and consultation on tariffs.)

The Commission is counting on the Council of Ministers to act on the proposals by next June. Both the European Parliament and the Economic and Social Committee favor a change in the air transport system, and all of the Member States have acknowledged the need for more flexibility. Should the Council fail to act, or should its action fall too short of what was proposed, the Commission would sue the airlines and the Member States in the European Court of Justice.

Already pending before the Court are five cases involving the supremacy of EEC law over national law on the issue of price-fixing by the airlines. The French authorities had fined a number of travel agents and agencies for selling tickets at prices lower than those approved by the French government. A French court suspended the proceedings and asked the EC tribunal for a preliminary ruling on whether certain provisions of the French Aviation Code are compatible with Treaty Articles 85-86 (Case Nos. 209-213/84).

EC Reserved About Comecon's Bid for Relations

The European Community is prepared to establish official relations with the Council for Mutual Economic Assistance (Comecon), the Soviet-dominated East European trade bloc, but not at the expense of bilateral ties with individual East European countries. This is the Community's response to Comecon's latest approach to formalizing relations with the EC. Comecon's secretary general had suggested in a letter to the Commission a declaration of intent to establish relations with the Community.

The Member States' foreign ministers reaffirmed the Community's response at their biannual informal meeting on Oct. 26 in Luxembourg.

Comecon has been seeking a formal agreement on bilateral relations since the early '70s, and the Commission and Comecon's secretariat were supposed to do the negotiating. Talks broke down in 1975 when Comecon insisted on being recognized by the EC as a negotiator. The Commission maintains that the Comecon secretariat lacks the treaty-making powers that the Community has. (The EC Executive exercises these powers by negotiating agreements - *Common Market Reports, Par. 111.06*).

Comecon does not have a common commercial policy, and each of its members is in a different economic, political, and legal position. Because of this, the Commission has offered trade links to individual Comecon members rather than to the secretariat. Romania and Hungary are the only members that have accepted the offer. Still, the Community has always maintained that there is room for agreement on matters other than trade relations. Suggested fields of cooperation are environmental issues, economic forecasts, the exchange of statistical data, and industrial standards.

A report by the European Parliament's foreign trade committee points to the different legal structures and jurisdictions of the EEC and Comecon, thus confirming the Commission's position on the trade relations issue. For political reasons, the report sees a need for a dialogue between the Community and Comecon to exchange ideas and information. Such a dialogue could represent an important step toward maintaining peace at a time when the two superpowers are about to intensify their disarmament talks, the report concludes.

In Brief...

Denmark's failure to consent to the compromise agreed to by the other Member States on the EEC Council draft directive on car exhaust standards is preventing formal adoption of the measure by the Council of Ministers. The compromise, reached on June 28, provides for a phased introduction of low-pollution cars: tougher emission standards would apply by 1989 for large automobiles (engines over 2,000 cc), by 1993 for medium-size cars (1,400-2,000 cc), and by 1994 for cars up to 1,400 cc. Unleaded gasoline would be available throughout the Community by 1989. Denmark considers the compromise weak, but the Commission is continuing its efforts to obtain the Danish government's consent to the measure + + + The European Parliament has voted to build an assembly hall in Brussels. The building is to be completed by the end of August 1988. This decision of the EP, which meets regularly in Strasbourg except for one month annually in Luxembourg, has revived the debate over the institution's permanent location. In 1983, the Court of Justice ruled that

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Luxembourg, which had sued the EP, has no legal right to demand that the Assembly hold some of its sessions in Luxembourg City (Case No. 230/81; *Common Market Reports, Par. 8941*). In 1981 the EP resolved that it should sit only in Strasbourg + + + The Commission has proposed an entirely new way of reducing the EEC's milk surplus: the EC Executive wants to compensate farmers who give up their cows and thus stop selling milk to dairies. Since April 1984, each farmer has had to abide by a certain milk production quota. If the plan is approved by the Council, the Commission would offer a farmer ECU 28 for every 100 kg of milk no longer produced. The Commission hopes to reduce annual milk production by some 3 million tons.

Germany: Economic Plan Seen as SPD's Election Platform

Five leading Social Democrats in Germany have put together a new economic program that is expected to become the opposition party's campaign platform for the national elections in January 1987. The program's short-term measures include a surcharge for taxpayers in the high income brackets and a tax-free reserve for new investments to bring down unemployment.

A job creation program would head the agenda of the Social Democratic Party (SPD) for the 1987-91 legislative session. All levels of government would hire people to expand social services and to improve or protect the environment. Most of the revenue needed to finance these programs would be derived from a tax surcharge on high income brackets. The authors of the program figure that some DM 4 billion would be needed annually, without saying how high the surcharge would have to be to yield this sort of revenue.

Employers investing to create jobs could count on more support from the government: a portion of profits used for new investments could be set aside and remain tax-free. The authors of the plan also recommend a further cut in the workweek so as to create more jobs. All in all, the authors believe that implementation of their suggestions would provide 500,000-800,000 jobs over a four-year period.

Businessmen and other taxpayers are most concerned about the program's tax features. The authors recommend repeal of tax legislation relieving tens of thousands of individual taxpayers from paying roughly DM 1 billion in net worth tax. They also oppose pending legislation that would cut in half depreciation periods for industrial and commercial buildings *(Doing Business in Europe, Par. 40,647)*. There is no evidence that the tax relief would spur investments and thus create jobs, the program's authors say. Loans and interest paid on long-term credits should again be fully included in the tax base used in computing the business tax, according to the program. Members of the liberal professions should be paying business tax, the Social Democrats say. Banks should be obliged to inform tax offices

about interest paid on accounts, the authors say, although recipient taxpayers could claim an exemption of DM 3,000 for single and DM 6,000 for married persons.

The authors recommend massive state intervention for the "ecological and social renovation of the industrial society." Proceeding from their assumption that free market interplay ignores nature, the authors say that the state must take a far more active role in preserving the environment. This should be done by subjecting businesses to stricter licensing requirements, imposing levies on polluters, and banning certain activities altogether. The authors' most controversial proposal recommends phasing out the operation of nuclear power stations.

Belgium: Martens Outlines Economic, Social Policy Goals

Wilfried Martens, who most likely will succeed himself as Belgium's prime minister following the Oct. 13 parliamentary elections, has submitted an economic and social policy program that generally follows the government's previous course. Martens is currently negotiating the formation of his next administration from among the same four political parties that were represented in his previous team. Under Martens, the Christian Democrat-Liberal coalition has been pursuing an economic austerity policy since 1981, with emphasis on safeguarding employment, protecting the international competitiveness of Belgian industry, and reducing the state finance deficit.

In his policy paper, Martens indicates that the government would try to avoid new confrontations with the labor unions. In the event that wage costs in Belgium rise faster than those of the country's most important trade partners, the administration would abstain from incomes intervention and instead seek to lower employers' social insurance contributions to give some relief to businesses. At the same time, the government would use the gains from reduced wage indexation, which was agreed upon last year, to boost the social insurance budgets.

In the area of state finances, Martens aims at lowering the budget deficit to 7% of GNP by 1987. In addition to previously agreed budget savings, he is recommending cutbacks totaling BF 70 billion over the next two years; these cutbacks would affect transfer payments to private households, the educational system, and interest payments on the state debt. Price controls would be applied only in exceptional circumstances: the government would rely on the competitive forces to keep inflation under control. Martens would ask the employers and unions to meet in mid-1986 for a social contract agreement covering employment, purchasing power, and competitiveness.

In related developments, the FEB industrial federation has urged the government to reduce both corporate and personal taxes in order to improve competitiveness and employee morale. In a

memorandum addressed to the acting government, the FEB is also asking for additional tax benefits for reinvested profits as well as research and development.

Britain: Committee Proposes ICAEW Reorganization

A nine-member working party has proposed a major restructuring of the Institute of Chartered Accountants in England and Wales to "develop greater relevance" to its growing membership, which is becoming increasingly diversified. The party's main proposal would create a system of boards, representing members' occupational interests, and faculties, focusing on technical interests.

Three boards would initially be established to represent the interests of large and medium-size firms, small firms, and those handling corporate finance and management. Each board would have a maximum of 30 members, and the three would altogether provide an additional 12 members for the ruling council. The working party also envisages six faculties covering insolvency, taxation, audit and financial reporting, consultancy, financial management, and technology. Members would be free to join one or more faculties, each of which would have a committee of ten to 20 members and occupy two seats on the council.

An expanded secretariat would be needed to operate the structure, at an extra cost of £750,000 annually. It is also recommended that complaint procedures and disciplinary methods be reexamined. The working party believes that it will probably become unacceptable in the future for a professional body to hold sole responsibility for conduct matters, even if lay persons are represented on the pertinent committees.

U.K. Accounting Firms Surveyed on Investment Earnings

Most U.K. accounting firms earn little of their income through investment business, according to a survey conducted for the Institute of Chartered Accountants in England and Wales as well as the Scottish and Irish institutes. About 1,250 firms took part in the survey, which was commissioned to reinforce claims by the institutes that their members should be exempt from the forthcoming financial services legislation. The bill would require specific authorization for those organizations that provide significant investment services.

The survey revealed that although most firms do provide some form of investment advice separate fees are not usually charged. Of the English and Welsh firms surveyed, 7% undertake investment management, and 17% carry out investment transactions, usually at low fees. Eighty percent of the firms questioned earned less than £10,000 in their last trading year from investment commissions, and 10% accumulated more than £5,000

from separate fees for investment advice. However, one unidentified accounting firm did report that it manages £40 million in client funds.

France: Employers Propose 'New Economic Policy'

The French employers' federation (Patronat) has proposed a three-year program for a "new economic policy," including significant tax reductions to improve corporate investment. The proposals come at a time when the major political parties are formulating their platforms for the national elections in March. Although the program is closest to that advocated by the conservative opposition, it does contain a strengthening of some of the austerity measures instituted by the Socialist government.

The Patronat proposes a reduction of tax and social security contributions over the next three years equal to 1% of GNP annually (FF 40-50 billion). To most effectively lower the level of imports and the foreign debt, the employers say, about 80% of the tax cuts should benefit the corporate sector. Rates would be reduced for the corporate income tax, the *taxe professionnelle (Doing Business in Europe, Par. 22,843)*, and employers' social insurance contributions.

To offset the revenue losses, the Patronat recommends that the government cut social security spending, reduce the number of civil servants, and further decrease state aids to industry. These reductions would amount to about FF 60 billion annually, lowering the budget deficit from 3.2% to 2.5% of GNP. The employers oppose as too deflationary, however, the suggestion by many opposition leaders that the deficit be drastically reduced.

The Patronat also recommends eliminating the remaining price controls, relaxing labor laws and exchange controls, and "denationalizing" parts of the state sector.

Greece: Athens Requests VAT Delay; Strikes Continue

The Greek government has asked the European Commission for further delays in complying with several measures of the Accession Treaty for which the deadline is Jan. 1, 1986. According to reports from Athens, Greece wants to push back the deadline for introducing the value-added tax system to Jan. 1, 1987. On this matter, Athens appears to have backed off somewhat from an earlier request to move the introduction date to Jan. 1, 1988. (The deadline had already been extended by two years from the original date of Jan. 1, 1984.)

Greece also wants to delay until Jan. 1, 1987, its elimination of export promotion law Nos. 1576 and 350 and wants to make the process a gradual one. Athens proposes that the new bank deposit requirement for importers, imposed on Oct. 11, as well

as limits on capital movement be maintained indefinitely. The elimination of the oil trade monopoly would also be carried out gradually rather than immediately on Jan. 1, 1986.

The Commission recently criticized Greece for instituting a package of economic measures and devaluing the drachma by 15% on Oct. 11 without first informing the EC Executive. Under Treaty Article 109, a Member State may take protective measures in the event of a "sudden crisis" in the balance of payments, but only after informing the Commission and the other States *(Common Market Reports, Par. 3781)*.

In related developments, a wave of strikes protesting the government's economic measures continued to disrupt business throughout Greece during the last week of October. A number of strikes were carried out by taxi drivers, industrial workers, and employees of the state-run electricity and telephone companies. Civil servants also planned to participate in the strikes. The workers were mainly protesting the government's decision to impose a virtual wage freeze through the end of 1987.

EURO COMPANY SCENE

Pepsi-Cola GmbH, the German subsidiary of PepsiCo, Inc., and Tengelmann Warenhandelsgesellschaft, a German supermarket group, have formed a joint venture to coordinate the opening and operation of Pizza Hut restaurants in Germany. The two companies are equal partners in Pizza Hut GmbH Deutschland, which has a starting capital of DM 10 million. Plans have been made for the opening of 40 new German Pizza Huts by 1988 and 200 in the next ten years.

Inductotherm Industries, Inc., of the U.S. has carried out its option to buy four subsidiaries of Ateliers de Constructions Électriques de Charleroi SA, a Belgian electrical engineering company. The units are Elphiac SA of Belgium, Hochfrequenzwärme Schmidt & Cie. of Germany, Elphiac do Brasil SA, and the electrothermics division of Acec-France

Vickers, Inc., a unit of Libbey-Owens-Ford Co., has purchased 60% of the shares of Cinotto Hydraulic Systems SpA. The Italian company has annual sales of about $7 million.

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Community: Investment Fund Trade to Be Liberalized

The Council of Ministers has reached a preliminary agreement on two measures to liberalize capital movement in the Community. The directives - representing the first Council action on capital movement since 1962 - will be formally adopted when Denmark lifts minor reservations, which is expected within a few weeks. Agreement on the measures is seen in Brussels as a significant step toward general liberalization of capital markets, including the removal of barriers to free insurance services across national frontiers.

One directive sets out common rules coordinating national provisions on "undertakings for collective investment in transferable securities" (UCITS), which includes unit trusts (mutual funds) and open-ended investment companies *(Common Market Reports, Par. 1495)*. The second directive would amend existing legislation adopted in 1962 to remove restrictions on capital movement, which does not include UCITS certificates *(Common Market Reports, Par. 1651)*.

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U 3 X

Under the UCITS directive, the Member States recognize that supervision of an investment fund by the home State is adequate to ensure protection of investors. (Germany had long considered fund supervision by some other States as insufficient and therefore blocked adoption.) The directive also sets out minimum requirements on the structure and operation of investment funds, investment policy, and the publication of prospectuses and periodic statements. An investment company would be barred from investing more than 5% of its portfolio in any one company; a minimum of 90% would have to be invested in quoted securities. There would also be restrictions on how much an investment company or trust could place in another investment company or trust.

Although Oct. 1, 1989, would be the deadline for compliance with the two directives, the barriers to the sale of investment certificates would not be lowered in all Member States. France, Italy, Ireland, and Greece maintain exchange controls; thus, out-of-State investment funds would be able to sell certificates there but could not repatriate the money. Commission officials hope, however, that at least France will have relaxed its exchange controls before October 1989.

Steel Production Quota System Eased; New Aid Code

Two major decisions by the Council of Ministers will affect the Community's steel mills over the next two to three years.

Starting Jan. 1, 1986, production of concrete reinforcing bars and coated sheets will no longer be subject to the quota system. This means that production of these two steel products, which account for 15% of total output, will be governed by the free market. Before the end of 1986, the European Commission will propose a further liberalization to remove other steel products from the production quota system.

The other major decision concerns the new steel aid code, applicable from Jan. 1, 1986, through Dec. 31, 1988, with tightened aid rules in place of the current code that expires at the end of the year. Under the new code, Member State governments will be allowed to grant aid during the 1986-88 period to offset steel mills' expenditures for research and development and pollution control as well as to help finance plant closures. Aid for mill closures will be permissible only in two forms - (1) subsidies of up to 50% of the total provided under relief plans for laid-off steel workers and (2) aid to steel mills when they close down. Operating and investment subsidies provided under current rules are outlawed after the end of the year.

The new subsidy rules represent a compromise reached by a qualified majority; the Netherlands and Greece voted against them. Germany had been insisting on a ban on aid for plant closures, saying that such subsidies might actually be used to either offset investment costs or cover operational losses. Bonn

is relying on the Commission's assurance that requested subsidies will indeed by given only to help plant closures and not in support of ailing steel mills.

The Council of Ministers also decided to make the production quota system more flexible. For a number of years, the Commission has been setting output quotas for each company and authorizing subsidies linked to reductions in steel capacity. Under the new system, applicable from Jan. 1, 1986, a company will be authorized to change the quota for a particular product on its own so long as the originally authorized quota is not exceeded by more than 25%. The tonnage being transferred from one product quota to another may not exceed 10% of the company's total quota.

In Brief...

The Commission has amended its original proposal on the use of hormones in raising livestock and is now seeking a total ban on the practice. Originally, the Commission had proposed outlawing only artificial hormones. After the European Parliament overwhelmingly supported a total ban for reasons of health, however, the original draft was amended. (Only Britain opposes a total ban.) The proposal would have implications for farmers and beef traders in third countries, such as the United States and Argentina. Beef from livestock fattened with the help of hormones would be barred from import into the EEC + + + The eight African countries most affected by famine received some 1.25 million tons of cereals, valued at ECU 430 million, from the EEC in January-September 1985. The famine aid went to Ethiopia, Sudan, Mozambique, Angola, Mauritania, Mali, Niger, and Chad. Eighty-seven percent of the shipments were completed by the first of October. The Commission came forward on Oct. 31 with a new aid plan for those countries worst affected by drought and famine. Some ECU 100 million (matched by at least the same amount in aid from the Member States) would be spent in 1986-87 to strengthen the ability of those countries to deal with disasters and to help revive farming in disaster-hit areas.

Germany: 'Red-Green' Alliance in Hessian Government

A new chapter in German politics was opened at the end of October when the Greens and the Social Democrats joined to form a coalition government in the state of Hesse. In return for the Greens' joining the minority government of Gov. Holger Börner, a member of the environmental party will head the enlarged Environment and Energy Ministry. Another Green will take up the post of undersecretary for women's affairs. The new coalition government is the first of its kind at the state level; there are a number of coalitions with Greens in local administrations.

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The seven Greens in the Hessian legislature have tolerated and sometimes even supported Börner's minority government for over two years. In addition to helping fend off a censure motion from the opposition, the Greens most recently voted with the Social Democrats on a waste disposal bill, ensuring its passage. This legislation falls within the narrow field left to the states by the German constitution and federal law. The new law generally restates the objectives of waste disposal management already spelled out in federal legislation - to keep down the volume of waste, encourage recycling, and safely dispose of material that cannot be recycled.

The new coalition government has come under fire from the business community as well as the opposition Christian Democrats. A number of prominent business executives, including the top management of Hoechst and Merck, have hinted that they are reconsidering planned investments. Giant Hoechst AG, Germany's third-largest chemical company after Bayer and BASF and one of Hesse's biggest taxpayers, has been involved in several environmental scandals. In the most recent instance, Hoechst was fined DM 1.4 million for discharging hydrochloric acid into the Main River, and two executives had to pay large fines for violating other pollution-control rules. In the past 13 years, two Hessian ministers in charge of environmental affairs have resigned over scandals involving state officials who took bribes or were lax in enforcing anti-pollution statutes.

Industry is uneasy about the new coalition government because of the Greens' announcement that environmental laws will be strictly enforced. It is also worried that the new government might be even tougher in granting licenses for new businesses.

France: Employers, Unions Compromise on Jobless Pact

The French employers' association and the unions have avoided a financial crisis in the unemployment benefits system by agreeing to raise contributions to the system and lower the benefits paid out. Only the Communist-led CGT union refused to sign the compromise agreement, which extends the system for two years to the end of 1987.

Unemployment insurance contributions will be raised by 0.2 percentage points, to 2.3% of wages for employees and 4.3% for employers. These increases are expected to raise revenues by about FF 9.7 billion over the next two years. At the same time, the minimum jobless benefit, currently FF 43.87 per day plus 42% of previous wages, will be lowered to the fixed rate plus 40%. This minimum benefit will amount to only 57% of the worker's previous wages, instead of the current 60%. To compensate somewhat for the lower amounts, the periods for which benefits are paid will be extended by three months for workers over 50 and by two months for younger workers.

The number of unemployed in France totaled 2.44 million (about 10%) in September. Some 300,000 additional workers are expected to join the ranks of the unemployed in the next two years, costing the unemployment fund an additional FF 9.6 billion. Although the changes will more than cover that amount, the system will still be left with a deficit of some FF 12.5 billion.

Greece: Wage Freeze Causes Split in Union Congress

The Greek government's announcement last month of an economic austerity program, including a virtual wage freeze, has resulted in a major split in the leadership of the country's trade union congress (GSEE). When the pay freeze was originally announced, the GSEE's administrative council defeated by one vote (that of president George Rastopoulos) a motion to call a general strike throughout the country. (Business was still disrupted, however, as many individual unions went on strike.) Rastopoulos, a supporter of the Socialist government, was then ousted by a left-wing council faction composed of the 19 Communist members and eight Socialist members who had voted in favor of the strike. An Athens court was to decide on Nov. 11 whether the removal of the president was legal.

If the decision of the dissident faction is ruled to be valid, Greece may face a 24-hour general strike on Nov. 14. The effects of the strike, however, would still depend on the extent to which individual unions heed the strike call.

Ireland: Dublin Proposes Tax, Employment Measures

Irish Prime Minister Garret FitzGerald has proposed a series of measures to combat inequity in the tax system as well as unemployment. The process of tax collection and enforcement would be "substantially improved," he said. Accordingly, the special inquiry units within the Office of the Revenue Commissioners, which "have a good record of success in countering tax evasion," would be expanded. Since these units were first set up, they have uncovered some 9,000 cases of tax evasion.

In order to avoid extra administrative costs, a surcharge would be applied when tax returns are not submitted on time, beginning with the 1986-87 tax year. Also, the tax clearance program for public-sector contracts, introduced in 1983, would be extended to cover subcontractors. This measure is meant to ensure that both contractors and subcontractors meet their liabilities for taxation and social welfare contributions. To further reduce avoidance, the revenue commissioners and the Dept. of Social Welfare would increase cooperation at the local level.

FitzGerald said that additional revenues brought in by these measures would be used to alleviate the fiscal burden on those who are taxed at the source under the pay-as-you-earn system, which has been the subject of mounting controversy.

In order to stimulate employment, FitzGerald said, a program for exemption from employers' pay-related social insurance (PRSI) contributions is being proposed for the 1986-87 tax year. The exemption would apply where any private employer hires on a full-time basis, before March 31, 1986, persons who have been unemployed for at least six months. The government is also considering the modification of PRSI contributions to favor labor-intensive industries. In addition, the number of workers eligible for aid under the employment incentive program would be doubled.

A program of inner-city development and reconstruction would be instituted in Dublin. Incentives would include a 50% capital allowance for commercial development and full tax relief for ten years. Special grants would be given to develop hotels.

Charles Haughey, leader of the opposition Fianna Fail Party, described the proposals as "hastily put together" to direct public anger away from the government's "disastrous economic performance."

Italy: Foreign Exchange Rules; Deposit Insurance

The Italian government has taken another step in liberalizing the country's foreign exchange rules. The changes, which were laid out in a governmental decree, must be approved by Parliament within 60 days if they are to become permanent. The most important change for the export industry is the abolishment of the requirement that exporters finance 25% of their transactions in foreign currency. (The original 1982 regulation required 75% foreign financing, an amount that was reduced to 50% in 1984 and to 25% last January.) Rome also lowered to 25% the size of the non-interest-bearing deposit that must be made with the Bank of Italy by those wishing to invest abroad. Previously, the deposits amounted to 30% for investments made in the EEC, 40% for those in the OECD, and 50% elsewhere.

The government has also lifted restrictions on the import of capital in amounts of up to 10 million lire. In what is considered mainly a symbolic change, Italian tourists abroad may now spend their annual limit of 5 million lire per person on any items they wish, not just on tourist services, such as hotel accommodations.

In other developments, the executive committee of the Italian Banking Association (ABI) has proposed the introduction of a voluntary deposit insurance fund. Financial institutions that accept deposits would be able to contribute to the fund, thus ensuring customers that their deposits, up to certain amounts, would be safe in the event of a bank failure. The system, which was to be approved by the ABI membership at its Nov. 12 meeting, would go into effect when 60% of Italian financial institutions join or 75% of the country's savings deposits are covered.

Craxi Coalition Agrees to Return to Office

Almost two weeks after Italian Prime Minister Bettino Craxi resigned on Oct. 17, his five-party coalition reached an agreement that should enable it to resume control of the government. (Craxi stepped down after the small Republican Party withdrew from the coalition to protest the release of the alleged leader of the Palestinians who hijacked the cruise ship Achille Lauro.) After the agreement was reached, President Francesco Cossiga officially turned down Craxi's resignation and ordered a parliamentary confidence vote for the government. Craxi is expected to make no cabinet changes.

The first order of business for the returning government will be to push through the 1986 finance bill, which was presented to Parliament on Sept. 28. The draft budget aims to limit the 1986 deficit to 110,000 billion lire, after an expected 106,000 billion lire this year. Many politicians have criticized the budget as being too harsh, while economists and the business sector say it does not include measures to sufficiently reduce the deficit.

Switzerland: Liberalized Swiss Franc Bond Market?

The international financial markets have registered surprise that the Swiss central bank is considering allowing the issuance of Swiss franc-denominated securities abroad. The president of the National Bank, Pierre Languetin, and vice president Markus Lusser said recently in Lausanne that the increasing deregulation of the international capital markets may prompt Switzerland to review its policy in this area in the next few weeks. A key consideration in any change of course is the possible loss of support from foreign monetary authorities, which in the past have consistently backed the Swiss central bank in its drive to prevent the issuance abroad of Swiss franc securities.

Earlier this year, the German Bundesbank set a precedent by liberalizing the use of the deutschmark as a Euro-money and Euro-capital currency. At present, only banks domiciled in Switzerland may underwrite foreign Swiss franc bonds, and these securities are freed of withholding tax *(Doing Business in Europe, Par. 29,382)*. In this manner, the Swiss central bank maintains total control of regulated Swiss franc capital exports, which amount to some SF 40 billion a year.

Languetin warned that a liberalized policy would mean, for both domestic and foreign banks resident in Switzerland, the loss of the monopoly privilege to issue Swiss franc foreign bonds and certificates. The move would also affect the Swiss tax authorities, which impose a lucrative stamp duty on new issuances. On the other hand, it would promote competition among the international finance markets, to the benefit of investors.

EURO COMPANY SCENE

Mobil Corp. is considering selling its oil refinery at Wilhelmshaven, Germany, to German Oil GmbH, a group composed of the Lower Saxony government, Norddeutsche Landesbank, and Maripex GmbH, a Hamburg import company. The group was formed after the refinery was shut down earlier this year. A Mobil spokesman said the company wants to sell the refinery "as quickly as possible."

J.I. Case, the U.S. farm and construction machinery manufacturer, will invest £90 million and create 2,000 jobs in Britain over the next five years as part of its plan to reduce costs by transferring some production to Europe. The first stage of the plan entails reopening the former International Harvester tractor plant at Doncaster, England, with a first-year investment of £41 million.

Victor Corp. of Rhode Island is establishing a plant in East Kilbride, Scotland, for the production of coiled cable assemblies for computers. The factory will employ 200 and will serve the European market.

American Telephone & Telegraph plans to build a European distribution center near Rotterdam to handle equipment from AT&T factories in Ireland, England, Germany, and Spain.

AT&T/Philips Telecommunications, a joint venture between AT&T and NV Philips of the Netherlands, has won an order from the Dutch state telecommunications company for about one million telephone lines, to be delivered between 1987 and the end of 1991.

Philips and Du Pont Co. of Wilmington, Del., are forming a joint venture for the purpose of selling compact discs and other "optical" media for data storage. The new company, Philips/Du Pont Optical, will have initial assets of $150 million and is targeted to have revenues of over $900 million by 1990 - about 25% of the world market.

The "Power Air" division of Thomas Industries, Inc., Louisville, Ky., has formed a joint venture with ASF-Gesellschaft für Elektrotechnische Geräte mbH of Germany. The new company will make and sell to European customers Thomas compressor and vacuum pump product lines as well as certain ASF products.

EG&G Corp. of the U.S. plans to establish an IR £7.4-million plant at Blanchardstown, Ireland, to manufacture specialized instruments for scientific and industrial use. The plant, which will employ 240, will be the company's third in Ireland.

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Community: Simplified VAT Rates, Food Rules Proposed

The European Commission has proposed that the Member States refrain from increasing value-added tax rates or imposing new VAT. In a draft directive submitted to the Council of Ministers, the Commission proposes that the States agree not to act in a way that would make harmonization of national VAT rules more difficult. (Standard VAT rates range from 12% in Luxembourg to 23% in Ireland.) A VAT standstill commitment by the Member States is necessary as a preliminary move toward some measure of approximation of national VAT rates, the Commission believes. *(Common Market Reports, Par. 10,736.)*

Approximation of national VAT and excise tax rates is a prerequisite for abolishing fiscal barriers to intra-Community trade. The differing tax rates hamper intra-EEC trade in two ways. First, the importing State collects from the importer the VAT due on similar domestic products. This is usually the full rate because the exporting State exempts from VAT products destined for export; in the case of excise taxes, the importing State collects only the difference between its rate and that of the exporting State. Second, differing rates result in extra lost time at the border. Aside from filling out a number of

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forms, a truck driver must put up with various controls, including a check of the truck's fuel tank. Only 200 liters of diesel fuel is exempt from fuel excise tax.

The Commission's VAT standstill proposal follows the publication of its White Paper last June calling for completion of the Community's internal market by 1992. (A similar measure on excise taxes is expected for 1987.) The White Paper lists some 300 proposals, the adoption of which the Commission considers necessary to transform the Common Market into a genuine internal market. Sixteen proposals have been adopted so far, including the products liability directive *(Common Market Reports, Par. 10,732)*, the regulation on the European Economic Interest Grouping *(Common Market Reports, Par. 1451)*, two measures on investment funds, and a number of directives harmonizing technical standards on certain products. Lord Cockfield, the internal market Commissioner, expects the Council of Ministers to adopt about 35 such measures before the Christmas recess.

In another follow-up to the Commission's White Paper on the internal market, the EC Executive has proposed a simplified approach to harmonizing national food standards. This approach, already approved by the Council of Ministers for harmonizing the standards for industrial and consumer products, would confine the Community lawmaker to establishing safety and health standards and consumer information criteria. Processed foods that meet those three requirements could circulate freely within the Community. The current approach, which seeks common standards not only on safety and health but also on the composition of food items, has been slow and not particularly successful. *(Common Market Reports, Par. 10,737.)*

Little Chance of Success Seen for EMS Expansion

The Commission is considered to have little chance of succeeding with its plan to expand the European Monetary System (EMS) because of opposition in the Council of Ministers, notably from Germany. In addition to expansion, the Commission has proposed incorporating the EMS into the Treaty of Rome, the result being that the EEC institutions, rather than the central bank governors' conference, would play the central role in operating the EMS. The European Fund for Monetary Cooperation, which coordinates alignment of currency exchange rates, would be turned into a sort of European central bank called the European Monetary Fund. A Commission representative would join the central bank representatives on the board governing the Fund.

Germany, supported by the Bundesbank, opposes expanding the EMS before certain conditions are met. Bonn wants France to abolish controls on capital movement, Italy to do the same as well as narrow the lira's wide fluctuation band in the EMS, and Britain to join the EMS. The Bundesbank says that only if the economic policies of the Member States were aligned would it make sense to turn the ECU into a genuine European currency and to establish a sort of European central bank.

Only a miracle could bring about alignment of economic policies, according to Brussels observers. The widely diverging inflation rates of the major Member States are an indication of how far apart these policies really are. In September, inflation rates ranged from 2.1% in Germany to 6.1% in France to 9.5% in Italy. (In the U.K. and Greece, which are not EMS members, the rates were 6.9% and 16.7%, respectively.) Without some alignment of economic performance, there would have to be repeated currency realignments, Bundesbank officials say. Although there has been progress in bringing inflation down in the past two years, it is still not enough to make alignment feasible, according to the Bundesbank.

The purpose of the EMS is to create a zone of monetary stability by requiring the member countries' central banks to intervene in order to keep the national currencies within the margins of fluctuation. The margin has been 2.25% for all currencies except the Italian lira since the EMS took effect in March 1979. The margin for the lira is 6% *(Common Market Reports, Par. 3603.04)*. The Bundesbank acknowledges that the EMS has succeeded in stabilizing exchange rates.

Two years after its establishment, the EMS was to be expanded by the creation of the European Monetary Fund. The gold reserves currently held by the European Fund for Monetary Cooperation were supposed to become Community reserves, and the ECU, the monetary unit based on a basket of national currencies, was to be confirmed in its double role as a reserve currency and as an instrument for settlement. The only concession made by the Bundesbank so far has been acceptance of an increased role for the ECU in monetary affairs. Approved amendments to EEC rules authorize the central banks to use ECU holdings more freely for intervention, to swap ECU holdings for U.S. dollars for intervention purposes, and to raise interest rates on ECU holdings to bring them closer to market rates. The amendments also allow non-EEC central banks to hold ECU deposits in their reserves.

In Brief...

The European Court of Justice has ruled that the Commission must pay £500,000 in damages to Stanley Adams, the former Hoffmann-La Roche employee who gave confidential company documents to the EC Executive. The Commission violated its secrecy obligation and failed to warn Adams that he risked prosecution for economic espionage if he returned to Switzerland (judgment of Nov. 7, 1985, Case Nos. 145/83 and 53/84, Stanley Adams v. Commission). The damage award is only half of the £1 million Adams had demanded. The EC Court viewed Adams as "contributorily negligent" because he failed to tell the Commission that his identity might be recognized from the documents, did not ask the Commission to keep him abreast of the antitrust proceedings, and returned to Switzerland knowing that he might be prosecuted. (A Swiss court sentenced him to one year in jail.) The documents that Adams turned

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over eventually led the Commission in 1976 to impose a DM 1-million fine on the Swiss drug manufacturer for its abuse of a market-dominating position; the fine was later reduced by one-third by the European Court of Justice *(Common Market Reports, Par. 8527)*. The EC Court pointed out that the Commission has a duty to keep the names of informants confidential, a duty that flows from Treaty Article 214 + + + The Commission has prepared guidelines concerning joint ventures for publication before the end of the year. Under these guidelines, joint ventures restricted to a single undertaking, such as introducing advanced technology or reducing overcapacities, would automatically be exempt from EEC competition rules. Joint ventures controlling 15-25% of the market could qualify for an individual exemption under Treaty Article 85(3).

Germany: Kohl Pressured on Labor Office's Strike Role

The German government is under increasing pressure from within the coalition parties and from others over the issue of the Federal Labor Office's neutrality in labor disputes. The Free Democrats, led by Economics Minister Martin Bangemann and supported by some 100 Christian Democrats in the Bundestag, want the issue settled by the end of the year, at the latest. They support an amendment to Sec. 116 of the Employment Promotion Act (AFG), under which the local labor exchange offices would no longer have to pay unemployment benefits to employees outside struck regions who are laid off as a result of a strike. During last year's strike in the steel, engineering, and automotive industries, some 100,000 employees were laid off or put on short workweeks because the parts their employers normally supplied were not needed by the struck car plants. After originally denying these applicants unemployment benefits, the Labor Office had to reverse its stand when it lost in two social security appellate courts *(Doing Business in Europe, Par. 40,573)*. The cases are now pending before the Supreme Social Security Court, and a judgment is expected during the second half of 1986.

Both the national union federation (DGB) and the metalworkers' union (IG Metall) have appealed to Chancellor Helmut Kohl not to yield to pressure from the coalition parties. Union leaders have recommended a thorough discussion of the issue by government and union lawyers and other legal experts. The unions have already received unsolicited support from Prof. Ernst Benda, former president of the Federal Constitutional Court, who has counseled against quick legislation on the matter. Benda also favors an in-depth legal discussion and, in any event, waiting for the outcome of the two cases now before the Supreme Court.

Bangemann and others wanting a quick solution point to a recent expertise by Prof. Gerhard Müller that touches on the Labor Office's neutrality, among other issues. Müller, a former president of the Supreme Labor Court, suggests an amendment to Sec.

116 AFG on constitutional grounds. He believes it would be unconstitutional for the government to support union strike tactics by paying benefits to employees indirectly affected by a strike. Bangemann also invokes Kohl's statement made at the Sept. 5 meeting of government, union, and management leaders. Kohl gave union and management leaders one year to come to an agreement on the matter. After the initial talks, business leaders informed Kohl there is no basis for an agreement. Bangemann concludes that the chancellor need no longer feel bound by his statement. Kohl, however, may feel reluctant to make any move at this point because he is scheduled to see union and management representatives again later this month or early in December.

Britain: Government to Continue Privatization, Tax Cuts

In the Queen's Speech to Parliament on Nov. 6, the British government indicated that it would continue its current policies into the new parliamentary session. The growth of jobs is to be encouraged "within the framework of firm monetary and fiscal policies designed to secure a continued reduction in inflation." Firm control of public expenditures will be maintained, the intention being to facilitate further reductions in the income tax burden.

The government plans to "pursue vigorously" its program of privatization as a means of improving the efficiency of the industries concerned and of encouraging wider share ownership. Measures will be introduced for the transfer of British Gas Corp. to the private sector, which is expected to raise some £8 billion. The legislation will be introduced by early 1986 to allow the actual stock flotation by next fall. Proceeds from the sale would be used to finance tax reductions.

Measures are to be introduced in December to establish a new regulatory framework for the financial services sector. This framework would "enhance" the sector's efficiency and competitiveness, while providing greater safeguards for investors. Investment businesses would have to satisfy the Dept. of Trade and Industry or a recognized self-regulatory board, such as the Securities and Investment Board, that they are "fit and proper" to carry on business.

The law governing building societies is to be modernized and liberalized to make the societies more competitive with the banking sector. Changes would allow building societies to offer check clearing, unsecured consumer loans, and insurance and investment services. They would also be permitted to own real estate agencies, own and develop residential land, and participate in shared ownership arrangements. Each society, however, would be allowed to commit only 5% of its assets to higher-risk activities.

The government is also committed to abolishing restrictions on store hours. Despite considerable opposition from unions and

religious groups, such a bill is likely to be published before the end of the year, to become effective in mid-1986.

The general secretary of the Trades Union Congress, Norman Willis, described the speech as "bankrupt policies from a bankrupt government" and said the government was acting like "market-stall holders" in its sale of national assets. Labour leader Neil Kinnock was equally critical, condemning the government for failing to take effective action against unemployment or to ensure a strong manufacturing base to balance future losses in North Sea oil revenues.

Regulatory Body for Foreign Bankers, Brokers in London

Overseas bankers and brokers with operations in London have made further moves toward creating a regulatory body for their financial affairs in the U.K. A steering committee comprised of 26 representatives of influential financial groups (including those from the U.S., Japan, and Switzerland) has held talks prior to setting up the International Securities Regulatory Organization. This body would seek recognition from the Securities and Investment Board, which would become the U.K. financial community's leading regulatory body.

The London Stock Exchange has expressed concern over this initiative, believing it may lead to a fragmentation of the U.K. securities market and the undermining of standards of investor protection. The Exchange is investigating the possibility of developing a joint investment exchange with the steering committee. The committee's response to this proposal has been somewhat guarded. Its chairman, Ian Steers, said that the idea of a joint exchange is "premature" and that his members must consider all possibilities.

British Accountants Asked for Proposals on Fraud

The British government has given the accounting profession until the end of the year to submit concrete proposals making it mandatory for auditors to report fraud when it is discovered. Unless the response is adequate, measures on the subject will probably be introduced into the proposed financial services bill. Some of the complicated issues involved are to be discussed in a consultative document on auditors' responsibilities in the financial services sector, to be published shortly by the Dept. of Trade and Industry.

Brian Jenkins, president of the English Institute of Chartered Accountants, said that the question of what advice should be given to members regarding fraud is "a difficult one." The ICA has appointed a working party to analyze the issues of confidentiality and public expectations. The party will investigate the case for changing the institute's guidelines and review any wider implications such a change would have for the business community and the public.

A particularly difficult issue centers on whom auditors would actually report to in the event of management fraud. The accountants are also concerned about being protected from litigation if they discuss client affairs with government agencies.

France: Few Changes in Price Control System for 1986

The French price control system will see only minor changes in 1986, permitting a drop in inflation from 4.5-5% in the current year to under 3%, according to Economics and Finance Minister Pierre Bérégovoy. The changes do not include total price freedom for industrial products, which had been promised earlier by Prime Minister Laurent Fabius. Instead, the prices of an additional 10% of industrial goods will be liberalized. The change will affect a wide variety of products, from pencils to agricultural machinery. Price controls will then apply to just 10% of all industrial goods, including tobacco, medicines, and books.

Bérégovoy foresees no changes in prices for the service sector. An increase of 1.5% has been fixed for 1986, down from 3% this year. This limit also applies to industrial cleaning companies; prices for other industrial services may be set by the provider.

The changes announced by Bérégovoy are less extensive than had been expected in view of the national elections in March. According to INSEE, the state statistical office, the government still controls almost 60% of all prices to some extent. The right-wing opposition, which has been gaining popularity, has promised to immediately rescind the regulations on which the price-control system is based if the elections result in a Conservative government.

French Monetary Policy Changes; Foreign Trade Credits

During the coming year, the French government plans on introducing a number of modifications in its monetary and credit policies designed to keep pace with changes in the markets as well as corporate financing. Currently, Paris bases its money supply targets on the M2 figure, which includes cash in circulation as well as domestic bank deposits. In the future, the money supply will be defined in terms of M3, which also covers deposits in state-controlled savings associations and placements in France's rapidly growing mutual and investment funds. M3 growth is expected to amount to 3-5% next year; this year's M2 growth of 4-6% slightly exceeds government targets.

The changes in monetary policy are meant to allow the government to move away from loan ceilings as a means of controlling credit growth. Instead, the Bank of France will rely on a more flexible influencing of bank reserves as well as an "open-market" policy in the trading of government bonds.

Paris is also planning further liberalization of the strictly regulated French capital market. As of Dec. 1, domestic companies will be permitted to issue U.S.-style commercial paper in FF 5-million or FF 10-million amounts with maturities of 10 to 180 days. The issues will have to be backed by standby bank credits worth 95% of their value. On the same date, short-term treasury bonds will become available to all investors, rather than just to banks and other financial institutions.

In related news, France's state-owned export financing agency (COFACE) may now guarantee trade credits issued by foreign banks or foreign subsidiaries of domestic banks. The Finance Ministry hopes in this way to reduce the cost of French exports and thus provide incentives particularly for large export contracts, such as Airbus jets.

Netherlands: Liberalization of Capital Market Planned

As of Jan. 1, 1986, the Netherlands will completely liberalize its capital market, according to reports that have been confirmed by the government. Finance Minister Onno Ruding was to officially announce the program on Nov. 20. The liberalization is intended to help the Dutch markets, already among the freest in Europe, keep pace with deregulation in foreign markets, particularly in London. This move has been expected since Germany took similar, but apparently less extensive, steps last May.

The measures will permit the issue and trade of floating-rate notes and zero-coupon bonds. Foreign financial institutions will be allowed to handle syndication of Euroguilder and domestic guilder bonds and notes. Also planned is the introduction of an Amsterdam interbank offered rate as a basic interest rate for overnight funds. In addition, the central bank will abolish the system under which borrowers must wait their turn to issue bonds, although the bank will still have to approve each issue. Finally, Dutch companies may be able to issue short-term and medium-term commercial paper, and banks may be permitted to issue certificates of deposit.

Although most bankers say they approve of the deregulation concept, they admit that the central bank should continue to have some sort of watchdog role in the market.

Common Market Reports

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Community: Levy Considered to Curb Cereals Output

The European Commission has outlined its ideas on how to cope with the EEC grain surplus. In a recent memorandum to the Council of Ministers, it says that the cereals surplus at the end of September was 16 million tons. Stored in granaries all over the Community, the surplus could reach 80 million tons, or half a year's output, by the early 1990s unless drastic measures are taken. Storage costs for 80 million tons would come to some ECU 2.5 billion each year, and the below-cost sale of stored surpluses would mean another ECU 16-billion loss annually.

To reduce surpluses and the concomitant financial drain, the Commission plans to propose before the end of the year a co-responsibility levy as well as modest price reductions. The levy would be imposed on farmers producing cereals in excess of 25 tons per year. The 25-ton exemption would mean that roughly 60% of the Community's grain farmers, who produce about a quarter of the annual 160-million-ton harvest, would not have to pay the levy.

Details about the levy have not yet been discussed within the Commission, but it is estimated that a rate of 1% payable by

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the big farms would bring about ECU 140 million in revenue. Critics of the plan say that the big farmers could easily afford to pay the levy and keep on producing, and only a much higher rate would deter production increases.

Additional measures would include greater emphasis on quality. For example, the Commission would propose a 5% reduction in the intervention price of wheat not used for breadmaking. The price for high-quality wheat would be raised slightly. There would also be an adjustment in the intervention mechanism for the various types of cereals.

The Commission opposes the introduction of a quota system similar to that governing the common milk market organization. It will not propose drastic price reductions for cereals, although it still believes that this would be the most effective way of controlling surplus production. The Commission's position is dictated largely by the experience it had in May 1985 when Germany vetoed adoption of proposals providing for a 1.8% reduction in cereal prices.

Parliament Wants More Details About EC Law Compliance

The European Parliament has adopted a resolution calling on the Commission to be more specific in its reports on the application of Community law by the Member States. The EP wants a State-by-State analysis, broken down into the authorities concerned - legislative, executive, and judicial. As it has done before, the EP is appealing to the Member States not to delay bringing national law in line with Community legislation. The States should recognize that when the Court of Justice has delivered a preliminary ruling they must comply with the ruling to ensure that no further action need be taken against them under Treaty Article 169.

In early 1983, the Parliament had passed a resolution asking the Commission to publish an annual report on all instances of Member States' failure to fulfill their Treaty obligations. The report must name the national authorities that were remiss in applying EC law and indicate the status of proceedings against the particular Member State. So far the Commission has submitted two such reports, for 1983 and 1984. They contain a great deal more information about national noncompliance with EC law than the Commission's annual activities reports for '83 and '84. The reports about noncompliance also list the infringement proceedings already opened under Treaty Article 169.

There are weaknesses in the two monitoring reports, however, critics say, one of them being the failure to name Member States defaulting on Community law. There is also nothing in the report about compliance with preliminary rulings rendered pursuant to Treaty Article 177, except for a table setting out Court of Justice judgments that have not been complied with.

Commissioner Clinton Davis, who joined the floor debate preceding adoption of the resolution, told EP members that subsequent reports will be similar in content and makeup and that the Commission does not have enough staff to check whether and how Community law is applied. So far as the implementation of directives is concerned, the Member States are required to report to Brussels about any new legislation giving effect to the directives concerned. These reports are often inconclusive, however, forcing the Commission to base its actions against Member States essentially on information received on complaints from firms, individuals, unions, consumer organizations, and members of Parliament. A member of Parliament recommended to the Commission that legal experts from Member States report in detail on whether directives are being implemented correctly. Clinton Davis promised to consider the suggestion, although he said it was like putting the cart before the horse.

In Brief...

Five Member States have brought suit against the Commission seeking a declaratory judgment to the effect that the EC Executive has violated the Treaty of Rome by exceeding its powers in the social policy field. Last July the Commission issued a decision requiring the States to inform Brussels about planned legislation concerning the entry, residence, employment, equal treatment, and voluntary return of third-country workers and their dependents. The Commission also wants to be informed about draft agreements with third countries on the subject. Germany was the first to challenge the Commission's action. Treaty Article 118, the legal basis for Brussels' decision, permits the Commission to make studies, deliver opinions, and arrange consultations. German government lawyers contended that Article 118 does not grant legislative powers to the Commission. They tried to get all of the Member States to back an action against the Commission by the Council of Ministers, but failed. In the meantime, however, France, the Netherlands, the U.K., and Denmark have followed Germany's example and filed suit with the European Court of Justice + + + The European Community has signed a five-year cooperation agreement with six Central American countries - Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. The pact grants those countries the most-favored-nation status and commits the EEC to increased financial aid. The agreement also establishes a broad framework for economic cooperation and institutionalizes a political dialogue between the EEC and the six countries.

Competition Law Issues at European Conferences Meeting

IBM's policies following the company's agreement to release interface information to competitors have been "generally satisfac-

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tory" but are still under scrutiny because of remaining "small problems," according to a European Commission official addressing the Eighth Annual Competition Law Conference sponsored by the European Study Conferences in Brussels. Jean-François Verstrynge, of the office of Peter Sutherland, Commissioner for competition policy, also announced an imminent Commission decision concerned with the abusive exercise of copyright as well as compulsory licensing. In summing up the latest developments in the area of Commission intervention in fair competition issues, Verstrynge furthermore underlined the significance of the recent AKZO matter and the awaited Philip Morris ruling (already through the German courts - *Doing Business in Europe, Par. 40,571).*

Earlier during the three-day conference, Sutherland told participants that the EC Executive was striving for greater legal security for joint ventures between companies based in the EEC. As previously reported, the Commission proposes to issue pertinent guidelines before the end of the year.

Germany: Early Retirement Plan Not Attractive Enough

German employees are not taking advantage of early retirement legislation to the extent hoped for, according to a recent report of the Federal Labor Office. Only 23,000 persons had applied for pre-pension retirement benefits by the end of September, causing the Labor Office to lower its previous estimate considerably. At best, no more than 50,000 employees will have turned in their applications by the end of the year, the Office believes. Original estimates used to prepare the pre-pension retirement legislation projected 80,000 applicants in 1985.

In effect since March 1, 1985, the law seeks to make early retirement more attractive and thus help reduce unemployment. Employers who pay workers retiring at age 58 at least 65% of last gross wages or salary as pre-pension benefits and then hire an unemployed person are reimbursed by the government for 35% of the pre-pension benefits. These benefits are subject to social security contributions, with the employer and the former employee each paying half *(Doing Business in Europe, Par. 40,566)*.

The Federal Labor Office suggests several reasons why the number of applications received is so low. Retirement at 58 is not mandatory but can be provided for in a union contract or in an individual employer-employee agreement. The number of union contracts providing for early retirement is still low. Some of these contracts contain clauses either delaying the employee's right to seek early retirement or granting employees a right to veto early retirement altogether. Few employees show interest in retiring at 58, and numerous employers do not want highly qualified workers to seek an early pension.

The Labor Office blames the financial drawbacks for both the employee and the employer as another reason for the disappointing

picture. These disadvantages play a far bigger role in employees' and employers' reluctance to take advantage of the legislation than anticipated. (This is why several union contracts provide for 70% pre-pension retirement benefits, although the burden for the employer is even greater.) The Office also considers as not attractive enough the percentage of reimbursement for the employer who hires an unemployed person in place of the retiree.

Britain: No Official Predictions on 1986 Tax Cuts

In his autumn statement on the British economy, Chancellor of the Exchequer Nigel Lawson broke with tradition in not giving any indication of the nature and extent of possible tax cuts in next year's Budget. However, with the prospects of a 1987 general election, many observers are confidently expecting such reductions.

The rates of national insurance, payable by employers and employees, will remain unchanged in 1986. However, effective in April, the earnings limits for the employee contributions will be raised, the lower limit from £35.50 to £38.50 per week and the upper limit from £265 to £285.

In his Nov. 12 message, Lawson predicted that the British economy will grow by 3% next year, compared with 3.5% in 1985. After making adjustments for the impact of the prolonged miners' strike, the underlying growth rate would be 3% this year and 2.5% in 1986. The emphasis of growth will shift from exports and investment to consumer spending, which will be boosted by higher earnings and falling inflation.

The Chancellor predicted that the annual inflation rate will go down from the current 5.9% to 3.75% by mid-1986 and remain at that level until the end of the year. He said that if these forecasts are correct, 1986 will be the "first year since the 1960s when inflation and growth will be within one point of each other."

Government spending in the 1986-87 financial year, beginning next April, is being held to the planned total of £139.1 billion. The Chancellor said that the public expenditure framework "should allow scope for considered and justified reductions in the burden of taxation" (as yet unspecified). These reductions, in turn, would "further reinforce the economy's flexibility and dynamism."

The fall in oil prices, resulting from sterling's rise against the dollar and lower prices on the world market, is expected to push up the level of public borrowing this year. The borrowing requirement for 1985-86 is likely to total £8 billion, compared with the £7 billion forecast in the Budget. The government, however, is likely to raise £4.75 billion in each of the next three financial years from sales of state-owned companies, compared with an earlier target of £2 billion each year. The major item here is the forthcoming privatization of British Gas.

Denmark: Opposition, Union Plan for Net-Profits Levy

Danish Prime Minister Poul Schlüter has threatened to call new general elections in Denmark should the opposition Social Democrats win a parliamentary majority for their draft proposal to impose an obligatory levy on corporate earnings. In introducing the levy, the Social Democrats would hope to achieve wider capital distribution in keeping with their "economic democracy" principles.

The controversial plan, which is being worked out together with the unions, would provide for the introduction of a 10% levy on net profits as of Jan. 1, 1987. The revenue would be collected in a special fund set up by each company, and all businesses, private and public, would be affected, regardless of size. According to the leader of the Danish metalworkers' union, Georg Poulsen, control over the spending of the accumulated capital - for investments and production improvements as well as for social welfare and training purposes - would be shared by the employees, thus representing a step toward economic codetermination.

The individual company funds would be augmented by regional ones financed by a central fund, which in turn would be maintained by the levies imposed on businesses with fewer than ten employees, public-sector enterprises without their own fund, and businesses whose owners cannot reach agreement with the employees on the use of the fund capital. The union-administered central fund and the regional funds would offer national or regional assistance in improving the employment situation, productivity, etc., according to the sponsors of the plan.

It has been estimated that such a levy would bring in some DKr 1.4 billion in revenue annually, about half of that from the public sector. The capital accumulation in the central fund alone could lead to a major shift in the economic power balance in favor of the unions, critics say. They point out, however, that similar proposals submitted between 1973 and 1979 all failed to be adopted, and they hope that the newest version will meet the same fate.

The proposal has yet to be submitted in its final form, but criticism has already been voiced by the left-radical Venstre party and the Socialist People's Party (SF), on whose support the Social Democrats would have to depend to win parliamentary passage for their plan. The Left Radicals oppose the establishment of a central fund as well as an obligatory levy on public-sector enterprises, arguing that such a move would only lead to higher taxes. The SF also wants to leave the public sector out of the proposal.

France: Bill Planned to Raise Work-Time Flexibility

Despite objections from three of the five major unions, the French government is planning to introduce a bill by the end of

November to allow companies more flexibility in determining work hours, thus raising productivity and employment. The unions and employers have held negotiations on this issue for more than a year, without coming any closer to an agreement. Prime Minister Laurent Fabius appears to be bypassing the negotiations with his proposals, which he hopes to push through Parliament during this session. The three main unions have protested the pending bill, saying that the employers would have to make few concessions. Only the small CFDT and CGC unions support the legislation.

Under the proposals, the average workweek would be reduced from 39 to 38 hours, with a maximum of 41 instead of 46 hours. Companies would have more flexibility in their use of overtime, although actual extra hours would be cut to 80 per worker annually, from the current 130. Employers would also have greater choice in compensating overtime with extra pay or time off.

By proposing more flexible work times, the Socialist administration has escaped some of the pre-election pressure from the right-wing opposition, whose platform for the parliamentary elections in March includes such changes. This is not the first time that working hours have played an important role in the French election campaigns. After the 1981 elections, President François Mitterrand kept his campaign promise to institute a 39-hour workweek and fifth vacation week at the same pay. This change resulted in an increase in labor costs that observers say continues to damage the competitiveness of French companies.

Sweden: Delay Advised in Easing Foreign Exchange Rules

After eight years of consideration, a Swedish government committee has come to the conclusion that the country's continuing economic problems have "limited the short-term flexibility" for instituting a broad-ranging reform of foreign exchange controls. Abolition of the controls is desirable but "would be extremely risky, to put it mildly," until the economic climate has improved, according to panel chairman Krister Wickman.

The committee did recommend several minor changes. One proposal, which would benefit mainly smaller enterprises, would allow Swedish companies to repay with domestic funds up to SKr 1 million in foreign debts per year. In addition, individuals would be able to buy gold coins freely and spend up to SKr 1 million (instead of SKr 250,000) on foreign vacation homes.

The industrial and financial sectors were disappointed with the decision by the committee's Socialist majority, maintaining that foreign exchange controls create more imbalances than they prevent. The other six panel members, representing the political opposition parties and the private sector, issued a minority opinion advising the government to begin dismantling the controls immediately. Under their proposal, private and corporate Swedish

investors would be able to purchase foreign stock and securities, and foreigners would be permitted to buy Swedish bonds.

Swedish currency controls are among the strictest in the Western world. All foreign portfolio investments are banned, and companies wishing to make direct investments abroad must obtain prior approval from the central bank. Also, such investments must be financed through foreign borrowings with minimum five-year maturities.

EURO COMPANY SCENE

A Berlin antitrust court has upheld the German Federal Cartel Office's denial of a bid by Pillsbury Co. to purchase Sonnen-Bassermann-Werke, a maker of fine foods. Pillsbury already has two subsidiaries in Germany and thus would control an excessive share of the market if it bought Sonnen-Bassermann, the court ruled.

Quality Inns International, Inc., Silver Spring, Md., has established main offices in Bern, Switzerland, and Saarbrücken, Germany, to oversee its expansion in continental Europe. By 1990 the company plans to establish 100 European hotels, of which at least 40 will be located in Germany.

Security Pacific Finance Germany, a subsidiary of Security Pacific Corp., Los Angeles, has purchased Baumeister Kreditbank GmbH from a limited partnership. Baumeister, with six branches in the Frankfurt area, has assets of $28.7 million.

General Motors Corp. said its Greek subsidiary, GM Hellas SA, will cease producing cars as of March 31, 1986, because of unfavorable changes in Greek trade policy.

Ethyl Hellas Chemical Co., a Greek unit of Ethyl Corp. of the U.S., will be shut down in the first quarter of 1986 due to declining demand for the antiknock fuel additives it produces.

Fort Howard Paper Co. of Green Bay, Wis., plans to purchase Bellaplast-Gruppe, a German supplier of disposable dishes and food packaging, from Polysar Ltd. of Canada. Polysar said it is concentrating on manufacturing petrochemical products for industry.