Common Market Reports

EUROMARKET NEWS

Issue No. 221 *Report No. 210, April 10, 1973*

EC Launches Monetary Fund

The European Community has moved considerably closer to monetary integration with the formal establishment of its Monetary Cooperation Fund, the supposed forerunner of a common central banking system. The April 3 inauguration - coming two days after the deadline date originally set by last fall's Paris Summit - had been delayed by a long skirmish between Luxembourg and the U.K. over where the Fund's headquarters should be established.

Unable to settle the dispute but pressed to get the Fund on its way, the Council of Ministers finally emerged with the compromise that Luxembourg should be the provisional home until a final decision is made by June 30. Britain had insisted that Brussels should be the seat of the Fund.

Luxembourg is basing its claim on a 1965 EEC agreement holding that member states "shall be prepared to install in or transfer to Luxembourg other Community bodies and services, in particular those dealing with finance, insofar as their smooth operation shall be ensured." That promise was in compensation for the loss of the Coal and Steel Community and Euratom administrations, which were shifted from Luxembourg to Brussels in 1965.

The compromise now reached did not come about without a concession by Luxembourg, however: its government agreed not to resist examination of the privileged tax status of holding companies in Luxembourg conducted as part of the EC's tax harmonization efforts, provided such action would not discriminate against Luxembourg. This matter was specifically brought up by Germany and France in a rider to the protocol establishing the Fund.

Closer to a European Company Statute?

Work on the Draft Statute of the European Stock Corporation has been accelerated in order to present it soon to the Council of Ministers for a decision on whether the concept should be introduced throughout the Community. The draft already reflects changes from the European Commission's original proposals, taking into account some of the objections raised by the EC's Economic and Social Committee as well as by member state governments. But not all differences are cleared up - the ministers still will have to find compromise solutions in specific areas.

This issue is in two parts, consisting of 264 pages. This is Part I.

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The statute would provide the initial framework for a European-type company governed by uniform Community law enforced by the European Court of Justice. It would ease certain operations involving companies from different EC states, i.e., mergers, creation of holding companies and joint subsidiaries, etc. But it is not intended as a substitute for the harmonization of national company rules nor would it replace these; instead, it would complement them.

Progress on the formulation of the concept so far has been blocked mostly by the issue of employee representation on supervisory and managing boards. The version submitted by the Commission provided for one third of the supervisory board's members to be elected by members of the company's national works councils from a list naming the company's national and European works council members, union representatives, and workers. The Commission proposed that each managing board would have one director responsible for personnel matters and labor relations. This concept, largely patterned after the German statutory model, has aroused a great deal of opposition, notably in France and Italy, but recently in the U.K. as well. Some of the diverging views are reflected in the opinion given by the Economic and Social Committee. It is now for the Council of Ministers to find a solution offering a compromise between the Commission's proposal and the differing views of the several member state governments.

Some Concessions for Norway, If...

The EC's foreign ministers have handed the Commission a broader mandate in its negotiations with Norway over a free-trade agreement. The Community is prepared to liberalize terms for Norwegian metal exports provided certain Community products are given easier access by Norway.

This offer may come just in time for the embattled Oslo government, which stands accused by Opposition forces of having resorted to an "act of desperation" in order to obtain EC concessions for Norway's vital aluminum exports. It was revealed that, without informing Parliament in advance, Oslo had approached France with the offer of placing an order of up to 800 million kroner ($137.9 million) for French antiaircraft missiles. France has been the fiercest opponent to any liberal Community concessions for Norway after that country failed to ratify the accession treaty.

The Korvald Administration in Oslo depends on a quick free-trade agreement with the Community for its own political survival. It had assumed power on its claim that such a settlement would essentially offer Norway the advantages but not the obligations of EC membership. And it set April 1 as the latest target for such an agreement - a deadline that has now been missed.

'Nationalization Fund' Worries Sweden

A temporary "buyers' strike" at the Stockholm Stock Exchange has been one of the reactions to a Swedish government proposal that many regard as "the foot in the door" for nationalization. The administration of Olaf Palme said it will shortly introduce legislation enabling the government to invest its huge social security assets in the stock of domestic corporations. A fund to be set up later this year would begin investments in 1974 with an initial 500 million kronor ($11.1 million). But future legislation would authorize the government to divert more pension assets to the state fund without specific parliamentary approval.

Sweden's social security system - the General Old-Age Insurance (ATP) - was set up in 1960 and has been fed by extremely high compulsory contributions. Its assets of 57 billion kronor ($13.1 billion) compare to the 40 to 50 billion share value of Sweden's private stock corporations. Most of the ATP assets are tied up in government bonds and investment credits. But given the same rate of contributions, they will reach 180 billion by 1980. This, in theory, would enable the government to buy up all Swedish stock within seven or eight years. The government proposal, of course, does not carry things that far, and one of its provisions is that investment would be governed by profit expectations.

The proposed legislation is expected to become a major campaign issue prior to this fall's elections. The non-socialist opposition parties see it as "the most serious socialization attempt in Swedish history." Industry resentment centers on the fact that the proposal is in stark contrast to a recommendation put forward last year by a research commission which included Opposition members. That report laid emphasis on providing business with ATP funds but said that fund management should never buy more than 5% of a company's stock and that it should be subject to parliamentary control.

U.K. Moves on Pyramid Selling

A government proposal to outlaw pyramid or multi-level selling is contained in a consultative document issued by the U.K.'s Dept. of Trade and Industry. The document offers a broad definition of the types of selling systems that will be prohibited, namely, "any arrangement for the supply of goods or the provision of services under which a benefit is conferred on a participant by reference to the introduction, whether by him or someone else, of further participants." (The essential characteristic of pyramid selling is that, ultimately, what is being sold is distribution rights to a product rather than the product itself).

In releasing the document, the DTI has obviated the need to introduce a "regulating code" for this type of marketing and has made a clear distinction between pyramid selling and other legitimate forms of marketing such as franchising or direct selling. After obtaining reactions from business, the government hopes to introduce the legislation in the form of an amendment to the Fair Trading Bill currently under consideration.

A few companies prominent in the pyramid-selling market were quick to announce that they "welcomed" the proposals and that they were making "contingency arrangements." They may well have been surprised by the government's hard-nosed attitude, although the handwriting has been on the wall. Last year, consumer group pressure had led to the compulsory dissolution of a pyramid-selling cosmetics company, Koscot Interplanetary.

Treasurers Shy Away From TDAs

The Tax Deposit Accounts introduced in the recent U.K. Budget have not found favor with company treasurers handling the finances of some of Britain's largest corporations, according to a sample poll conducted by a leading daily. The TDAs were introduced in an effort to accelerate the flow of funds into the Exchequer - and thus out of circulation - by offering 2.5% over the Treasury Bill rate for money deposited with the Inland Revenue for payment of mainstream corporation tax.

Most treasurers, according to the Daily Telegraph survey, have not been attracted since they prefer term deposits at a fixed rate. They do not feel that the TDAs can compete with other market rates available. The success of the program, designed to finance the government's borrowing requirement, is thus in question. The TDAs might appeal to small business less equipped to manage its spare cash on a day-to-day basis, it has been noted, but continued reluctance to participate on the part of leading U.K. companies will defeat the program's objectives.

Settlement for Italy's Metal Workers

Much sooner than originally anticipated a new three-year contract agreement has been reached for Italy's 1.3 million metal workers in the private sector. Covering the calendar years 1973-75, the contract provides each employee with a monthly pay increase equal to about $29 plus virtually the same benefits previously given to the metal workers in the nationalized industries. Only the smaller private companies with less than 200 employees will be given a grace period until 1974 or '75 before they have to institute the most important innovations.

Announcement of the settlement had an immediate soothing effect on labor-management confrontations generally. The unions professed satisfaction with the terms achieved and called off various strike schedules. Industry also was expected to adopt a more conciliatory attitude, particularly since the government has promised to assume part of the social contributions. Meanwhile, however, some 5,000 of Italy's customs personnel had called a 12-day walkout that caused chaotic transport tie-ups at the border checkpoints, in ports, and at airports.

Waiting for Giscard d'Estaing

The French price control regulations, originally scheduled for expiration on March 31, have been extended for another month. The finance ministry agency in charge let it be known that the definition of new price policies must be the privilege of the coming administration. There was little doubt, however, that former Finance Minister Giscard d'Estaing would also hold that position in the new cabinet and that one of his first actions upon confirmation would be an extension of the price regulations.

Until then, the price control agency has announced, companies may continue to submit applications for price increases.

Blighted Bliss for Liechtenstein

Liechtenstein and Switzerland have just quietly marked the 50th anniversary of the signing of a customs treaty that also has been hailed as Liechtenstein's "economic constitution." The small principality owes a lot to this treaty - economic *Anschluss* to Switzerland, the coveted status of neutrality during World War II, and enormous prosperity since then. Signed on March 29, 1923, the pact in effect was instrumental in propelling Liechtenstein into the ranks of the richest "nations," with the highest per-capita income in the world.

Economic integration is nearly seamless. Liechtenstein citizens enjoy full freedom of movement in Switzerland, and vice versa. Vaduz has relinquished the right to issue its own currency; the Swiss franc is official currency. The local banks are subject to Swiss banking laws.

Things are not quite as blissful as they used to be, however, since last year, when Switzerland was forced to enact various drastic measures to contain domestic inflation (including tighter credit and a construction stop). To maintain monetary unity, Liechtenstein would have had to adopt these Swiss laws automatically. That has not been possible - with elections due in 1974, no politician in Vaduz would want to subject voters to the tough Swiss restrictions.

As a result, Liechtenstein finds itself in the strange situation of being a "foreign" monetary entity as far as the Swiss are concerned. The three local banks, with a balance sheet total of nearly SF 2 billion, must pay negative interest for deposits kept with Swiss banks. They cannot purchase Swiss securities beyond existing portfolio levels. Liechtenstein's large savings surpluses, including deposits from abroad, must be placed on the Euro-money and capital markets.

Consequently, there has been pressure in Vaduz, notably by the banks, for speedy adoption of the Swiss anti-inflation measures, with provisions for automatic adjustment to any future actions. Sources in Switzerland feel Liechtenstein may even have to go so far as to adjust its tax policies to those of Bern.

AROUND THE MARKETPLACE

Britain Pressures U.S. on Oil Issue

Stiff tax legislation might be the reaction, U.K. sources believe, if the United States continues to ignore British companies in the North Sea oil business. In fact, the Secretary for Trade and Industry has proposed to Washington that U.K. companies should be considered for oil exploration activities off the U.S. eastern seaboard. This "invitation," made for political rather than practical reasons, must be seen against the background of the huge American involvement in North Sea oil exploitation and U.K. fears that these companies siphon off most of the profits.

Drilling companies and offshore groups consequently must be prepared for more pressures and controls by the U.K. government in an attempt to retain more of their profits in Britain. The recent Budget announcement relating to a U.K. tax on North Sea oil profits by foreign-owned companies could be a harbinger of things to come.

Europe Lowers Boom on Electronics Imports

Japanese sources have indicated that the Benelux countries are about to announce import quotas on Japanese home electronic products such as television sets, radios, phonographs, and cassette recorders. In The Hague, the Dutch economics ministry did not confirm these reports but merely said negotiations were approaching the final stage, with voluntary curbs by Japan not ruled out. Earlier, the government revealed that, since January, it has stopped granting further import permits for Japan-made home electronic equipment after being swamped with a flood of applications.

At the same time, the European Commission - beset by complaints from all sides - had drafted a proposal to the Council of Ministers to impose general import quotas for such products. No official action has been taken by Bonn so far, although the German industry has been hard hit by the imports. An industry spokesman cited figures recently whereby two out of three radios and cassette recorders on the German market are of Japanese manufacture.

EURO COMPANY SCENE

At a meeting of the Michelin World Council, a unit of the International Chemical Workers' Federation, union representatives have threatened to press for a labor boycott of Michelin's new $200-million plant project in South Carolina unless the French tire group's management agrees to negotiate with spokesmen for 90,000 Michelin workers in 12 countries. Union leaders fear Michelin will cut down on its European operations in favor of the new U.S. venture, which is to begin manufacture by 1975. Particularly endangered, according to the unions, are Michelin's Italian plants, as well as its German, British, and French production. It is not clear, however, whether U.S. labor or the highly nationalistic French unions would be prepared to go along with their foreign counterparts in imposing sanctions against Michelin.

No settlement was in sight as the partial strike at the main Paris plant of France's Renault automobile manufacturer entered its third week. New management proposals were rejected by the CGT, the Communist-led union mainly involved in the negotiations. The strike of only 370 metal-pressing workers had led to a lockout of 7,000 of the plant's 25,000 employees.

An independent mediator is currently trying to come up with an acceptable solution to the stalled contract negotiations between the Dutch unions and Hoogovens steel. The dispute had led to a two-week strike that cost Hoogovens an estimated 25 million guilders ($8.6 million). The walkout was called off early this month after a Haarlem court issued an injunction ordering the strikers back to work.

Mitsui Mining and Smelting Co. of Japan is the latest in a long list of companies to take advantage of the industrial incentives offered by the Republic of Ireland. An Irish government grant via the Industrial Development Authority will help Mitsui set up a £4.4-million ($10.8-million) electrolytic manganese dioxide plant in Cork. Negotiations have been in progress for over two years and the decision must be seen in the light of concerted Irish efforts to reduce the present imbalance of trade between the two countries, which last year favored Japan to the tune of some £6 million.

Defense Minister Michel Debré of France has vetoed a proposal by the navy to purchase U.S. Pratt & Whitney J-52 jet engines for its carrier-based fighter planes. Instead, the FF 700-800-million ($156-178-million) contract has been awarded to state-owned SNECMA. The SNECMA engine is officially acknowledged to be inferior in performance to Pratt & Whitney's, but observers believe the government is trying to compensate for the cancellation of Concorde options by U.S. airlines. SNECMA and the U.K.'s Rolls-Royce are partners in the Concorde project.

Ford Italiana SpA reportedly is planning a major Italian sales campaign for heavy trucks produced at the Dagenham plant in Great Britain. Ford, which last year was very successful in selling 6,000 of its light Transit trucks, is trying to keep a low profile in Italy to avoid being accused of taking advantage of a labor situation that has been particularly difficult for the domestic automotive sector. Labor problems have led to delivery delays of up to one year for heavy trucks assembled in Italy, mostly by Fiat. The same frequently is true for passenger cars, and as a result, imports have been heavy. It was reported that Sweden's Volvo and Germany's Daimler-Benz may also plan to enter the Italian truck market this year.

Steyr-Daimler-Puch AG of Austria and the Yugoslav Gorenje industrial concern have signed a cooperative agreement on the production of 4,000 Steyr tractors annually for Yugoslavia. Within four years all tractor parts except for the engines are to be manufactured in Yugoslavia, where Gorenje plans to build a new plant for the project.

Soviet trade officials and Germany's Salzgitter and Korf groups are meeting currently to discuss construction of a major smelting plant in the USSR by German industry. Representatives from both countries also are expected to conclude a DM 800-million ($286-million) order agreement for supply of German machinery for the Kama River automotive project. Next spring, the Soviets are planning an industrial exhibit in Düsseldorf.

French steelmaker Usinor reportedly will take a 40% stake in Société Lorraine et Méridionale de Laminage Continu (Solmer), the company set up by Wendel-Sidélor to build and operate the new steelworks at Fos-sur-Mer. The announcement follows news of Thyssen's intended participation in the venture.

Germany's Klöckner-Werke AG and Hamburgische Landesbank-Girozentrale have announced they will take a joint 49% holding in the Korf steel group's Hamburgische Stahlwerke, providing the European Commission gives its approval. Klöckner also plans to take a minority participation in Korf Engineering of Düsseldorf, specialists in plant construction.

Reports that Gulf Oil is preparing to sell its Rough gas field in the North Sea (some 16 miles off the Yorkshire, U.K., coast) to the Amoco-British Gas Corp. consortium have yet to be confirmed. But the possibility of such a development alone has been sufficient to spark off heated controversy in Britain. The government has only recently announced a new licensing policy under which companies are awarded acreage on condition that they will develop it themselves. Gulf has not started producing in the Rough field, and a move to sell obviously runs counter to the government's ruling. The Dept. of Trade and Industry has not indicated as yet that it will step in to block the sale - assuming that Gulf goes ahead. Of further concern is the fact that some of these oil reserves would be sold to American interests (i.e., to Amoco), although the government has an avowed policy of encouraging British North Sea oil exploration.

Amoco Italia SpA, a subsidiary of Standard Oil Co. of Indiana, which operates a refinery in Cremona and about 1,100 service stations throughout the country, has established a new research firm, Amoco Italia Ricerca, Inc.

Norsk Hydro has announced it intends to channel more investment into its petrochemical projects associated with its North Sea gas enterprises. The company intends to build a $180-million vinyl chloride plant in Porsgruun in southern Norway. Its capacity will be about 300,000 tons a year, with production to begin some time before 1980.

Union Carbide Europa SA has announced a major expansion of its Antwerp petrochemical complex in order to produce hydroxyethylcellulose ("Cellosize"). The first stage of construction will cost an estimated $5 million, bringing total investments in the Antwerp plant to over $100 million.

Union Carbide also has begun construction of a plant near Reggio Calabria to manufacture molecular sieves. Requiring an investment of more than $5 million, the facility is expected to be completed in late 1973. It will be built and operated by Uniliq SpA, jointly owned by Union Carbide and the Italian chemical company Liquigas SpA. The sieves will be used mainly by the petrochemical, natural gas, and petroleum refining industries.

The Rüti textile machinery group of Switzerland, subsidiary of Georg Fischer AG, has taken a majority stake in Te Strake textile machinery of the Netherlands. Minority participants in the Dutch company include Akzo NV chemicals and plastics and Burlington Industries of the United States, both of which are expected to cooperate with Rüti.

With the decision to begin distributing to department stores and retail chains, Switzerland's prestigious watch manufacturer Longines has broken out of the marketing alliance established between the Swiss Watch and Clockmakers' Association and the watchmaking industry. A successor to the government-sponsored watchmakers' cartel, now defunct, the pact provides that manufacturers may supply only members of the Watchmakers' Association and that these, in turn, may not sell domestic brands that are not covered by the agreement or foreign brands. The search for better sales outlets has already led other, smaller Swiss manufacturers to spurn the arrangement.

The battle for the takeover of the Dutch insurance company NV Verzekeringsbank Moira has intensified with the entry of a second major foreign bidder. Following the news that Cannon Street Investments' Dutch offshoot Protector was making an offer worth 5.25 million guilders (about $1.8 million), West Germany's Victoria insurance group announced it plans to bid for the outstanding share capital of Moira and that talks were about to begin.

Bank of America's Italian subsidiary, Banca d'America e d'Italia, has taken a 20.7% interest in Switzerland's Corner Banca banking house.

Finland's largest consumer cooperative Elanto and Holiday Inns have concluded an agreement whereby Elanto will build and operate three hotels in the Helsinki area, to be run under a Holiday Inns franchise. The hotels will have 120-130 rooms each. Holiday Inns also is negotiating for two additional hotels in Finland, one in Tampere, the other in Turku.

British Caledonian Airways has started scheduled daily flights to the United States in competition with the state-owned BOAC airline. Caledonian, widely referred to as "BOAC with bagpipes," is gearing its publicity campaign to attracting to Scotland the 22 million or so Americans who have (or claim to have) Scottish ancestry.

Common Market Reports

EUROMARKET NEWS

Issue No. 222 *April 17, 1973*

Agreement Ends Danish Labor Crisis

A reduction in the work week from currently 41.75 to 40 hours by the end of 1974, gradual minimum wage increases totaling 1.70 kroner over the next two years, equal minimum pay for women, and automatic cost-of-living adjustments - these are the principal components of the accepted package that spelled an end on April 9 to Denmark's worst labor crisis in years. The conflict, which had incapacitated most of Danish industry, began on March 21. The terms of the two-year contract were worked out through mediation efforts and were subsequently approved by both employers and the unions.

Agreement came only after the government had acceded to employer pressure to set up a commission to investigate the whole complex of automatic cost-of-living adjustments. At the same time, employers and unions agreed to consult on all matters relating to the labor market before the government seeks legislation in this area.

Industry spokesmen claim the settlement will cost employers some 18% more over the next two years. (The minimum wage in Denmark now stands at about 13.60 kroner, or $2.26; the industrial wage average is approximately 22 kroner an hour). However, both sides professed basic satisfaction with the agreed terms and believe that production losses incurred as a result of the strikes and lockouts would be made up without much difficulty.

'Temporary Stability' for the U.K.

Although Britain's rail unions are threatening a token 24-hour strike to celebrate May Day, there are signs that the Heath government has secured at least temporary stability on the labor front as most of the principal union-government confrontations have been resolved:

- the gas workers have accepted a settlement within the government's pay limits;
- the miners have registered a 63% vote against industrial action;
- the country's nursing force has accepted the government pay offer providing for increases of between £78 and £225 ($191-551) annually;
- hospital ancillary workers have made moves toward ending strike action, and
- the workers at Ford's Dagenham plant have adopted a stance less militant than expected earlier.

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Another chief source of embarrassment to the government, the Civil and Public Services Association, also has suspended its campaign of strikes, although its overtime ban and general policy of "cooperation under protest" was being maintained.

Thus the major areas of dispute have all shown signs of improvement, and there is every indication that labor in general is willing to leave decisions on future pay increases to the newly formed Pay Board.

The Conservative government, hailing the miners' vote against industrial action as a breakthrough in the battle against inflation, plans to introduce Stage Three of its policy in the fall. The fact that the controversies of past weeks have been at least partially resolved in an amicable manner reinforces the government's view that it should be possible to introduce voluntary controls in place of statutory controls for the next phase. This continues to be the theme running through the tripartite talks between the government and both sides of industry.

London Office Rents Keep Soaring

Three of the U.K.'s major trade associations, the British Export Houses Association (BEHA), the City of Westminster Chamber of Commerce, and the London Chamber of Commerce, have expressed dismay at the rocketing costs of maintaining offices in the City of London. The BEHA claims that many of its members have been forced to move out because it is no longer economical to attempt to compete with U.S. and Japanese banks. In some cases rents have trebled over the last three to four years. Export houses, which depend on close contact with banks and other City institutions, are also at a disadvantage because of the developers' new letting policy whereby large office blocks are rented to a single tenant, generally a bank or similar financial institution. The Chambers of Commerce are now exploring the possibility of constructing or buying buildings of their own to obtain the necessary space at reasonable rents; both the government and local authorities have pledged support for this plan.

A further shock to businesses in the City has also come with the announcement that local property taxes will go up this year by a record 53%. Since most of the City's buildings are offices, its total ratable value has been increased almost twice as much as values elsewhere in London. Tenants of many City office premises thus face higher overheads, and it is the smaller company that will be hardest hit. Companies do, of course, have the option of moving out, but experience has shown that key personnel are unwilling to do so because of the extra travel involved.

Rome Submits Economic Plan for 1973

Amid growing threats to its political viability, the Italian government has submitted its economic program for 1973 which calls for a 4.5% increase in the GNP compared to 3.2% last year and 1.6% in 1971. A major portion of the proposals concern a commitment in principle to relieve industry of a substantial portion of health and social contributions, thereby encouraging private investment and reducing labor costs to about the level prevailing in other Community countries. Observers have tied the measures' chances of parliamentary approval directly to the fate of the government itself as disagreements between the coalition partners have become more and more pronounced.

As part of the government's economic report it was revealed that the burden on Italy's taxpayers is increasing perceptibly, with 1972 state revenues from taxes, fees, and social contributions having risen an average 11.2% to about 23,798 billion lire. The highest rise (of 33%) was reported for supplemental tax revenue, followed by 20.9% from income and net worth taxes. Revenue from indirect taxes showed only a relatively modest increase of 6.3%.

Swiss Cantons Prepare Tax Alignments

It will take years for complete harmonization of Switzerland's widely varying cantonal tax laws, which are largely responsible for the disproportionate concentration of industry and wealthy individuals. But the cantons themselves have taken the first step on their own toward aligning cantonal tax structures after federal legislation adopted last December minimized the differences between federal and cantonal depreciation rules. A tax commission appointed by the 25 cantonal governments has submitted a model code (*Mustergesetz*) for consideration that cantonal legislatures would have to abide by when passing tax legislation.

The model code sets forth uniform rules governing tax liability, taxation of the various corporate entities, and assessment, but it lacks rules on the tax base, tax rates, and social security contributions. The code's authors felt that opposition to harmonizing these rules (which demonstrate the cantons' tax dissimilarities more clearly than anything else) is too great to overcome at the moment. There is still disagreement on just how the first measure of tax harmonization among the cantons would be achieved - either through intercantonal agreement or by empowering the Confederation through a constitutional amendment.

Many Swiss tax experts feel that a genuine leveling of intercantonal tax burdens might eventually result indirectly from a legislative initiative taken by the Swiss Socialists, who have proposed a federal net worth tax patterned after a federal government proposal of 1969. According to this concept the government would levy a substantially higher income tax than at present (being an average of the combined tax burden made up of federal, cantonal, and local taxes), but individual and corporate taxpayers filing their federal tax returns would be credited with taxes paid to cantonal and local governments.

Better Work Rules for German Minors

A proposed amendment to Germany's 1960 law governing the employment of minors (*Jugendarbeitsschutzgesetz*) would bring a shorter work week, longer vacations, and a number of other benefits to young employees up to the age of 18. The Labor Ministry plans to propose raising the minimum hiring age from 14 to 15 years, broadening the prohibition of piece-rate and assembly line work, requiring annual physical checkups, and imposing stiffer penalties for employers who violate these provisions. A union-sponsored proposal published earlier calls for a minimum vacation of 36 working days (now 24), 12 paid days off to attend educational courses (a first in Germany), consideration of time spent at vocational classes once a week as hours worked, and restriction of working hours to a maximum eight per day and 40 per week (the present maximum is 44 hours for minors over 16).

While not basically opposed to these attempts to improve existing legislation, industry spokesmen feel that any substantive improvements should be left to collective bargaining. It was generally conceded that large-scale violations of present legislation do occur; the government received reports of some 50,000 of such violations last year, most of them involving illegal overtime work or similar infractions.

More on the Docket for Court of Justice

A rapidly expanding caseload appears to be a clear indication of the growing stature of the European Court of Justice in Luxembourg. In the first quarter of this year alone the Court received 52 complaints and requests for preliminary rulings compared to a total of 118 for all of 1972. More than two thirds of last year's caseload involved suits brought by Community employees against their institutions and preliminary rulings sought by national courts approached by importers challenging assessments of customs that pertain to agricultural levies or turnover taxes. The other cases mostly involved suits brought by businesses against acts of Community institutions, principally the Commission. These covered a broad spectrum, ranging from damages sought by enterprises for alleged negligence on the Commission's part to attempts at invalidation of Commission acts restricting imports of agricultural commodities from third countries.

As for the future, Court officials expect the caseload to become even greater. National courts are making more use of the Court's primary function, which is to interpret Community law in order to ensure uniform application by national courts throughout the Community. The Court's jurisdiction also has been broadened in scope by two protocols pertaining to the Convention Relating to the Mutual Recognition of Companies and Legal Persons as well as the Convention Relating to the Jurisdiction of Courts and the Enforcement of Judgments in Civil and Commercial Matters. Under the Mutual Recognition Protocol, which incorporates the provisions of Treaty Article 177, the Court has the power to hand down a preliminary ruling concerning the interpretation of that convention when asked by any national court. The Jurisdiction and Enforcement of Judgments Protocol, which entitles appellate courts (but obligates supreme courts) to ask for preliminary rulings whenever questions come up in connection with the enforcement of judgments, contains an innovation that may add to the Court's caseload: Article 4 of the Protocol entitles advocates general, or another authority designated by the particular member state, to ask for a preliminary ruling whenever the state's appellate and supreme courts render conflicting decisions and one of the courts has deviated from the interpretation attributed to the pertinent Convention provision by the Court of Justice or another member state's high court.

AROUND THE MARKETPLACE

Farm Policy and the High-Priced Spread

Leonid Brezhnev, whom someone in 1972 awarded the unofficial title of "businessman of the year" for his celebrated wheat deal with the United States, may be headed for a repeat performance this year considering the terms of the newly announced EC-Soviet butter deal. According to these, the Soviets will be buying 200,000 metric tons of EC surplus butter at the equivalent of $420 per ton - less than one fifth of the subsidized price the Community's farm fund pays EC dairies or about one third less than the prevailing world market price. Thus the "sale" will cost Brussels more than $360 million, at a time when European housewives are complaining bitterly about the high retail price of butter.

While recognizing these obvious inequities, Community agricultural authorities see no other way to melt down the formidable "butter mountain" that has grown from 215,000 tons a year ago to 407,600 to date. They point out that stockpiling costs equal the original butter price after only one and one half years, and that destroying the surplus presents equally complex problems. Market rules prevent the Community from "dumping," and shipping the surplus to developing countries allegedly is too expensive.

Thus it is no surprise that the numerous critics of Europe's farm policies - both within and outside the EC - have seized on the deal with the Soviets as the most "scandalous" example yet of the Community's inability to cope with its agricultural problems. In the European Parliament one member chose to call it a "comedy."

The nearly total confusion afflicting practically all agricultural issues in the Community again was demonstrated earlier this month, when the Parliament narrowly defeated Commission proposals for a 2.76% raise in farm prices - although the appropriate parliamentary committee had recommended their adoption. At the same time, the Common Market farmers' organizations protested that the proposed increase was "totally inadequate." They demand a raise of 7.5% and are even opposed to having price increases set off against the gains that resulted from the parity changes.

U.K. Rush Into Holland to Continue

In anticipation of Britain's entry into the Common Market, the number of Anglo-Dutch mergers in 1972 increased sharply to 76 compared with only 18 in 1971 and eight in 1970, according to the Netherlands-British Chamber of Commerce. Of all Dutch mergers and takeovers last year, the Chamber's director reported, 30% were between British and Dutch companies. In explaining the reasons, he noted that there are "no language difficulties, British and Dutch business ethics are comparable, and the Dutch have proven to possess considerable penetration powers in the other EEC countries."

Commenting on the same phenomenon in its annual report, the Nationale Investeringsbank of The Hague said that "what attracts British companies...is the low exchange rate/profit ratio of the shares of a large number of Dutch companies," not so much the need to overcome tariff barriers which will be gradually phased out, anyway. The bank expects the rate of investment to accelerate: "An added stimulant will be a further liberalization of the capital traffic from the United Kingdom - direct investment may amount to £1 million ($2.45 million) per project with effect from Jan. 1, 1973, compared to only £250,000 per project before." The restrictions are expected to be lifted altogether as of January 1975 in accordance with EC policy.

EURO COMPANY SCENE

The financial difficulties of Equity Funding Corp. resulting in total collapse and allegations of fraud have found an echo in Europe. Specifically, a large question mark hangs over Equity's $25-million Eurobond issue, which was offered in 1969 as 5.25% guaranteed debentures due in 1989. The status of this bond is far from clear: since the issue is subordinated to other indebtedness, bondholders stand to take heavy losses if the group is eventually put into liquidation. At best, this would be a source of embarrassment to the major Eurobond underwriters connected with the issue.

Publication of the U.K. Monopolies Commission report on the pricing practices of Hoffmann-La Roche, the Swiss pharmaceuticals concern, has triggered discussion world-wide. The commission severely censured La Roche on account of its "excessive" profits. The government may conceivably require a repayment from the company or, alternatively, demand that the two main drugs concerned (Valium and Librium) be supplied free of charge for some time in lieu of a cash rebate.

This is not the first time that the British government has taken action against La Roche. A little over two years ago the Dept. of Health and Social Security negotiated a repayment and free distribution of the drugs to both hospitals and the public after allegations that prices and profits were too high. The Commission's investigations also follow closely on the heels of the U.K. government's action to control "indefinitely" the price of Kellogg's breakfast cereals on the grounds that the company's profits were excessive.

The La Roche report is particularly interesting inasmuch as it reveals details of the raw material transfer pricing policy used by the Swiss parent in its dealings with subsidiaries around the world. The United States, Canada, Australia, and New Zealand all have been calling on La Roche to reduce prices. Company spokesmen admitted that returns were high but contended that this is normal in the pharmaceutical industry and justified by the high cost of research.

Holland's Hoogovens steel has expressed serious disagreement with the proposed 40% selective investment levy by which the Dutch government expects to switch investments from the highly industrialized West to "developing areas" in other parts of the country. The head of the company's legal department said Hoogovens would be prepared to take the matter to the European Commission "as a last resort." He said the proposed levy would "infringe on all EEC investment policies" and would distort the competitive situation in the Community's iron and steel industry as it would force Hoogovens to raise its investment budget by 8.5-9%.

The Dutch steel maker is one of the biggest companies so far to have come out against the controversial bill. Submitted to Parliament for approval later this year, the bill proposes a 40% levy on the construction costs of plants built in and around the cities of Amsterdam, The Hague, and Rotterdam. Its numerous critics fear that the legislation would force industry to postpone or cancel modernization plans or even move plants across the border.

Private and public shareholders in Italy's Montecatini Edison have finally reached a compromise agreement on formation of the concern's new control syndicate. The solution, largely corresponding to the model proposed last December by CIPE, the national economic planning board, gives the state the last word in case of disagreement. The two blocs of state and private shareholders will be represented on the syndicate with three votes each, with another vote going to Montedison president Eugenio Cefis and a seventh and - by virtue of his office - eighth and deciding one going to Giorgio Cappon, chief of the state's IMI, who will preside. The syndicate, which accounts for some 30% of Montedison shares, will have the power to approve the make-up of the company's executive board, will appoint the company president, and must be kept informed on company policy and performance.

Control Data Corp. of Minneapolis, Minn., and Rumania's state industrial group for electronics and vacuum technology will set up a joint subsidiary in Bucharest to produce EDP peripheral equipment. To cost $4-5 million initially, this first U.S.-Rumanian manufacturing venture will take up operations before the end of the year. Control Data will hold 45% of the share capital and the Rumanian group, the rest.

International Investment Corp. for Yugoslavia (IICY), London, and its principal shareholder, International Finance Corp., Washington, D.C., have provided credits of $2 million and $9.8 million, respectively, for a project to build a paper and corrugated board factory in Yugoslavia. The plant is being set up by Kombinat Beliscé, a local manufacturer, and a German-Austrian consortium. The group is supplying equipment and will hold a stake valued at $3.5 million. IICY is serving as consultant for the joint venture.

A compromise in the Dutch-German gas ban dispute now looks near after the announcement this month that the American company Placid International Oil and Dutch State Mines have signed a letter of intent to form a company for transporting natural gas from Placid's North Sea finds to the Dutch coast. They also were planning a new coastal processing plant.

The move followed a ban by the Dutch government on gas sales by Placid to a German energy consortium on the grounds that the gas was needed to cover rapidly rising domestic consumption. At one point, the European Commission said it would investigate the embargo. The likely compromise will be that Placid will sell its gas to Gasunie, the monopoly Dutch distributing company, which will in turn take it to the Dutch eastern border for delivery to Germany. It was expected that the Dutch government will pay Placid the same (high) price to which the Germans had committed themselves.

The European Commission has given its nod to the acquisition of a 49% stake in Germany's Hamburger Stahlwerke GmbH (Korf group) by Klöckner-Werke AG and Hamburgische Landesbank-Girozentrale through their new joint holding, Ferrocommerz Beteiligungs-GmbH.

The talks between U.S. tobacco, food, and liquor manufacturer Liggett & Myers and the U.K.'s Cavenham Foods have been adjourned for an indefinite period. Speculation had been rife that Cavenham was about to acquire as much as a 20% stake in L&M.

Triumph American, the U.K.-controlled holding company of Triumph Investment Trust, has withdrawn its $19-million bid for a 51% majority stake in the U.S. food and retailing group General Host Corp. Triumph's announcement came after a preliminary injunction had been granted, at General Host's instigation, blocking consummation of the takeover. Although this in itself did not prevent Triumph from continuing its bid, the legal obstacles to be overcome are said to have dampened the British company's enthusiasm.

Following a tender offer by Loews Corp. for $17 a share for all outstanding shares of Talcott National Corp., New York, Fasco International SA, owned by Italian financier Michele Sindona, has acquired a stake of some 50% in Talcott. Sindona reportedly intends to purchase a majority and then offer the shares at cost to Franklin New York Corp., the holding company for Franklin National Bank, in which Fasco has a 21.6% interest bought for $40 million from Loews last summer.

Akzo NV of the Netherlands is expected to decide in early June whether to invest a huge sum - reportedly 350 million guilders ($121 million) - in construction of a new vinyl chloride plant in Delfzijl, the Dutch port near the German border. The capacity most frequently mentioned, although not confirmed by the chemicals giant, is 300,000 tons a year, equaling output of the existing vinyl chloride plant near Rotterdam, which was started up in 1971. Akzo is seeking heavy government subsidies, particularly to defray the cost of building a pipeline to transport the base chemical ethylene from Rotterdam to the new plant site. Eventually the company may build its own naphtha cracking facility or may draw its ethylene supplies from Dow Chemical's proposed petroleum cracking plant at Stade or Mobil's projected one at Wilhelmshaven.

Britain's Jessel Securities has established Jessel Europa NV, with headquarters in Amsterdam. Jessel investments in Europe are in the region of £10 million ($2.45 million), roughly half of which is invested in six quoted Dutch companies. The first step for the new firm will be to secure a quote on the Amsterdam Stock Exchange.

Hollandsche Lloyd, subsidiary of the West German insurance group Victoria, has announced it is withdrawing its counter offer for the outstanding shares of the Dutch insurance company NV Verzekeringsbank Moira. Negotiations had established, Hollandsche said, that Moira's activities did not quite fit with those of the German group. This leaves the original U.K. bidder, Cannon Street Investments, in the running with an offer valued at about 5.2 million guilders ($1.79 million).

S.G. Warburg, the British banking house, and Compagnie Financière de Paris et des Pays-Bas, the Paribas holding company, have climaxed years of informal cooperation in an exchange of shares worth an estimated £15 million ($26.75 million). The deal, approved by the Bank of England and French authorities, gives Paribas a 25% stake in Warburg. The latter acquires 50% of the newly founded Paribas-Warburg SA, through which Warburg obtains an indirect interest in Paribas operations in France, Belgium, Holland, and Switzerland. The two banks also intend to merge their respective subsidiaries in New York into one Warburg-Paribas Corp., and are said to plan a joint venture in Tokyo as well. As a result of the agreement, Paribas gains new access to the London financial scene while Warburg strengthens its hand on the Continent, where it already has substantial holdings in Swiss and German banks.

Paribas also has reached an agreement with Banque de Suez, giving Paribas a controlling minority interest of 20.14% in Cie. Bancaire, the leading French credit group. Last year Bancaire had a total outstanding loan volume of FF 24.3 billion ($5.4 billion), up 19% from 1971.

Common Market Reports

EUROMARKET NEWS

Issue No. 223 *Report No. 211, April 25, 1973*

EC, Norway Reach Trade Accord

After intensive bargaining, the European Community and Norway have agreed to sign next month an industrial free trade agreement that will come into force on July 1 and will give Oslo about the same terms previously extended to the other EFTA countries. These entail a mutual reduction of initially 20% on the tariffs for most industrial products and further reductions up to July 1, 1977, when most tariff barriers will be removed. The pact involves a number of concessions on both sides, inasmuch as the Oslo government presented a longer list of "sensitive" products than other EFTA nations. In Brussels the agreement was described as "fair" - despite the considerable Community concessions, it still leaves the Norwegians with a lot less than what Common Market membership would have provided them.

French Keynote on Social Policy

A noticeable lack of specific proposals in the first major policy declaration of the new French government since the March 11 elections has resulted in a lukewarm reception of the program by the public, the employers, and the unions. Social policy was the key theme of Prime Minister Pierre Messmer's message to Parliament. The government promised to strive for more social equality in a country where, according to a recent official INSEE survey, the uneven distribution of personal wealth ranks among the most explosive issues.

Messmer's message did contain two definite legislative proposals, however:

- The government would raise the legal minimum wage so that as of July 1 no fully-employed person would earn less than FF 1,000 (about $222) per month. This has been among the longstanding demands of the trade unions. It is to be ensured, though, that labor-intensive industries would not be unduly burdened by higher personnel costs.
- A revamping of France's old-age pension system would permit people to retire at age 60 with the same pension now given to 65-year-olds.

To finance these and other parts of the reform program, the government has proposed raising taxes for upper-income groups, while giving some tax relief to low-income groups. At the upper

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levels, salaries paid by state industries and the civil service are to be frozen for the time being, and for private industry the government plans a legislative reform pertaining to the remuneration of members of supervisory and administrative boards.

Messmer devoted a considerable part of his National Assembly message to the Gaullist concept of "participation." Among its future key elements are "more elastic and dynamic" rules governing profit-sharing plans. On the matter of working conditions - a hot political issue in view of the current strike wave at the plants of state-owned Renault - the premier came out against certain forms of piece and assembly-line work and announced that work conditions in state industries are to be made a model for private industry to follow.

In Germany, Shades of Things to Come?

The just concluded party convention of Germany's governing Social Democrats (SPD) in Hannover is expected to have a decided impact on the future course of the Brandt Administration, particularly in the economic and social sphere. Some of the decisions taken found only narrow majorities among the delegates and reflect the rising influence of radical factions within the party. Public reaction to some of the more controversial resolutions has been split, although business and industry generally have come out forcefully against all those felt to pose a "socialist threat" to the country's free market system. Among the resolutions passed at the SPD congress were the following:

- Companies above a certain size would contribute a certain portion of their earnings to state-controlled funds which in turn would issue free shares to employees up to certain income levels. The fund shares would be held in trust for a minimum period of seven years; only then could they be sold.
- Real estate speculation would be contained via heavy capital gains taxation. Communities would be given broader planning powers, and real estate owners in designated planning zones would keep only partial control over their property.
- Private agents would no longer be able to perform real estate transactions and housing rentals; these services would be carried out by municipal and state agencies.
- Manufacturers would no longer be able to dictate prices to distributors; this provision would be contained in the planned reform of the Cartel Law.
- Industry would be forced, by way of legislation and ordinances, to bear as soon as possible the cost for removal of the waste it produces.

The Hannover party platform, while binding for party chairman Brandt, could make life difficult for Chancellor Brandt. This is because the Social Democrats have to coordinate their policies with those of their government coalition partners, the Free Democrats, who like to bill themselves as the champions of small and medium-sized business. Thus, socialist aspirations often end in political compromise in Bonn, which is not to say that many of the SPD resolutions will not find their way into legislation.

Luxembourg Defends Its Tax Status

The Grand Duchy will not bow to pressures from Germany and France to tighten its tax laws although it intends to comply with EC harmonization requirements, Luxembourg's Premier Pierre Werner has assured the domestic banking community. Government authorities for years have been quietly contemplating just what to do with most of those 1,600 holding companies lured from abroad by the country's liberal tax rules. These studies have been prompted in anticipation of Community harmonization but also by the general feeling in government circles that no country can be really interested in attracting entities that settle simply to avoid paying taxes elsewhere. Moreover, Luxembourg itself does not really profit from these foreign holdings: last year it collected merely $1 million in revenue from these companies because fewer than 100 of them are engaged in active trading and thus pay their fair share.

Werner said the government is not planning to relax the country's strict bank secrecy regulations nor is it prepared to put clamps on the movement of international capital. The Belgian government had demanded such controls to stop the outflow of Belgian capital to Luxembourg (Belgian banks keep about 70% of their assets in Luxembourg banks). However, the Luxembourg government will allow banking subsidiaries to transmit certain over-all figures to their parent banks abroad. Bonn had asked for this concession to give the Bundesbank an idea about how much is being borrowed abroad and thus escapes central bank controls.

Belgrade Stiffens Rules on Foreign Cooperation

A new Yugoslav law narrows the freedom that state enterprises have had for the past six years in concluding cooperation agreements with foreign firms. Government authorities will now closely scrutinize individual contracts. In any future cooperation agreement the Yugoslav enterprise actually must take part in the manufacture and must contribute at least 30% of the finished product's value, although three quarters of that may be subcontracted domestically. Only manufacturing enterprises are allowed to negotiate agreements, and Yugoslav authorities, both federal and state, will give the necessary approval only on condition that the Yugoslav partner makes money on the venture and has sufficient technical, financial, and labor resources. Any agreement must cover a minimum five-year period. Yugoslav managers will have to make regular progress reports to the government, and they as well as their companies would face high penalties in case of violations.

Belgrade does not want to discourage partnerships with foreign companies. In fact it is eager to expand such ventures with Western firms, which participated in 80% of last year's 370 cooperation agreements. But the government feels that Yugoslav enterprises should become more production-minded and should not be limited to the role of assembling foreign-made components. Cooperation agreements have often been used to escape duties or other import restrictions, since parts imported under such an agreement have benefited from reduced customs duties or none at all. Sometimes a part has been removed from a finished product just prior to importation. A recent contract with Fiat had a Yugoslav factory mounting only hoods and wheels in order to complete the "partially manufactured," and thus low-duty, imports.

Meanwhile, on his recent visit to Yugoslavia, West German Chancellor Willy Brandt said that Germany would support Belgrade in its current negotiations with the Community on a new trade agreement to replace the one expiring at the end of April. Although the new agreement would also be a nonpreferential one, the Yugoslavs want the inclusion of an "evolutionary clause" that would lay the foundation for closer relations reaching beyond the trade sector.

Firmer Line on Inflation in Ireland

In his first major speech since assuming office, Ireland's new prime minister significantly addressed his principal remarks to the problem of price inflation, which is causing increasing concern in the Republic of Ireland. Speaking to members of the Confederation of Irish Industry, Liam Cosgrave made no specific proposals for price control. But prevailing price control mechanisms (under the aegis of the National Prices Commission) are being reviewed, and there are definite indications that the new government will take a firmer line. A recent Electricity Supply Board move to boost tariffs by 11% was blocked and substituted by approval for 3.5%. Also, the government permitted only a "modest" 10% increase in automobile insurance premiums whereas the insurers had proposed increases of between 20 and 50%.

It is anticipated that the NPC may be given extended powers to monitor prices and, above all, that companies proposing price increases will have to submit more detailed and more convincing arguments before increases are sanctioned.

Ireland's consumer prices rose by over 8% last year. Since January, however, this rate has accelerated and is now believed to be above 10%. When this figure is compared with an average EC consumer price increase of 6%, it becomes clear that Ireland's inflation problem may be getting out of hand.

EC, U.K. Closer on Accounting Standards

The fourth directive from the European Commission on the form and presentation of company accounts has been the subject of wrangling for more than a year. The EC accountants' study group has now submitted detailed suggestions for amendments to the directive, and these turn out to bear a distinct resemblance to U.K. accounting practices. Thus it seems that fears that British accountants would have to make drastic alterations in their annual reports to bring them into line with the proposed EEC revised directive are largely unfounded.

The original directive provided that accounts should be *aussi sûr que possible* (as accurate as possible). This has now been altered to require that accounts be *fidèle*, i.e., "faithful" or "giving a true and fair view." This appears to be in direct response to the U.K. argument that accurate figures do not in all cases afford a fair picture of the state of a company. Further, the concepts of "matching and going concern" have now been introduced in addition to the original guidelines of "prudence and consistency." In other words, income is matched with the expenditure that produces it, and the company is valued on the basis that it will continue trading. This addition also is a direct result of U.K. pressure. Two other items on which the U.K. made its point: directors of companies are to be responsible for the company's annual statements and companies with major subsidiaries should consolidate these in their annual statements.

The amendments do not provide for any prescribed form of accounts but rather opt for the prevailing method whereby each company adapts the basics to its particular kind of business. The U.K. would have preferred a specified form, but the problems of adaptation are essentially minimal. The revised directive also provides for inflation accounting by way of the draft standard of current purchasing power. The EC group concedes that inflation accounting may create problems for certain types of firms but submits that these will not be "insurmountable."

AROUND THE MARKETPLACE

U.K. Decrees Price Cuts for Roche

The British government has accepted the recommendations of the Monopolies Commission report on Roche Products Ltd. and has ordered big cuts in the prices of the tranquilizers Librium and Valium as of April 23. An order has been issued under the Monopolies and Mergers Act 1965 requiring the price of Librium to be cut to 40% and Valium to 25% of 1970 levels. (Since the price of Valium has already been cut by Roche since 1970, the actual reduction will be around the order of 50% of present prices). The government also has entered into negotiations for the repayment by Roche to the U.K.'s Dept. of Health and Social Security of "large sums."

The Commission has, of course, called for price reductions and controls on numerous occasions. But the only other instance of a company's being ordered to repay to a ministry was in 1965 when Ferranti made repayments to the Ministry of Aviation regarding excess profits on the Bloodhound missile. The Commission report raises a number of questions, not the least of which is the power of a national government to impose controls on multinational companies. The Commission's recommendations also have led to a reopening of the debate on patent protection: a number of companies, among them U.S.-owned Berk Pharmaceuticals, pay royalties to Roche on a kilo basis. The price reductions implemented by Roche since 1970 have effectively squeezed Berk and other royalty-paying pharmaceutical manufacturers out of the U.K. market.

Benelux Orders Curbs on Japan Imports

The decision by the Benelux countries to limit imports of Japanese products in the field of home electronics has been fiercely attacked by the principal importer of Sony equipment in the Netherlands. The company said the action had been instigated by Philips, the Dutch electronics group, which fears a threat to its market position. The importer, Brandsteder, said the new measures "stifled" free market competition to protect a domestic manufacturer.

In announcing the joint Benelux move, the Dutch economics ministry in The Hague confirmed that protection of domestic industry was the purpose. In anticipation of the outcome of continuing talks between top-level Benelux and Japanese officials for a longer-term solution, the ministry said that the curbs would be applied to the indiscriminate issue of import licenses. The eventual agreement is likely to be that imports may not exceed by more than 5% a year the level of the "basis" import year, May 1, 1971-April 30, 1972. However, no further details were given. The Japanese are said to have expressed understanding for the attitude of the Benelux countries; the Hitachi electronics concern reportedly has offered to open its Japanese sales network to Dutch export goods in order to help balance the trade between the two countries.

Soviet Nuclear Fuel for Germany

A German utility concern, Rheinisch-Westfälisches Elektrizitätswerk (RWE), will contract to buy 500 tons of enriched uranium valued at $10.7 million from the Soviet Union. Delivery of the initial one-year's supply for a new nuclear power plant at Mülheim is to begin in 1975. This is the first time Germany will get nuclear fuel deliveries from a source other than the United States. The deal, negotiated in consultation with and bearing the approval of Euratom, is seen to break the ice for other Soviet supply contracts with European countries. Talks with Sweden and Switzerland are reported to be in progress, and agreements with the U.K. and Belgium are a definite possibility. According to the economics ministry in Bonn, the sales agreement between RWE and the Soviets is to be signed in Moscow next month.

Meanwhile, it was announced that the U.S. Atomic Energy Commission is considering possible modifications of its new supply conditions, which Euratom and other Western partners have rejected as prohibitive.

EURO COMPANY SCENE

French and Italian auto industry observers say Citroën and Fiat do not plan to renew their 1968 cooperation agreement when it eventually expires. Fiat thus probably will not participate in Citroën's FF 500-million capital increase (from FF 687 million), to be carried out by early 1974. The French manufacturer is controlled by Pardevi, a holding company set up in 1968 by Michelin (51%) and Fiat (49%), in which Michelin is expected to end up with the lion's share of about 75%. Despite Fiat's evident disillusionment with the partnership, Citroën insists that the two companies will continue with plans for joint development of a light commercial vehicle and will not alter other aspects of their cooperation.

In a new reciprocal arrangement, Volvo of Sweden will take over distribution of Holland's DAF automobiles in Scandinavia, while DAF will handle Volvo marketing in the Netherlands. Volvo took a one-third interest in DAF's passenger car subsidiary late last year.

The U.K.'s Wilkins and Mitchell, which manufactures products ranging from washing machines to power presses, has signed an agreement with Construcciones Vascas, Bilbao, under the terms of which the Spanish firm will assemble (and eventually manufacture) W&M'S automobile industry presses. The move is perhaps not uninfluenced by Ford's recent announcement that it would like to set up a major plant in Spain. This news has already triggered numerous agreements between other European and Spanish firms.

Rockwell International Corp. has established Rockwell Standard Europe to concentrate on manufacturing transmissions, brakes, and other components for the European truck market. Rockwell has earmarked some $35 million for a European expansion program; negotiations for a major acquisition in "Northern Europe" are already in progress.

Italy's IAP Industriale is investing some $2.7 million to build an assembly plant for Honda products in the province of Chieti. An annual output of 15,000 motorcycles, two-thirds for export, and up to 2,500 units of agricultural machinery is foreseen. Honda reports that no Japanese capital is involved.

Agfa-Gevaert, the Belgian-German camera and film manufacturer, has announced plans to invest some $18 million in a new photographic equipment plant to be built either in Ireland or in Portugal, whichever promises to be more economical. A final decision is expected soon. With about 70% of production going into export, Agfa-Gevaert is feeling keenly the effects of dollar devaluation and higher personnel and material costs at home, although the group's net profit was 24.1% higher in 1972 than the previous year.

Gillette and its Yugoslav importer, Yugoslavia Commerce, are setting up a joint venture in Yugoslavia to manufacture razor blades and metal tape measures. The new company, Metalni Proizvodi, will be held 51% by the Yugoslav partner and 49% by Gillette. Gillette said it expects the Yugoslav project to provide a base for trade with other Eastern European and Middle Eastern countries.

The troubles in the six provinces of Ulster have not deterred West German electronics manufacturer Grundig from contemplating expansion of the existing plant facilities near Belfast. Over the next year Grundig plans to increase the present labor force by some 30% over the present 1,100 employees. The move is to cope with demand in the U.K. and other European markets and is part of an expansion program that envisages developments in Portugal and construction of a new plant in France.

A crisis has developed at Harland and Wolff, the Northern Ireland shipbuilders, with the announcement that the first 700 of 2,200 steelworkers have been paid off by the company. All the steelworkers at the yard have been given dismissal notices following their decision to continue an overtime ban and the last of them will be paid off on May 4. Harland and Wolff is the largest employer in Northern Ireland and was the subject of controversy regarding a "lame duck" capital injection by the U.K. government last year. The industrial dispute has now placed the future of the 10,000 men employed at the yard in jeopardy.

Milford Oil and Gas, a division of Milford Argosy of Oklahoma, has proposed the establishment of a 300,000 barrels-per-day oil refinery in the U.K.'s Shetland Islands. Shetland sources estimated the cost of construction at between £100 and 150 million ($245-368 million). Milford's proposal comes as something of a surprise inasmuch as other major oil companies have consistently questioned the suitability of Shetland as a refinery site in view of the islands' remoteness.

"Serious difficulties" involving market developments and conflicting policy strategies have led France's Jeumont-Schneider and Merlin-Gérin, leading manufacturers of heavy electrical equipment, to drop merger plans they first announced a year ago. In 1969 the French government had blocked a takeover attempt by Westinghouse of the United States in an effort to find a "French solution" to Jeumont-Schneider's financial problems. Then Jeumont itself broke off talks with another candidate, the French subsidiary of Switzerland's BBC. The company's 61% majority shareholder, Baron Empain of Belgium, is now thought likely to seek a new bidder for his stake - and not necessarily a French one.

In a share exchange deal that solves the problem of crossholdings between Italy's Montecatini Edison and Bastogi, the financial holding company, Montedison has sold off 20 million Bastogi shares to cement industrialist Carlo Pesenti through his company, Italmobiliare. The transaction, reportedly worth 45 billion lire (over $76.5 million), makes Pesenti the major shareholder in Bastogi, Montedison's largest private shareholder. Montedison, in turn, acquires a corresponding stake in several banks controlled by the Pesenti group.

Germany's Howaldtswerke - Deutsche Werft shipyards have received an order valued at an estimated DM 250 million ($89.3 million) for construction of three turbine tankers for Poland's state-owned Polish Steamship Co. Deliveries of the 120,000-dwt vessels are set for 1974 and 1975.

Continental depositary receipts (CDRs) of Nippon Yusen Kaisha (Nyk Lines) - the world's No. 1 shipping company both in terms of registered vessels and tonnage - have been introduced on the Amsterdam Stock Exchange. A Frankfurt quotation was expected for next month. The company's chairman also indicated that the Mitsui Osk group, the second largest shipping combine in the world, would seek a European quotation within six months.

Part of Japan's giant Mitsubishi concern, Nyk Lines came to Amsterdam "to explore the possibilities of raising money on the European market." Its massive investments have risen to 57.1 million yen in the last fiscal year. The CDRs represent 250 shares each.

Earlier this month, Nomura Securities - the largest securities company in the world after Merrill Lynch and also active in investment banking - became the first Japanese company to have its shares introduced on the Amsterdam exchange.

Brink's Inc., New York, No. 1 U.S. security transport agency, has teamed up with Schenker & Co. GmbH, the leading German freight forwarder, to introduce Brink's armored car service to Germany this month. Brink's will be challenging front-ranking Purolator Services GmbH, which accounts for about half of the German market. Purolator has had a few security problems of its own lately: within the last eight months four separate incidents, at least three of them involving "inside jobs," have resulted in the temporary loss of over $1.1 million in cash.

Two major U.S. companies, J.P. Morgan and Household Finance Corp., are engaged in a joint venture to provide banking and hire-purchase facilities in Britain. The new enterprise will be headquartered in London and regional branches will be established throughout the country.

First Wisconsin National Bank of Milwaukee has taken a one-third interest in the newly increased DM 6.75-million ($2.4-million) capital of Germany's oldest private banking house, Koch, Lauteren & Co., Frankfurt. The remaining two-thirds is divided between Walter G. Holste, of the bank's founding family, and the union-controlled Bank für Gemeinwirtschaft.

Britain's Electricity Council has confirmed details of its $1-billion floating-rate Euroloan, the largest loan of this kind ever raised outside the United States. The loan, fully guaranteed by the Treasury, will be used to repay the £340-million British Electricity Stock and government loans which were due at the end of April. Raised by a consortium of nearly 50 banks headed by Lazard Bros., National Westminster Bank, and Western American Bank (Europe), the loan will carry interest at an average rate of 0.5% over corresponding interbank rates.

Common Market Reports

EUROMARKET NEWS

Issue No. 224 *May 1, 1973*

Brussels Details Ecology Program

A two-year action program now submitted by the European Commission to the Council of Ministers would be, if adopted, a major step forward in formulating a common environmental policy. Reconciling the need for further economic expansion with that of preserving the environment would be the basic aim, and the main principle of such a policy would be that the pollutor pays. But the Commission also emphasizes that prevention should have priority over alleviating the effects of existing pollution, and it calls for cooperation with third countries and international organizations.

Though favoring alignment of national antipollution and noise abatement rules, Community policy would not require an individual member state to lower its own standards except where these would lead to distortion of competition or hamper interstate trade. Alignment would be achieved by way of Community directives and guidelines and through coordination among member states themselves. Moreover, the member governments would be required to keep Brussels informed on proposed legislation.

In its detailed, 150-page program, the Commission proposes Community-sponsored studies and projects to avoid waste of financial and human resources and to prevent implementation of the differing measures that might result from conflicting national evaluations. The joint approach also would provide common evaluation standards, criteria, and methods. These measures would be backed up by a joint research program and by the establishment of a European documentation center.

Specifically, the Commission is asking the Council to establish the scientific criteria of harmfulness of the main air and water pollutants and of noise as well as specific standards and methods of measurement. Before the end of 1974, the Commission plans to submit draft directives setting forth, among other things, maximum levels of lead and additives in fuels. It also intends to propose amendments to several 1970 directives requiring national legislation on the reduction of automotive exhaust emissions and noise levels.

Green Light for EC Matchmakers

The *Bureau de Mariage*, the office for interstate corporate counseling originally proposed by the Commission, will be opened

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soon, now that the Council of Ministers has approved the concept and appropriated the necessary funds (initially 42,000 units of account). Officially called the Business Cooperation Center and to be located on Brussels' Rue Archimede across from Commission headquarters, the center will provide vital information to businesses planning international mergers or cooperation agreements. Officials will explain legal and tax rules that must be observed by enterprises incorporated in different states. Businesses may also inquire about particular fields of cooperation such as R&D, production, and marketing. But the staff will not give advice on the choice or particular form of any cooperative venture or merger because the Commission does not want to interfere with the activities of international management consultants and law firms specializing in this field.

Another task of the center will be simply to act as intermediary in establishing contacts between businesses wanting to cooperate or merge. It is generally acknowledged that the office is tailored primarily to the needs of small and medium-sized enterprises, but this does not mean that large companies could not enlist its free services. Although the eight staff members will be on the Commission's payroll, the center will remain independent; staff members are obliged to keep secret all company information they acquire in their work.

Renewed Attack on French Price Controls

France's price regulation system has been sharply attacked by the Patronat, the country's employers' federation, as a "fossil of 1945 vintage," ineffectual in containing inflation and damaging for the economy generally. These charges were leveled in a White Paper published in connection with this year's annual meeting of the Patronat. Delegates also approved a memorandum setting down the Patronat's position on current economic and social issues and, among other things, calling for government measures to stimulate investment activity, notably through modification of depreciation rules.

But the main theme of the meeting was frustration over the price controls which, in various forms, date back some 30 years as an outgrowth of "war, shortages, and restrictions." The White Paper cited statistics whereby business has to cope with no less than 25,931 regulations, decrees, memorandums, and orders concerning prices. The Patronat claimed that these make business and industry dependent on the government to a degree not known in any other Western country. The freedom to determine prices was termed the most important prerequisite for further economic expansion; only adequate profit margins would enable companies to make the investments necessary to maintain growth and achieve greater productivity while keeping French products competitive abroad.

The Patronat's intention to bring strong pressure on the government to rescind price controls immediately was seen by some observers as the tab now presented to the administration for the support it was given by the employers prior to the elections.

Chamber Tallies Cost of Economic Program

The Paris Chamber of Industry and Commerce has estimated the cost of the French government's proposed economic and social package - recently outlined by Premier Pierre Messmer both at the Gaullist party congress and in Parliament - to be in the area of FF 40-44 billion ($8.8-9.7 billion). This year alone, the Chamber noted, the state budget would be burdened by an additional FF 7-10 billion. Until 1977-78, the social insurance funds would be committed to spend an extra FF 28 billion, and business and industry would face additional expenditures of FF 5-6 billion. The costs resulting from the proposed lowering of the retirement age to 60 years alone would amount to FF 6 billion for the state and the social insurance system. And the equal-pay-for-women proposal - submitted at the party convention but not yet part of the official government program - would mean new expenditures to the tune of FF 3.75 billion over the five-year period.

For this year, the Chamber forecast domestic price rises of about 7%, fueled not only by increased costs but also by insufficient supply. This, the Chamber said, was due to the failure to invest "anticyclically" during recessive periods of the economy. Attempts to catch up on the investment pace during the present boom period would not be without negative effect on price levels and France's balance of trade, it was noted.

U.K. 'Code' for Insider Dealing

The controversial issue of insider dealing has been "resolved" in the U.K. with the announcement by the Minister of Trade that the new company legislation scheduled for the next parliamentary session will include a "code of practice" establishing guidelines for "permissible" insider trading. The announcement was equivalent to an admission that there is no way of providing a watertight, all-embracing definition of what actually constitutes insider dealing. The code of practice would parallel the code established under the 1971 Industrial Relations Act inasmuch as breach of the code would not per se be actionable but would be "taken into account" in proceedings brought under the Act. Thus the government is proposing legislation that would make specific abuses of insider information a "criminal" offense, otherwise allowing the courts and other regulating agencies considerably more latitude in individual cases.

The difficulties experienced in establishing a viable definition stem largely from the fact that an "inflexible" legal definition would almost certainly result in curtailment of investment management, stock market research, and even day-to-day financial comment and analysis: a blanket ban on insider trading would, in the long run, cast suspicion on any kind of securities dealing other than that based on an inspired guess.

Safeguards Urged on Insurance Abuses

A report by Britain's Committee on Property Bonds and Equity-Linked Life Assurance (the "Scott Committee") has concluded that more detailed safeguards are required to protect the public from abuse by companies selling life insurance tied to property bonds, equities, and unit trusts. Published on April 18, the report indicates that there is no specific evidence of malpractice on a large scale but there was "scope for abuse." Accordingly, the Scott Committee has made specific recommendations that would enlarge the Dept. of Trade and Industry's powers of regulation. These recommendations have immediate bearing on the insurance companies bill currently before Parliament, although the additional powers recommended for the DTI have already been written into that legislation.

The principal recommendations in the Scott report are that life assurance companies should be obliged to give policyholders statutory notice of the main features of the policy and that a new policyholder should be allowed a "cooling-off" period during which he would be permitted to revoke the contract without penalty. It also was recommended that the DTI should draw up a list of types of assets to which policies could be linked. This suggestion was immediately opposed by the Life Offices' Association as being too restrictive.

Two-Tier Board System Rejected

Britain's influential Institute of Directors has come out in opposition to Continental-type two-tier company boards in the U.K. and thus has refuted the suggestion that companies should have employee participation at board-room level. The Institute's position was outlined in a memorandum to the Dept. of Trade and Industry, in which the adoption of EC-style two-tier boards and employee-directors was criticized. The Institute feels that the two-tier structure would introduce unnecessary delays and equivocation into the decision-making process. It was pointed out that the U.K. has a different company law system and a different industrial relations background than other Common Market countries, with the result that the reasons behind the development of two-tier boards in those countries were not specifically relevant to Britain.

The Institute instead is calling for legislation obliging companies to change their memorandums of association in such a way that the board would acquire legal powers to take into consideration interests other than those of the shareholders. It also proposes that companies should "voluntarily" appoint more non-executive directors as a counterbalance to the sometimes excessive powers of a chairman or chief executive. The appointment of persons with an "employee background" would be a major step in promoting better labor relations, but such appointees should be chosen on individual merit rather than by compulsion in law.

In effect, the Institute does not favor any form of worker participation at board-room level based on compulsory appointment. This, it is felt, would run contrary to the accepted method of appointing directors in the U.K. and would require a redefining of the duties and responsibilities of a director.

OECD: Brighter Prospects for Ireland...

The prospects for Ireland's economy are heartening, according to the latest OECD survey. Higher world prices for farm produce will lead to a rise in real agricultural output above the 4% estimated by the previous government prior to EEC membership. This improvement is paralleled by improved prospects in the industrial sector, largely in the recovering U.K. market and in other EEC member countries. Industrial investment in Ireland by British companies continues to be less than hoped for, largely due to the troubles in the six counties of Northern Ireland. On the other hand, EEC membership also has boosted Ireland's hopes of increased industrial investment as member countries avail themselves of Ireland's generous investment concessions. Inflation is still a major problem facing the country, however, and the report warns that "any boost given to demand and output through 1973 would have to be carefully designed so as to avoid straining the present National Wage Agreement or the outcome of the coming pending wage negotiations, especially at the end of the year." Over-all, the OECD survey predicts a real growth rate for 1973 of approximately 4%.

...Inflation Worries for Switzerland

In its latest survey on Switzerland, the OECD notes that there has been a "disquieting deterioration of the price performance" in that country for the past two years. At nearly 7%, the Swiss inflation rate was termed extraordinarily high for a country which during the 1960s had experienced only an average rise of 3.25% in the cost of living. The report also said that "repeated massive inflows of funds" caused by the unsettled world monetary situation have greatly increased the liquidity of the Swiss economy and "seriously hampered the use of monetary policy."

The effects of the monetary policy measures and capital movement controls instituted by the Swiss government late last year may not really be felt in the price area before the latter part of 1973, the OECD notes: "Certain complementary measures could be envisaged such as increases in reserve requirements or higher interest rates..."

Contract Talks to Resume in Holland

Contract negotiations, interspersed with strike actions, were expected to resume this week in the Netherlands following a brief "Easter truce" called by the unions until May 1. The eight weeks of intermittent strikes and walkouts in the metal, textile, apparel, and brewery industries reportedly have cost the unions some 15 million guilders ($5.2 million). Despite intensive mediation attempts, talks in most instances have broken down over the key issue of maximum levels of cost-of-living adjustments. Fundamental disagreement over this point, in fact, is still holding off any progress at Hoogovens steel, which was hit by the first strikes as early as February.

Meanwhile, it was expected that the latest attempt to form a new Dutch government - five months after the inconclusive elections - would result in the naming of Social Democrat Joop den Uyl as Holland's new prime minister. It was speculated that den Uyl's administration would have to rely not only on the three leftist parties but also on at least two of the three confessional parties. Despite this "counterweight," political observers are predicting a more left-leaning course for Holland's future economic and social policies.

Inflation Adjustments for German Pensioners?

Retired Germans drawing company pensions should welcome a recent ruling by the *Bundesarbeitsgericht*, Germany's supreme labor court, that companies have an obligation to adjust pensions during times of rampant inflation. In an anxiously awaited test case, the high court held that this is necessary if inflation reduces purchasing power to the extent demonstrated in two separate suits filed with the court. The decision now handed down was applied to both cases. The two plaintiffs, suing different employers, have been receiving their pensions since 1951 and 1955 and claimed losses of 50% and 42%, respectively, due to inflation.

The court held that the principle of equity inherent in Germany's legal system does not call for automatic increases to make up for inflation but does obligate the employer to negotiate an adjustment with his former employee. If no agreement can be reached, a company may decide on its own if and to what extent it wants to raise the pension. But in doing so, it again must be guided by equity.

More Teeth into Company Statute

A proposed amendment to Germany's limited liability company (GmbH) statute would help to curb frauds that often occur in connection with the founding of such companies. The number of GmbHs has doubled to about 83,000 in the past decade since it is relatively easy in Germany to establish a limited liability company and this corporate form is well tailored to business needs. The government-sponsored amendment would not change the basic structure of the 80-year-old law but would toughen some of its provisions.

The bill's key purpose is protection of creditors during a company's formative phase. To attain this objective, the amendment would:
- raise the minimum paid-in capital from DM 5,000 to 20,000;
- provide for a mandatory audit of formation by court-appointed auditors;
- tighten judicial controls over the entry of a company in the Commercial Register, and
- make company founders, managers, and auditors responsible for irregularities that may have occurred during the process of formation.

Another objective of the amendment is to bring GmbH rules in line with innovations contained in the 1965 Stock Corporation Act. Minority shareholders would be entitled to more information, and management would have to give them a look at company books. New rules would subject contractual relationships between related enterprises to nearly the same statutory regulations as apply to stock corporations.

EURO COMPANY SCENE

In what could become a precedent-setting case, the European Commission for the first time has moved against a buyer, rather than a seller, for alleged abuse of a market-dominating position. The Commission has accused Eurofima of Switzerland, a procurement company for the European national railroads, of violating Article 86 of the Rome Treaty. The company is said to have imposed illegal contractual terms on its suppliers by virtue of its monopolistic standing.

French Finance Minister Giscard d'Estaing has issued an ultimatum to the eight mineral oil companies that control France's entire refining capacity and almost all of the oil distribution facilities: five internationals - BP, Esso, Fina (Petrofina), Mobil, and Shell - and three French companies - state-owned Elf-Erap, Antar, and Total. The minister has given them until Oct. 1 to stop certain cartel practices discovered by the French Monopolies Commission in recent investigations or face prosecution by the state. The Commission has accused the companies of setting market quotas, price-and discount-fixing, reprisals against small competitors, and other such restraints of trade. It did concede, however, that the state itself has been limiting competition in this area since 1928, when it introduced import quotas for all the oil companies, virtually pre-apportioning the market. Although the oil companies also have pointed to this as justification for their pricing policies, they have declared their willingness to cooperate with the Monopolies Commission.

The labor conflict at France's state-owned Renault is continuing unabated, with fears that as many as half of the 93,000 automobile company employees may eventually be drawn into the dispute. Despite talks between the government-appointed mediator, Pierre Bois, and the two unions concerned, the Communist-led CGT and the independent leftist CFDT, no quick settlement seems likely. Management and labor cannot agree on the crucial issue of back pay for the 7,000 strikers originally locked out of Renault's Paris plant in March following a wildcat strike by 370 metal pressers. The workers insist on full pay, while Renault has offered only 47% until now. Meanwhile, strikes and lockouts at other Renault plants in France and Belgium have affected over 30,000 employees directly or indirectly, resulting in shortened work schedules and production cuts to half of Renault's usual daily total of 6,000 units. The CGT is pressing for intervention by Premier Pierre Messmer.

Strikes at the major factories of Peugeot, France's third largest auto maker, also remain unsettled, and a nationwide labor demonstration has been announced for May 1.

The British Steel Corp. has announced temporary steel price increases effective April 30 and indicated that further increases will be imposed at the close of Phase Two of the government's counter-inflation program at the beginning of October. Averaging some 9.5%, the increases are accompanied by the introduction of a basing point system in line with European Coal and Steel Community rules. Delivery prices thus will now reflect differing transport costs from base points. Under the previous British system, freight rates were averaged out. BSC's decision has incurred heavy criticism on two counts: first, that the schedules were announced only two weeks from the date of effective operation, so that steel users have next to no time to adjust to the new pricing system and to across-the-board price increases, and, secondly, because the size of the price boosts, 9.5 and a projected 4.5-5%, respectively, seems to contradict the government's prices code. In effect, steel products covered in ECSC regulations are exempt from price code control. BSC pointed out that steel users could have been informed of impending increases via nonoperative price lists that were scheduled for publication last fall, but that the government had refused to permit their publication. It also was indicated that in recent years BSC's prices had lagged behind international levels and that, even taking the present increases into account, prices would still remain below such levels.

Interlake, Inc., steel and steel products of Chicago, has founded Interlake-Europe, Inc., as a holding company for its European operations in the fields of packaging materials, tools, and machinery and warehouse equipment. The new company includes five subsidiaries in the U.K., Belgium, and Germany. As part of the arrangement, the U.S. parent has taken over British Steel

Corp.'s 50% interest in Garrard Industries Ltd. of England in exchange for a 20% stake in the new holding company.

Thomas Tilling of Britain has sold its 60% stake in the Sunderland (U.K.) manufacturer James A. Jobling to Corning Glass Works of New York, which has held the remaining 40% since 1954. Jobling is best known as a manufacturer of "Pyrex" dishes and industrial glassware. Tilling also has disposed to Corning its 8% holding in Electrosil, another glass-based electronic components manufacturer in Sunderland.

The U.K.'s Courtaulds has released details of a £25-million investment program in Ulster as part of the textile group's plans to "exploit" British EC membership. The investment calls for the construction of a spinning mill near Londonderry and a polyester fiber plant over the border in the Republic of Ireland at Letterkenny. Courtaulds also indicated it will expand production facilities at its polyester and nylon works near Belfast. These latest developments bring total new investment since November 1972 to £130 million. Much of Courtaulds' activities is geared to EC expansion, and part of the company's rationalization program has been to locate in development areas, thereby qualifying for large-scale U.K. government aid incentives.

Österreichische Philips Industrie GmbH is building a new color television tube factory that will represent the Dutch Philips group's largest investment in Austria since World War II. The first stage of construction, costing 470 million schillings ($23.5 million), is to be completed by April 1974. Philips' six Austria plants account for one-third of the country's electrical industry exports.

Dravo Corp. of Pittsburgh, Pa., and Generalfin of Italy's La Centrale group have each acquired a 30% interest in Compagnia Elettrotecnica Italiana (CEI). Headquartered in Milan, CEI operates five plants and is one of the largest Italian electrical contractors for chemical plants, oil refineries, steel mills, power plants, and large commercial buildings. Dravo also holds an interest in SOIMI, a Milan-based mechanical construction firm.

American Air Filter of Louisville, Ky., has established a Milan subsidiary for distribution in Italy of its air filter systems.

Finmare, the state holding agency for Italian Line, Lloyd Triestino Adriatica, and Tirrenia Lines, has announced it will aim at extending services on Italy's major trade routes by means of a new commercial fleet incorporating the most advanced methods of cargo handling. The gradual withdrawal of the nation's long-distance passenger fleet over a five-year period will coincide with an intensive $460-million investment program to provide the Finmare fleet with 36 new ships, mostly container ships, roll-on/roll-off vessels, and unit-loading carriers.

British Land has announced its intention of making a cash bid of over £60 million ($147 million) for the New York property development and investment group Uris Buildings Corp., reputedly Manhattan's "biggest landlord." The bid will be made through British Land's U.S. subsidiary in the form of a cash tender offer for all Uris outstanding common stock at $17.50 per share.

Common Market Reports

EUROMARKET NEWS

Issue No. 225 *Report No. 212, May 9, 1973*

A Shaky Consensus on Farm Prices

The farm price compromise reached in Luxembourg after a wearying round of negotiations has been described as no more than that - a compromise that once more prolongs the inequities and inconsistencies of the Community's common agricultural policy. The problems built into this policy will resurface sooner than anyone associated with the Luxembourg proceedings would like to see - at the latest in October when both the operations and the price mechanisms of CAP are to be reviewed.

In the May 1 agreement covering the 1973-74 fiscal year, the nine agricultural ministers of the Community basically adopted a proposal submitted by the European Commission just as the talks threatened to break down because of seemingly irreconcilable differences. These focused primarily on milk market policy and on border taxes - issues which found the Germans and French taking diametrically opposed positions. In the end, however, a compromise emerged that calls for farm price increases of 1% for cereals and other plant products, 7.5% for fruit and vegetables, 5.5% for milk (with wide-ranging differentiations), 10.5% for beef, 7.5% for veal, and 4% for pork.

Even though the producer prices for both milk and milk powder will go up as of May 14, the ministers felt compelled to lower the intervention price for butter for the first time. The milk price increase of 5.5% reflects a concession to France, which had pressed for 8.5% while most other countries did not want increases at all. But on another crucial issue - that of border taxes - the French failed to make a dent. Germany is collecting these temporary taxes from the Community to compensate its farmers for losses caused by currency fluctuations. The French had proposed gradual elimination of the border taxes but had to bow to Bonn's arguments that abolition would be too costly for Germany.

Commission Seeks Negotiation Mandate

As the finishing touches are being put on an international convention to speed customs clearance of containers, the European Commission has moved to assert the Community's position as a single negotiating partner - a right still challenged by third countries. In connection with the convention, Brussels has now asked the Council of Ministers for the power to act as the EC's

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sole negotiating agent. The Commission is confident of receiving this mandate, backed by the Treaty of Rome as well as by judicial confirmation by the Court of Justice.

Some work is still needed to reconcile differences on the draft conventions prepared in substance last November by the 50-nation Geneva conference which was sponsored jointly by the United Nations and the Inter-Governmental Maritime Consultative Organization. In this task, the Commission feels it should represent the Community countries as an entity since the subject matter concerns common commercial policy. Yet, during the negotiations, several third countries not only refused to accept the customs union (the EC's main pillar and an essential point in this convention) but also rejected the Community as a sole negotiating partner.

To forestall a similar situation in the current talks within the Brussels Customs Cooperation Council, the Commission is now seeking the mandate to assume the role previously held by the individual Community members of the Council.

Toward Uniform Product Liability

Since late last year experts of the Council of Europe in Strasbourg as well as lawyers and representatives of the member countries of the organization have been studying ways to bring about uniform product liability rules for their area. The European Commission also has sent observers, although the discussions have not yet gone beyond an exchange of views.

It is already obvious, however, that the member countries are falling into two camps: the great majority seems to favor a system of liability based on fault, while a smaller faction is opting for the concept of strict liability, leaving the manufacturer no possibility of exonerating himself if a consumer suffers injury or damage in using a product. Judging from the experience of harmonizing member state legislation within the EC, experts are inclined to give the fault concept a better chance of adoption simply because it is already inherent in the legal systems of most European countries. Aside from the obvious benefits to the consumers, uniform product liability rules also would make life easier for the manufacturers who would have to cope with only one set of regulations and standards when doing business in the Council's member countries.

Though rarely in the headlines, the Council of Europe has been very active in the past, notably in the areas of human rights and, among others, in harmonizing and coordinating social security legislation and patent law. Its active members include Austria, Belgium, Cyprus, Denmark, France, Germany, Iceland, the Republic of Ireland, Italy, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, and the U.K.

Uncertain VAT Effects in the U.K.

It is still too early to assess the impact of the introduction of value-added tax in the U.K. on April 1, but figures released by the Central Statistical Office suggest that VAT made its presence felt immediately prior to its introduction. Despite monumental publicity from various government agencies, a large degree of uncertainty as to the effects of the tax was registered up to and beyond V-Day. This was most evident in the unwillingness of certain traders to comply with regulations and register for the new tax and, more particularly, in the vagueness apparent among average consumers as to which prices would be going up, which would be coming down, and which would stay the same. On-the-spot interviews also disclosed a remarkable consumer indifference to VAT, deriving possibly from an increasingly evident British phlegm vis-à-vis prices generally - it is assumed that they will be going up.

This uncertainty is now mirrored in the statistics: spending on goods and services surged in the first three months of 1973, with expenditures provisionally estimated at £6.79 billion ($16.63 billion), more than 2.5% higher than in the fourth, pre-Christmas quarter of 1972. According to CSO interpretation, much of this increase can be attributed to strong growth in retail sales, which "no doubt have been made more buoyant by pre-VAT buying." An objective comparison will not be possible until consumer expenditure data is available for the second quarter, but it seems that there is a direct correlation between the decision to introduce the new tax and the consumers' decision to spend.

Bank of England Probes CD Market

As anticipated, the difficulties experienced by the Scottish Cooperative Society bank - ostensibly as a result of less than competent dealing in certificates of deposit - have prompted the Bank of England to institute an investigation into the CD market. The Bank has sent a questionnaire to some 270 U.K. banks asking them to detail their commitments in the CD sterling market.

This market has registered rapid growth since it began in 1968 and is now roughly estimated at around £10 billion ($24.5 billion). It also has shifted emphasis of late. Originally, it was seen as an extension of the interbank market, where banks with surpluses redistributed funds to others in need of them. Now, however, it has become a bidding market and banks can bid for fixed-term money in amounts of £50,000-plus and invest their surplus funds. A high proportion of the so-called "reporting banks" are authorized to hold and issue CDs and it is now common practice to raise money by issuing them and to lend money by buying those issued by other banks. When interest rates climb sharply, a healthy profit can be realized by raising money via the issue of long-term certificates and reinvesting the money raised in short-term certificates, which bring a higher yield. This practice can be dangerous, however, as the Scottish Cooperative experience has demonstrated. The Bank of England is anxious that this debacle not be repeated. It had already registered misgivings about the expanding CD market, and the recent salvage operation in Scottish Cooperative's case has precipitated the Bank's action.

Holland's Labor Crisis Terminated

An agreement in principle on ending the long wage dispute in the Netherlands has been reached by the three blue-collar trade unions and the employers. This followed a marathon round of negotiations as a result of which the unions withdrew their demand for an upper limit in the cost-of-living compensation. However, next to general wage increases, the agreement provides that all employees with an annual income of up to 28,000 guilders ($9,655) will be fully compensated for each successive 1% rise in the cost of living as reflected in the official index. Employees with an income of between 28,000 and 34,000 guilders receive 0.5% in compensation, in addition to a basic payment of 280 guilders, and those with an income of above 34,000 guilders receive 0.25%.

To cite an example: for each 1% rise in the cost of living, an employee with annual earnings of 42,000 guilders receives the basic payment of 280 guilders, another 30 guilders for the wage portion between 28,000 and 34,000 guilders, and 20 guilders for the remaining portion between 34,000 and 42,000 guilders.

Throughout the extraordinarily difficult negotiations, the employers had refused to bow to union pressure to put a ceiling on cost-of-living compensations, arguing that this would lead to an evening out of wage structures. Thus, most observers felt that the unions had to make more concessions than the employers in the talks, which were interspersed with weeks of strike actions affecting nearly all sectors of Dutch industry.

'Go American,' Dutch Investors Told

More Dutch capital than in the past should be deployed in the financing of foreign enterprises in the Netherlands, according to acting Finance Minister Nelissen, who spoke at a recent ceremony opening Upjohn Polymer's new chemical plant in Delfzijl. Nelissen challenged the practice of foreign "and therefore also American" companies in Holland financing their investments with their own capital. Given the present world currency situation, the minister said, it would be better anyway if Dutch companies invested their money in the United States rather than vice versa.

According to a March report by the Dutch economics ministry, U.S. companies in 1970, 1971, and the first 10 months of 1972 had invested some 2.1 billion guilders ($724 million) in Holland - 40% of the total foreign investment during that period but only 3.8% of total domestic investment. These figures were cited in answer to a parliamentary inquiry quoting alleged statements by Holland's three major unions to the effect that the country's economy was largely dependent on U.S. capital. Earlier, a Bank of America publication put Dutch investments in the United States at the end of 1970 at $2.121 billion, of which Shell and Akzo accounted for three-fourths, while the remaining 25% was shared by about 40 other companies.

Athens Boosts Minimum Wages

The Greek government has raised minimum wage levels with the twofold purpose of compensating for the higher cost of living and bringing the country's wages somewhat closer to West European standards, thus offering more encouragement to Greek workers to stay home. Many domestic industries have been suffering labor shortages as a result of the migration to the north. The Athens regime in an April 28 statement announced, among other things, the following measures:

- A 28% rise in the daily minimum wage for unskilled male workers will be implemented in three steps. The first became effective on May 1 with an 8.7% increase to 125 drachmas. Subsequent increases of 8.7% will bring up the minimum to 145 drachmas by July 1, 1974.
- Women's daily wages are being raised by 10% to 105 drachmas, to be boosted further to 126 drachmas by mid-1974.

- Minimum monthly salaries (and this includes equal pay for women for the first time) will be raised by 25% in three stages to reach 3,000 drachmas a month next year. The lowest-paid white-collar employees in private industry now draw about 2,400 drachmas.

These measures follow close on the heels of an anti-inflation program announced by the government at the end of March. That package included the planned curtailment of public expenditures, a temporary reduction of the short-term bank loan volume to industry, higher minimum reserve requirements for commercial banks, and tighter consumer credit. The booming construction industry, blamed for a great portion of homemade inflation, was hit with broader credit restrictions. In addition, the government decreed a surtax of 10% on real estate and property purchases valued at between 400,000 and 1 million drachmas, and of 15% thereafter. The surtax is to be limited to one year (March 31, 1974).

Having thus aimed at the sources of domestic inflation, the government apparently is now ready to somewhat liberalize its strict price controls enforced since July 1971 pursuant to Law 918.Inthefuture, Athens reports say, only those proposed price increases which would have a direct bearing on the cost of living will be subject to official approval.

AROUND THE MARKETPLACE

Vienna As an East-West Trade Hub

Not entirely unexpectedly, the Austrian government has received support from the U.N. in its quest to make Vienna the site for an international research and documentation center for East-West trade. Although such a choice may not go unchallenged, inasmuch as international financial contributions are expected, Vienna undoubtedly can present impressive credentials by virtue of its increasingly stronger role as a gateway to Eastern trade. A study just released by the city administration shows that some 200 companies and a number of banks are either exclusively or overwhelmingly engaged in trade relations with Eastern Europe. And it is not just a one-way street: several state trade organizations from Comecon countries also have set up Vienna offices to foster their side of the business with the West.

The city's growing status as a meeting place for trade with the socialist bloc follows from a combination of factors: Austria's favorable geographic location, its neutral political status, plus the fact that it maintains close economic ties on its own with West, South, and East European countries. Austrian industry expects to get an even bigger share of East-West trade once the Rhein-Main-Danube Canal is completed.

The establishment of an international research and documentation center would, of course, lend some permanence to Vienna's aspirations. And it might just bring back, as some Austrians hope, a bit of the glory of former eras.

EURO COMPANY SCENE

Ford Motor Co. has applied to the Spanish government for permission to establish a 100% subsidiary in Spain to operate its proposed $350-million automobile plant near Valencia. The new factory, to begin production in 1976, would have a yearly capacity of 240,000 cars and employ 8,000.

Iran's national oil company and the Belgian government have founded a state petroleum concern, Refining and Marketing Co. SA (Ibramco), in Belgium with a basic capital of BF 6 million (about $150,000). Ibramco is to set up a refinery in the Liège development region, a former coal-mining center. The announcement that management of the new company would include three leading Belgian Socialists, among them the secretary general of the economics ministry and the chief of Economics Minister Claes' cabinet, caused momentary consternation within the country's ruling coalition, but the government soon confirmed its support for the joint venture on economic grounds. While Socialists have hailed the project as a model for direct cooperation between a consumer country and an oil-producing nation, private petroleum interests in Belgium are skeptical about the success of a Liège-based enterprise and are dismayed at the prospect of having to share confidential marketing information - as required by price control law - with a firm in which the government is directly represented.

The Norwegian parliament has finally voted to approve the government's plan to pump Ekofisk oil to Teesside, England, and gas to Emden, Germany. The offshore North Sea oil fields are operated by the Phillips group of the United States, which will hold half of the company formed to own and operate the pipelines, with Norway taking the other half. The pipelines, costing 5-6 billion kroner ($855 million-$1 billion), will have an annual capacity of 50 million tons of oil and 16 billion cubic meters of gas, later to be increased to 26 billion cubic meters. As part of the arrangement, Norway is to receive enough petroleum raw materials for an annual production of 250,000 tons of ethylene over a 15-year period, starting in 1976.

Mobil Oil AG has contracted with Germany's Salzgitter Stahlbau GmbH for construction of a major oil tank complex for Mobil's projected new refinery at the North Sea port of Wilhelmshaven. Valued at DM 35 million ($12.5 million), the contract is the largest of its kind ever awarded in West Germany. Salzgitter will be utilizing U.S. license technology for the production of underwater tanks to store petroleum on the ocean floor.

Sources in Athens have announced that the Soviet Union will build a 375,000-kW power plant in Philippi, Northern Greece. The project, calling for investment of some $89 million, is scheduled for completion by 1977.

SNIA Viscosa of Milan has signed an agreement with the Rocketdyne Division of Rockwell International Corp. for production and exclusive marketing rights in the NATO area of propellent fuel. In collaboration with Rocketdyne, SNIA has built a production plant where the product also can be subjected to simulated altitude tests.

A division of Combustion Engineering, C.E. Refractoires, has signed a license and technical assistance agreement with Italy's Società Italiana Refrattari Marchera Azionaria whereby SIRMA will produce "Ramtite" refractory material used in steel and chemical plants.

The U.K.'s Lec refrigeration, one of the largest manufacturers of refrigerators and freezers in the country, has announced plans to open a manufacturing facility in Calais, France. Lec was in the news recently following the conclusion of wholesale distribution agreements with Evapo of Belgium and Machinefabriek Noord-Brabant of the Netherlands.

Cooperation partners Roussel Uclaf pharmaceuticals of France and Germany's Farbwerke Hoechst AG have announced plans to establish a joint marketing subsidiary in the United States. Hoechst has a 43% interest in Compagnie Financière Chimio, a holding company that controls another joint venture involving Roussel Uclaf, Société Centrale Roussel-Nobel.

Poland's Polimex-Cekop state foreign trade organization has awarded two German companies, Kronos-Titan GmbH and Krupp Chemieanlagenbau, a contract for joint construction of a Polish chemical plant to produce titanium dioxide pigments. The factory, to cost about $35.7 million, will have an annual output of 36,000 tons. The first of its kind in Poland, it will furnish pigments for the paint, dye, plastics, rubber, and fiber industries. Start of production has been set for mid-1976.

Siegener Maschinenbau GmbH (Siemag) of Germany has signed an agreement to supply the Soviet Union with one of the largest aluminum rolling facilities in Europe. The DM 100-million ($35.7-million) assembly will have an annual capacity of 200,000 tons and will be delivered during 1973-74. Siemens AG also is involved in the project.

Alcan of Canada, Pechiney-Ugine-Kuhlmann of France, and Spain's state industrial holding group INI will form a joint venture to build and operate a 26-billion peseta ($448-million) aluminum foundry plant in northwestern Spain. According to the Spanish government, INI and Alcan together will control 55% of the new company, with the remainder to be held by PUK and Aluminio de Galicia, its Spanish subsidiary. The plant complex is to be completed by 1977 and will have annual capacities of 800,000 tons of aluminum oxide and 175,000 tons of aluminum products.

The papermaking operations of Grimsby (U.K.)-based Peter Dixon, scheduled to cease at the end of June for "economic reasons," have attracted the attention of Media General, Inc., of Richmond, Va. Media holds U.K. and U.S. patents on a de-inking process enabling newsprint to be recycled. The London representative of Central National Corp., a leading U.S. pulp and paper merchant, has been an active participant in talks with Dixon and Media General, and there is widespread speculation that a takeover is in the offing.

The U.K.'s Bowater-Scott Corp. has announced expansion and modernization plans involving capital investments in the order of £8.75 million ($21.43 million). The company, jointly owned by Bowater Corp. and Scott Paper Co. of Philadelphia, made the announcement at a time when the U.K. paper industry as a whole has shown signs of pessimism. Bowater-Scott believes, however, that its own special field of tissues and non-woven products is expanding rapidly.

The small independent British company Luxfer Holdings, which manufactures aluminum gas cylinders, has ceded one-third of its equity to Alcan in exchange for a plant at Riverside, Calif., where Luxfer will potentially be able to double its total turnover. Access to the American market has been difficult since the importation of gas cylinders is forbidden.

With the backing of the Swiss government, Longines and Omega, manufacturers of precision timepieces, have decided to join forces in a new venture, Schweizerische Gesellschaft für Sportzeitmessung AG (Swiss Timing), which will compete for timing contracts for sports events around the world - the 1976 Olympics in Innsbruck and Montreal, in particular. Shareholders in the SF 50,000 ($15,600) base capital are Longines, Omega, and the Fédération Horlogère Suisse FH, which eventually will sell off two-thirds of its stake to outside buyers. In addition, Swiss Timing is being financed by the Swiss clock and watch industry (SF 11 million), other branches of Swiss business (SF 1 million), and the Confederation, the canton of Bern, and the city of Biel (SF 2.5 million).

Hoffmann-La Roche, the Swiss parent of the U.K.'s Roche Products Ltd., has claimed that the group's British profits were - in spite of allegations made by the U.K. Monopolies Commission - one hundred percent justified. The company does not plan to repay profits made in the U.K. from the sale of the tranquilizers Valium and Librium, as the Commission recommended, and will appeal to the House of Lords for a judgment. It said it would have to reconsider its position in the U.K. thoroughly if the appeal should fail. Hoffmann-La Roche, spokesmen said, may also consider taking the case to the European Court. This step may be necessary, since th British government has passed on the Monopolies Commission's report to the European Commission in Brussels and there is a distinct danger, from Roche's point of view, that other governments might follow the U.K. example.

In rebutting the charges, the Swiss firm insisted that the pricing of the products involved "cannot be faulted on a comparative or competitive basis" and that the "height of the profits which result from the high volume of sale...is a consequence of their efficacy and competitive price." The company went on to say that a very large part of after-tax profits has been used to expand research at a rate "greater than any other major research-based drug firm."

The largest merchant bank in the City of London has been created as the result of an agreed deal between Slater, Walker Securities and the Hill Samuel group. The new group will have a market capitalization of some £260 million ($637 million) and gross assets in the region of £1.5 billion. The merger should lead to the emergence of a powerful international financial combine, in about the same category as S.G. Warburg/Paribas. The link-up is also important inasmuch as it marks a break with the concept of the merchant banker as a broker who works in conjunction with other City groups to provide a package deal for a client; the new group should be able to offer complete "in house" deals.

On the announcement of the merger, Slater, Walker shares fell to a new 1973 low, thereby eroding more than £20 million of the market value of the new group before it gets on the way. A further, though theoretical obstacle is the inevitable Monopolies Commission investigation of a merger that will literally affect the whole of British industry.

Common Market Reports

EUROMARKET NEWS

Issue No. 226 May 15, 1973

Brussels Zeroes in on Remaining Trade Barriers

The European Commission's zeal in moving the EC closer to a genuine Common Market has been brought out in its five-year industrial policy program that calls for the abolition of the remaining technical barriers to trade, more competition among businesses, elimination of discrimination against foreign enterprises' bidding on national public contracts, and cooperation among government-owned banks so that enterprises established in one state could secure credits from institutes in another state.

To remove the still existing trade obstacles entailed in national laws (establishing, for example, different production and safety standards), the Commission intends to double the number of draft directives it usually sends to the Council of Ministers each year and plans to submit a total of 100 of these in the 1974-77 period. They would be in addition to 81 directives, either adopted or still under Council consideration, aimed at removing those obstacles. During that four-year period, the Commission will also draft several directives that would eventually liberalize intra-Community sales of pharmaceuticals, an area in which free trade practically does not exist.

Another important factor in the Commission's industrial policy is promotion of competition, either by facilitating interstate mergers of small and medium-sized enterprises and turning them into viable entities capable of competing with large companies, or by introducing preventive merger controls against corporate giants having the potential to threaten freedom of competition. No details have been mapped out as yet, but requirements for pre-merger notification are being studied in Brussels. A draft regulation to be sent to the Council this year would allow elastic forms of cooperation between enterprises of different states, regardless of their legal form or size.

It is not a contradiction to the principle of free competition that the Commission is prepared to allow and even help enterprises in heavy industries to exchange information on their investment plans so long as they refrain from limiting their freedom of decision by entering into legal agreements. In allowing this flow of information, the Commission believes that investments could be coordinated on a Community-wide scale and that there would be no waste in regional or specific aids given to individual industries by national governments.

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Token Modifications for French Price Controls

As was generally expected, the French government has now made it clear that price controls will continue to be a fact of life for business and industry in France. Some modifications of the system, announced by Finance Minister Valéry Giscard d'Estaing, are regarded as only a small consolation for the Patronat, the employers' federation, which recently had called for complete abolition of these controls. Under the modified terms, companies that have entered into a price control contract with the state will be authorized to lift their prices by 3% plus any increase in raw material costs. Those which do not choose to take advantage of the raw-material clause are entitled to a general markup of 3.6%. (The latter is, in fact, the over-all target the government has set for product price increases this year).

In other areas, the price control system continues virtually unchanged. Small business and manufacturers of certain products (TV sets, phonograph records, photo products, for instance) battling stiff international competition are relatively free to determine their own prices. And the retail trade, as before, has to contend with a freeze of relative profit margins.

A slight shift in the professed aims of the program was indicated along with the modifications. The government said the intent is no longer to achieve a certain fixed rate of inflation but - in order to protect France's export markets - to hold domestic inflation about 1% below the average rate of the main trading partners.

Yet, the ultimate success of such a policy has been immediately questioned. Business leaders are pointing out that the current 6% inflation rate for industrial products has not been equaled in 10 years and prevails at a time when stockpiles are low and capacities strained to the limit. These inflationary pressures were readily acknowledged by Giscard d'Estaing, who commented that the effects of the reduction of added-value tax rates earlier this year are now beginning to wear off. The retail price index for the month of March, for instance, rose by 0.5% - for a total of 6.4% since March 1972. Without the VAT reduction, the spread would have been even wider.

Food Prices - a Touchy U.K. Issue

The U.K.'s Price Commission has started to function under the government's Phase Two counter-inflation program and has already received more than 100 claims from Britain's largest companies, i.e., from more than half of the 177 U.K. "giants" obliged to notify the commission of price increases in advance of implementation.

It is significant that six major food companies have submitted claims in spite of the fact that the rising cost of food is one of the hottest political issues in Britain and one which the government must resolve if the upcoming tripartite talks between the government, employers, and labor unions are to have even the slightest chance of success. One company, Quaker Oats, is reported to be looking for increases varying from 10 to 20% throughout its product range. (An application from Quaker Oats had been rejected under Phase One controls). Similarly, Heinz and Campbell's Soups are in the Price Commission queue, and several bread companies are contemplating increases.

In the light of the political situation, the announcement in the House of Commons that the price of one commodity, butter, has been reduced and will be prevented from rising for the remainder of the year, was greeted with more than commensurate enthusiasm by the opposition Labour Party and the labor unions (Trades Union Congress). As of May 14, U.K. consumers benefit from a general subsidy of approximately 2p per pound on all retail butter purchases. The total cost of the subsidy will be around £18 million ($44.1 million), half of which will be borne by the Exchequer and half from EC funds. In addition, some five million people will be eligible for a selective welfare subsidy of 10p per pound. If this subsidy is fully taken up, the total cost - repayable from EC funds - will be around £3 million. The EC, however, wants detailed definitions of "eligibility," and the welfare program will not get under way until mid-June.

The Labour Party and the TUC see the subsidies as an important breakthrough. The Conservative government has consistently maintained that it will not subsidize food, in spite of severe pressure from the Opposition and from the lower-paid. The fact that the subsidies are via the EC, however, has provided government ministers with some semblance of an out.

British Challenge Banking Rules Draft

The president of the British Bankers' Association has attacked the EC draft directive on the harmonization of Community banking regulations on the grounds that it is trying to go too far too fast and in too detailed a manner. The draft directive, which envisages elaborate codes in respect of assets and liability ratios, reporting procedures, foreign branch controls, and licensing systems, was termed "too rigid and inflexible." British opposition to the draft was widely anticipated: one of the tenets of the BBA is that self-regulation will be more effective in the long run than strict regulation imposed via detailed legislation.

The BBA president's attitude mirrors that of the governor of the Bank of England, who recently lashed out against "legislation to satisfy bureaucratic tidiness." U.K. banks enjoy considerable latitude when compared with their Continental counterparts and they will certainly not cede this advantage without a struggle. Continental bankers, on the other hand, may be glad of the British opposition to the draft directive inasmuch as any relaxation at EC level could conceivably restore competitive balance vis-à-vis the "privileged" U.K. banker.

Party Rivalries Dilute Dutch Program

The newly assembled government of Holland's Prime Minister Joop den Uyl, resting on an uncertain coalition of no less than five parties, has emerged with a tentative program somewhat diluted by political compromise. Predictably, the two Christian Democrat minority parties of the administration were forced to offer more concessions than the three leftist parties represented in the cabinet.

Though not yet officially confirmed, the basic provisions of den Uyl's program include cutbacks in defense expenditures, plans to expand the communities' powers in real estate purchase options, a leveling of the progression curve for income taxes and social contributions, and the commissioning of a study on the proposed coupling of social contributions to the legal minimum wage rate.

The new coalition government will occupy 97 of the 150 seats in Parliament, which ordinarily would make for a comfortable majority. However, there have been widespread doubts on the political viability of the administration, given its shaky foundations.

Den Uyl has started his difficult assignment just as the country's labor crisis ended in a settlement but with inflation looming as a "black mark" on the country's otherwise respectable economic performance. Last month, the Centraal Plan Bureau (CPB) forecast that prices this year would rise by 8 to 8.5% and wages by 13.5%, estimates that many consider far too conservative. The Dutch Central Bank has urged a parallel reduction of wages and prices as the government's only course of action to clamp a lid on the inflationary boom, one of the worst in Europe.

Italy's Postal Strike Takes Its Toll

Resumption of normal postal services in Italy was not expected until the end of May as a result of the huge backlog of mail accumulated during the 24-day strike of the country's 180,000 postal workers. The walkout finally ended after the government met the unions' demands on nearly all counts. The agreement called for substantial wage raises, a shorter work week, and a number of other benefits. In addition, the government agreed to submit by the end of the year a reform plan for the modernization of the Italian postal system and to hire extra personnel (the unions want 13,000-15,000 additional employees).

The stoppages are estimated to have inflicted 150 billion lire ($250 million) in damage to the country's economy, and the settlement terms will cost the state another 100 billion, according to union spokesmen. About the only beneficiaries of the walkout were the legal and illegal private mail-forwarding agencies, which capitalized on business needs for speedy and safe delivery services. Thus, a normal letter from Milan to Turin reportedly cost more than $1 in "postage," and a special-delivery message from Turin to Naples nearly three times that much. Yet, practically all of Italy's large corporations made almost exclusive use of the courier services. Enormous losses were incurred by the mail-order houses, for which the private rates were too exorbitant.

The inefficiency of the Italian postal service has been proverbial even during normal periods. All reform attempts undertaken since the war have been to no avail. So far six commissions have worked out reform proposals, but only one - involving the decentralization of postal administration - found its way into legislation in 1968 (without actual implementation, however).

Swiss Industry Faces Costly Water Standards

Compliance with a government regulation establishing uniform water quality standards throughout Switzerland would cost industry "a lot of money," according to Bern sources. The draft of the regulation is nearly completed at the Ministry of the Interior and, based on the few details known so far, it seems to follow the tough policy laid down in last year's Water Protection Act. It would replace the 1966 directives offering mere guidelines that allowed cantonal and local enforcement agencies some discretion in granting new licenses or imposing conditions on existing establishments.

If the regulation is adopted in its present form, detergent manufacturers, for example, could be required to reduce or remove certain non-biodegradable substances in some popular, efficient detergents. The level of these substances in the country's rivers has risen in recent years, even though the streams now carry fewer solid pollutants as a result of previous anti-pollution efforts.

The regulation would set standards for industrial effluents discharged into rivers and sewage systems. Manufacturers would be required to see to it that their products, or the materials used in packaging these products (plastics), would not burden the environment.

There is a chance, however, that the federal government may retract some of the rigid provisions during upcoming hearings when the cantonal governments, as the enforcing agencies, and industry have an opportunity to express their views on the draft.

Bonn Announces "Drastic" Stability Program

Reflecting its growing concern with the acceleration of domestic inflation, now at a rate of 8%, the German government has submitted legislation on a 21-point "stability program" designed to take a total of DM 15 billion ($5.26 billion) out of circulation. Even in Bonn some of the measures were described as "drastic and, in some cases, painful," but generally the government action was welcomed as the first concrete evidence that the Brandt Administration is beginning to wake up to the existence of galloping inflation. In fact, most critics - among them the Economic Advisory Council - feel that Bonn's move was long overdue and may be too late to show any appreciable impact this year.

Among the most significant provisions of the *Stabilitätsprogramm* announced on May 10 by the finance and economics ministers were the following:

- An 11% investment tax to be imposed for a maximum period of two years, but possibly to be lifted sooner at the discretion of the government.
- A one-year suspension of tax write-offs on capital goods.
- A non-refundable "stability surcharge" of 10% on taxable personal and corporate income exceeding DM 24,000 (single persons) and DM 48,000 (married couples) annually. (About one million taxpayers are expected to be affected by this surcharge, which also is to remain in effect for one year and will draw off DM 4.6 billion by the end of 1973).
- A one-year suspension of the tax write-offs by home owners.

EURO COMPANY SCENE

The European Commission is investigating a complaint by Placid International Oil Co. of the United States against the Netherlands for blocking the delivery of natural gas from a Dutch field to a West German importing group. The Dutch economics ministry ordered Placid, the concessionaire, to supply Holland's own Nederlandse Gasunie NV instead. The Commission has indicated that this action could represent a violation of Rome Treaty Article 34, which forbids unjustified trade restrictions between EC member states.

The Dutch government meanwhile is expected to exercise its option to take a 40% stake in three other gas concessions in the

Netherlands North Sea sector. The three groups, which have applied for production licenses, are Nordwinning - headed by Pennzoil and including U.S., British, Dutch, and German partners- Petroland of France, and Shell-Esso's Nam exploration venture.

The U.K.'s Roche Products, like its Swiss parent Hoffmann-La Roche, has opposed the findings of the Monopolies Commission in its recent investigation into the company's tranquilizers Valium and Librium. Part of Roche's objection relates to the procedures required under the Monopolies and Mergers Act: had these been strictly observed, the company claims, it should have been given six weeks in which to make representations before the Secretary for Trade and Industry issued a draft order. In a petition submitted to the Special Orders Committee of the House of Lords, Roche calls the Monopolies Commission allegation that it had earned excessive profits "unjustified and wrong." The company argues that the commission recommendations as implemented by ministerial order disregard actual overheads and "fair" profits.

Most important, however, is Roche's contention that the commission, in suggesting establishment of a limit to the amount of R&D costs recoverable from sales, has not sufficiently explored the implications of its own recommendations by failing to define with any precision the level of research and sales promotion expenditure that is "appropriate." Moreover, the petitioners claim, the commission made no attempt to compare prices charged by prescription drug manufacturers at national or international levels.

In the wake of the U.K. action, Germany's Federal Cartel Office has now started its own investigation of Valium and Librium prices. First reports, based on the findings of the Monopolies Commission , indicated that the German wholesale prices of these two drugs are "rather high" - in fact, at least twice as high as in Britain. The German cartel authorities have asked Hoffmann-La Roche, via its German subsidiary, to submit detailed information on prices and costs. The Basel-based drug concern, incidentally, is listed among a group of pharmaceutical manufacturers that the Cartel Office is investigating for possible exploitation of dominant market positions. The cases, still pending, emanate from a probe of the German drug market that was started in 1968 and resulted in concrete investigative actions last year. The other producers to have come under scrutiny are Bayer, Boehringer, Ciba-Geigy, Heyl, and Merck.

In related developments, the Cartel Office has fined U.K.-owned Reckitt GmbH DM 12,000 ($4,300) for illegal price recommendation practices in the sales of cosmetics. Similar actions are pending against a number of other manufacturers of cosmetics and cleaners.

While the highest bid for the U.K.'s Rolls-Royce Motors was not disclosed, observers agree that it was probably in the region of £35 million ($86 million). What did emerge from the auction was that the company will stay British: no bids were received from foreign-controlled companies, probably because it was recognized that this was an emotional, strictly British affair. Underwriters Rothschilds then had to determine whether an offer for sale could top the highest bid and it was decided that the tender bids submitted were in effect too low. As a result, 100 City institutions are now guaranteeing the success of a public flotation offering 36 million shares at 90p (together with ƀ6 million of loan stock at 8%, priced at par and convertible in the period 1975 to 1989). The total value of the flotation was thus ƀ38.4 million.

Italy's Montedison has obtained union approval of plans for reorganization of its problem synthetic fiber division, Montefibre, which showed losses of about $143 million last year. In presenting its five-year, $5.4-billion investment plan, Montedison had to guarantee the 30,000 employees involved that it would set up substitute plants to accommodate workers laid off through the shutdown of unprofitable factories. Some $121 million has been earmarked for this purpose, making this the first time that labor has had a decisive say in the investment policy of a major Italian concern, according to observers.

Recent efforts by Montedison to buy up shares of Snia Viscosa in order to integrate the company - in which it already holds over one-third - with its own fiber interests are being vigorously opposed by Snia board members and minority stockholders, such as state-owned ENI. Montefibre and Snia between them represent more than 80% of Italy's chemical fiber production capacity.

Although some 80% of the last 7,000 holdouts from the Renault strike have returned to work at the company's Paris plant, the unions say that the dispute will not really be settled until new contract terms are hammered out at current labor-management negotiations. Most employees appear to have accepted Renault's offer of 55% back pay for time lost during the two-week lockout in March. The remaining issue of reclassification of pay grades - which would largely benefit unskilled immigrant workers - is still unsolved, however, and could bring renewed striking if Renault balks at union demands.

The strike at Peugeot continues unabated, for its part, with management reportedly refusing to bargain with the unions. Labor insists on revocation of all sanctions and punitive dismissals as well as compensatory back pay.

British Petroleum has announced plans to spend up to ƀ500 million ($1.22 billion) in the course of this year on new oil fields, plants, and tankers, including some ƀ140 million on the Forties Field in the North Sea. This massive investment represents the highest spending rate ever for a U.K. company and marks a dramatic increase over 1972's ƀ333-million budget. Spokesmen for BP stressed that such investment was mandatory in order to achieve better returns in the industry.

Germany's Erno Raumfahrttechnik GmbH, of the German-Dutch VFW-Fokker group, is organizing a 13-member international consortium to carry out preliminary work for the "Spacelab" project, part of the United States' post-Apollo program. Participants include Dornier, AEG-Telefunken and SEL of Germany, Italy's Aeritalia, Hawker Siddeley of England, Engins Matra and Thomson CSF of France, Spain's Inta and Sener, Bell Telephone and Sabca of Belgium, and VFW-Fokker. Some DM 35 million ($12.5 million) has been allotted for the current definitive phase of the project, which is being financed by Germany (49%), Italy (20%), the U.K. and France (10% each), Belgium and Holland (4% each), and Spain (3%). By Aug. 15 the various governments concerned must decide on the basis of detailed cost estimates whether or not they are prepared to tackle construction of the Spacelab, which would represent Europe's first move into manned space travel.

Italy's Nardi Costruzioni Aeronautiche, part of the EFIM group, plans to begin construction this year of a $17-million plant at Ascoli Piceno to build helicopters under license from Hughes Aircraft Corp.

The third-largest industrial group in Europe, British-American Tobacco, has made a £9-million takeover bid for the U.K.'s Pricerite supermarket chain. Pricerite shares were suspended in February following the discovery of discrepancies between "internal management account and the 1972 figures." It is known that several companies - such as Tesco, Wrenson Stores, and Fitch Lovell - have been contemplating a rescue bid for the group, which is expected to show before-tax profits for 1972 substantially below the £750,000 originally forecast. Pricerite directors have warily endorsed the BAT offer, but there is considerable likelihood of a rival bid.

Green Giant Co. has agreed with an Italian food processing company, Lusuco, to grow and process Green Giant sweet corn in northern Italy. Under the one-year contract the corn will be sold within the Common Market by Green Giant's international division. Lusuco has annual turnover of about $11 million.

Jacques Borel International of France (62% controlled by W.R. Grace of the United States) has organized a new subsidiary, Société Franco-Italienne de Restauration et d'Investissement (FIRI) to acquire participation in Italian restaurants. FIRI has already taken over a majority interest in Cusin Alimentari, a Milan food company.

Holiday Inns, the U.S. motel chain, has opened its first Swiss motor inn near Zurich airport. The SF 33.4-million ($10.4-million), 600-bed hotel was built and is being operated in franchise by Switzerland's Mövenpick group. Two more Holiday Inns are planned for Zurich and Bern. In 1974 the group announced it will open its first East Bloc motel in Cracow, Poland.

Through its Luxembourg holding company Banco Ambrosiano of Milan is to acquire a 9.3% interest in Union Commerce Corp. of Cleveland, Ohio, parent company of the Union Commerce Bank of Cleveland, through a $15.6-million investment in convertible bonds.

Continental Illinois, a wholly-owned subsidiary of the Continental Illinois Corp., has been established in London as a major merchant banking facility. Continental is capitalized at $20 million and intends to develop the customary range of merchant banking activities, notably in shipping and property finance.

Mellon Bank has purchased a one-third interest in the London merchant banking subsidiary of First Boston Corp., First Boston (Europe).

Common Market Reports
EUROMARKET NEWS

Issue No. 227 *Report No. 213, May 22, 19[illegible]*

Chambers Fight Threat to Tax Holidays

Organized American business in Europe is worried over proposed tax legislation pending in Washington that calls for the taxing of unrepatriated earnings of U.S. companies in countries offering tax holidays, specifically the Republic of Ireland, Northern Ireland, Italy, and Belgium. Such a move would leave these companies at a competitive disadvantage with other foreign companies, the Council of American Chambers of Commerce in Europe and the Mediterranean (Euromed) believes. According to a U.S. government report, the Nixon Administration has proposed the amendment against a tax holiday because it considers this "an undesirable use of income tax structures which create distortions in the application of U.S. tax rules."

While generally coming out in support of President Nixon's Trade Bill, the Euromed Council intends to rally Congressional opposition to accompanying tax legislation proposals such as the one concerned with tax holidays. The American Chambers in Europe have reiterated their stand against the Burke-Hartke Bill whose passage, they claim, would provoke "massive intervention" in Europe against U.S. trade.

In related news, it was announced that Euromed's secretariat - located in Brussels for the past 10 years - has been relocated in Frankfurt.

Brussels May Aim for 0.4 Lead Content

An internal working paper prepared by the European Commission would require EC member states to enact legislation on the reduction of the lead content in gasoline to 0.4 grams per liter by mid-1976. To Brussels, this standard appears to be the most workable, in view of the fact that some states have no rules at all in this area while Germany, with the most advanced legislation, is aiming for a target of 0.15 grams by 1976. At present, Germany applies the 0.4-grams standard, which Brussels evidently regards as reasonable enough.

Should the working paper be converted into an official Council draft directive, this would indicate a change of mind. Only a couple of years ago, Commission officials felt that the then existing "degree of air pollution through lead did not pose an immediate threat to the health of the people, not even in the big cities." Consequently, Brussels had been having some mis-

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givings about the initiative Bonn had shown with its 1971 statute, which (because of some technical adaptations it required) was regarded as a potential barrier to intra-Community gasoline and automobile trade.

There is now evidence, though, that the Commission is somewhat more ecology-conscious, particularly since the U.N. Conference on the Environment in Stockholm and the Paris Summit last year, at both of which the importance of a common environmental policy was emphasized. Besides, Brussels may have found it difficult to pinpoint the impact the German statute may have had on interstate trade. Even if there has been any perceptible impact, this drawback would eventually be eliminated as the Community raises the antipollution standards for other member states. Such a move should be an encouraging beginning for the common environmental policy outlined by the Commission in its recent action program.

Commission Objects to Dutch 'Energy' Law

Acting on a complaint by the American company Placid International, the European Commission has informed the Dutch government that a 1967 law under which The Hague banned the export of domestically produced gas or oil is in fact in violation of the Treaty of Rome. The Dutch government was given four weeks to reply to the charge. The law in question obligates concessionaires (such as Placid) to sell to the state monopoly Gasunie as much oil or gas procured from the Dutch Continental Shelf as is required by national needs. Because of this proviso, Placid says it has been unable to meet contracted deliveries to a West German utility consortium.

Company Law Draft Submitted in Italy

A government-appointed commission of experts reportedly has delivered the draft of a new company law that, in 50 articles, would bring a long overdue reform of Italy's corporate law. Aside from eliminating many of the existing deficiencies, the proposed law also would be more in line with company legislation elsewhere in Europe. Among the provisions of the draft are said to be the establishment of "savings" shares carrying a special tax status, a ban on the exchange of shareholdings between companies, stricter information requirements to benefit shareholders, and revamped rules for company auditors. The legislation also would ease access to Italy's stock exchanges, on which fewer than 150 companies are now listed. Further details on the draft were not yet available.

France to Do Away with 'Patente'

The French government has announced the pending abolishment of the *patente*, the much maligned business license tax assessed by the communities and *départements*. The tax, the extent of which varies considerably depending on location and nature of a business activity, in the past years has produced revenues at a comparatively much faster rate than federal taxes. Last year *patente* revenues totaled some FF 7-8 billion ($1.6-1.8 billion). The government intends to create a new tax instead, but so far has not detailed its plans.

Vienna Drafts Tough Labor-Management Law

A controversial labor-management reform bill proposed by the government of Chancellor Kreisky is bound to put a severe strain on Austria's often praised social partnership system, the loosely institutionalized alliance between business and labor that had contributed so greatly to the country's postwar recovery. The proposed law, scheduled to take effect on Jan. 1, 1974, would further expand the powers of the works councils and unions and would make works councils mandatory even for businesses with fewer than 20 employees.

The bill provides that management would have to seek works council approval before shutting down operations or reorganizing production capacity. If management and the council fail to reach agreement within one week, the matter would be turned over to a commission made up of an equal number of business and labor leaders. The commission's possible failure to come up with a solution would empower the federal government to step in and decide on its own. Also, works councils would have to be consulted prior to any hiring, dismissal, or promotion.

The unions' presence in enterprises and on supervisory boards has been a major point in the debate. Section 45 of the draft, which totals 170 sections, would make it mandatory for each supervisory board to have one-third of its members chosen by the work force. These board members need not be employees but could be union representatives. The unions' strengthened role is underlined in another provision that would entitle the strongest union represented in an enterprise to call a workers' assembly if the company has more than 200 employees and yet lacks a works council or has one that does not function properly.

The bill is to be considered in Parliament before the summer recess, but observers doubt that the Socialist government will be swayed by the massive criticism. Numerous changes proposed by the business community stand little chance of being incorporated, particularly since the Kreisky Administration has made adoption of the unchanged version a matter of prestige. Passage is a foregone conclusion in view of the Socialists' absolute majority.

Bonn to Codify Work Safety Rules

A draft regulation on working conditions, work safety, and health requirements prepared by Germany's labor ministry would make it easier for businesses to find out, for example, just what is required in terms of protecting employees against injury. An annex to the regulation (*Arbeitsstätten-Verordnung*) would list all requirements now scattered in some 30 statutes and regulations. At the same time, however, the draft would also raise standards of job surroundings for factory and office workers. A permanent 27-member committee composed of government, business, and union representatives would advise the ministry and would suggest stiffer requirements whenever this seems feasible in the light of advanced technology.

The annex would go even so far as to tell manufacturers the kind of floor coverings permissible for certain jobs, what is required for work safety and what must be done in terms of enhancing the job environment through heating, ventilation, and reduced noise, vibration, and gaseous emissions. Standards would be raised, too, for outdoor jobs. Workers whose activities out of doors involve mainly observation or record-keeping and not continual movement must be sufficiently protected against the elements.

The federal government foresees passage by the Bundesrat (upper house), whose consent is required in this case, some time in summer or fall. Enactment is scheduled for Jan. 1, 1974. To the extent that the regulation would raise standards as of 1974, they would not apply to employers creating new jobs during 1973 or making investments to this end.

Cautious Reaction to Stability Program

The Bonn government's new stability package - including an investment tax, a surcharge on taxable corporate and individual income, and cuts in public spending and borrowing - has not failed to impress the German business community, if only because of its sheer size. But the program is not being lauded so much for its own merits as for being a welcome signal that the Brandt Administration finally is giving inflation the attention it deserves.

Business leaders were quick to point out that the proposed curtailments in public spending amount to no more than a half-hearted swipe at the problem, given the fact that government expenditure has expanded at the "scandalous" rate of 15% in the last quarter alone. Also noted was the conspicuous absence of the labor unions' commitment to refrain from excessive wage demands in support of the measures. Such cooperation, industry spokesmen said, would be only fitting inasmuch as the stability program avoids any special burden on lower-income groups.

In particular reference to the 11% tax on fixed-asset investments, a Deutsche Bank spokesman expressed fears that this measure might effectively "curb rationalization instead of inflation." German industry, he warned, will now have to step up both its export volume and foreign investments as a way of getting some relief from the higher cost of credit, investment, labor, and raw materials at home. In any case, the investment tax would not reflect immediately on the domestic price picture since it normally takes up to two years for a braking effect to show up in heavy industry.

Stock Volume Figures Urged for U.K.

A leading British authority on accounting, Prof. Edward Stamp, has suggested that the London Stock Exchange follow North American practice and quote daily volume-of-trading figures since this is highly relevant to the significance of a share price. Arguing that, in the absence of volume information, a securities exchange cannot be said to be functioning effectively to protect the interests of investors and potential investors, Stamp feels that "a lead from London" would be more effective than guidance or directives from Brussels. Stamp's argument comes at a time when harmonization of British and Continental accounting and corporate practices has sparked a major clash between U.K. practitioners and their Continental counterparts.

AROUND THE MARKETPLACE

Regulating Banks: A Transatlantic Issue

The announcement that the New York State Banking Board has refused to sanction the $60-million takeover of the Long Island Trust Co. by the U.K.'s Barclays Bank obviously has come as a blow to the latter's plans to expand into the U.S. market. The takeover would have given Barclays the largest U.S. stake of any British bank, and Barclays is understood to have assumed that its application would be approved as a "reciprocal" for treatment accorded to U.S. banks by the British government. Not so, argues the Board: the acquisition would have, in effect, discriminated unfairly against New York City banks, which also would be very interested in acquiring banks in the prosperous Long Island area but are barred from doing so.

Barclays has now contended that American banks in the future might be due for "harsher treatment" in the U.K. However, other London bank sources interpret this merely as a reaction of disappointment: they point to the fact that no U.S. bank has to date attempted to acquire - as Barclays proposed in the U.S. - 100% of a British bank. Moreover, the considerable differences between British and New York State banking laws were such that no real comparisons in respect of possible "reprisals" could be made.

The N.Y. decision appears to have moved the ball temporarily into the other court: traditionally, it was the "threat" of U.S. banks in Europe that occasioned discussion and controversy. Now, it seems, the rise of foreign banks in the U.S. is causing regulatory problems there, notably in N.Y. and California. The U.K. alone is represented substantially - by Barclays, Midland, BOLSA, Schroder, National Westminster, and Lloyds. The Japanese also are strongly in evidence, as are the French (Crédit Lyonnais), the Canadians (Royal, Imperial, and Bank of Montreal), and the Germans (Commerzbank).

Essentially, the N.Y. ruling seems to have established that, there at least, a foreign bank will not be permitted to acquire a going concern *in toto*. Already enjoying certain advantages over U.S. banks by being able to operate commercial branches in more than one state and to indulge in investment banking and securities transactions, foreign banks appear well advised to look for takeover targets smaller than the one Barclays aimed for. Furthermore, size could be a factor - although Barclays is small by New York State standards, its world wide assets estimated at some $25 billion give the bank considerable financial clout.

In New York, it has been noted that the recent Bank of England announcement that U.K. and EC bidders for London acceptance houses would be favored over bidders of "other nationalities" was already an act of discrimination. On balance, however, it appears less than likely that any U.K. reprisals will be made. Instead, the problems raised by the increasingly international structure of banking will be recognized and will be the object of more detailed study.

EURO COMPANY SCENE

The Amsterdam Court of Appeals has forbidden Dutch industrial unions to employ any strike action against <u>Hoogovens</u> steel in order to obtain new wage agreements. In addition, the unions have been ordered to bear the costs of both the original court action in Haarlem, which led to a back-to-work injunction, and the current appeal. According to the Amsterdam tribunal, the strikes were unjustified, since labor and Hoogovens management had already been on the verge of settlement. The question of restructuring incomes for the company's white-collar employees was deemed not directly relevant, since the social pact for 1973, concluded last year by both parties in an effort to stem the wage-price spiral, was applicable to lower management as well. The unions are expected to appeal this latest ruling to the High Council of the Netherlands, the supreme court.

The public offer for sale of Rolls-Royce Motor Holdings has elicited what bankers N.M. Rothschild claim to be a "reasonably satisfactory" response from private investors, but the fact that the latter have put up less than £8 million ($19.6 million) certainly came as a surprise. Rothschild has no cause for alarm since some 300 city institutions had pledged themselves to subscribe for all of the 36 million shares at 90p and the £6 million of convertible stock. The reticence of private investors was most certainly influenced by a statement from the Labour shadow cabinet's secretary for trade and industry that any future Labour government would nationalize Rolls-Royce without providing compensation. Recent rumblings in Labour ranks suggest that a future Labour government would make a number of drastic changes in U.K. industry - such as nationalizing the "top 25 companies." But while a resolution passed at the 1971 Labour party conference did indeed call for renationalization without compensation of any assets hived off the existing public sector, Rolls-Royce Motors was never publicly owned.

Two European manufacturers of heavy trucks and other special vehicles, Germany's Faun-Werke and Fodens Ltd. of the U.K., have signed a cooperative agreement providing for the establishment of joint sales companies in both countries and possible joint production projects. Fodens anticipates a turnover of about $45 million this year and Faun-Werke, over $71 million.

Four European companies active in the transportation sector - Brown, Boveri & Cie AG, German member of the Swiss BBC group, Dornier GmbH and Linke-Hoffmann-Busch GmbH of Germany, and SA Engins Matra of France - have set up a special consortium, Urbane, Regionale Bahnsysteme (Urbs), in Germany to explore and develop new types of automated urban transit systems.

A statement from British Petroleum that the company is reappraising the future of its Italian subsidiaries in the light of "unsatisfactory oil trading conditions" in Italy has led to speculation that BP is on the brink of divesting itself of its marketing and refining interests there. There have been reports that BP has in fact offered to sell its Italian interests to AGIP of the state-owned ENI oil company, although ENI has denied this rumor. BP has been in the Italian market for 15 years and has an estimated 7.5% of the petroleum market there. In spite of this, BP - together with other companies such as Exxon - has had a rough passage in Italy where government-controlled petroleum product prices have been unchanged for all of four years, although the cost of crude supplies has continued to rise.

In Italy, it was speculated that BP would sell its holdings for 130 billion lire (about $230 million). The company currently employs about 1,500 workers and has annual sales of about $350 million. There were also reports that Exxon wants to sell 200 "marginal" service stations in Italy, with AGIP also the possible buyer.

Cyanamid Italia, subsidiary of American Cyanamid Co. of Wayne, N.J., has completed a new plant in Catania (Sicily) for the production of pharmaceuticals.

Philblack, the Bristol (U.K.)-based manufacturer of carbon black, has agreed to a cash offer of 135p per share from Seapipe, a new joint company established by the United States' Phillips Petroleum and Cities Service International. Philblack rejected a 115p offer from Ashland Oil of Kentucky in March as being inadequate, and there is as yet no indication that Ashland will come back with a higher offer.

The U.K.'s Fisons Ltd. is to join with the United States' Cooper Laboratories to develop and secure U.S. Food and Drug Administration approval for a new opthalmic product. The link-up relates to the distribution of the new product world wide. Fisons also announced that it will purchase exclusive world rights for certain Cooper pharmaceuticals.

Sweden's three-year-old state holding company Statsföretag AB has taken over Ma Do Kemi AB, chemicals subsidiary of the privately owned Mo och Domsjö concern, for an estimated 100 million kronor ($22 million). The acquisition is said to reflect the state's growing interest in the highly expansive Swedish petrochemical industry, centered at Stenungsund on the country's west coast. Statsföretag is expected to invest heavily in this sector through its new holding, which had turnover of nearly 180 million kronor last year.

Norsk Hydro, the Norwegian petrochemical concern, intends to buy up the remaining 49% interest in Alnor Aluminum of Norway from Martin Marietta Aluminum, Inc. of the United States for an undisclosed sum. Directors of both companies and Norwegian authorities must approve the transaction.

Reynolds Aluminium Hamburg GmbH, 90% owned by Reynolds Metal Co. of Richmond, Va., and 10% by the City of Hamburg, has taken up production in its new aluminum rolling mill and foundry. By the time it is fully completed, the Hamburg plant will have required some DM 600 million ($214 million) in investments. Current annual smelting capacity is 100,000 tons, to be doubled as increased consumption warrants. The company's supplier, Aluminiumoxid Stade GmbH, held jointly (50:50) by Reynolds and Vereinigte Aluminiumwerk AG, is planning to invest DM 500 million in its Stade facilities, creating Europe's largest aluminum oxide plant. Starting in 1974 two-thirds of Reynolds' raw aluminum requirements in Europe will be covered by North German output.

In Greece, Reynolds reportedly has agreed to build an aluminum foundry in conjunction with a domestic company, Bauxit Parnassou AG. The plant, having a yearly capacity of 500,000-600,000 tons, would initially produce only alumina.

Compagnie Financière de Paris et des Pays-Bas, holding company for the French Paribas group, has signed a cooperation agreement with Japan's C. Itoh, a trading house. The two will undertake joint projects in the development of natural resources and other areas. A coordinating committee of top executives from both firms will meet twice a year, alternately in Tokyo and Paris, to discuss such ventures. As a first step, Paribas, Itoh, and five other Japanese companies have founded the Club Méditérranee Japan to set up vacation centers in South Asia.

Sources in the Republic of Ireland reveal that Japan has concluded an agreement whereby Nichiro Gyogyo Kaisha and Eire's Industrial Development Authority will set up jointly a marine food processing plant. As part of the deal, the Japanese have acquired fishing rights in Irish waters.

The U.K.'s Watney Mann Ltd. has expanded into the West German beer market with the purchase of a 25% holding in Stern-Brauerei Karl Funke AG of Essen from Germany's third largest commercial bank, Commerzbank. Watney Mann itself was taken over in July 1972 by the Grand Metropolitan Hotels group. The move is significant inasmuch as German brewers to date have been successful in blocking foreign groups from the highly profitable home market. Spokesmen for Stern indicated that Watney would eventually acquire as much as 75% of the brewery's joint stock capital. In addition to the advantage of gaining access to the German market, the move is a decisive one for Watney since the firm believes that the percentage of lager in the U.K.'s total beer output will rise from the present 9% to 25% within three years.

Distillers Corp. - Seagram Ltd. of Canada has taken over German vintner Julius Kayser & Co. and Weichsler GmbH, Seagram's Austrian distributor. Seagram has imported Kayser wines to North America since 1934. The European companies, both family-owned, had sought a stronger business partner.

Seagram New York has acquired an 80% holding in Italy's prestigious Ricasoli chianti producers, which had turnover of almost $7.9 million last year.

Canadian Imperial Bank of Commerce, Toronto, reputedly Canada's second-largest, has opened its first Continental European branch in Frankfurt, supplementing its three-year-old representation there. The bank also plans to open a branch in Paris next fall.

First National City Bank has opened a representative office in Madrid, its first on the Iberian peninsula.

Common Market Reports

EUROMARKET NEWS

Issue No. 228 *May 30, 1973*

In This Issue:

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Commission Presents First Balance Sheet

It was indeed an impressive balance sheet that European Commission President François-Xavier Ortoli presented to the public recently in his report on what the Commission accomplished in the first four months of the enlarged Community. Ortoli could point to several items reflecting favorably on the Commission's performance, even though it had many odds against it because of the addition of three new members and the reshuffling of responsibilities.

In presenting its programs on the second stage toward an economic and monetary union, industrial, regional, energy, and environmental policies as well as the memoranda on the upcoming GATT negotiations and association with developing countries, the Commission not only managed to beat the deadlines set by the Council of Ministers' summit last October, but offered proposals that are coherent in context and realistic in outlook. These accomplishments came on top of the crises involving Euratom, the monetary system, and the agricultural price fight.

Ortoli asked critics not to chide the Commission for sometimes asking for more than the member states are willing to do. Only in this manner can the Commission fulfill its role as the motor of integration. Nor should the Commission be criticized for not being able to move faster. To illustrate this, Ortoli singled out the concept of European unity, saying that it is the Community's greatest objective, although it has not been defined nor are the methods known to achieve it. But he promised that by 1975 the Commission would present concrete steps toward unity, including a realignment in responsibilities of European institutions, particularly that of the European Parliament. Another area, though not of comparable magnitude but nevertheless of great interest, is the problem of dealing with multinational companies. Ortoli said that he wants a Community approach on this, and that studies are under way. There would not be sufficient time, however, to develop a philosophy by the time the U.N. commission starts its investigations into the role and conduct of multinationals.

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Germany: Stiffer Controls in Cartel Bill

Bonn's government coalition parties have introduced several amendments to the original administration-sponsored bill that contains significant changes to the 1957 Law Against Restraints of Competition. Two of the amendments particularly concern large enterprises because they would stiffen the bill's requirements on market-dominating positions and merger controls. Both the Social Democrats and the Free Democrats want to give the Federal Cartel Office broader powers to check practices of market-dominating enterprises. To this end, an enterprise would be assumed to have a market-dominating position if its sales of a product or service account for one-third of the market (the administration's bill had proposed 40%). Thus, an enterprise having a market-dominating position and abusing it - for example, in contracts limiting the customer's freedom - could be compelled by the cartel authorities to stop its abusive practices.

As far as merger controls are concerned, the second amendment would shift the burden of proof from the Cartel Office to the merging parties. It would be up to them to substantiate that their merger is bound to improve competitive conditions and that this improvement outweighs the disadvantages entailed in the market-dominating position they have attained through their merger. (The original bill would have left it at merely compensating the disadvantages).

The merger trend in Germany is picking up momentum, and officials in the Economics Ministry do not want to speculate on how many mergers are resulting from the natural expansionary drive of any business and how many are due to the preventive merger control proposed in pending legislation. Last year the Cartel Office received a total of 269 notifications involving mergers. In the first quarter of 1973 it recorded 93. Present legislation does not give the Cartel Office the power to prohibit mergers, so none was prohibited in 1972 or 1973. But if the bill's requirements were applied to 1972 figures, two certainly would have been prohibited, according to the agency's director. The parties in five additional mergers would likely have been denied permission to go through with their plans, and 29 mergers would have come under rigid scrutiny.

Britain: Reduced Public Spending

Chancellor of the Exchequer Anthony Barber has applied a slight touch of the brake to the U.K.'s economic boom - which is well documented by most recent figures - with the announcement that the government will cut public expenditure by £100 million in this and by £500 million in the next fiscal year. The government obviously hopes that these advance cuts will stimulate increasing investment commitments by private industry. The operation was announced as a cosmetic one, since the sums involved - although large - represented only a fraction of the government's total borrowing requirement. But Opposition leaders were quick to point out that the chancellor may in fact be anticipating or "phasing in" developments that will result from an inflationary crisis later this year.

The principal cuts relate to the country's road construction program (£280 million all told). The chancellor also promised reductions for the Civil Service, the Post Office, British Rail and nationalized road transport services, and government farm aids. The program also will include an economy drive among nationalized industries and the delay of construction of Parliament's new office building. On the other side of the coin, the chancellor announced a modest £35-million increase in government spending on housing construction.

The cuts announced on May 21 do not entail any new legislation and no changes in taxation. The government is convinced that the £600-million total saving can be achieved without cutbacks in building programs - hospitals, schools, old peoples' homes, and other buildings for local health and social services. Opposition members were not convinced, and they inquired whether it would not have been more reasonable to reduce London's proposed third airport development at Maplin. Government sources countered that, for the time being, the Maplin project was definitely on.

Probe of Professions' Restrictive Practices

The British government has announced proposals for referring restrictive practices in the professions to the Monopolies Commission. The Minister for Consumer Affairs made it clear that barristers and solicitors would be prime candidates for examination, but also indicated that stockbrokers, accountants, and architects would be investigated.

The proposals, announced on May 17, mark a shift in emphasis in the Fair Trading Bill now being considered at the report stage. Earlier, Conservative rebels joined with the Labour opposition to force an amendment of the bill against the government's original intentions to the effect that the professions also would be open to investigation in the same way as other organizations.

Essentially, the commission will be empowered to examine the restrictions on advertising in some of the professions, the subject of "scale fees" charged by architects and surveyors, and the prevalent practice (known as the "two-counsel rule") whereby anyone retaining a Queen's Counsel must also retain a junior barrister.

The Monopolies Commission in 1970 had published a report on restrictive practices in the professions that, although it reached no firm conclusions, did raise the issues of advertising and fixed fees. Since that report, a number of changes have been made - more or less voluntarily - such as the admission of women to the stock exchange floor and the abolition of the solicitors' conveyancing fees. The Consumers Association, which has pressed for the professions to be brought within the scope of the bill, has welcomed the government's proposals but expressed doubts that they represent an adequate substitute for what the association considers "long-term control."

France: Protecting Immigrant Labor

The French Council of Ministers has approved an abbreviated draft bill establishing penalties for the exploitation of immigrant workers in the referral of jobs and housing. The bill also commits the government to give foreign workers basically the same rights as are enjoyed by their French colleagues in such areas as pay, job conditions, housing, education, and union activity. Furthermore, the cabinet approved closer controls on illegal immigration, which is acknowledged to be at the root of much of the problem. Currently, some 3.7 million immigrant workers reportedly are employed in France, among them 750,000 Algerians and 700,000 Portuguese.

Earlier, it was announced that the government plans to work closely with the employers' federation (Patronat) and the trade unions in trying to improve the situation of the foreigners. The Employment Ministry already has established a special committee within the National Employment Council for that purpose. The fact that the government is now beginning to give the matter urgent attention might well be related to the recent strike actions at state-owned Renault originally instigated by a small group of predominantly foreign workers.

Meanwhile, the Patronat and the five trade union federations have launched negotiations that are to lead to a general improvement of working conditions in industry, notably the elimination of piece work, the reduction of assembly line work, higher safety and hygiene standards, and flexible work hours. The talks reportedly began in a "positive atmosphere" and are to be continued in a series of conferences.

Holland: Labor Unions List Priorities

With the new five-party coalition government hardly installed, the major Dutch unions have presented demands aimed both at the government and Parliament as well as at the employers. At the same time, the Socialist NVV union and the Catholic NKV expressed their willingness to cooperate with all factions in a "concerted action" program inasmuch as they feel that a more equitable distribution of income should not be left entirely to labor-management contract agreements.

The unions urged the Administration to prepare a wide-ranging incomes policy program for the year 1974, including new "central accord" provisions for employers and the unions. Such a program should be directed at more equitable income distribution and co-determination legislation, improved collective old-age and social insurance benefits, and the reduction of the national unemployment count to under 100,000. Future wage increases should be bound to productivity improvements within the framework of a contractual agreement.

Automatic wage adjustments tied to the cost-of-living index should be a minimum 160 guilders per each percent in price rises and be effective up to an annual income of 32,500 guilders. Union spokesmen also urged that the government's prices policy should be determined entirely by counter-inflation considerations - price adjustments in 1974 should by no means lead to higher corporate profits.

As other important objectives, the unions listed a boost of aid to underdeveloped countries from 0.7 to 0.8% of the GNP, expanded trade school training for apprentices, a progressive schedule for the assessment of net worth tax, maximum write-offs for interest paid on debts, and no upward changes in added-value tax rates.

On the subject of inflation, the outgoing chairman of the Dutch Employers' Association (VNO) urged the establishment of an independent group of experts to study the causes of inflation in the Netherlands and recommend specific actions on how to fight it.

Italy: Inflation Escalator Zooming

Skyrocketing inflation has led to a record seven-point increase in Italy's *contingenza*, the escalator scale based on the rise of the cost of living, thus bringing automatic wage increases ranging from the equivalent of $3.50 to $10.20 per month effective May 1. The seven-point boost reflects the fact that the cost of living went up by 3.29% between mid-January and mid-April. This corresponds to an annual rate of about 13%. Each additional point on the contingenza means an estimated $100 million more in wage costs for Italian employers.

Industry in recent months has hotly challenged the validity of the index as a justification for wage increases, mainly because of alleged statistical distortions. It also is charged that the scale places inordinate emphasis on the cost of certain food items that may no longer be considered "staples" while neglecting other items that no longer should be considered luxuries, such as gasoline or vacation costs.

In March, Italy achieved the questionable distinction of being afflicted with the worst inflation of all Western industrial nations, with the cost of living 9.1% higher than a year ago (9.6% on a quarterly basis). The government reportedly was considering lowering gasoline taxes as well as added-value tax rates on bread, pasta (noodles), vegetable oil, wine, cheese, and detergents. Since the average Italian consumer spends about half of his income on foodstuffs, these measures would be expected to have at least some impact on the cost-of-living index.

Sweden: Government Study of Multinationals

The Swedish minister of industry has commissioned a working group to look into the activities of multinational corporations in Sweden and their influence on the national economy. The expansion of the multinationals has brought up a number of pressing questions and the need for more detailed statistical information, the ministry said. These statistics, it was reported in Stockholm, are to be compiled in cooperation with government administrations and other institutions and are also to take into account experiences gained in other countries.

In 1970, there were some 800 companies in Sweden - 200 of these in industrial sectors - at least 25% of whose share capital was in foreign hands. They employed a total of 100,000, or 35,000 more than in 1965. The presence of foreign investment in Sweden approximately doubled within the 1965-70 period. About 35% of the work force affected was employed with U.S.-controlled companies. However, Swedish companies too tend to expand their international activities - in 1970, it was noted, they operated some 1,300 subsidiaries abroad and employed a total of 182,000 persons.

Correction - In the story on the Commission's industrial policy program (*EUROMARKET NEWS of May 15, 1973, page 1*), the first sentence of the last paragraph should read as follows: "It is not a contradiction to the principle of free competition that the Commission is prepared to allow and even help enterprises in heavy industries to exchange information on their investment plans so long as they refrain from limiting their freedom of decision by entering into *illegal* agreements."

EURO COMPANY SCENE

With the help of the Dutch and German economics ministries, Placid International Oil has reached agreement with Holland on the delivery of natural gas to a West German energy consortium. Placid will supply gas from its offshore North Sea concessions to Nederlandse Gasunie, which in turn has offered the German group - Vereinigte Elektrizitätswerke Westfalen, Ruhrgas, and Energieversorgung Weser-Ems - an option on 50% of its contract with Placid. In this context the Dutch economics minister has withdrawn his restriction on Placid's gas deliveries and the U.S. and German companies have dropped their complaint against the Netherlands. The agreement represents a compromise; the consortium had originally contracted to receive 6.5 billion cubic meters of gas annually starting in 1975 but must now settle for half that amount.

Veba AG of Düsseldorf has acknowledged negotiations with Gulf Oil Corp. for purchase of Erdölwerke Frisia AG, the German refining and service station subsidiary Gulf has been trying to sell off since last fall. Veba holds a sizeable minority stake in Aral AG, the largest German service station chain, but is looking for expansion in Northern Germany where the Frisia refinery is located.

The proposed establishment of a refinery in the Belgian province of Liège by the newly set up Belgian-Iranian state petroleum concern Ibramco is straining the country's domestic and foreign relations - both between Socialists and Catholics and Liberals in the government on the one hand, and between Belgium and Holland on the other. Such a refinery reportedly would require annual state subsidies of some BF 300 million ($7.7 million) and even then might not be able to hold its own against the big private refineries. In addition, the Belgian government is said to have promised the Dutch that it would make no decisions about construction of a refinery in this border region without first notifying its neighbors, because of the environmental threat. However, no such consultation has taken place. Both the Belgian opposition and the Netherlands apparently were confronted with a *fait accompli* when Ibramco was launched, with three Socialists sitting on the managing board. Another touchy point is the fact that the proposed state-supported refinery, to be located in Walloon territory, would be competing with privately-owned plants in Flemish territory.

Meanwhile, spokesmen for Petrofina, the major Belgian oil concern, have declared the company's readiness to participate in a preliminary study for the proposed Ibramco refinery. Depending on the profit outlook, Petrofina also might contribute toward realizi[ng] the project.

The U.K.'s Minister for Trade and Consumer Affairs has renewed the government's Order relating to price cuts by the British affiliate of the Swiss pharmaceutical group Hoffmann-La Roche. The renewal is in effect a technicality permitting the extension of the first Order for a further 28 days, since the original Order has not been confirmed by both houses within the statutory period. The move follows Hoffmann-La Roche's petition to the House of Lords' Special Order Committee requesting a reference to a select committee.

In related developments, for the first time the Swiss parent company has released figures on its turnover. According to the company's administrative president, consolidated sales for 1972 totaled about SF 4.8 billion ($1.5 billion), with SF 700 million spent on research. Sales of the tranquilizers Librium and Valium represented 25% of the total and accounted for 50% of the group's profits.

The U.K. pharmaceutical giant Beecham group has been instructed by the Dept. of Trade and Industry not to release information in the form of commercial documents to the U.S. Dept. of Justice. U.S. authorities have requested answers from Beecham to questions on drug pricing, licensing, and research policies in connection with the antitrust suit filed three years ago. The DTI's action, which was deemed necessary to avoid any infringement of U.K. jurisdiction, comes in the wake of strong measures taken against two foreign-owned companies in the U.K., the United States' Kellogg and Switzerland's Roche, and suggests that a harder line is being followed by the DTI as a whole.

A further indication of this is the reference to the Monopolies Commission of the £5-million takeover bid made by Whessoe for another manufacturer of industrial storage tanks, Capper-Neill. The reference was made since each company has more than one third of the U.K. market in this field; it is evident that the DTI felt that competition might be prejudiced by a merger.

British United Shoe Machinery, a subsidiary of the U.S. company, is, according to a Monopolies Commission report on footwear machinery, a monopoly that, however, uses its power without damaging the interests of some 600 footwear manufacturers in Britain. Further, says the commission, the company's monopoly position does not damage or act against the interests of the public - in spite of the fact that it takes between 65 and 75% of the market for the type of equipment it produces and has an over-all share of about 45% of the U.K. shoe machinery market.

Farbwerke Hoechst AG of Germany has filed suit in Osaka to prevent 10 Japanese firms from selling medicines produced without license according to Hoechst technology. The company seeks to block the import from Bulgaria of a base chemical used in a heart disease drug developed by Hoechst and distributed by its subsidiary Hoechst Japan Ltd. The suit claims damages of about 108 million yen (around $400,000) for patent infringement.

Italy's Montecatini Edison has concluded a five-year technical and commercial agreement with Poland's ministry for the chemical industry. The pact provides for increased product and raw material exchanges between Italy and Poland as well as license and know-how agreements.

Volkswagenwerk AG is planning to introduce four new basic passenger car models by 1976. Last year proved to be another lean one for the German auto maker. Although net profits rose by 40% to DM 205.5 million, profitability based on sales still came to only 0.1% (1971: 0.01%). VW's world-wide turnover of almost DM 16 billion ($5.7 billion), down half a billion from 1971, represented a 5.2% drop in units sold.

Saab-Scania of Sweden and Belgium's IMA have agreed to form a joint production company for the assembly of Saab passenger cars at the IMA plant in Malines. Initial capacity of 7,000 vehicles annually, starting in the fall, is to be stepped up to 12,000 as soon as feasible. The arrangement supersedes IMA's previous agreement with Daimler Benz for assembly of Mercedes cars for the Benelux market.

Spokesmen for recently merged Guzzi-Benelli motorcycles of Italy have warned that production will eventually have to be shifted to foreign bases, probably France, if domestic costs continue to to climb. In a telegram to Italian President Giulio Andreotti, they said that the government's grant of investment aids for the assembly of Japanese motorcycles in Italy would jeopardize the market position of domestic industry, whose production is allegedly 30% more expensive. Guzzi alone has had to dismiss 100 employees, with another 600 at both plants working short shifts.

Fiat has told Italian unions it is experimenting with new manufacturing techniques at several of its plants in order to combat the boredom and fatigue suffered by assembly line workers. The company has begun using "production islands," where performance of several integrated operations replaces the single repetitious task. The company also is increasing the use of robots in automatic assembly work and is adopting new types of powdered paints to cut down on pollution. Fiat expects these innovations to raise employee morale and eventually production as well.

The U.K.'s International Computers Ltd. has announced plans to market a cash receipting terminal manufactured by Germany's Nixdorf. The announcement represents the first real proof that ICL and Nixdorf genuinely intend to cooperate in the European computer sector.

The British Channel Tunnel Co. has announced that, on the basis of a study carried out by consultants Coopers and Lybrand, the Channel tunnel project is expected to post an operating profit of £95 million ($233 million) in 1981. Gross revenue for 1981 is estimated at £112 million, with total operating costs of maintaining the service and the terminals put at £17 million. The profit of £95 million does not include, however, the £69-million debt servicing charge, so that "real profit" will drop to some £26 million.

The U.K.'s Dept. of Trade and Industry has ordered an official inquiry into the affairs of Lonrho, the mining and trading combine. The inquiry - under Section 165(b) of the 1948 Companies Act - follows speculation that the combine, which for the past month has been the center of a much publicized boardroom row and court action, has not been giving shareholders "all the information they might reasonably expect." Section 165(b) also empowers the Secretary of State to appoint inspectors "when there are circumstances suggesting fraud, misfeasance or other misconduct." A recent court action brought by the group's chief executive to prevent his dismissal by eight directors revealed that payments had been made by the chief executive to acquire the Wankel engine interests and that payments had been made under a consultancy agreement to former Tory minister Duncan Sandys. These, the eight directors claim, had never been cleared by the board.

Diamond Shamrock Europe SA, a division of Diamond Shamrock Corp. of Cleveland, Ohio, has opened its new administrative headquarters and central laboratory building southwest of Brussels. From this base the chemicals producer will coordinate production, research, and marketing for its manufacturing, sales, and warehousing facilities in 15 European locations.

Johnson & Johnson, of New Brunswick, N.J., has reportedly agreed to take over a majority stake in Germany's Dr. Carl Hahn GmbH, manufacturer of sanitary supplies, from the present Swiss owner in exchange for an issue of its own shares. A purchase price has not been disclosed. Last year Hahn had sales of DM 127 million ($45.4 million).

The French subsidiary of Quelle, Germany's leading mail-order house, will take over the entire mail-order distribution, service, and sales organization of Singer France later this year. Employees at Singer's administrative headquarters in Reims will be offered the opportunity of transferring to Quelle at Orleans.

One of Britain's largest advertising agencies, CPV (originally Colman, Prentis and Varley), has been acquired by the United States' Kenyon and Eckhardt. Senior executives of CPV in London have been offered shares in the new agency - CPV, Kenyon and Eckhardt - and, although K and E has assumed full financial control of CPV, the independence of the latter's activities is to be retained.

Common Market Reports

EUROMARKET NEWS

Issue No. 229 *Report No. 214, June 6, 1973*

In This Issue

Setting the Sights on the Year 2000

It is surely just a coincidence that Commissioner Ralf Dahrendorf's working program on research, science, and education carries document No. 2000, but some of his suggestions submitted to the European Commission might well have implications beyond the second millennium if his ideas take the form of official proposals and the Council adopts them. Prof. Dahrendorf feels that the Community must contribute in its way to what he called "giving Europe a more human face" through more education and training. As an example he recommends a European Center for Vocational Training to encourage research, exchange of information, and approximation of education standards. However, Dahrendorf also makes it a point that it would be neither necessary nor realistic to harmonize the member states' educational systems. He believes that the Community should stay away from aligning the curricula of professions; it should confine itself to seeing to it that the product of education, say a professional degree, obtained in one member state would be recognized in another.

Dahrendorf admits that the Commission has had only mixed success in using the mandate given to it by the EC Treaty - it was successful in getting vocational training programs off the ground (based on Treaty Articles 118 and 128) but it has failed so far to get the Council to adopt any of the 40 directives dealing with the mutual recognition of diplomas of the various professions (Treaty Article 57). Dahrendorf says that he is not discouraged and that his staff is working on several additional directives the Commission is going to send to the Council in the coming months. One of these apparently would be aimed at granting the right of establishment to the medical profession.

Switzerland: 'Anti-Mafia' Treaty with U.S.

After nearly five years of tough negotiations, representatives of the United States and Switzerland have initialed the U.S.-Swiss draft treaty on judicial assistance in criminal mat-

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ters that Washington has sought in its fight against organized crime. But the draft falls considerably short of what the American government had hoped to get in terms of assistance and thus clearly reflects Switzerland's concern not to compromise its sovereignty and jurisdiction.

Once the treaty is ratified by the U.S. Senate and the Swiss Parliament, Switzerland would provide U.S. investigators with the evidence needed to track down funds deposited by members of American crime syndicates in Swiss bank accounts. (The U.S. government had wanted to send agents to Switzerland to conduct these investigations on their own). If a person is also suspected of or charged with tax evasion in connection with another crime, Swiss authorities would cooperate in finding the link that U.S. prosecutors often need to obtain a conviction: the cache for illegally obtained funds. Here **the treaty would put on a legal basis what already is being practiced, though not uniformly, in light of a recent Swiss Supreme Court ruling to the effect that bank secrecy may not serve as a shield against prosecution.**

Other secrets (business, manufacturing, and industrial property rights) could be uncovered only if that is necessary to prosecute organized crime. But even then Swiss authorities would be entitled to hold back information if they feel it has no substantive or procedural bearing on the trial before an American court. Switzerland's reluctance to make concessions here is based on the constitutionally guaranteed principle that any accused is entitled to a public trial.

Judicial assistance would not extend to cases involving military, political, and purely fiscal crimes nor would Swiss officials help in the prosecution of antitrust cases. And for any information the U.S. government may want in connection with assessing individual income taxes, it would have to avail itself of the procedure provided in the U.S.-Swiss tax treaty.

France: Foreign Business on the Leash

In a first policy statement to the new Parliament, Finance Minister Giscard d'Estaing has again chosen to bring up the delicate issue of foreign investment in France. Far from offering much encouragement to potential investors from abroad, he reemphasized the standing government policy of protecting domestic industry from foreign domination and insisted that the key industrial "decision-making centers" must remain French. At the same time, however, the minister reiterated that the administration would not systematically move against foreign investment activity in France *per se*.

While announcing only token changes in the current system of anti-inflationary credit restrictions, Giscard d'Estaing did outline a series of tax modifications designed not so much to boost revenue for the state as to seek a more just distribution of income. With details yet to be released, these measures would aim to eliminate eventually the profit-linked bonuses paid to members of supervisory boards, reduce tax rates for low-income taxpayers, eliminate certain exemptions for high-income groups, "clean up" tax privileges for over 70 professions and occupations, and assess capital gains taxes on real estate.

Netherlands: Reform Program Leaves Questions

A reform package expected to have serious implications for business and industry has been announced by Joop den Uyl, the Netherlands' newly elected socialist prime minister, in his inaugural address. Under the banner of a general "democratization of public life," den Uyl cited a more equitable distribution of incomes and more co-determination for the working population as the foremost aims of his administration.

In his hard-hitting speech, the prime minister identified "personal greed" and the uneven spread of power and capital as the main reasons for rampant domestic inflation. Accordingly, den Uyl announced his government would exert pressure on high incomes, not excluding stiff taxation of large inheritances and unearned profits. At the same time, legal minimum wage levels are to be lifted, while pay limitations would also be made applicable to top earners in private business. Den Uyl also predicted stricter price controls.

Among other objectives of his program, den Uyl promised tougher legislation directed at real estate speculation and environmental pollution and improvement of urban planning and transport as well as housing standards. Patterned on the Swedish model, the position of "ombudsman" is to be created as a liaison between the citizens and the public administrations.

The failure of den Uyl to mention new sources of revenue to finance his ambitious program was considered the most obvious question left unanswered. Only a few days before, it was pointed out, the finance ministry in The Hague had predicted that the Dutch budget deficit should rise by several hundred million to 3.61 billion guilders ($1.24 billion) within the foreseeable future.

Denmark: New Company Act, Banking Rules

Although the Danish government has shelved until 1974 the most explosive part of its "economic democracy" program that calls for employee shareownership, the less controversial concept of giving employees a voice in management is included in proposed company legislation. Actually there are two fields of Danish law in the process of being revamped that are of concern to both domestic and foreign business: the rules governing establishment and operation of companies, notably stock corporations, and the rules applying to commercial and savings banks.

The proposed Company Act, which would take effect on Jan. 1, 1974, covers three major areas of special interest to management:

- It would require management to disclose more detailed information on the profit and loss statement and reveal more about the company's general affairs in the annual report.
- Individual and corporate holders of minority interests would be entitled to adequate information and would be able to exercise more influence on company activities.
- Employees would be entitled to elect two representatives to the board of directors.

This company bill is now in committee, with adoption expected before the Folketing's summer recess.

In the area of new banking legislation, the government intends to propose to the Folketing by October several fundamental changes in the rules governing commercial and savings banks. Now covered by two separate acts, both commercial banks and savings banks would come under the purview of one law, though they would continue to exist as separate categories of financial institutions. However, for those savings banks with sufficient capital, staff, and expertise to transact business that traditionally has been handled exclusively by commercial banks, the scope of activities and services to customers would be the same as those of commercial banks. Government sources indicate that enactment could be expected before summer 1974, provided the bill is processed on schedule.

Sweden: Pension Fund Investments Approved

The administration of Prime Minister Olaf Palme has nimbly managed to defuse one of the most explosive pre-election issues: by a surprisingly safe majority Parliament approved establishment of a fund for the investment of State Supplementary Pension Fund (ATP) assets in the stock of domestic corporations. The fund will be started up with an initial 500 million kronor ($11.1 million) but the government may raise the capital at a later date without having to seek specific parliamentary approval.

On the fund's board of directors, the government will be present with the chairman and deputy chairman, while the unions will appoint five representatives and the employers and the municipalities two each. Thus, the government and the unions will be running the fund even though its assets were accumulated entirely from employers' contributions to the supplementary old-age pension system.

The fund will be authorized to arrange for unlimited purchases of shares of Swedish corporations; given sufficient capital, it may acquire majority holdings. Profits may be reinvested at the discretion of the fund's management.

In rushing the legislation through the Riksdag with the help of the Communists and the Center Party, the Palme government effectively evaded the Opposition parties' demand to put the controversial issue to the electorate during the upcoming campaign and then submit it to the next Parliament. Confronted with the *fait accompli*, Opposition spokesmen are now saying that even a non-socialist administration that may come to power in September would not challenge the fund itself but would establish a ceiling on the holdings the fund may acquire in individual companies.

Finland: Cooperation Pact with Comecon

On May 16 Finland became the first "capitalist" country to sign a cooperation agreement with Comecon. It will take effect one month after ratification by Parliament, which was expected soon. The pact calls for the establishment of a commission to manage practical aspects of economic, scientific, and technological cooperation between Finland and Comecon.

The question of trade, however, is still somewhat unclear. Finland maintains bilateral trade agreements with a number of East European countries, and the new pact will bring little change in that area. Thus business representatives have suggested, at least in private, that the Comecon deal is largely symbolic and will make little difference to them in the foreseeable future. Generally, it is thought of as an appeasement measure toward the Soviet Union so that Finland, with its sensitive foreign policy problems, can continue to try for an EC agreement in the near future.

Finland is already running into difficulties on the Continent because of delays in reaching a settlement with Brussels. Though the country is dependent on the Soviets for some raw materials (especially oil), trade with the West is at present much more important for maintaining high productivity. The Helsinki government has made a point of saying that Comecon is not a supranational organization like the EC and that the newly signed pact and the treaty probably soon to be signed with the EC are in no way comparable or related.

AROUND THE MARKETPLACE

Paris Aerosalon: Switch Rather Than Fight?

This year's Aerosalon at Paris-Le Bourget, the Paris air show that is held every two years, has resulted in at least one firm conclusion: like it or not, Europe's aerospace industry will have to work closely with its U.S. counterpart if it is to survive in the long run. This observation alone, expressed by many competent sources, indicates a major turnabout from two years ago when large-scale cooperation with each other seemed the only way to salvation for European manufacturers. This belief was cemented by the apparent progress of a number of Europe's joint ventures: the supersonic Concorde, the wide-bodied A300B Airbus, the military aircraft Jaguar and MRCA. But the tightening, viciously competitive market and the huge obstacles to be overcome in the financing of development, production, and marketing of new civilian aircraft can no longer be ignored. Exactly these frustrations, so the feeling goes, will eventually drive U.S. and European manufacturers into each other's arms.

A typical kind of soul-searching is now going on in Britain's aerospace industry. It finds itself on the horns of a major dilemma, not knowing whether it is more profitable to look west to the United States or east toward the Continent. On the U.S. side, Boeing has been particularly active in attempting to persuade European partners to sign up for collaboration on a new generation of airliners. The company already has a foothold in Europe through its development agreement with Italy's Aeritalia to work on the 7X7 airliner, but other Continental manufacturers are pressing Britain not to become involved. The U.K.'s Minister for Aerospace has possibly irritated his Continental counterparts by insisting that Britain will "keep its options open." Yet it has been conceded in London that Rolls-Royce's recent moves to cooperate on a new 20,000 lb.-thrust engine with General Electric have given the Europeans grounds for misgivings.

Regardless of short-term developments on either side of the Atlantic, though, industry observers are convinced that the international aerospace pie no longer holds big slices for any single manufacturer but has to be shared on a transatlantic basis.

Monopolies Probe of U.K. Copier Market

Following an announcement by the U.K. Minister for Trade and Consumer Affairs that the government is to refer investigation of the British photocopier market to the Monopolies Commission, the director general of the Business Equipment Trade Association called the decision "monstrous" and a "misuse of legislative power." The Dept. of Trade and Industry had stressed that the Commission would center its investigation on pricing policies for "plain-paper document copiers," to which the BETA director general commented that "everything is a monopoly if you define the sales gap narrowly enough."

The market for photocopiers in the U.K. is divided into large- and small-volume machines. Rank Xerox, IBM, and Gestetner rule the roost in the former category, while the market for the latter is split between Xerox, Nashua Copycat, 3M, SCM, and Agfa-Gevaert.

It is clear that the Commission had one particular organization in mind: the 51% U.S.-owned Rank Xerox, which made a huge pretax profit of £105.5 million ($258.5 million) on its eastern hemisphere turnover of £268 million in 1972 and which dominates sales and leasing in the U.K., France, Germany, and Italy. Rank Xerox is a prime target: the concern is involved in litigation and inquiries both in Europe and the United States. In London, it has filed a patent infringement writ against rival Gestetner, and the U.S. Federal Trade Commission is planning action to break Xerox's alleged monopoly of the office-copying machine market in the U.S. Spokesmen for Rank Xerox in London have said that the company will cooperate fully in the inquiry.

EURO COMPANY SCENE

The European Commission has banned a cooperative agreement between France's state-owned Société Commerciale des Potasses et de l'Azote SARL and Kali und Salz AG of Germany, the EC's leading producers of potash fertilizers. The pact, providing for joint determination of quality and quantity and coordination of supply and distribution of the potassium salts, was found to violate the competition rules of Rome Treaty Article 85. The two companies together account for about 95% of the French and German national requirements and over 50% of the potash market in the other EC countries, except for Italy, which has its own domestic production. They maintain joint sales subsidiaries in England and Holland and co-own a potassium subsidiary in Canada, Alwinsal.

In related news, Kali & Salz, the legal successor to the old Salzdetfurth AG and part of the BASF group, has finally pulled out of its unprofitable U.S. engagement in Great Salt Lake Minerals & Chemicals Corp. (GSL) of Ogden, Utah. The German company has transferred its 49% interest to founding partner Gulf Resources & Chemical Corp. Renouncing all shares and loan claims, K&S agreed to pay Gulf $9.1 million in exchange for release from cosignatory guarantees totaling $10.9 million. Should GSL ever move into the black, K&S will still be eligible for royalties.

British Petroleum Co. has now confirmed the sale of loss-ridden BP Italiana SA and its 49% stake in the refinery group Industria Raffinazione Oli Minerale to the international consortium Oil Chemicals & Transport Finance Corp. SA organized by Italy's Monti group. The sale will bring a total of about $196 million, half of which, however, will be needed to meet outstanding liabilities of BP Italiana. The transaction includes BP's Italian network of some 3,200 service stations, depots, transport facilities, and refinery operations but not its Italian exploration interests, planned protein production, and other interests. On a prorated basis, BP Italiana had incurred losses of $7-10 million annually over several years, and of $16.4 million in 1972 alone.

In related news, Shell Italiana, the subsidiary of Royal Dutch Shell, has announced 1972 losses of some $147 million, and a review of its operations reportedly is also imminent.

Spain's INI industrial holding group is said to be planning the merger of its Encaso oil refining subsidiary with three of its other majority-controlled petroleum interests, Repesa, Entasa, and Petroliber. Starting next year, the new combine would have a total annual refining capacity of 30 million tons.

The proposed selective tax on plant investments in Holland's developed western areas reportedly was a chief factor leading Marbon Chemical Co. of the U.S. Borg-Warner group to cancel plans for a 20 million-guilder ($6.9-million) expansion of its chemicals factory in Amsterdam. The investment levy, if passed by the Dutch Parliament, would have cost the company an additional 10% for the project. Instead, Marbon has said it will build either in Belgium or France, where it finds land prices and government incentives more attractive than in the Netherlands and from where it can more easily supply markets in southwestern Europe.

British Match, part of the Bryant and May and John Masters group, has made an agreed £20-million bid for Wilkinson Sword, the razor-blade firm. British Match has recently expanded into the chipboard sector, while Wilkinson - although known almost exclusively as the razor people - has added a new garden tools division and a new line in writing instruments. The British Match move was particularly welcomed by Swedish Match, which owns a 33% stake in the British company, but some commentators felt that the logic behind the merger was "razor-thin," since it brought into one group what are still essentially two single-product companies.

The world's largest toy maker, the United States' Mattel, Inc., has pulled out of the British and Irish markets. The company's trading activities in this area have been acquired by a U.K. toy manufacturer, DCM (Dunbee-Combex-Marx), which as of July 1 will take over Mattel's U.K. stocks and outstanding orders. From Jan. 1, 1974, DCM will assume the marketing in the U.K. and Eire of Mattel's toy production from plants all over the world. The deal, under which DCM pays Mattel royalties only on goods sold, will make DCM effectively the second-largest toy manufacturer in Europe after Lesney Products Ltd., also of the U.K.

AEG-Telefunken of Germany and Japan's Sony finally have concluded a licensing agreement on the use of AEG patents in Sony's manufacture of FM radios and monochrome and portable color television sets. As soon as Japanese authorities give their approval, Sony may begin producing the equipment for international distribution. The arrangement resembles those concluded between AEG and other Japanese electronics firms. The German company has dropped all legal proceedings against Sony for alleged patent infringements.

Germany's Robert Bosch group has announced it is investing an initial DM 15 million ($5.4 million) to build a plant near Charleston, S.C., for the manufacture of fuel injection systems for diesel engines. The factory, to employ 300, should be completed by early 1974. Bosch has maintained an importing subsidiary in Chicago, Robert Bosch Corp., since 1953. Last year the electrical engineering concern's U.S. turnover amounted to $60 million.

Bendix Corp. of the United States, which aims to become the No. 1 producer of house trailers and campers, is investing some DM 10 million ($3.6 million) in its German subsidiary's new manufacturing plant at Neunkirchen (Saar). The factory, to be completed by December, will export 40% of its yearly 10,000-unit production. By 1974-75 Bendix hopes to sell over 50,000 units in Europe annually.

Steyr-Daimler-Puch of Austria and Germany's Daimler-Benz have announced they will cooperate in automotive development, production, and marketing, concentrating on jeep-type and utility vehicles and certain types of buses.

Techmashimport, the Soviet export agency, and Germany's Anton Ohlert, which has been trading with the USSR for some years, are setting up the joint Neotype Techmashimport GmbH in Cologne to import typesetting machinery. The company's DM 3.2-million ($1.14-million) capital will be held 75% by the Soviets and 25% by Ohlert. The new subsidiary is eventually to handle world wide distribution of the Russian typesetting equipment, which is produced in Leningrad.

Société N.G. Payot, a French cosmetics firm controlled by International Telephone & Telegraph (ITT) and with subsidiaries in the United States, Holland, Britain, and Switzerland, has announced formation of an Italian subsidiary, N.G. Payot SpA of Milan.

RCA Records, New York, and its German distributing partner Teldec Telefunken-Decca Schallplatten GmbH, of the AEG-Telefunken group, have set up a joint holding in Hamburg, RCA-Schallplatten-GmbH. The new firm will distribute RCA records on the German audio market, the world's largest after the United States. In this connection, RCA intends to promote German performers in its recording program.

Manufacturers Hanover Trust Co. of the United States, Barclays Bank of the U.K., and the Rumanian Bank for Foreign Trade are establishing the joint Anglo-Rumanian Bank (20:30:50) to finance trade, foreign investment, and joint ventures in Rumania. Since Rumania passed a law allowing foreign enterprises to take stakes of up to 50% in such ventures, Western interest has been increasing. Control Data and Bucharest recently moved to form a joint computer software company in Rumania and other U.S. companies - Johns Manville is said to be one - are expected to follow suit. France's ELA electronics also is reportedly negotiating to set up a Rumanian production company for medical equipment in which it will hold 49%.

Chase Manhattan Bank, which just became the first U.S. bank to open a branch in Moscow, has established a new banking subsidiary in Germany, Familienbank AG. With a starting capital of DM 5 million ($1.8 million), Familienbank is to serve exclusively the financial needs of the small private household, emphasizing savings accounts and personal loans. The first branches will be set up this year in Düsseldorf (administrative headquarters), Frankfurt, Hamburg, Munich, and Stuttgart.

ICAP Italia SpA, a subsidiary of ICAP Corp. of New York, has opened an office in Milan to provide investment services and management consulting for financial and development programs.

W.I. Carr, Sons & Co., London, one of the U.K.'s oldest stockbroking firms, is stepping up its German activities with the establishment of W.I. Carr, Sons & Co. GmbH in Frankfurt. Carr maintains another Continental branch in Geneva.

Shares of Japan's Nissan Motor Co. Ltd. have been introduced on the Frankfurt Stock Exchange by Deutsche Bank AG and Industriebank von Japan (Deutschland) AG. The manufacturer of Datsun cars plans to set up a new German sales subsidiary, Nissan Motor Deutschland GmbH, in Düsseldorf this month. Nissan's European sales goal for 1973-74 is pegged at 170,000-180,000 passenger vehicles, representing a 20% increase in turnover. The European market accounted for 21% of Nissan's exports last year.

Common Market Reports

EUROMARKET NEWS

Issue No. 230 *June 12, 1973*

IN THIS ISSUE

Britain: The Imponderables of Merger Policy

The recent decision not to refer the giant merger of Slater, Walker Securities and the Hill Samuel banking group to the U.K. Monopolies Commission has provided cause for speculation, if not anxiety, in Britain. Aside from giving the Labour opposition an opportunity to make political capital out of the "colossal financial implications," it highlights once again the vagueness afflicting official merger and takeover policy.

The purpose of the Slater-Hill merger, no doubt, is to create a powerful new force in the City - but the question to be asked is "How powerful?" Commission investigation would have been justified on the size-of-assets test since the combined assets of £1.5 billion exceed the standard £5-million "intervention" point. But investigation was not mandatory under the market-share test since the new company will not account for anything like a third of the market either in merchant banking or in any of the new group's other proposed activities, such as investment and unit trust management, insurance, credit finance, or property.

In short, it is becoming increasingly difficult to pinpoint exactly how the Dept. of Trade and Industry's criteria, if any, are consistently applied. A recent merger between Tarmac and Wolseley-Hughes was referred to the Commission because of "conglomerate implications." A merger between Babcock and Wilcox and Woodall-Duckham - in many respects remarkably similar to Tarmac/Wolseley - went through virtually unchallenged. Again, Whessoe's bid for Capper-Neill was referred, whereas the deal between Sweden's Sandvik and the U.K.'s Wickman-Wimet was not (despite the fact that Sandvik is, to say the least, a dominant force in the international cutting-tool market).

The crucial problem for many companies contemplating mergers thus is that it is impossible to gauge in advance whether a reference will be made. If the DTI does apply set criteria,

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Merger Policies *(contd.)*

these are certainly not available in published form. Further, the DTI does not offer a public explanation of its decisions but is content simply to make its decisions public. This is particularly frustrating for the companies involved and for their shareholders. Investigation by the Commission does not necessarily preclude a bid but keeping a bid on ice for the duration of the probe can have detrimental effects on share prices and on shareholders' confidence.

Netherlands: Business Opposes New Controls

In overwhelmingly negative reactions to the program of the new government, Dutch business and industry spokesmen have singled out particularly the government's intention to impose even stricter price controls. Such new controls, it was argued, would seem incomprehensible in view of the fact that businesses in the past have complied conscientiously with the price calculation regulations enacted by the previous government administration. Furthermore, it was charged, the proposed "leveling" of incomes would be a questionable means of fighting inflation, the more so since no authoritative information is available on the actual distribution of incomes in the Netherlands. The Dutch employers' associations representing small and medium-sized businesses expressed acute disappointment over the government's apparent readiness to accede more to the wishes of the unions than to recognize the pressing problems of small business.

In The Hague, it has been predicted that the five-party administration of Prime Minister Joop den Uyl can expect rough going in Parliament with its package and perhaps an early challenge to its own political viability. Even within the den Uyl cabinet the leaders of the two confessional coalition partners - the Catholics and the Anti-Revolutionary Party - have more or less withheld their support of the program put together by the other three government parties, the "Progressives."

Germany: Bonn Eases Price Comparisons

An amended and expanded government regulation taking effect in Germany on July 1 provides that all prices listed, displayed, or advertised for any product must be end prices including turnover tax and other charges. The regulation (*Verordnung über Preisangaben*) for the first time covers services as well and requires all businesses advertising services to indicate their rates and prices. This means that banks and other lending institutions will have to display in their public areas schedules listing their main services and the corresponding charges. Thus, any bank must show the effective rate - i.e., the basic interest rate plus carrying charges - for a specific principal. The same applies to installment contracts involving purchases on credit.

Real estate brokers, currently under sharp attack because of frequently dubious business practices and high fees, also must adhere to the regulation.

In the case of automotive repairs, the government was persuaded that it would be more practical to have both general repair shops and manufacturer-licensed shops list hourly charges rather than the end price because of the difficulty of predicting what parts would be needed for a repair job. However, all such service centers would be required to display a list indicating the 40 most common repairs for each make of car and the time required to do the work.

In facilitating such price comparisons, the government also hopes to educate the German consumer to become a more

Price Comparisons *(contd.)*

critical and selective buyer and thus join the fight against price inflation. But even in Bonn there are doubts as to whether free spenders can be turned into bargain hunters overnight.

Luxembourg: 'Buy Selectively,' Consumers Told

Premier and Finance Minister Pierre Werner and Economics Minister Marcel Mart also have jointly urged Luxembourg's consumers to be more price-conscious when making their purchases. At the same time, they announced further credit restrictions and government plans to extend the notification period for planned price increases by companies from 30 to 60 days.

Following the lead of Belgium, the Grand Duchy also has moved against quickly rising food prices by putting a temporary ceiling on the price of potatoes and outlawing further price boosts for beef, pork, and meat products (sausage). Construction materials also are subject to a freeze on profit margins.

Switzerland: Zeroing in on the Rich

At their party convention just ended the Swiss Social Democrats have adopted a controversial resolution calling for a popular referendum to decide on a uniform rich man's tax (*Reichtumssteuer*). By way of a constitutional amendment, cantonal tax systems would be harmonized and the tax rates on higher incomes would be raised. The resolution calls for a total tax obligation of at least 27% on incomes of SF 100,000, of 35% on SF 200,000, of 45% on SF 500,000, and of 50% on SF 1 million. At the same time, the Social Democrats advocate a net worth tax to be levied on natural persons, with rates varying from 0.7% on a net worth of SF 1 million to 1.2% on SF 10 million.

The concept of a tax levied on the rich has received criticism even among Social Democrats since it is based on ideological rather than on substantive grounds and has nothing in common with previous demands for a uniform and progressive income tax for all individual taxpayers. The resolution undoubtedly reflected the wide support the Social Democrats received from the cantonal electorate of Basel-Land in last November's referendum introducing a special tax for the rich. The Social Democrats and ultraleft organizations are preparing similar initiatives in other cantons as well, although tax experts feel that the canton of Basel-Land was a special situation because local governments are prohibited from levying a progressive income tax. Also, that canton has not gained much since a hundred-odd wealthy individuals have moved away to other cantons.

One more basic concept of the resolution points in the direction the government and a large segment of the voters feel the Swiss tax system must go: harmonizing tax rules applying to individuals and establishing uniform rules on corporate taxation. The concept would give the federal government the power, through a constitutional amendment, to establish framework legislation setting forth the criteria of individual and corporate taxation as well as establishing uniform tax rates applied by cantonal governments to base and holding companies.

Sweden: A Block to Foreign Takeovers

The Swedish parliament has voted to provide the government with the legal means to prevent foreign purchases of the shares of domestic stock corporations. The controls are primarily designed to block foreign takeovers of the country's largest corporations. The legislation, however, extends only to companies already in existence - it would not interfere with foreign interests seeking to establish new companies in Sweden.

Foreign Takeovers *(contd.)*

The law in effect also curbs Swedish investment activity abroad since it gives the government the right to object to the normal procedure of Swedish companies' financing foreign acquisitions with their own shares.

So far, Swedish controls of direct investments from abroad have been primarily in the form of a law dating from 1916 that requires government approval of foreign purchases of Swedish real estate, mining property, or of any company which itself owns real estate. It is the aim of this law to prevent the country's natural resources from passing into foreign hands.

In addition, the bylaws of many Swedish stock corporations contain a clause limiting foreign acquisitions to 20% of the company's voting shares and to 40% of its share capital. On the basis of the new law, the government may block any changes in such clauses.

Community: Kindling a Common Energy Policy

European Commission officials are far from discouraged by the setback suffered in the attempt to get the EC going on a common energy policy toward oil-exporting countries. Aside from some minor disagreements among various member state delegations, it was essentially France that blocked adoption of a Council resolution projecting a common approach toward the world's oil-supplying countries and a concerted effort with other main oil importers like the United States and Japan. This time, though, the deadlock came about not so much on principle as on procedures. While France insists on getting national fuel markets organized first, ahead of any international move, representatives of the other eight states want the EC to speak eventually with one voice at the negotiation table. To them and the Commission this seems all the more necessary since the oil-exporting countries have established an organization of their own (OPEC) and have successfully applied leverage *en bloc*.

Brussels officials predict that Paris eventually will "come around," even if that might take years. They believe that the national energy policy now being pursued by France but also by other member states as a matter of necessity will not work forever, particularly not when one individual importing state is confronted with a solid block of supplier countries at the bargaining table.

To support their optimism, Commission officials emphasize that no one seriously disputes the fact that the EC depends on imports to fill more than 65% of its energy needs, that nuclear fuel will not be able to replace oil imports - perhaps ever - and that natural gas supplied by the Soviet Union would bring the EC into more, not less, dependency. Also, the dangers inherent in energy shortages predicted for the 1980s and the fact that the EC cannot close its energy gap without imports will eventually make it necessary for the EC too to act as a bloc vis-à-vis OPEC countries.

AROUND THE MARKETPLACE

Germany: Bitter Pill for Drug Industry

The government's bill designed to revamp legislation governing the German pharmaceuticals market has not been made public, but if its basic ingredients are put into legislative form, the domestic drug industry will have a bitter pill to swallow. Pharma-

German Drugs *(contd.)*

ceutical producers would be required to register prices of prescription drugs with the Federal Health Office in West Berlin, but there would be no official price controls since one of the government's expressed intentions is to bring more movement into prices through increased competition. However, where drugs with essentially the same components and identical therapeutical properties differ substantially in price, the health insurance funds (*Krankenkassen*) that administer health insurance contributions and pay drug and hospital costs for insureds could ask the federal cartel authorities to investigate. Also, drug advertising would come under even closer government scrutiny than it has so far.

Indirect pressure on the industry would also be imposed by way of the Health Office's future list categorizing prescription drugs according to therapeutical value, plus prices, to enable a quick comparison. This list would make it easier for the overworked physician to choose a drug for his patient, and both the government and the health insurance funds hope that he would prescribe the cheaper drug if it has the same therapeutical effect as a higher priced one.

The bill further proposes to empower the government to dictate markup limits to wholesalers and retail druggists. This would be a first for Germany as far as wholesalers are concerned, although in Bonn it has not been decided whether it would be a maximum markup (allowing a wholesaler the freedom to charge less) or whether he would have to abide by a fixed percentage. No percentages are given in the bill - they would be decreed by government order. But Bonn sources indicate that the regulatory markup would be "somewhere near that practiced at the present time," now ranging between 13% and 18%. On the retail level, the proposed law would not be so innovative in terms of official interference since the druggists' markups are already government-controlled. However, there is a chance that the existing statutory markup - ranging from 35% to 74% - for prescription drugs will be reduced.

EURO COMPANY SCENE

Commission/ Suiker Unie

The European Commission is investigating a takeover bid by Holland's Cooperatieve Vereniging Suiker Unie for another Dutch sugar producer, Centrale Suiker Mij, to determine whether a fusion of the two companies - the Netherlands' only sugar refiners - would constitute a violation of EC competition law. The firms were among the group of European sugar producers fined by the Commission last December for engaging in illegal cartel practices.

Commission/ Mannesmann

The German government has presented its views on a possible takeover by Mannesmann steel of Demag, the mechanical engineering firm, to the European Commission, which is now reviewing the proposed merger. Declaring that such a fusion would be one of the most significant acts of concentration in Germany in recent years, Bonn has warned the Commission that strict controls would be needed to prevent violations of EC competition rules, particularly in the area of interlocking directorates. Mannesmann must have Commission approval before going ahead with its plan to increase its present 31% stake in Demag to a majority 51%.

Pratt & Whitney/ MTU/Fiat/ Alfa Romeo

Subject to governmental approval, the Pratt & Whitney Aircraft Division of United Aircraft Corp., East Hartford, Conn., Germany's Motoren- und Turbinen-Union (MTU), and Italy's Fiat and Alfa Romeo, of the IRI-Finmeccanica group, have agreed to collaborate on a new civil aircraft engine, the JT 10 D, for use in successors to the DC 8 and 9 and Boeing 707, 727, and 737 jets. The cooperation will be open to other international aviation partners - Britain's Rolls Royce being a prime candidate - as well. The new alliance is expected to compete with the Franco-American engine building team of Snecma-General Electric, which is working on a similar project.

SNIA/ Westland

Europe's leading helicopter manufacturers, France's Société Nationale Industrielle Aérospatiale (SNIA) and Westland Helicopters of the U.K., have cofounded Heli-Europe-Industries Ltd., headquartered in Paris, to take over all their future helicopter building and marketing operations. Other companies will be solicited to join the new venture, and talks reportedly are already under way with Germany's Messerschmitt-Bölkow-Blohm, Agusta of Italy, and Spain's Casa. Westland and Aérospatiale have combined annual helicopter sales of over $370 million.

Honda

After domestic motorcycle producers threatened to shut down production in protest, the Italian government has blocked the import of Japanese 125-250 cc motorcycle engines. The move cancels Honda's authorization to import 5,000 such engines yearly for assembly at a plant near Chieti.

Volkswagen

Germany's Volkswagenwerk is said to be negotiating with Peking over construction of an automotive plant in China. The Chinese are reportedly interested in manufacturing a "simple and utilitarian" vehicle, and VW would be ready to provide know-how for this, at the least.

Nixdorf

Nixdorf, leading German builder of small and medium-sized computers, is considering plans to set up its own manufacturing plant in Spain. Company representatives reportedly have been discussing such a project with officials of the Ministry of Industry in Madrid and INI, the national industrial holding organization.

Naftna/ Texaco

Naftna Industrija Naftagas, the Yugoslav petroleum concern, has contracted with Texaco Operations (Europe) Ltd., a subsidiary of Texaco Inc., to sell Texaco automotive and industrial lubricants in Yugoslavia.

ENEL

Nationwide rationing of electrical power has been predicted by Italy's ENEL, the government electric power agency, should the construction of new power plants continue to be blocked by environmental and political groups. ENEL's president said that planned construction of nuclear power centers over the next few years should reduce objections of environmentalists aimed at oil- and coal-fueled methods of producing electrical power. ENEL reportedly had under construction or planned a total of 38 new power stations at the end of 1972.

Liquifin/ Ronson

Liquifin AG of Liechtenstein, holding company for Italy's Liquigas SpA, petrochemicals and chemicals, is suing Ronson Corp., Woodbridge, N.J., for alleged illegal and damaging statements made to the press regarding a Liquifin bid for at least 2.2 million Ronson shares at $8.50 a share. Liquifin claims violation of the Securities Exchange Act of 1934.

Woodall-Duckham/ Il Gas Integrale

Woodall-Duckham Ltd. of the U.K., part of the Babcock & Wilcox group, has acquired a majority interest in Il Gas Integrale SpA of Milan, an engineering firm specializing in plant construction for the gas, chemical, and petrochemical industries.

Rockwell/ Rimoldi

Rockwell International has acquired Virginio Rimoldi of Milan, producers of sewing machines, with annual sales of approximately $47 million.

Shell/ Gulf Oil

Royal Dutch Shell of the Netherlands plans to pay Gulf Oil Corp. some $200 million for a 50% interest in the U.S. company's nuclear technology subsidiary, Gulf Energy & Environmental Systems Co., San Diego. The move is Shell's first diversification into a non-petroleum sector, apparently dictated by the prospect of shrinking gas supplies. Gulf will continue to operate the joint venture, which builds high-temperature, gas-cooled reactors and produces nuclear fuels.

St. Gobain/ Certain-Teed

Following its cash tender offer of early last month, Cie. St.-Gobain-Pont-à-Mousson of France has acquired 2.3 million shares - about 31% of the outstanding common shares - in Certain-Teed Products Corp., Valley Forge, Pa., at $21 a share for common stock and $42 a share for series A convertible preferred. St. Gobain already had a sizable interest in the U.S. building products company.

Hengstler/ Flextime

Hengstler Gleitzeit KG of Germany, manufacturer of flexible work-hour timing devices, has set up Flextime Corp. in New York to handle its U.S. distribution. Hengstler estimates the potential American market for its type of equipment at about $2 billion.

State of N.Y.

The European Office of the State of New York, established 10 years ago, has moved to new quarters at 327 Avenue Louise, 1050 Brussels. The director is J. Stephen Stanton.

Du Pont

Du Pont de Nemours has finalized plans to increase acrylic production at its plant in Londonderry, Northern Ireland. The £5 million earmarked for expansion will bring total Du Pont investment in the Londonderry plant to £40 million ($98 million).

Imperial Tobacco

Britain's Imperial Tobacco is to invest upwards of £10 million ($24.5 million) in a plant designed to produce a new tobacco substitute in commercial quantities. Likely to be located in Ayrshire, Scotland, the plant will manufacture NSM (new smoking material) for mixing up to 20% with regular brands. Imperial predicts that it will be producing NSM at the rate of 10,000 tons per year by late 1975. The company faces a number of problems with NSM, the chief ones being consumer approval (Courtaulds will start test marketing a 50/50 mix of tobacco and substitute in the fall), medical endorsement for the cellulose-base substitute, and an Exchequer decision on taxation. A reduction in duties proportionate to the NSM content would cost the Exchequer valuable revenue by boosting demand for the cheaper product.

Watney Mann/ Stern

U.K brewing group Watney Mann Ltd. has managed to acquire a 76% stake in Germany's Stern-Brauerei Carl Funke AG from former own-

Watney/Stern *(contd.)*

ners Commerzbank, Allianz-Versicherung, and the Funke family for a reported £18.5 million ($45.3 million) in cash. Through the deal Watney also gains a 37% interest in Dortmunder Stifts-Brauerei, which is 58% owned by Stern. The British company, the U.K.'s fourth largest beer producer, will now derive about one third of its output from foreign holdings.

Lloyds Bank/ Mellon

The U.K.'s Lloyds Bank is planning to assume full control of Lloyds and Bolsa International and will pay some £75 million ($183.8 million) for the 45% of LBI not already in its control. The deal involves a 425p per share cash offer to the United States' Mellon Bank for the 12.63% stake Mellon originally acquired in Bolsa in 1965. The fact that Mellon held this stake has been a stumbling block to Lloyds' expansion plans for the U.S. Under the Edge Act, LBI has been prevented from entering the U.S. public banking sector, i.e., it could take no deposits or lend to new customers or bid for currency on New York's money markets. The "removal" of Mellon means that LBI can now offer a full range of banking services.

Lloyds/ World Airways

In a related development, Lloyds announced that it was having talks with World Airways, the U. S. air charter organization, leading to a takeover of World's First Western Bank and Trust Co. of Los Angeles. This move would not only take Lloyds into California for the first time but would also make the British bank one of the major banking foreigners in the U.S., with twice the size of the network envisaged by the U.K.'s Barclays in its recent aborted bid for Long Island Trust Co. of New York and on a par with Sumitomo and the European-American Banking Corp.

Scottish Coop/ Holiday Magic

The Scottish Cooperative Society, whose banking department recently came a cropper in the London money market and had to be bailed out in a shotgun merger with its English counterpart, the Cooperative Wholesale Society, has revealed that it has been helping finance pyramid selling by making loans to the largest pyramid seller in the U.K., Holiday Magic. Although the extent of the liability has not been made public, the very fact that the society countenanced such finance has caused a major scandal. The cooperative has been at pains in recent years to establish a reputation as a crusader for consumer causes.

Bank of America

Following Chase Manhattan's initiative, Bank of America has announced it also plans to open an office in Moscow.

Mellon Bank

Mellon Bank NA of Pittsburgh has converted its two-year-old representative office in Frankfurt into a full-fledged branch, the bank's second in Europe after London.

Northwestern National Bank

Northwestern National Bank of Minneapolis has become the tenth U.S. bank to open an office in Luxembourg.

Rothschild

The U.K.'s Rothschild Investment Trust has acquired seven commercial and office properties in Paris (one), Brussels (two), and The Hague (four). The most notable acquisition is the commercial Manhattan Center in the heart of Brussels.

Common Market Reports

EURONMARKET NEWS

Issue No. 231 *Report No. 215, June 19, 1973*

IN THIS ISSUE

Italy: Income Tax Reform Delayed

For political and technical reasons, the Italian business community will have to wait until 1975 for the long-expected reform of the country's income tax system, according to sources in Rome. The government's original target had been the early part of 1974. The postponement, not yet formally acknowledged, was attributed chiefly to the alleged "inadequate" preparation of half a dozen implementing regulations. In Parliament, the blame for this foot-dragging was put on the Finance Ministry, whose experts have to have the draft legislation screened and approved by a parliamentary committee before the government can implement it.

Aside from these technical obstacles blocking progress on the reform, the administration of Prime Minister Giulio Andreotti - who meanwhile has tendered his resignation - apparently had been unwilling to accept responsibility for this important legislative package when it saw its days numbered. To meet the original deadline of early 1974, the tax reform bill should have been ready for official passage by the end of this month.

Confronted with the delay, business spokesmen are now demanding transitional "corrections" of existing income tax provisions. Their demands reflect the impact of the added-value tax introduced on Jan. 1, 1973, which has presented Rome with a formidable fiscal weapon by permitting an indirect, but highly effective means of determining corporate gross and net incomes (from sales). Existing income tax law provides for extremely high tax rates as a way for the government to compensate for revenue lost because of widespread tax evasion. These rates are to be modified as part of the income tax reform in order to protect broad sections of low-and medium-income groups from excessive taxation and thus a threat to their very existence.

The reformed income tax was to have been introduced alongside the added-value tax. But insistent pressures from Brussels had compelled the Italian government to concentrate first on VAT

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Income Tax *(contd.)*

in order to catch up to the EC partner countries. This, by necessity, forced the delays on the income tax package.

Britain: Labour Explains Industry Policy

The U.K. opposition Labour Party's policy document released on June 8 calls for an extension of public ownership and for wide-ranging government control over key sectors of the country's manufacturing industry. Prior to publication of the document - and much to the embarrassment of Labour Party leader Harold Wilson - Labour's "shadow" secretary for trade and industry had asserted that, in the event of Labour's winning the next general election, 25 of the country's top 100 manufacturing companies would be nationalized. Wilson countered by saying that his shadow cabinet would not hesitate to use veto powers on the "25 company proposal," and the signs now are that the party will soft-pedal the number of companies involved and concentrate on the "principle" of substantial public ownership in key sectors.

Predictably, a Labour government would repeal the much-maligned Industrial Relations Act and substitute a new Industry Act, designed to offer companies financial support in return for a public shareholding and providing for agreements to be drawn up with individual companies on prices, profits, investment policies, and industrial relations procedures. Powers would exist for investment at the government's discretion in individual companies or, alternately, for outright purchase - to prevent the takeover of U.K. companies by "foreign interests." Companies failing to meet their "obligations" to workers, customers, or the community as a whole would be given over to the temporary control of specially-appointed "official trustees."

The document outlines a Planning Agreements System under which companies would commit themselves to meeting government objectives in exchange for receiving state assistance. The new Industry Act would empower Labour to acquire information from companies and, if it were deemed necessary, to dismiss directors whose performance was not considered satisfactory. A Labour government would also be given powers to appoint "public" directors to the boards of corporations, including those of multinational corporations resident in the U.K., and would be empowered to demand more detailed disclosure of information from such companies.

The policy document devotes a good portion of its 24 pages to tax reforms. Estate duty would be abolished and substituted by a "progressive donor tax on capital transfers," the aim presumably being to attain wider distribution of wealth. Capital gains tax would be retained, but the rates and structure of income tax would be fundamentally recast to make it more of a progressive tax, with a lower starting point for the higher rates. Further, a progressive wealth tax on net personal holdings in excess of £50,000 (at present values) would be levied on the richest taxpayers.

Germany: Commercial Law Conventions Ratified

After Belgium, Italy, and the Netherlands, West Germany has become the fourth EC member to ratify the two 1964 Hague conventions on uniform commercial law (*Convention Relating to a Uniform Law on the Formation of Contracts for the International Sale of Goods* and the *Convention Relating to a Uniform Law on the International Sale of Goods*). In taking this action, Bonn is doing its share to foster international trade. Both conventions and their annexes would establish uniform rules for the conclusion

Law Conventions *(contd.)*

and fulfillment of international sales contracts and hence would remove obstacles created by the different concepts of contract law contained in the legal orders of the various countries. Although the efforts to introduce uniform rules governing international trade of goods go back to the 1930s, Germany and the other member states (all of which have agreed to ratify the conventions) are merely doing what the European Commission sooner or later would have asked them to do through Council directives aimed at harmonizing their statutes governing commercial contracts involving the international sale of goods.

Sellers and buyers in the Community and in other signatory countries will derive many benefits from the two conventions. At present, contracts often fail to stipulate what law should govern any conflict that might arise from an agreement. Or: a buyer in one country purchases from a seller in another country a machine that turns out to be faulty; normally he is not aware of his rights and, even if he does have a general idea, there are probably certain procedural steps he must take in order to protect these rights. While large companies usually rely on their legal departments for such information, small or medium-sized companies cannot be expected to know the law of every country they might export to or import from, certainly not the details of foreign law on the international sale of goods. Here the conventions would be of tremendous help since a small company established in one signatory country engaging in trade with a company in another would have to know only the rules of its own country and those embedded in both conventions. And if it ever came to legal action, the small company could also be certain that any court in a signatory country would apply the uniform laws.

Switzerland: Bern to Act on Co-determination

After an extensive evaluation of the subject, the Swiss government has decided to reject in its present form the text of a co-determination initiative sponsored and submitted two years ago by the country's three major unions. Instead, Bern has decided to work out a counter-proposal by the end of August and to submit it - along with the original union-sponsored proposal - to Parliament for debate. A popular referendum would then settle the co-determination question next year or in early 1975.

Bern's decision for a proposal of its own stems from the results of government surveys among cantonal authorities, the political parties, and business and industry which indicated that the union-sponsored initiative would probably fail to win a popular majority. The reason for widespread skepticism is the wording of the proposal as well as its professed aims of equal employee representation on supervisory boards (*Verwaltungsräte*) and co-determination also in the corporate decision-making process.

The government proposal would not question the concept of co-determination as such but would carefully take into account the interests of the employers as well. It would leave the door open for the step-by-step evolution of the concept in the future, designed to preserve the kind of labor-management climate needed by business and industry to function properly.

Greece: Business Incentives, Five-Year Plan

The Greek government has decided on a number of additional business incentives to promote the industrialization of the country's less developed areas. Thus, companies engaged in such sectors as cotton spinning and shoe production may apply for grants equaling 25% of the investment in new plant buildings if they settle in

Incentives *(contd.)*

these designated areas. Manufacturers of tires and inner tubes establishing themselves outside the Attica region (Athens and environs) are entitled to a 50% reduction of their turnover-tax debt and a 20% reduction of the employer's share of social contributions. Furthermore, enterprises based in the Attica area may acquire capital holdings in companies located outside that region without incurring tax obligations on such investments.

Special efforts by the Athens government center on the development of a vertically oriented national steel industry within the next five years in order to meet domestic demand for steel and steel products of all kinds. Last month, the cornerstone was laid for the 450 million-drachma Metallourjiki-Chalyps steel complex at Almyros in the southwest Peloponnesus to be laid out for annual capacities of 300,000 tons of steel and 260,000 tons of steel products. In 1972, Greece's imports in that sector amounted to more than $150 million, having thus doubled within the last four years.

In related news: some last-minute revisions reportedly have delayed final approval of the government's new five-year plan for the 1973-77 period. In keeping with measures to reduce liquidity and contain inflation imposed early this year and tightened in April, the government apparently intends to scale down the GNP growth rate from 8% to 6% during each of the first two years of the plan, whereas the contributions of the secondary industrial sector (manufacturing, trade, crafts, and construction) to the GNP are to rise from the originally targeted 30.9% to 33.5%.

EC Membership Ruled Out For Present

Meanwhile, in a speech to the European Parliament in Strasbourg, the head of the European Community's external affairs department, Sir Christopher Soames, said that full membership for Greece in the foreseeable future was even less likely than before and that the Commission would not "swerve either way" in its policy toward the present Athens government. The EC-Greek treaty of association, signed in 1961, was suspended by Brussels in 1967 following the military takeover in Greece.

Spain: Eased Imports Expected

In the wake of the urgent recommendations contained in last month's report on Spain by the Organization for Economic Cooperation and Development, the Spanish government apparently is now prepared to liberalize import regulations and to lower tariffs on imports. According to unofficial reports, duty rebates are to average about 10% on imports of foodstuffs, raw materials, and those goods which could have an impact on domestic price levels. In certain instances, duty reductions of up to 20% may be granted, it was reported. At the same time, the government may turn over a larger share of the food and feed grain import business to private enterprise (so far, this type of business has been handled largely by state agencies or by private companies acting under special government license).

In Madrid, it was recognized that such a liberalization would put pressure on domestic industry to improve its competitiveness at home. At the same time, though, the measures should ease progress in the stalled trade negotiations with the European Community.

The OECD's call for a more liberal import policy by Spain was prompted by the forecast of a $600-million balance of payments surplus for 1973 and currency reserves of some $5 billion at the end of 1972. The argument was that, given such a payments surplus and a booming domestic industry, there was no reason why tens of

Spain Imports *(contd.)*

thousands of Spaniards are forced to look for work abroad every year. The OECD warned, however, that the acceleration of economic growth would have to go hand in hand with structural improvements to avoid excessive inflation rates. These had varied between 7% and 8% over the last two years, and only recently have the government's braking measures shown some effect.

Community: Harmonization of Door-to-Door Sales

The European Commission has vowed to open national frontiers to traveling salesmen who sell door-to-door and extend credit by means of installment contracts. Barriers would come down in the wake of Brussels' drive to achieve freedom of establishment and freedom to exercise commercial activities as laid down in Treaty Article 54. The methods of attaining this freedom would be projected in a Council directive to the member states.

Commission officials would like to see realized a concept that not only assures freedom to travel across national frontiers and engage in trade but also attaches a minimum of strings to this freedom. Here the Commission would be facing tremendous obstacles in getting the Council to adopt the directive because there are hardly any greater discrepancies in legislative and administrative rules than in the area of itinerant trade. A 1970 directive being considered by the Council and covering one segment of this trade (essentially, sellers of food) is a case in point. Adoption of the directive would mean that each state would be required to enact, amend, and repeal a great deal of legislation.

First of all, door-to-door sales of any type are prohibited in Denmark and in Luxembourg. Most states prohibit door-to-door sales of alcoholic beverages, medicines and medical appliances, jewelry, optical equipment and glasses, and, where such sales of these or other products are allowed, the seller must obtain a permit. French authorities are required by law to be rather strict when it comes to granting the permit because, in addition to having the obvious skills, the applicant must prove himself to be especially reliable. Commission officials do not expect the Council to loosen all these strings (certainly not when it comes to selling medicines freely, for example), but would be satisfied by some measure of coordination in national rules that would allow salesmen of one state to sell in another and be reasonably sure that the requirements demanded there are about the same as those of their home state.

AROUND THE MARKETPLACE

Not Just Another Strike at Chrysler U.K.

In spite of rival attractions, the managing director of Chrysler U.K., Gilbert Hunt, assured himself of front-page treatment in Britain with the announcement that his company had canceled all plans for further capital investment until Chrysler's plant at Ryton (Coventry) was free of labor disputes. Hunt's letter to the Ryton work force stressed the plant's "appalling industrial record" and let it be known that Chrysler's future in the U.K. was in jeopardy: not only would there be no further capital investment until the dispute was resolved, but Chrysler also did not intend to sink any more funds into U.K. operations until it was demonstrated "over a reasonable period of time" that problems could be worked out in a constitutional manner while continuous production was maintained. The extent of investment planned by Chrysler is not known but several million pounds are involved.

Chrysler Woes *(contd.)*

Since June 6, when the announcement was made, the confrontation has escalated into a major crisis for the U.K.'s automotive industry. The unions continue to picket the plant, asserting that they will not be "threatened" by Chrysler's management. They submit that Chrysler's complaint about faulty and shoddy performance on the assembly line is not justified. Whether or not this is true, the fact remains that Chrysler has lost nearly 4,000 units and a total of £2.7 million ($6.6 million) through internal disputes between Dec. 1 and April 1 and that the situation has deteriorated so that action seemed advisable. Chrysler can and may well switch production to one of its 140-plus plants scattered throughout the world. Even more serious, the troubles at Chrysler are paralleled by other disputes throughout the industry - at British Leyland, at Perkins, and at Rover. Between Dec. 1, 1972, and June 1, 1973, nearly 400,000 man-hours were lost in the industry through strikes and nearly as many through layoffs.

EURO COMPANY SCENE

Hoffmann-La Roche/ U.K. Government

In what has been hailed as a significant victory, the Hoffmann-La Roche pharmaceuticals group has won the right to have its appeal against a U.K. government order cutting its prices for Valium and Librium taken to a House of Lords Select Committee for further consideration. The committee will hear witnesses in July. Hearings will last for over a month and will be limited to the consideration of one issue: "whether the prices recommended by the Monopolies Commission make adequate provision for a proper allocation of group research and development expenditure in the sales of the reference drugs by Roche in the U.K. and if not, what (if any) adjustment upward should be recommended."

Whessoe/ Capper-Neill

U.K. process plant manufacturer Whessoe has dropped its bid for Capper-Neill following what Whessoe's chief executive termed an "ill-advised intervention by the Dept. of Trade and Industry." The DTI had referred the bid to the U.K.'s Monopolies Commission. In Whessoe's view, the reference effectively killed the bid's chances for success, since "we would have had a five months' going-over by a jury that was not necessarily expert in our field and not necessarily wholly impartial."

BP/ENI

British Petroleum has started negotiations with Ente Nazionale Idrocarburi, the state-owned Italian oil group, for the sale of BP's 49% stake in the Venice refinery jointly owned with ENI. BP had intended to include its share in the refinery in the £80-million deal for the sale of its Italian marketing and refining interests to Oil Chemicals and Transport Finance Corp., the consortium backed by the Monti group. ENI was entitled to exercise its right to buy out the minority interest, however, and will now do so in order to expand its refining capacity.

Nash Italia

Nash Engineering Co. of Norwalk, Conn., has announced formation of an Italian subsidiary, Nash Italia SpA, for the sale of vacuum pumps and compressors.

Sybron/ Guardigli

Sybron Corp., Rochester, N.Y., has acquired the assets of Guardigli SpA of Milan, manufacturer of precision analytical and measuring devices. The Italian company will operate within Sybron's Taylor Instrument Process Control Division, which has its European headquarters in the U.K.

A.T. Cross

A.T. Cross Co. of Lincoln, R.I., has set up a new German subsidiary, Cross-Vertriebsgesellschaft Deutschland mbH, for distribution of its writing implements in Germany and Eastern Europe. Cross recently opened a new production plant for the European and African markets in County Galway, Ireland.

Swedish Match/ Kübel

Deutsche Zündholzfabriken GmbH, German subsidiary of Svenska Tändsticks AB (Swedish Match), Jönköping, has taken over 99% of the DM 20-million share capital of Kübel AG, a leading furniture manufacturer in Germany. The purchase price was not revealed. Last year Kübel had net sales of DM 220 million ($84 million).

CII-Siemens/ Philips

Spokesmen for the Franco-German CII-Siemens computer alliance have indicated that a contract with a third partner, Philips of the Netherlands, finally may be ready for signing before the end of the month. Cooperation among the three might then take the form of a joint EDP subsidiary.

Itel

The Data Products Group of Itel Corp., San Francisco, has formed an IBM computer leasing subsidiary in Italy, operating in Milan and Rome.

Datel/ITT

Germany's Deutsche Datel GmbH für Datenverarbeitung, computer service and programming, has taken over the software division of ITT Datenservice. Terms of the deal were not disclosed.

Klopman

Klopman International SpA, a subsidiary of Klopman Mills (a division of Burlington Industries), has completed expansion of its $25-million textile plant in Frosinone, Italy which can produce 48,000 square meters of fabric annually and employs 1,000.

Bayer/USSR

Germany's Farbenfabriken Bayer AG and the Soviet state ministerial committee for science and technology have signed an agreement for scientific and technological cooperation primarily in the sectors of plastics and synthetic rubber, paints, dyes, pigments, and industrial anti-pollution equipment. Last year Bayer sold DM 35.5 million ($13.5 million) worth of chemical products in the USSR.

Pêchiney/ USSR

Aluminium Pêchiney, of France's Pêchiney-Ugine-Kuhlmann group, has won a FF 180-million ($41.9-million) contract from the USSR's Metallurgimport agency for construction of an aluminum plant in the Soviet Union. French experts say the plant, which is to produce 260,000 metric tons of precast aluminum electrolytic anodes yearly, would be the world's largest project of its type.

Fitch Lovell/ BAT/ Pricerite

The U.K. food conglomerate Fitch Lovell has made a bid for Pricerite, the British supermarkets group. The Pricerite board had earlier approved an offer by British-American Tobacco of £9 million in cash but has now switched horses and has recommended Fitch Lovell's £10.5-million offer. BAT spokesmen would not comment on a possible move to match the Fitch Lovell offer or top it.

BAT/ Gimbel Bros.

Meanwhile, BAT also has announced a £75-million bid for the U.S. stores group Gimbel Bros. as "a continuance of our general expansion into general merchandising," a fair assessment of the situation in the light of BAT's major takeover of International Stores in 1972 and its current bid for Pricerite.

GB-Bedrijven/ Innovation	Belgium's two leading department stores, GB-Bedrijven - in which Jewel of the United States has a sizable holding - and Innovation-Bon Marché-Priba, have announced plans to merge. Their combined turnover would top BF 40 billion ($1.1 billion) annually.
Chloride/ Connrex	The British Chloride Electrical Storage group has made a $22-million bid for the battery division of Florida-based Connrex Corp., a major U.S. producer of replacement automobile batteries.
Peter Dixon/ Kajaani Oy	Following the closure of their papermaking operations at Grimsby (U.K.), paper manufacturer Peter Dixon & Son (Holdings) has sold its sulphite and mechanical pulp plant in Finland to the Finnish pulp and paper group Kajaani Oy for £2.25 million.
Ford Germany	Ford Germany has announced plans to begin producing a new range of medium- and heavy-weight trucks by the fall. Last year Ford's light commercial vehicles accounted for 14% of the European truck market, taking second place after Volkswagen and before Daimler-Benz.
P&O/ Zapata	The U.K.'s Peninsular and Orient Steam Navigation Co. is engaged in negotiations with the Zapata Corp. of Houston for the purchase of a 50% stake in the American shipping company's subsidiary Zapata Naess Shipping. P&O and Zapata Naess have been instrumental in the joint (50/50) development since 1964 of Associated Bulk Carriers. ABC operates over two million tons of bulk shipping and plans to bring a further million tons into service next year.
Green Line/ P&O	The United States' Green Line Steamers, a subsidiary of Overse[illegible] National Airways, has retained the research and development services of P&O to supervise the technical details of design for what is reputed to be the largest Mississippi steamboat ever built - a $15-million, 5,000-ton stern-paddle wheeler.
Westinghouse	Westinghouse Electric Corp., Inc., of Pittsburgh has transferred its representative office for Central and Eastern Europe from Frankfurt to Vienna.
Lloyds Bank/ First Western	Lloyds Bank has reached agreement with World Airways Inc. for the purchase of World's subsidiary, the Californian retail banking chain First Western Bank. Although Lloyds and the U.S. parent have agreed on a price (£46 million), the deal is by no means complete: a protracted bout of negotiations is now inevitable, since Lloyds must obtain both Californian and federal banking authority sanction for the deal and, at the same time, hope that the Congressional committee now examining foreign investment in the United States does not throw up any obstacles. The price agreed upon is thought to be generous, underlining Lloyds' determination to strengthen its position in the Pacific basin. The acquisition of a Californian branch bank network has one further important implication: Lloyds has now reluctantly accepted that it will not be able to expand its retail banking activities in New York.

Common Market Reports

EUROMARKET NEWS

Issue No. 232 June 26, 1973

IN THIS ISSUE

Germany: Price Maintenance, Merger Controls

Bonn's lawmakers have unanimously outlawed the concept of price maintenance, for 15 years considered a statutory sacred cow and yet an alien element in an economy largely based on freedom of competition. This united showing, which came along with the passage of the cartel law amendment, was based on the hope that abolishment of price maintenance (as of Jan. 2, 1974) will lead to some price stability, since manufacturers will no longer be allowed to dictate retail prices for brand-name articles. The legislators stopped short, however, of preventing manufacturers from continuing to print "recommended" prices on their products. This, however, will have no binding effect on retailers, who will be free to calculate prices on their own. Several provisions safeguard this freedom - for example, a manufacturer may not refuse to serve a retailer who does not sell at prices he recommends.

Abusive practices would prompt action by the Federal Cartel Office. If a manufacturer's recommended retail price lies 15% above the going market price, the cartel office could prohibit the manufacturer from making price recommendations at all. (Such recommendations are no longer subject to registration with the cartel office).

An entirely new, key element included in the cartel amendment (retroactive as of June 7) gives the Federal Cartel Office the power to veto mergers of businesses having combined sales of DM 500 million or more if the merged entity or the enterprise having acquired more than 25% of another entity attains a market-dominating position or broadens the position it already has. The Federal Economics Minister, however, could overrule the cartel office within four months, though only if the restraint of competition entailed in a merger carries benefits for the economy as a whole. He could also impose conditions.

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Prices, Mergers *(contd.)*

Enterprises enjoying a dominant position on the market will be facing stricter surveillance because the amendment introduces additional criteria, both legal and economic, and thus would make it easier for the cartel authorities to prove domination of the market. Although the market share (now one-third) still would be used as a yardstick, the cartel authorities will have the benefit of an expanded concept called "predominant market position," based on several criteria, including market share, financial standing, access to supply and sales markets, interlocking relationships, and marketing chances. Only one of these would suffice for the cartel office to prove a company's predominant market position in order to take corrective action - for instance, by prohibiting abuses of this position.

Britain: A Soft Line on Equal Pay

The U.K.'s Equal Pay Act 1970 provided that orders could be issued compelling employers to bring pay rates for women employees to within 90% of men's rates by December 1973, prior to a final round of increases that would ensure equal pay for both sexes by the end-1975 deadline. The signs are, however, that the government is soft-pedaling the issue: instead of issuing an order, the Secretary of State for Employment has taken an easier way out by writing to Britain's 400,000 companies employing more than five persons and reminding them of their eventual obligations under the act.

To anyone who witnessed the recent "response" of U.K. firms notified of their registration obligations in respect of the new added-value tax, the Secretary's letter must appear as the step least likely to succeed. This is substantiated by last summer's batch of statistics from the Office of Manpower Economics which showed that most sectors have not responded to the interim deadlines despite the fact that the Pay Code makes specific provisions for exempting increases in the interest of equal pay. The food and textile industries have done what can only be described as next to nothing and some figures also reveal that, although many of the U.K. major companies have taken some action, smaller companies (i.e., those with less than 100 employees) have largely disregarded the requirements of the act. In fact, some 25% of the companies in the OME survey professed ignorance of the act's provisions.

The softer line taken by the government can be construed as an attempt not to rock the boat of company profits at a time when the main object of the government's counter-inflation program - continued and expanded economic growth - is largely dependent on boosted company profits. The Secretary must realize, however, that a sudden pressure to align in 1975 could have deleterious repercussions. So, it is felt that, in their own interest, companies that have as yet disregarded the act should start making an effort to comply.

France: Minimum Wage, Other Benefits Raised

The French government, through Premier Pierre Messmer, has announced a new package of measures, most of them involving social benefits. As of July 1, the legal minimum wage (*SMIC*) will be raised by another 12% to FF 1,000 (about $227) per month, in line with the administration's pre-election pledges and with longstanding demands by the unions. Old-age pension and family allowances also are to be increased on July 1 and Aug. 1, respectively, Benefits Raised *(contd.)*

with actual margins not yet made public. Furthermore, Messmer indicated that in the near future the government would submit legislation giving employees voting rights in the management of their companies, expanding the concept of "workers' participation."

Taking another swipe at price inflation, the government has cancelled plans to boost public transport rates in Paris; the deficit thus incurred will be assumed by the Treasury. Suspension of added-value tax on meat, originally limited to the end of June, will be extended for six more months. Despite these and other efforts (including a new intervention system on the short-term money market), the consumer price index is forecast to rise faster again after having been held to below 7% on an annual basis so far. Finance Minister Giscard d'Estaing himself has predicted monthly increases of between 0.7 and 0.8%.

Italy: Corporate Law Reform Not Yet in Sight

Hopes for a speedy passage of the draft bill of a new Italian company law now under study at the cabinet level are extremely slim, according to reports from Rome. Aside from the unresolved government crisis which is likely to stall any piece of non-urgent legislation for the time being, there is also the notable absence of any powerful political or industrial lobby to promote the reform at this point. The most pressure may yet come from outside the country, from Brussels, since the European Commission is expected to keep up its prodding to get Rome to bring Italian corporate law more or less in line with that of other EC member states.

Meanwhile, some additional details of the draft bill - which had been put together by a government-appointed commission and was recently submitted - have been revealed. According to this information, the reform legislation would:

- require outside auditing of companies listed on the stock exchange;
- establish a special class of non-voting preferred shares on which higher dividends would be paid than on ordinary shares and which would not identify the holder by name (for tax purposes);
- recognize the legal rights of minority stockholders and their associations as well as their right to sue for misfeasance;
- require all major stockholders to be identified;
- require all significant holdings in other companies to be reported,
- and ban cross-holdings. (If one company acquires more than 2% in another listed company, the latter in turn would be prohibited from buying shares of the first. In the case of unlisted companies, the limit would be 10%).

Social Security Pact with U.S.

A social security agreement has been signed between Italy and the United States, providing a U.S. company operating in Italy with the option of giving its U.S. employees American social security coverage and avoiding paying similar taxes in Italy. The same would apply to Italians employed by Italian companies in the United States. The agreement also prohibits elimination or reduction of social security benefits for individuals who retire to their native country after employment in the other country. The agreement, yet to be approved by Parliament and Congress, is regarded as a model for similar pacts between the U.S. and other European countries.

Austria:
Draft Bill on
Food Labeling

The Austrian government's draft regulation on food labeling has not received an enthusiastic response from anyone asked for comment - consumer organizations, the trade, and food manufacturers - because it constitutes more or less a compromise of the demands of these three groups. Some minor touch-ups are expected in the coming weeks, but the core of the regulation is expected to remain unchanged.

It would require manufacturers to provide certain minimum information on any canned or wrapped food item and would extend to items not subject to labeling requirements so far. The labels would have to indicate quantity of contents by weight or volume, additives, nutritive ingredients, and the expiration date. This last requirement has caused some debate because many food producers and processors already show expiration dates on labels, though often in a code the average consumer finds hard to read. The draft thus simply requires a date "in non-code form."

Frozen foods would be exempt from the labeling requirement as would milk products, though the latter only until complicated existing legislation has been changed.

Government sources hope to have the editing of the draft completed very shortly so that it can be issued in mid-summer. This would give manufacturers ample time to familiarize themselves with the new rules and to make the production adaptations that might be necessary by Jan. 1, 1974, the day the regulation is scheduled to go into effect.

Switzerland:
Retail Price
Labels Required

As a further way of keeping an eye on domestic price development, the Swiss government has decreed that as of July 1 all retail prices must be labeled or listed so that they can be readily recognized by consumers. In Switzerland, retail prices are always net prices on which rebates may be granted. The government action requires no special parliamentary authorization since it comes within the purview of the wage-and-price control regulations in effect since late 1972.

In related news, the outright rejection of proposed gasoline price increases by the country's official "price guardian," Prof. Leo Schürmann, has been received with some surprise by the affected oil companies. The ban, generally regarded as the most extensive action of its kind since the controls were implemented, obviously found the backing of the consumer organizations, the automobile associations, and the broad public. However, it is likely that the requested price boosts may be granted at a later date.

'Effective'
Real Estate
Restrictions

Statistics are now bearing out that the Swiss ban on real estate purchases by foreigners has proven "very effective," according to government sources in Bern. Whereas 2,753 permits authorizing property acquisitions valued at SF 557 million had been issued in the first six months of 1972, their number declined to only 371 (SF 58.5 million) in the following eight months after the ban went into effect. In some cantons no property at all was sold to foreigners. The Canton of Valais, on the other hand, received a major portion of the 371 exemption permits, followed by Grisons, Vaud, and Ticino.

New legislation governing real estate transactions by and for foreigners probably will be passed this fall. It would rel

Real Estate *(contd.)*

somewhat the blanket ban imposed on June 26, 1972, but at the same time would place certain conditions on property sales to non-residents as well as limit such transactions in certain areas of the country.

AROUND THE MARKETPLACE

Norway: A Rough Awakening

With the EC-Norway free trade agreement taking effect on July 1 the adverse consequences of not having joined the Community are just beginning to dawn on many factions in the Scandinavian country. Business leaders have spoken of a "catastrophe" for some industrial sectors and have joined the labor unions in ridiculing Trade Minister Halvard Eika's claim that the agreement will serve Norway as well as full membership. Everyone knows, of course, that recriminations will not change anything for the time being - a new government to be formed after the September elections would still have to live with the agreement for some time.

The industry association did concede that the Brussels-Oslo pact was better than none at all but that it falls lamentably short of Norway's original targets. The unions in turn have addressed a letter to the government criticizing it for failing to win Brussels' cooperation in such areas as environmental protection, research and technology, and monetary and shipping policy.

In fact, three key Norwegian sectors - aluminum and paper, fishing, and shipping - are felt to have fared poorly in the negotiations with the Community:

- While branching out from semi-processed products to finished goods as well, such sectors as aluminum and paper depend on diversified international markets for their sales. Tied down by the long transitional terms imposed by the trade agreement and kept away from the decision centers in Brussels, these industries feel doubly handicapped. Cheap hydroelectric power no longer counts as such an asset in view of higher energy tax rates and tougher anti-pollution standards.
- The fishing industry has won EC duty reductions on a few fish products but must recognize that its former EFTA customers Denmark and Britain are now also under the Community tariff umbrella. (Had Norway joined, fish would have been duty-free after four and one-half years). In this case, disillusionment runs particularly deep since it was the fishermen who had spearheaded Norway's opposition to EC membership.
- In the matter of shipping policy, Oslo had sought continual consultation with Brussels in a joint defense against discriminatory practices by developing countries. This was denied, and now Norway - the world's fourth largest shipping nation - fears bilateral agreement between the EC and third countries at its expense.

Eika has countered by saying that the government's critics are motivated by political rather than by economic reasons. As evidence, he cites the unmistakable economic upturn - the national product is to rise by at least 4.5% this year (with wage rises of 11% and increases in the consumer price level of about 8%). Within the January-April period, Norwegian exports expanded by 16% and imports by 15%, compared to the same period in 1972.

East-West Trade Center Inaugurated

On June 13 the U.S. Dept. of Commerce officially inaugurated its new East-West Trade Center in Vienna in what officials described as "a pioneering effort" to facilitate expanding trade between the United States and "the centrally planned economies of the East." Besides providing advisory services on market conditions and business opportunities in the socialist countries, the center will sponsor trade exhibits and seminars, serve as a source for reference materials, and will help businessmen locate translators and printers in eastern European languages. It will also provide support for U.S. economic counselors and their staffs throughout eastern Europe.

The center opened with a four-day promotion feature of U.S. oil and gas exploration and production equipment, largely organized by Texas companies. Promotions of communications equipment, air traffic control systems, and minicomputers and peripherals are planned for this fall. S. Douglas Martin is the director of the trade center.

EURO COMPANY SCENE

Veba/ Gelsenberg/ RWE

The German government has announced plans to create a new national petroleum group through the consolidation of all German mineral oil interests under the aegis of Veba AG, the 40% state-owned oil concern. Bonn would be prepared to finance Veba's takeover of the nominal DM 485-million share capital of Gelsenberg AG from 48% owner RWE and from the remaining small shareholders plus acquisition of another RWE subsidiary, Union Wesseling AG. Through these h[illegible]ings, worth an estimated DM 1.5 billion ($608 million), Veba wo[illegible] also gain controlling interest in Deminex and Aral (in which Mobil holds 18%) as well as in Gelsenberg subsidiary Raab Karcher. The new Veba-Gelsenberg combine, employing over 75,000 and rivaling Volkswagen as German leader in terms of turnover (DM 16-18 billion annually), would have a total refining capacity of 34 million tons of crude, to be expanded to 40 million by 1980. In addition, it would own or operate over 10,000 service stations, more than one-fourth of Germany's total. This includes nearly 750 stations Veba would acquire through its almost certain purchase of Erdölwerke Frisia AG from Gulf Oil.

Northsea Gas/ Phillips

Northsea Gas GmbH, German subsidiary of Phillips Petroleum Co. of the United States, the German state of Lower Saxony, and the city of Emden are negotiating an agreement for construction of processing facilities for natural gas from the Norwegian North Sea Ekofisk field. Phillips plans to complete a DM 300-million ($117.6-million) cracking and purifying plant near Emden by 1975 to supply 12 billion cubic meters of gas annually to a consortium headed by Ruhrgas AG.

Burmah/ Aral

Burmah Trading NV, Belgian subsidiary of the U.K.'s Burmah Oil Co. Ltd., and Aral Belgique SA/Aral Belgie NV reportedly are about to sign a cooperative agreement on the operation of a joint chain of service stations. For this purpose, the two companies have already set up on an equal basis Aral NV in Antwerp, which will operate Aral's 140 service stations and 330 Burmah stations, to be reopened under the Aral trademark. Aral also is to distribute Burmah's Castrop auto lubricants at its outlets in Benelux, France, and Switzerland.

SNPA/ Yves Rocher/ Vermiculite

France's Société Nationale des Pétroles d'Aquitaine (SNPA), member of the state's ELF-ERAP petroleum group, has announced two new acquisitions in the consumer and industrial sectors. First, SNPA is taking a 36% stake in fast-growing Yves Rocher cosmetics. Founder Rocher will continue to hold 60% of the capital, while Banque de l'Union Européenne, which managed the transaction, retains 4%. Aquitaine probably will coordinate Rocher's operations with those of its recently acquired pharmaceuticals subsidiary, Laboratoires Labaz. In another diversification move, SNPA also has taken a controlling interest in the FF 3.5-million ($800,000) capital of Société la Vermiculite et Perlite, producer of insulation materials.

Ford Spain

The Spanish government has given the green light to Ford Motor Co. for construction of its proposed $350-million automobile plant near Valencia. The factory is to produce 240,000 cars annually, two-thirds for export, and will create 8,000 jobs.

Fiat/ Allis Chalmers

Fiat SpA of Italy is reportedly purchasing the tractor division of Allis Chalmers of Milwaukee, Wis. Negotiations have been under way for some time and have recently intensified. With this acquisition, valued at about $150 million, Fiat would become one of the three largest tractor producers in the world.

Agfa-Gevaert

The German-Belgian Agfa-Gevaert group has decided against Ireland and in favor of Coimbra, Portugal, as the site for a new DM 30-million ($11.8-million) photographic equipment plant. To employ 1,700, the factory is scheduled to begin operations in late 1974.

[illegible]us

The German federal government has decided to underwrite the European Airbus program with a DM 716-million ($280.1-million) subsidy to guarantee sales and production of the aircraft until 1977. Touted by its makers as "the world's quietest airplane," the Airbus will sell for about DM 50 million, with the break-even point calculated at 360 units - probably to be attained in mid-1983. The first aircraft are to be delivered to Air France in spring 1974.

BOAC/ Caledonian

U.K. state-owned airline BOAC has reported to a Civil Aviation Inquiry that plans by rival airline British Caledonian Airways to operate scheduled air services between London and Toronto would cost BOAC some £33 million over the next five years. The inquiry is being held because each company opposes the granting of new operating licenses to the other. BOAC contends that licensing another scheduled carrier would necessitate a complete revamping of its entire U.K./Canada operations and would trigger a chain reaction among other scheduled carriers.

Siemens/ Computest

Germany's Siemens AG has acquired its first large U.S. production company with its announced purchase of Computest Corp. of Cherry Hill, N.J., for $4.9 million. Computest specializes in computer control material.

Triumph Investment/ Alanthus

Less than three months after its aborted bid for the United States General Host Corp., the U.K.'s Triumph Investment Trust has ventured into the U.S. again with a £2.2-million bid for computer leasing company Alanthus Corp.

British Land/ Uris

The chairman of British Land has denied suggestions that the company's $153-million bid for the United States' Uris Buildings Corp. has run into difficulties. He did concede, however, that investigation of Uris' position might result in a "differing auditing view" which "could affect substantially the sums involved." British Land's bid valued Uris shares at $17.50. The value of Uris shares has since dropped to around $13.

UDT/ Commercial Trading

Under a $28-million agreed deal announced June 15, the U.K.'s largest finance house, United Dominions Trust, will acquire 90% of the U.S. finance concern Commercial Trading Co. UDT is making a cash offer through its new subsidiary UDT (U.S.) and the agreement provides that the U.K. company will acquire the remaining 10% of Commercial Trading in 1976 at a maximum cost of $4.25 million.

Hill Samuel/ Slater, Walker

The £1.5-billion merger between the U.K.'s Hill Samuel and Slater, Walker has been called off. A statement issued jointly June 19 offered no detailed explanation for the collapse of the deal but noted that since the merger was announced on April 26 discussions between the two companies "had revealed fundamental differences of workstyle and personalities" which both boards now felt would be prejudicial to the success of the venture. Accordingly, both boards felt it appropriate to withdraw the proposals and continue the development of their respective groups as separate companies. The merger of the two groups would have created Britain's largest merchant bank with a market value of £200 million and gross assets in the order of £1.5 billion. It ran into strong criticism from virtually every quarter - from Labour MPs, institutional shareholders, and the financial press - and shares in both companies dropped sharply. For the two principals, Sir Kenneth Keith and Jim Slater, cancellation is seen as a personal defeat. Neither issued a statement, but unconfirmed rumors strongly suggest that top executives in both companies opposed the merger from the start and threatened to quit if it went through. Further rumors that Hill Samuel would now attract an alternative bid were promptly denied by three of the prime candidates - National Westminster Bank, Barclays Bank, and Metropolitan Estate.

Bank of Houston

The First City National Bank of Houston has opened a London branch.

First National City Bank, N. Y.

First National City Bank has become the third U.S. bank to obtain Soviet permission to open an office in Moscow, following Chase Manhattan and Bank of America.

Drayton/ Banque de Bruxelles

Drayton Corp., the merchant-banking arm of the U.K.'s Drayton group, has joined with Belgium's second largest bank, the Banque de Bruxelles, to form a joint company that will function as an international merchant bank in London. The link-up follows the agreement reached recently between London merchant bank S.G. Warburg and France's Banque de Paris et des Pays-Bas (Paribas), the only difference being that, in the case of Drayton/Banque de Bruxelles, there will be no exchange of shares. The merger is part of a new trend towards the creation of Continental-style *banques d'affaires* in the U.K.

CCH Common Market Reports

EUROMARKET NEWS

Issue No. 233 July 3, 1973

IN THIS ISSUE

Community: Compromise on Company Draft Statute

The European Commission is prepared to offer some compromises in the co-determination concept outlined in its European Stock Corporation draft statute in order to ensure adoption by the Council of Ministers, Commissioner Finn Gundelach has announced. But Gundelach stressed Brussels' determination to stick to its basic idea of giving employees a voice in management of such corporations, for otherwise conflicts in labor-management relations would be unavoidable. He said no changes will be presented now - although some are obviously needed - because the European Parliament's Legal Committee has yet to complete deliberations. (The Economic and Social Committee, on the other hand, wound up its work several months ago with the recommendation of some 100 amendments to the draft statute, which contains about 200 articles).

Major hurdles to adoption of the draft statute remain the extent of employee representation on supervisory boards as well as election procedures. The Commission proposal, largely patterned on the far-reaching German concept, called for one-third of the board's members to be employees, with one employee on the managing board to be in charge of personnel matters. In its compromise, the Commission would still insist on the one-third representation principle but would go along with the legal committee's recommendation that one-third of the supervisory board's membership should be elected by employees, one-third by the shareholders, and the remainder by both groups.

In view of the current discussions among member state governments and the Commission's willingness to compromise and to remove some misconceptions still prevailing (in the French employers' federation, for example), Gundelach was confident that

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Company Statute *(contd.)*

adoption of the draft statute on the *Societas Europaea* would be possible some time next year.

Americans Rate European Community

In this "Year of Europe," two out of every three Americans believe U. S. ties with Western Europe "matter a great deal," while only 16 per cent say these ties are not important. Most Americans (55 per cent), however, have never heard of the European Common Market.

These findings are contained in a Gallup poll commissioned by the European Community Information Service (ECIS) to determine the American public's knowledge of and attitudes toward the European Community. Gallup based its survey on 1,030 personal interviews, conducted nationwide, of Americans aged 18 and over.

Education, income, and sex proved significant variables in the average American's knowledge of the Community. The best informed were usually college-educated males with annual incomes of at least $15,000. The most frequently mentioned sources of information about the Community were newspapers and magazines. Less than half (45 per cent) of all persons interviewed reported that they had heard or read about the European Community.

An even smaller percentage (35 per cent) demonstrated any real knowledge of the Community by citing some of its purposes. The most frequently mentioned purposes were mutual economic assistance and development of intra-Community trade. Only 4 per cent of those who had read or heard of the Community said it was a forerunner of a United States of Europe.

Four out of 10 people interviewed could name one or more of the EC member countries. The countries named most often were France, Great Britain, and Germany. Only 5 per cent of those who said they were acquainted with the Community knew that the Community's population was greater than that of the United States, that the Community produces fewer goods than the United States, that the Community exports more than the United States, and that the Community's industrial production is growing faster.

Luxembourg: Set to Host Monetary Fund

The Council of Ministers has just announced that Luxembourg will be the seat of the Community's Monetary Cooperation Fund, ending a lengthy dispute on whether the fund's administration should be located in Brussels or in the Grand Duchy. Britain withdrew its insistence on making Brussels the seat of the fund, while Germany and France agreed to make the decision independent of the clarification of the tax status of holding companies in Luxembourg.

However, after an as yet unspecified period (probably two years), the decision will be reviewed to determine whether Luxembourg does offer all prerequisites for the smooth functioning of the fund's administration. At that time, according to French opinion, the tax issue should be brought up again.

Council of Europe: Consumer Protection

Although the Council of Europe's Consultative Assembly has rejected an amendment to establish a uniform and binding convention on consumer protection, it has succeeded in adopting a resolution urging the 17 member governments to enact legislation along the lines of a "charter" accompanying the resolution. Compelled both

Protect Consumers *(contd.)*

by concern for individual rights and the need for some international standardization to avoid prejudicing trade, the charter calls for:

- minimum standards to protect consumers against unsafe products;
- accurate labeling of products;
- protection of consumers against high-pressure selling and forced purchases of unsolicited goods, and
- truth in advertising, by way of legislation either prohibiting false claims or empowering consumers and their organizations to bring legal action. Advertisers should be required to offer proof, if so requested, that their advertising claims are true.

The charter places an obligation on member governments to provide consumers not only with comprehensive legal protection but also with active assistance (Article 2).

The fact that the amendment to establish a uniform and binding convention was defeated held little significance inasmuch as it probably would have failed anyway to win the approval of the Committee of Ministers, the Council's real lawmaking body. Thus, it remains to be seen to what extent the charter principles will be implemented by the member countries.

Still, the Council can take credit for the effort - as far as the European Community is concerned, consumer protection does not figure in the Treaty of Rome, although a Commission section is concerned with consumer affairs in general.

Holland: Unions Balk at ONE Plan

The specter of renewed wage conflicts looms over the Netherlands following the labor unions' outright rejection of medium-term wage policy proposals submitted by the national Social-Economic Council (SER), specifically by its economic development committee (ONE). Prepared for the committee's so-called "spring report," these proposals had called for drastic reductions in new wage demands at least until 1976 in order to give some relief to Holland's inflation-ridden economy. These recommendations were to have been discussed at a June 22 public hearing which, however, failed to materialize because of union opposition. There also were efforts on the part of labor leaders to prevent the official publication of the ONE report.

As part of its findings, the committee questioned the wisdom of any further leveling of incomes distribution and urged both employers and employees to exercise "some belt-tightening" in the future. ONE experts also proposed a strict surveillance of prices and profits in order to ascertain how much further incomes can be equalized. It was brought out that the average burden of taxes and social contributions, based on current projections, will rise from 46.7% today to 50.8% in 1975. In order to gain industry's and labor's cooperation in lowering their sights for the next few years, the high social contributions would have to be reduced, ONE said. Last fall, the SER experts had recommended an 11% ceiling on wage increases, but the pace of inflation both at home and abroad will bring a boost of at least 13.5% this year. Higher import prices and de facto revaluation of the Dutch guilder will have a direct impact on the cost-of-living index which, in turn, determines automatic wage adjustments.

A note of piquancy has been added to the conflict by the fact that the SER's membership is not only composed of independ-

Wage Policy *(contd.)*

ent economic experts and industry representatives but also includes labor union functionaries.

Britain: Roche Decides to Fight Back

The U.K. Roche Products Ltd. has made it abundantly clear that it is not going to give in to the British government without a struggle. For openers, the company has taken the unprecedented step of serving a writ against the Secretary of State for Trade and Industry for all damages suffered as a result of an Order directing the company to reduce the prices of its tranquilizers Valium and Librium. Roche has also indicated that it will hold the government responsible for any similar orders issued outside the U.K. compelling Roche to cut prices for the two drugs. Furthermore, Roche proposes to act in direct defiance of the Order and put up its prices for Valium and Librium to the level at which they were being sold before the Monopolies Commission report was issued in April. The company suggested, however, that the difference between the two prices - that ordered by the government and that now proposed by Roche - be lodged in a blocked account pending the outcome of the High Court action.

The writ lists five specific points:

- that the Monopolies Commission procedures are unfair and contrary to the rules of natural justice;
- that the findings, conditions, and recommendations of the Commission are invalid and of no effect;
- that the government's price cut order should be declared "penal, arbitrary and set without reference to the fair level of current costs and profits";
- that the orders discriminate unlawfully against Roche, and
- that there were no facts or evidence substantiating the Commission's findings that Roche prices were against the public interest.

The action, brought by Roche following rejection in the House of Lords of a proposal that there should be further inquiry into the company's prices and R&D costs, is expected to be a protracted affair. Total damages could be in the order of several million pounds sterling. The EC Commission is currently comparing the prices charged in EC member states for both drugs, but Roche's decision to attack the Secretary in the High Court could well result in other governments' deferring action against Roche until a U.K. decision has been reached. (See also Norwich Pharmacal/Smith, Kline & French in *EURO COMPANY SCENE*, page 7).

Ireland/U.K.: Double Taxation Treaty

The double taxation agreement signed last month between the Republic of Ireland and the United Kingdom provides that U.K. resident individuals who are not residents of Ireland are exempt from Irish income tax and may reclaim any such tax which has been deducted at the source. The income is then subject to normal U. K. tax. The converse applies in the case of Irish residents with income from U. K. sources.

It must be noted that the agreement is governed by the replacement in Britain of income tax and surtax by a unified tax and, further, by the introduction in the U.K. of the imputation tax system in respect of companies and their shareholders. Exemption does not apply to either U.K. or Irish corporation tax. In the case of dividends, Irish investors may - as of April 6, 1973 - reclaim the whole of the imputation credit in respect of a divi-

Tax Treaty *(contd.)*

dend or similar distribution from a U.K. company, provided that the recipient is not a company which (either alone or in association) holds directly or indirectly less than 10% of the voting power of the dividend-paying U.K. company. This marks a radical departure from the previous principle whereby companies resident in one country had to own 75% of the voting power of a company in the other country in order to qualify for credit relief for corporation or corporation profit tax.

Germany: Company Housing Standards

West Germany has taken two steps to improve the housing situation of alien workers. A new statute (*Gesetz über die Mindestanforderungen an Unterkünfte für Arbeitnehmer*) requires employers providing company housing to abide by minimum standards to be established by the Minister for Labor. Although the statute applies to all employees, regardless of nationality, it will primarily benefit aliens who normally accept company housing when available because it is cheaper than free-market housing, of which there is a shortage anyway.

Employers providing lodging for employees must also offer rooms for social gatherings as well as kitchen and storage areas. The living quarters must be large enough and must have proper heating and ventilation, adequate utilities, and sanitary facilities.

In the administrative field, the Cabinet adopted a seven-point program placing mild curbs on the influx of foreign workers to avoid overburdening the infrastructure in areas lacking sufficient housing and schools. Employers wanting to hire aliens would have to provide housing, and authorities would check on its adequacy before allowing an employer to apply to German labor offices responsible for recruitment abroad. No ceiling on immigration is planned at this point, although this has been discussed, but there will be limitations on admitting aliens to areas where foreigners now make up about 25% of the labor force (among them Frankfurt, Munich, and Stuttgart). Employers would have to pay DM 1,000 to the labor office for recruitment of each alien instead of the present DM 300, and they would also face stiffer penalties for illegal employment of aliens.

Greece: Prices Policy, Export Embargo

The Greek business community has ceased being surprised over the government's regular extension of Law No. 918, which provides the legislative base for price controls. The law has now been extended for the fourth time by a six-month period, until Dec. 31. However, simultaneously Athens has been publishing lists of various products no longer covered by the law. Greek price policy thus is being handled quite flexibly. Law 918 subjects to official approval price increases that would strongly affect the cost of living, i.e., the rate of domestic inflation. In addition, the government decrees prices for staples (primarily foodstuffs) and controls profit margins on numerous other products, while also guaranteeing minimum prices for certain farm products.

In other news, the government as of this month has embargoed the export of 35 products because of alleged domestic supply shortages and even extended this ban to delivery contracts already signed. Items affected include wire and lead, paper, wood and wood products, and - in the agricultural sector - fish, certain dried fruit, olive oil, and sesame. The move is seen as a reac-

Prices, Exports *(contd.)*

tion to the Greek producers' accelerating their exports to take advantage of the drachma devaluation but also because of various export incentives.

As regards the supply gap for industrial products, however, economic experts are blaming excessive hoarding - primarily by wholesalers and distributors - as the prime reason. The hoarders apparently speculate on future monetary developments and their effect on Greek price levels. The current imbalance is reflected by the fact that the sale of industrial products went up by 50% in the first three months of 1973, while retail sales increased by only about 11%.

AROUND THE MARKETPLACE

Second Thoughts on U.S. 'Bargains'

This year's rash of "buy American" bids by British companies - whether successful, defeated, or still in negotiation - obviously has its solid reasons. The U.S. market has been depressed by inflation rates which, for once, are "standard European." U.S. interest rates are still low by U.K. and Continental standards. Most important, however, is the attraction of the American market for European buyers who can avail themselves of the devalued dollar. These items add up to a positive cost differential in favor of British and Continental "bargain hunters."

Nowhere are the ostensible bargains thicker on the ground than in the property market. U.K. investors, such as British Land, foresee a turnaround when the present office space surplus disappears, and they are understandably anxious to get in while the market is down. However, there also have been warnings that U investors may be risking a little too much. The British Land b for Uris Buildings Corp. is a case in point: the original offer of $17.50 per Uris share was already being "reassessed" following the predicted drop in value of Uris shares to just under $13.

Also, it has been noted that U.S. companies hostile to a bid approach have been eminently successful in blocking eager Old World buyers either by invoking shareholder opposition or using legal technicalities. Triumph's bid for General Host and Liquigas' blocked offer for shares in Ronson Corp. are prime examples. So, the feeling is in Europe, foreign companies may just be getting those U.S. companies that they are "allowed" to get. It remains to be seen whether the eagerness of the foreign buyer is paralleled by the expertise in gauging the American market. While certain U.S. companies may indeed be on shaky ground at the moment, many observers are convinced that it would be a serious blunder to think of them as naive and as easy pickings. In short, it has been argued, the invaders may be getting less than they bargained for.

EURO COMPANY SCENE

Citroën/ Fiat

Citroën of France and Fiat of Italy have decided, by mutual consent, to dissolve their cooperation pact dating from 1968. Fiat had sought a close industrial integration of the two companies, but Citroën feared that such a move would risk its independence and jeopardize operations it considered vital. The French automaker announced that the two will continue to collaborate on certain projects, however, within the framework of new contracts that will replace the old partnership agreement. Accordingly, Fiat has

Citroën/Fiat *(contd.)*

transferred its 49% stake in Sté. Pardevi, the joint holding company that controls 53% of Citroën, to 51% shareholder Michelin for a reported 30 billion lire (about $50 million), said to correspond to Fiat's actual investment in Citroën.

Ford

In related news, spokesmen for Ford Motor Co. have denied that the U.S. company would be interested in succeeding Fiat in a partnership with Citroën. Ford just opened a new FF 600-million ($143 million) plant in Bordeaux that is to produce 500,000 automatic transmissions yearly, with 70% bound for export to the United States. In addition, Ford France, like its German counterpart, has announced plans to step up its production of heavy trucks (six tons and over) for the French market.

Chrysler U.K.

Workers at Chrysler U.K. ended their four-month-old strike last week and returned to work after winning all their principal demands, plus a few further concessions. The company had withheld payments following allegations of shoddy performance on the production line. The Ryton plant was shut down early on May 24 when "substandard workmanship" was alleged and the strike was called over the attendant loss in wages. At first, Chrysler took a firm line - including the threat of withdrawal of all further investment in the U.K. - but, following some last-minute negotiations, management and labor agreed on a "procedure for quality control." The disputed payments were made, a holiday bonus was thrown in, and workers were given an extra day of vacation at full pay before returning. The strike has cost the company an estimated £12 million ($29.4 million).

Norwich/

Norwich Pharmacal, the New York-based pharmaceutical company, has been successful in its appeal in the House of Lords against the Commissioners of Customs and Excise over their refusal to reveal information in respect of Furazolidone, a veterinary pharmaceutical licensed exclusively in the U.K. to another major U.S. drug company, Smith, Kline & French Laboratories. The successful appeal means that the confidentiality rules which the C&E traditionally applies have been overturned and C&E must now reveal the identities of companies importing pharmaceutical substances that infringe exclusive patent rights.

Henkel/ Kepec

Germany's Henkel & Cie GmbH, chemicals and cleaners, has taken over Kepec Chemical Corp. of Milwaukee and its German subsidiary, Kepec Chemische Fabrik GmbH, a leading producer of leather-curing compounds.

St. Regis/ Cellulosa

St. Regis Paper Co. of New York and Sweden's Svenska Cellulosa AB reportedly plan to invest $95 million in a new joint subsidiary, Obbola Craftliner AB, to build and operate a 280,000-ton capacity cardboard plant in northern Sweden. Production is scheduled to begin in late 1975.

Lockheed/ Sait

Lockheed Corp. of Burbank, Calif., and Sait Electronics of Belgium are planning to set up a joint production and marketing company in Brussels, Lockheed-Sait Electronics (LSE), to sell Lockheed computers and Sait peripheral equipment in Europe.

Nixdorf/ Q 1 Corp.

Nixdorf Computer AG of Germany and Q 1 Corp., New York, have signed a cooperation pact for the joint development and sale of a new computer system. In addition, Nixdorf has agreed to lend Q 1 a sum of $40,000 per month over a 10-month period, starting now, at

Nixdorf/Q 1 *(contd.)*

an annual rate of 8%. The German company recently acquired 54,000 Q 1 shares for $216,000, and owner Heinz Nixdorf reportedly will buy another 30,000 shares himself, giving the Nixdorf group a total interest of 15% in Q 1.

Germany/ Construction Industry

Germany's Federal Cartel Office is undertaking a large-scale investigation of the country's construction industry in an effort to substantiate charges of illegal activity in restraint of competition. According to antitrust officials, a recent police-cartel authority search of 168 company and four professional association offices turned up "extensive and important evidence" of price fixing and collaboration on contract bids. In all, some 2,000 construction companies are accused of participating in forbidden pricing agreements. Spokesmen for the building industry have protested that the cartel office is carrying out a campaign of defamation, even if some violations do come to light, and that a price cartel involving 2,000 firms would be "unrealizable from a purely technical standpoint " anyway.

Tampella/ Enso-Gutzeit/ Hoerner Waldorf

Finland's Tampella and the state-owned Enso-Gutzeit, two of the country's largest paper products and paper machinery groups, have sold their U.S. holding companies Intensa, Inc. and Tampella International, Inc. Through these holding companies Enso and Tampella had owned 40% of Pineville Kraft Corp. of Louisiana. The holding companies are being taken over by Hoerner Waldorf Corp.

Chase

Chase Manhattan Overseas Banking Corp. has founded a new European subsidiary, Chase Manhattan Bank Luxembourg, with a starting capital of BF 100 million ($2.6 million).

Orion Leasing

Multinational Orion Leasing Holdings NV, an international leasing concern, has been established in Amsterdam by the three-year-old Orion banking group (Chase Manhattan, Credito Italiano, Mitsubishi Bank, National Westminster, Royal Bank of Canada, and Westdeutsche Landesbank) with an operating capital of 78 million guilders ($27.9 million).

European Property

A group of EC banks and real estate investors headed by Morgan Grenfeld & Co. of the U.K. is setting up European Property Investment Co., a European property company based in the Netherlands. With subscriptions of $2.45 million each, the other founders are Bank Mees & Hope; Banque de Bruxelles; Banque de Neuflize, Schlumberger, Mallet; Westdeutsche Landesbank; Murray Johnstone & Co.; Rheinisch-Westfälische Immobilien-Anlagegesellschaft, and MEPC of the U.K. The consortium is soliciting additional subscriptions for 1.4 million 100-guilder shares at 110 guilders each. Initial investment targets are expected to center on Belgium, France, Germany, and Holland.

UOP

Universal Oil Products (UOP), one of the United States' 300 largest companies, has applied for a listing on the London Stock Exchange. The company considers a London listing a prelude to expansion in Europe and to listings on other exchanges, notably Frankfurt. The move is in line with UOP's policy of consolidating not only the group's operations but also its image.

Common Market Reports

EUROMARKET NEWS

Issue No. 235 July 18, 1973

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IN THIS ISSUE

Community: Harmonization of Tax Laws

Now that revenue officials of the nine member-state administrations have largely accepted the concepts and approach outlined by the European Commission in its action program for harmonizing national tax laws, government tax experts and Commission specialists in the coming months will hammer out rough working outlines. In Brussels it is expected that the groups discussing harmonization of rules governing indirect taxes will make more progress than those concerned with direct taxes. The reason is that, since April 1, all nine member states are applying the VAT system, and thus intra-Community trade, for all practical purposes, is free of the competitive distortions entailed in the former cumulative turnover tax systems.

Since presenting its action program, the Commission has made a major move by submitting to the Council its draft directive on harmonization of member states' turnover tax laws (uniform tax base), the Commission's sixth proposal in this particular field. In preparation is yet another directive that, following adoption by the Council, would require harmonization of national rules applied in collection of VAT revenue and enforcement procedures. The Commission favors a Community-wide system, leaving the member states no choice but to go along with harmonization. But at this point it is doubtful whether the Council will agree because many of its experts feel that a uniform system is not even necessary.

Still another working group is facing the tedious job of reducing the number of VAT rates - the nine states impose more than 50 different rates for various products and services. This

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Tax Laws *(contd.)*

unwholesome variety presents obstacles to intra-Community trade since it directly affects the levying of import (turnover) taxes, not to mention the elaborate customs formalities involved. Also, reducing the number of tax rates is one of the most crucial steps toward aligning national VAT rates, the ultimate goal of harmonizing member state turnover tax laws.

Draft Directive on Outward Processing

The European Parliament and the Economic and Social Committee have commented favorably on the Council draft directive on harmonizing national rules on outward processing, i.e., export of goods to non-EC countries for processing there and reimportation into the EC. The draft prepared by the European Commission and sent to the Council late last year represents a major follow-up of the Commission's own 1971 action program to harmonize member states' legislative, regulatory, and administrative customs provisions governing trade with third countries as well as intra-EC trade, though the program has several different objectives. As far as third-country trade is concerned, the Commission seeks to eliminate the distortion of competition and deflection of trade caused by differing national rules, while as far as intra-EC trade is concerned, emphasis lies on simplifying customs procedures and formalities with a view toward achieving free movement of goods.

The 18-article draft directive will have the national customs administrations playing the same tune, in unison, once the member states have amended their rules accordingly, because it prescribes exact procedures. It stipulates who may qualify for what is usually duty-free outward processing and what his qualifications must be. National legislatures have no discretion in treatment of this particular matter; they must be strict. But in other areas they would have some leeway - for example, in establishing deadlines for reimports of products that have undergone processing outside the EC. A customs license for outward processing and duty-free reimport granted by one member state would guarantee duty-free import of the processed product into any other member state.

One key provision in the Commission draft has caused some raised eyebrows in non-EC countries with relatively low labor costs, particularly in Eastern Europe: under Article 6, national authorities must reject applications for outward processing that would seriously prejudice the "essential interests" of Community processors. Brussels thought this safeguard necessary to somewhat reconcile the interests of businesses depending on outward processing traffic and the processing industry established in the Common Market.

Efforts to bring some uniformity to national rules go back to 1961, when the Commission issued a nonbinding recommendation setting forth the principles of customs treatment of products processed outwardly. The member state governments took the nonbinding character more than literally, with the result that each state applies its own rules. This the Commission hopes to end.

France: A Minor Slap at Inflation

The admittedly "modest" measures announced by French Finance Minister Valery Giscard d'Estaing are not really expected to be more than a token gesture in the government's efforts to contain domestic inflation, let alone make themselves felt abroad. The professed aim, as before, is to keep France's inflation rate (now 8%

French Inflation *(contd.)*

annually, as of last report) at least one percentage point below that of other EC countries. According to business and financial circles, the government is at this point loath to pursue a really aggressive anti-inflation policy because this would cause speculation to turn to the franc, thus forcing a revaluation. As it is, Giscard d'Estaing is content to impose measures offering a compromise between "a reasonable degree of de-inflation" and "continued expansion and full employment."

These measures include a boost of the discount rate from 7.5 to 8.5% and higher reserve margins on commercial bank deposits, while requiring banks to freeze their personal-loan volume at the level that prevailed on July 3. Mortgages may no longer be granted for the construction or purchase of second (vacation) homes, and insurers are prohibited from extending direct credit to industry. A two-month advancement of the payment deadline for corporate tax to Oct. 15 also has been proposed.

Britain: Proposals on Work Safety

The U.K. Dept. of the Environment has released details of proposals that eventually are scheduled to introduce important new legislation on employee safety and health and on the protection of the public at large from industrial risk. The "Proposals for a Safety and Health at Work Bill" (Cmnd 5034) predict that the pending legislation will affect every employer and employee in the country and will place obligations on persons concerned with every aspect of industry and commerce, "such as manufacturers and importers of machinery and equipment."

In spite of these claims, the document itself does not at first glance seem to go much beyond the findings of the Robens Report on Safety and Health at Work. Since that report was issued last July, however, there have been intensive consultations with "interested groups," and it would appear now that, at least, the need for new legislation has been recognized.

Specifically, the proposals call for:

- the establishment of a Commission on Safety and Health comprised of representatives from both sides of industry, with the prime responsibility of "development and carrying out of policy on health and safety";
- the amalgamation of existing Inspectorates at present entrusted with safety and health considerations in industry. (This amalgamation would be patterned on the centralization which took place in the Dept. of the Environment as a whole.);
- a basic obligation on employers to safeguard their plants from health hazards and to safeguard the public from risks arising from "the processes of industrial manufacture";
- a basic obligation on manufacturers and importers of machinery to "operate safely";
- the establishment of immediate remedies for unsatisfactory conditions. This will conceivably correct the tendency of British inspectors to be lenient in enforcing prescribed standards or, alternately, their practice of allowing a rather generous period for compliance. Finally,
- closer cooperation at plant level between employers and employees in establishing and implementing safety and health programs.

The Commission would be independent of the government and would report directly to the individual ministers. In addition to

Work Safety *(contd.)*

developing general policy guidelines, the Commission also would be responsible for the drafting of new and tighter regulations in this sector.

Ireland: Statutory Controls on Prices, Profits

Although it is too early to assess the effects of the anti-inflation package announced by Ireland's Minister for Industry and Commerce, the fact that it was felt necessary to introduce statutory controls on prices and profits is ample testimony that the country's fight against inflation has entered a crucial phase. The republic is presently experiencing an inflation rate in excess of 11% per year, and thus the introduction of control policy was inevitable.

The package is implemented by four orders that establish maximum prices for basic foodstuffs, fix profit margins for importers and wholesalers on a wide range of items (including meat, eggs, alcoholic and non-alcoholic beverages, electrical products, and footwear), define retailers' profits on clothing, footwear, furniture, drugs, fruit and vegetables, electrical products, and automobiles, and double the number of items the prices of which retailers must display on their premises.

The new rules are unprecedented in Ireland: previously only bread and milk were subject to maximum price levels by ministerial order. The controls imposed on profit margins at the retail level are also a novelty. Up to now, the National Prices Commission has controlled prices at manufacturer level only, since it was deemed less than practical to monitor prices at consumer level.

Although the orders do not affect manufacturers directly, provisions require manufacturers to notify the Minister about price increases, not one, but two months ahead of implementation.

As in other countries, the introduction of such controls is paralleled by an increased demand for "consumer protection." Accordingly, the Minister has announced that a new National Consumer Advisory Service will be established. The council, to be made up of four government appointees and 11 representatives of trade and consumer associations, will be given "comprehensive powers" in the sector of consumer protection and will also be instrumental in framing new legislation in the consumer area.

Italy: Price Controls, Real Estate

An extensive system of price controls is reportedly on the immediate agenda of Italy's new "left center" government headed by Prime Minister Mariano Rumor. However, such anti-inflationary measures are to stop short of an absolute price freeze for staple foods and rents (the latter having been regulated for some time). Food imports are to be officially encouraged, although this calls for elaborate cost control procedures. To ensure the smooth functioning of such controls, the government reportedly will seek broader powers for the price control agencies and provide them with additional personnel.

The food industry has anticipated the government's initiative by guaranteeing fixed prices for the most important foodstuffs sold in supermarkets and department stores until the end of the vacation season in mid-September. Also, any upward change in prices is to be announced in advance.

The installation of the Rumor Administration has been ac-

Prices, Property *(contd.)*

companied by hopes that it will bring a turnabout in what is almost an inflation "psychosis" that has gripped the country. In addition to the massive outflow of capital, Italy is now also experiencing a rush into real estate. In the Bolzano area, the purchase of real property by foreigners (mainly Germans and Austrians profiting from the deflated value of the lira) has been made subject to public controls. New construction requires a special license. It has been reported that the value of notarized real estate deals transacted very recently in Bolzano Province has reached the equivalent of approximately $435 million.

Tax Reform Now Possible by 1974?

Due to a last-minute burst of effort, Italy's pending income tax reform may well meet its original target of Jan. 1, 1974, instead of suffering a delay until 1975, as was feared earlier. It has now been reported from Rome that, virtually at the last moment before relinquishing office, the Finance Minister of the outgoing Andreotti Administration had submitted to the appropriate parliamentary commission the texts of the last four implementing regulations needed. Earlier, it was believed that the Ministry had failed to complete these texts for "political and technical reasons."

To ensure successful passage within the time still remaining, the parliamentary commission reportedly has decided to entrust two subcommissions with the job of studying and revising the texts during the required 45-day consultative period. Urgent political considerations apparently have been responsible for the sudden revival of the tax reform legislation: the Socialists are said to have made their participation in the new coalition government dependent on "efficient fiscal policies."

Germany: Heating Fuel and Tax Evasion

A bill just prepared by the German Finance Ministry is designed to curb the widespread substitution of tax-exempt light heating oil as fuel for diesel-powered cars and trucks. To end this practice, which costs the government an estimated DM 200-300 million in lost revenue per year, oil producers would be required to add a red dye as well as certain chemicals to heating fuel. These additives would not impair heating quality or damage oil burners but would make it much easier for revenue authorities to detect violations. Drivers caught with red-colored fuel in their tanks would be charged with tax evasion; stiff penalties could make a ride with such substitute diesel fuel very costly.

A comparison of retail prices shows why the illegal practice of substituting fuels has reached what the government feels are intolerable proportions: until very recently, a liter of heating oil sold for about 12 pfennigs whereas a liter of diesel costs up to 65 pfennigs because of a 50-pfennig gasoline tax.

In preparing the bill, Bonn is following the lead of Austria, Belgium, France, and Italy, which have all enacted legislation along these lines and have good experience in terms of enforcement. The government expects passage late this year or in early 1974; enactment is scheduled for Jan. 1, 1975. This will give industry enough time to make the necessary production changes. Government officials believe that the required technical adaptations should not cause prices to rise by more than 0.1 pfennig per liter.

Norway: Natural Resources, Environment

A White Paper concerned with Norway's natural resources and environmental protection and recently published as part of the Norwegian government's 1974-77 economic program has been termed "revolutionary" in some quarters. This does not apply as much to its contents - much of it has been said before - as to the fact that the document itself must be regarded as evidence of urgent official concern with the issues at stake.

The Paper proposes that Norway participate in all international efforts to ease the strain on natural resources and calls for increased cooperation with such organizations as the United Nations, OECD, and Nordic Council in efforts to protect the environment. It suggests periodic surveys of Norway's natural resources to provide government and Parliament with the facts needed to determine the policy in managing these resources. The paper also proposes that urbanization be slowed by encouraging industry to invest and locate in smaller communities. This would be accomplished by tax and other incentives, or simply by denying permission to companies wishing to settle in major industrial centers. Along with industry, the government would also decentralize certain parts of public administration, communication, and investment to benefit outlying areas. Furthermore, it was suggested that Norway's agricultural productivity be increased toward gradual self-sufficiency in some areas, especially in supplying meats and some dairy products. (Norway now imports about half of its foodstuffs.)

At this point, the impact of these proposals on business and industry is hard to assess because no one can predict the extent of their implementation. There is a good chance that the present government, which originated the White Paper, will not survive the upcoming elections in September. A Labor victory would probably result in a rejection of many of the proposals. But there are doubts whether any government could completely ignore the implications of the report, in view of the considerable public support for legislation on environmental protection and natural resources. For instance, the White Paper agrees with the conservation groups that any substantial increase in electric power output could be accomplished only at a significant cost to the country's environment. This, obviously, carries an ominous message for those industries whose strong expansion in the past years has been due largely to the availability of cheap electrical power supplies.

EURO COMPANY SCENE

Kun-Bau/ Bau-Kredit Bank

The collapse of Kun-Bau, one of Germany's largest builders and contractors, has triggered the country's most spectacular bank failure since the war. Bau-Kredit Bank AG, which had lent nearly DM 150 million to Kun and held a 45% interest in the group, has entered liquidation in the wake of Kun's bankruptcy. However, the bank, with a balance sheet total of about DM 600 million, reportedly will be able to satisfy over 80% of creditor claims amounting to some DM 560 million.

The bank's failure was attributed by management to the "unfortunate involvement" with Kun as well as to the government's new stability program, which allegedly has led to stagnation in the building and housing markets. The bank's shareholders also blamed the Bundesbank's restrictive money policy for preventing

Kun/Bau-Kredit *(contd.)*

a last-ditch rescue through the infusion of new capital. Many observers feel, though, that the whole affair was caused by irresponsible "expansion euphoria," typical of the German construction industry as a whole. The Kun collapse already is being followed by the failure of other, though smaller builders.

Gulf Oil/ CEA

Gulf Oil Corp. of the United States, France's state Atomic Energy Commissariat (CEA), and a number of French industrial concerns specializing in nuclear fuel and graphite have concluded an agreement on the production and sale of nuclear fuel for gas-cooled, high-temperature reactors. The signatories will exchange know-how and form a new fuel manufacturing and sales company, Société de Combustible pour Réacteurs à Haute Température, with Gulf taking 30%.

PUK

A prolonged strike has forced Péchiney-Ugine-Kuhlmann of France, Europe's leading producer of aluminum, to completely close down its 115,000-ton p.a. smelting plant at Noguères near the Pyrenees. The unions are seeking a reclassification of the plant work force into higher pay grades. Management is said to have offered concessions amounting to a 15% wage increase, but labor is holding out for the equivalent of a 30% boost. Meanwhile all the electrolytic vats have had to be shut down. The resulting damage reportedly will be both extensive and costly.

Pirelli/ Teomr/

Italy's Pirelli SpA has sold off its subsidiary Teomr, producer of electromechanical components and electronic control systems, to Compagnia Generale di Elettricità (CGE), member of the G.E. group of the United States. Terms of the deal were not reported.

Corning Glass

Corning Glass Works has announced it is transferring its headquarters for Europe from Corning, N.Y., to Paris and is consolidating three electronics-fluidics subsidiaries (Electrosil Ltd. of England, Sovcor SA of France, and Sovcor Elektronik GmbH of Germany) into one operation, Corning Electronics, Europe, also to be based in Paris.

Dresser Europe

Dresser Europe SA, a subsidiary of Dresser Industries, Inc., Dallas, Texas, has formed Industrial Specialty Products, Dresser Europe SA, a new marketing organization, in Brussels.

Schmalbach-Lubeca

The management of Schmalbach-Lubeca-Werke, the German subsidiary of Continental Can, New York, via its Brussels-based Europemballage Corp., has decided to convert the firm from the legal form of a stock corporation (*AG*) to that of a limited liability company (*GmbH*). Schmalbach-Lubeca is Europe's leading producer of packaging materials and anticipates turnover of DM 900 million for 1973.

WestLB/ Schulte & Dieckhoff

Westdeutsche Landesbank Girozentrale (WestLB) has acquired a 58.2% controlling stake in Germany's No. 1 hosiery manufacturer, Schulte & Dieckhoff GmbH, from the Schulte family. The takeover includes both the parent company and its European sales subsidiary. As part of the transaction Schulte & Dieckhoff's DM 50-million base capital has been increased to DM 60 million "in the interests of improving the capital structure." According to Schulte, stiff competition in Germany, where overcapacities and heavy imports have depressed stocking prices, and in its U.S. export market led to the decision to sell out to WestLB. It is not

WestLB/S&D *(contd.)*

clear whether the deal involves a participation by Chadbourn, Schulte's U.S. cooperation partner, which has an option on 25% of the German company's capital. Since 1969 Schulte has maintained American production facilities in Puerto Rico.

Océ/ Pitney-Bowes

Océ-Van der Grinten NV of the Netherlands has awarded production and sales rights for a new line of office copiers that reproduce on normal, uncoated paper to Pitney Bowes, Inc., of Stamford, Conn. The contract gives Pitney-Bowes exclusive distribution rights for North America and Mexico and non-exclusive rights for Central and South America. It also provides that Pitney-Bowes manufacture some office equipment for domestic sales by Océ's U.S. marketing organization.

British Land/ Uris/ National Kinney

British Land's $127-million cash offer for New York's Uris Buildings Corp. has fallen through following an announcement by Uris that it had signed an agreement under the terms of which National Kinney Corp., the U.S. office cleaning and maintenance group, will purchase some 54% of Uris equity in a cash deal. British Land and Uris had agreed on a tender offer of $14.50 per Uris share subject to shareholder approval and exchange control consents. The collapse of the deal came as a blow to British Land, which had hoped to buy into prime real estate in Manhattan at a time when the New York market had apparently hit bottom.

Vavasseur

There are some signs in the U.K. that the efforts of the City Takeover Panel are having at least some measure of success in checking what its chairman has termed a "criminal activity." J.H. Vavasseur, one of Britain's most progressive financial companies, has now drawn up its own set of rules to prevent insider dealing among its employees. Formulated in consultation with the Panel, the code specifically prevents dealings by employees in Vavasseur itself and in 17 listed companies on the basis of information not publicly available. Employees are also prohibited from buying or selling shares in companies in which Vavasseur is dealing. The only penalty that can be imposed on employees ignoring the code is, of course, dismissal. Although it is true that a number of investment groups in the U.K., not to mention the City's merchant banks, impose similar restrictions, Vavasseur's decision to draw up a formal "restricted list" is considered a significant pioneering move.

Citibank/ SCAM

First National City Bank, New York, has been granted French government approval to take majority control of Sté. de Crédit pour l'Acquisition et l'Amélioration des Immeubles (SCAM), a consumer credit company specializing in private mortgage finance. SCAM has nine branches and is Citibank's first venture in France into the consumer credit sector although it is active in this field elsewhere in Europe, notably in the U.K., where it operates a chain of store-front "money shops."

In other news, Citibank has also opened a representation in Oslo and is thus the first foreign bank to establish a permanent office in Norway.

Baker & McKenzie

According to informed sources, the Chicago-based law firm of Baker & McKenzie has tentative plans to open an office in Vienna, primarily to assist clients engaged in East-West trade.

Common Market Reports

EUROMARKET NEWS

Issue No. 236 July 24, 1973

IN THIS ISSUE

Netherlands: Investment Tax Plans Cancelled

The new Dutch government, in a policy shift affecting its regional development program, has abandoned the legislative attempts of its predecessor administration to introduce an investment tax (*EUROMARKET NEWS, Oct. 25, 1972*). Instead, the Economics Ministry has now drafted a bill toward the introduction of an investment permit system to regulate the establishment of commercial and industrial enterprises. The permit system, it is felt, should accomplish the same purpose as an investment tax, namely, prevent the worsening of commercial and industrial congestion in the western centers of the Netherlands. The proposed system would give the communities an important voice in granting or denying investment permits, since it is believed that local authorities are in a better position than federal agencies to make these decisions. In evaluating applications, no distinction is to be made between domestic and foreign companies - both would have to meet the same standards.

The Social-Economic Council (SER), the government's advisory body, has approved the permit system in principle. In doing so, the SER practically concurred with the sharp objections raised at the outset by business and industry against the investment tax that had been proposed last year but was now scrapped. (Draft legislation would have levied a tax rate of 40% on the construction cost of plant buildings and 5% of the total cost of a given installation.) Labor union sources also have acknowleged that a permit system would ensure a better distribution of incomes for all of Holland and should bring a better quality of life to the heavily industrialized and commercialized western regions of the country (primarily Amsterdam, Rotterdam, and The Hague).

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Investment Permits *(contd.)*

However, there are some factions - including members of the SER - that would have preferred at least a limited investment tax. They point to the apparent lack of fixed criteria, specifically statistical data, on which approval or denial of investment applications could be based. This holds true to a lesser degree for criteria involving environmental considerations, labor supplies, and transport, all areas in which previous experience should prove helpful.

The government bill, along with the SER's backup report, is now to be submitted to Parliament for further work.

Belgium: A Sharper Eye on Capital Flows

The Belgian government has submitted draft legislation modernizing the bylaws and expanding the powers of the IBLC, the Belgian-Luxembourg foreign-currency clearing and control agency. The action was motivated by the express need to exercise more control over the intricate capital transactions of the large international corporations and holdings and is in keeping with the recommendations of the European Commission to provide the necessary instruments for such controls. The revamped bylaws will authorize the Institut Belgo-Luxembourgeois du Change (which was established in 1944) to prohibit banks from accepting certain funds, to order the "freeze" of certain deposits and outstanding claims with the Belgian National Bank, and to impose a tax on nonresidents' deposits kept with Belgian banks. Furthermore, the IBLC would be authorized to demand information on foreign currency liabilities and deposits.

The modifications are also taken with a view toward the activities of banks and other financial institutions in Luxembourg. Accordingly, Luxembourg's Commissar for Bank Control is to gain a seat and vote on the IBLC's administrative board, which is to be expanded from nine to 10 members for that purpose. Luxembourg would then hold three of the 10 seats. After winning cabinet approval for the action, Belgium's Finance Minister Willy de Clerq announced that he has the assurance of the Luxembourg government for analogous amendment of legislation in that country (*EUROMARKET NEWS, April 25*).

Britain: Report Urges More Information on Pollutants

The U.K.'s Clean Air Council has published a report that examines recommendations by the Royal Commission on Environmental Pollution in respect of confidentiality applied to the disposal of industrial pollutants. The Commission's Second Report, released last year, had questioned the validity of keeping secret information regarding the nature and quantities of industrial wastes released into the air, rivers, and estuaries and dumped on land or at sea. By agreement with the Alkali Inspectorate under the Alkali Acts and Clean Air Acts, companies can prevent disclosure of such information on the grounds that these data would reveal details on "trade secrets." The Commission felt that such protection was no longer vital to safeguard trade secrets and submitted that its only value was to protect companies against possible common law actions.

The Clean Air Council has now recommended that more information as to the quantity and composition of industrial effluents be made public and that local committees be established to collect, evaluate, and publish such information. These committees, to be known as Indemats (industrial emissions to the atmosphere), would

Pollutants
(contd.)

be independent of local authorities and would be empowered to require companies to supply information on emissions that might give rise to public concern and to supply data at the planning stage for new developments entailing possible pollution dangers. The report's recommendations do not, however, call for blanket disclosure in cases where such disclosure would reveal details of processes still in development or details of a company's expansion plans (*Doing Business in Europe, Par. 24,043*).

DTI Setback in Court Action against Roche

The U.K. government has suffered a major tactical defeat in its drug price battle with Roche Products Ltd. (*EUROMARKET NEWS, July 10 and July 3*). A High Court judgment handed down on July 13 has dismissed an application by the Dept. of Trade and Industry for an interlocutory injunction to prevent Roche from defying a price cut order in respect of the tranquilizers Librium and Valium

The court's decision hinged on the DTI's unwillingness to undertake to pay retroactive damages to Roche Products should the company be successful in its action against the Secretary of State: the DTI submitted that it was the "Crown's privilege" not to give such an undertaking and would concede only that Roche would subsequently have a right to negotiate for damages if the upcoming action should be successful. In its judgment, the court indicated that nobody should be compelled to surrender what should be an equitable right in exchange for an undertaking to negotiate, irrespective of the "exalted" position of the negotiator.

Following dismissal of the DTI application, Roche issued a statement that it would not raise prices pending the hearing of the appeal although there was now no legal impediment to restoring prices to pre-April 1973 levels. (Previously, the group also indicated that, if prices are raised, the additional revenue would be lodged in a joint account pending a decision in the main action challenging the Monopolies Commission and subsequent orders.) There was no doubt in the court's mind that, had the DTI given a cross undertaking, an injunction would have gone through "virtually as of course."

The Roche case is now the center of considerable interest for two main reasons: first, the fact that Roche so far has demonstrated its ability to frustrate the government's aims (and even, ironically, have the costs of the interim proceedings awarded) and, second, that the defeat of the government has great bearing on possible future steps contemplated by the EC Commission and by other national governments, all of which have been following the case as a probable precedent for similar action against the Swiss company (*Doing Business in Europe, Par. 30,649*).

Germany: Proposals on Company Pension Systems

The German Labor Ministry has indicated it intends to propose legislation that would turn an employer's pledge of a company pension into a statutory claim for the employee. This claim would not be forfeited if an employee changes jobs after having acquired at least 10 years' coverage under the company pension system. The proposed law would go further than the 1972 landmark case in which the Supreme Labor Court held that an employee does not forfeit his pension if he quits after 20 years of service. A clause to this effect in the employment contract was voided by the court.

A second innovation would also establish rules of payment of company pensions if an employee decides to take advantage of Ger-

Pensions *(contd.)*

many's new flexible retirement system and retires at the age of 63 instead of 65. At present, an employer is not required to pay from the date of early retirement, but future legislation would make this mandatory (*Doing Business in Europe, Par. 30,630*).

Switzerland: A Plea for Permanent Price Monitoring

The head of Switzerland's price monitoring agency, Prof. Leo Schürmann, has urged that the country's six-month-old price monitoring system be turned from a temporary into a permanent feature for the benefit of consumers. Schürmann believes that the agency's work saves Swiss consumers an estimated SF 45 million annually in the cost of groceries and other daily-use items. In advocating permanent price monitoring, he reasons that price competition is weakened as the markets become increasingly dominated by cartels and large enterprises. Here Schürmann has a point, because no other country's economy is as heavily cartelized as Switzerland's, although the pace of mergers in other industrialized countries also results in reduced price competition there.

Until now the Swiss federal government has not made use of its statutory powers "to cancel or reduce unjustified price increases," but Schürmann believes that it should do so after the six-month trial run. The approach set out in emergency legislation adopted last December is one of investigation and discussion and, it is hoped, persuasion to keep prices down (*EUROMARKET NEWS, June 26*). Under the Swiss system, consumers report price increases and the agency determines whether these increases are justified. Subsequent publicity so far has caused many businesses to reduce price boosts or cancel them altogether (*Doing Business in Europe, Par. 30,629*).

Yugoslavia: Freedom of Movement for Workers

Recent labor legislation passed in Belgrade ensures freedom of movement for Yugoslav nationals, accordingly doing away with previously discussed plans to seek a constitutional amendment that would have banned Yugoslavs from taking up employment abroad. The action taken by the government has comforted many West European employers who had feared that one of their prime sources of manpower (mostly unskilled labor) would dry up. Belgrade's new guarantee was largely prompted by the realities of the current situation: over 2 million Yugoslavs are now working abroad - 700,000 in Germany alone. In 1972 these emigré workers sent home a total of about $2 million in savings, the No. 1 source of Yugoslavia's foreign exchange reserves. In fact, these funds not only cover the country's perennial trade deficit but also provide Belgrade with the hard currencies needed to buy Western equipment and know-how.

However, there are two provisions in the law (the Act Concerning Conditions for Temporary Employment of Nationals Abroad) that have not been well received in Western Europe. The first empowers the Federal Employment Office, an agency of the Labor Ministry, to place a ceiling on the number of Yugoslavs allowed to work abroad. The second bans private recruiting through advertisements and agents, permissible under previous legislation. All applications filed by foreign businesses will now have to be processed by one central agency. In this way Belgrade hopes to curb migration of qualified labor and to force foreign recruiters to go to the country's underdeveloped regions, which have a high percentage of unskilled labor.

Community: Proposals on Automotive Standards

The European Commission has taken yet another step toward approximation of national legislation on the manufacture of automobiles and accessories and the establishment of common automotive standards in the Community. Its latest proposal submitted to the Council, the 20th so far in this particular area, deals with the anchoring, installation, adjustment, and stress resilience of car seats. Of the 20 proposals, the Council has adopted 12 (of which three are specifically aimed at protecting health by reducing automotive exhaust emissions); eight await its approval. Four more proposals, now being prepared, will deal with rules concerning visibility, safety belts, front and rear lighting, and tires. At least two are expected to go to the Council this fall.

Though approximation is primarily aimed at removing technical obstacles to trade entailed in different national standards and is meant to ensure free movement of goods, some of the directives will serve to improve traffic safety because the common standards sought are usually based on the strictest regulations in effect in any of the member states.

Adoption of the Community standards means that once national authorities have verified compliance through testing of prototypes and have issued the EC certificate, any model of the particular series may be sold and used throughout the Community. Automobile and accessory manufacturers in third countries cannot obtain this certificate but may get Brussels' approval of cars and equipment that meet EC standards (*Common Market Reports, Par. 3515.05*).

In related developments, the Swiss government has informed the trucking industry that it should buy only trailer trucks having a length of no more than 15.5 meters and avoid using longer trucks in international transport. Present Swiss law allows vehicles to have a maximum length of 16 meters, but the government is preparing legislation that would establish a maximum of 15.5 meters, the standard to which the EC member states have agreed.

EURO COMPANY SCENE

Fiat/ Allis-Chalmers

Fiat of Italy and Allis-Chalmers of Milwaukee, Wis., have confirmed an agreement to combine their interests in the construction machinery sector by means of a joint production and sales company to have dual headquarters in the United States and Europe (*EUROMARKET NEWS, June 26*). Fiat will hold 65% of the venture, which is to begin operations early next year, and Allis-Chalmers the remaining 35%. In addition, Fiat will pay its U.S. partner $47 million, of which not less than $20 million will be in cash. The book value of the consolidated net assets of the new enterprise is estimated at $220 million. The venture will be one of the world's largest in the field, after Caterpillar, International Harvester, and John Deere of the United States and Konatsu of Japan.

Renault

Following the lead of Volvo in Sweden and Fiat in Italy, Renault of France reportedly also has begun experimenting with new production techniques designed to do away with repetitive assembly line tasks. The company is testing a Volvo-inspired team assembly method in the production of R12 models at its Mancelles factory near Le Mans.

Montedison

Within the framework of the 10-year Italian-Soviet economic and commercial cooperation pact and the IMI-USSR credit agreement (*EUROMARKET NEWS, March 14*), Montecatini Edison SpA has been awarded a contract for the construction of seven chemical plants in the USSR. Worth about $500 million, the deal also provides for the reciprocal supply of ammonia and other chemicals to Montedison by the Soviet Union.

Guzzi-Benelli

Italy's motorcycle combine Guzzi-Benelli reportedly has contracted to build a major manufacturing plant in the Soviet Union. The Russians allegedly have agreed to export part of production for sales by the Italian company's worldwide marketing organization.

Mannesmann/ Demag

Mannesmann AG of Germany has completed the build-up of its 31% stake in Demag, the mechanical engineering company, to a controlling 51% after the European Commission cleared the way for the takeover earlier this month (*EUROMARKET NEWS, July 10*). According to Mannesmann, the group will have combined sales in the region of DM 9 billion annually.

Mannesmann/ Raab Karcher

In other news, Mannesmann has announced plans to sell off its fuel sales subsidiary, Mannesmann-Handel-Wärmedienst GmbH, to Raab Karcher GmbH of the Gelsenberg group. The merger of Gelsenberg with Veba, the 40% state-owned oil company, would create a fuel distribution group with an estimated market share of 40-45%.

Alcoa

Alcoa of the United States and the government of Greece have agreed to set up a jointly run $350-million aluminum plant near Athens. The Greeks, through the Hellenic Industrial Development Bank, will finance 40% of the $105-million share capital of the firm formed to manage the project, while Alcoa will put up the other 60%. The remaining investment funds will be solicited on the international money market. The plant is to have an annual production of 260,000 tons of alumina, to be converted into 130,000 tons of aluminum.

Norpipe/ Norsea

The $600-million loan package to finance construction of an oil pipeline from the Ekofisk field in the North Sea to Teesside, England, and a gas pipeline to Emden, Germany, has been fully subscribed. The credit management group, led by First National City Bank of New York and Belgium's Société Générale de Banque, put up half the loan, while the rest was subscribed by a total of 38 European, U.S., and Canadian banks. The funds will be divided among three company groups: $370 million to Norpipe A/S, owned jointly by Norway's state oil concern Statoil and the Phillips group; $130 million to Norpipe Petroleum U.K. Ltd. (also Statoil-Phillips), and $100 million to Norsea Pipeline Ltd., an English company owned by the Phillips consortium. The development program calls for further loans - reportedly $40 or $50 million - to finance the construction of gas facilities at Emden (*EUROMARKET NEWS, June 26*).

Mobil Oil

The Norwegian government has named Mobil Oil Corp. to head an international consortium exploring oil and gas resources in its section of the North Sea Brent field. Other participants probably will be Esso, Shell, Conoco, and Saga/Amoco. State-owned Statoil has a 50% interest in the Brent concessions, while Mobil will have 15%, with 10% each going to Esso, Shell, and Conoco and 5% to Saga/Amoco when they join.

Ratier-Forest/ Ateliers GSP

Ratier-Forest of France, in which United Aircraft Corp. holds 15%, has acquired 61% of Ateliers GSP, paving the way for the merger of both companies to form the country's second-largest machine tool manufacturing group with combined annual turnover of close to FF 240 million. The French leader in this sector is Ernault-Somua, with sales of FF 271 million yearly.

Crown Zellerbach/ Hoechst

Leading paper manufacturer Crown Zellerbach of San Francisco has announced plans to set up a joint German subsidiary for the production of synthetic paper together with Farbwerke Hoechst next year. Hoechst would provide the base materials and Crown Zellerbach the know-how.

Sabena

Sabena, the Belgian state airline, has opted for Boeing 737s rather than Dassault-Breguet's Mercure jets to replace its outdated French-built Caravelles.

Zanussi/ AEG

Italy's Zanussi SpA has announced it will postpone any changes in the status of its share capital until the end of 1974. The decision delays a planned participation by AEG of Germany in the Zanussi group's main production company (*EUROMARKET NEWS, July 25, 1972*).

Lip

After a group of British investors organized by stockbrokers Vickers da Costa failed in an attempted rescue-takeover of Lip SA d'Horologie, France's leading watchmaker, a Besançon commercial court has decreed the company's liquidation. Lip, which has been threatened with bankruptcy for some time, made headlines recently when its 1,300 employees illegally seized management of the plant, selling off stock at discount prices in order to maintain wage payments. The British investment group had been prepared to put up two-thirds of the FF 25 million supposedly needed to save Lip, but Ebauches SA of Switzerland, the company's 43% owner, is said to have made acquisition terms too difficult. In addition, aside from the semi state-controlled Institut de Dévelopement Industriel (IDI), which would have provided a small portion of the remainder, no suitable French backers - either public or private - have come forward.

Meanwhile, the commercial court has ruled that Lip may continue operations indefinitely under the supervision of an official liquidator and legal advisor, presumably in the hope that another rescue effort may still be made.

KSH/ CSM

The announced merger plans of Centrale Suiker Mij (CSM), Gist-Brocades, and Meneba of the Netherlands (*EUROMARKET NEWS, July 10*) have not deterred Koninklijke Scholten-Honig (KSH) from pressing its takeover suit for CSM by raising its original 950-guilder bid to 1,100 guilders per share. KSH hopes to form an international foods group with consolidated sales of 1.1 billion guilders. Meanwhile, Suiker Unie, the first bidder for CSM, is extending to Sept. 12 its offer of 900 guilders per share, which it may increase. CSM, Gist-Brocades, and Meneba are continuing with their preparations for fusion, however, while the Dutch unions also strongly oppose the KSH and Suiker Unie takeover attempts and have appealed to the government to protect the interests of CSM's nearly 2,000 employees.

Fitch Lovell/ Pricerite

Shareholders in the U.K.'s Fitch Lovell have approved the company's latest £11.9-million takeover offer for the supermarket

Fitch Lovell/ Pricerite *(contd.)*

chain Pricerite. The decision could have serious repercussions. Although Fitch Lovell insists that a takeover is vital to double the group's selling space, rebel shareholders have pointed to the dangers of leaving Fitch Lovell itself open to a "cheap bid." Rivals in the struggle for Pricerite, the British-American Tobacco offshoot International Stores, had - as the dissenters stressed - 15 times the capital of Fitch Lovell and could therefore "afford to take risks" (*EUROMARKET NEWS, June 19*).

Lesieur/ Salador

Lesieur-Cotelle of the French Lesieur group reportedly will acquire the vegetable oils interests in France of Salador, a subsidiary of W.R. Grace of the United States. According to the deal, which has not been disclosed in detail, Lesieur-Cotelle will not buy the American division outright but will take over operation of the Salador oils plant.

Rowntree Mackintosh

The chairman of the U.K.'s giant confectionary firm Rowntree Mackintosh has blamed the world currency position for a "very unusual situation" - the loss of £20 million in cocoa deals carried out without the board's knowledge. Not surprisingly, the company's two cocoa buyers have been suspended and one director has resigned. RM had been employing the common practice of selling for delivery at some future date in hopes that, before then, prices would drop, allowing the firm to buy back at a lower price and cut production costs. Unfortunately, since January the price of cocoa has virtually doubled. Spokesmen for RM have nevertheless declared that the company's commercial, marketing, and dividend policies are not expected to be adversely affected. RM profits for 1972 were £12.56 million before taxes. More important, however, were fears that the loss could make the company the target of a takeover offer. General Foods of the United States made an unsuccessful bid for RM in 1969.

Fergusson Wild

In related news: RM was not the only one to suffer: Fergusson Wild, the subsidiary of investment and holding company William Baird, also reported a £1.5-million loss as a result of substantial short positions in the cocoa market.

Bankers Trust

Bankers Trust Co. has announced it will open a representative office for Scandinavia in Copenhagen this fall.

Commerzbank/ IHB

Two major German banks have opened branches in London in recent weeks: Commerzbank AG, Düsseldorf-Frankfurt, and Investitions- und Handelsbank (IHB) AG, Frankfurt, which had maintained a representative office there for the past 12 years.

Banca Commerciale/ Eurasbank

Banca Commerciale Italiana of Milan has joined its six other EBIC associates (Amsterdam-Rotterdam Bank, Creditanstalt-Bankverein, Deutsche Bank, Midland Bank, Société Générale, and Société Générale de Banque) in ownership of Europäisch Asiatische Bank AG (Eurasbank), Hamburg. For the purpose Eurasbank share capital was raised from DM 24 million to DM 28 million.

Common Market Reports

EURO MARKET NEWS

Issue No. 237 *August 1, 1973*

IN THIS ISSUE

munity: ger Controls and Competition Policy Report

The European Commission's Second Report on Competition Policy came out coincidentally a day prior to the press conference at which Commissioner Albert Borschette made public details of the Commission merger control proposal sent to the Council of Ministers. Borschette could not have asked for better timing, because the report underlines what Commission officials have been stressing all along: the need for statutory powers to control international mergers. According to Borschette, concentration has picked up considerably in the recent past and in some sectors has even reached alarming proportions.

For 1971 the Commission reported a total of 5,261 "operations" (for example, buying up other businesses, acquiring interests, creating joint subsidiaries). If the criteria contained in the Commission's preliminary draft regulation had been applied, nearly 300 businesses involved in concentration would have been subject to the notification requirements. The draft provides that an acquiring company - including U.S. and other third-country enterprises - must notify the Commission if the merged entity's combined annual sales equal or exceed 1 billion units of account; the buyer would have to deposit the shares with a bank and wait three months for Commission approval. The Commission's sanction would depend on whether takeover in effect would impair effective competition within the EC or a substantial part of it. Mergers involving parties with combined sales of less than 200 million units of account and less than 25% of the market in any member state would be exempt from prior notification, and notice of mergers creating sales between 200 million and 1 billion units of account would be optional.

This issue is in two parts, consisting of 72 pages. This is Part I.

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EC Mergers *(contd.)*

In 25 of the total of 87 major mergers of 1971, where the acquiring company had sales exceeding 1 billion units of account and the acquired business had a balance sheet total of over 30 million units of account, the Commission's permission would have been needed.

Borschette confirmed that the Commission is taking a close look at the types of international agreements between banks established within the EC. Formerly, these banks confined themselves to collaborating through joint international bond issues or consortial financing. But the Commission has noticed an increasing number of cooperation pacts between banks wishing to provide investment capital for large industrial projects. To the extent that these agreements specify uniform lending conditions and thus restrict competition, Article 85 of the EC Treaty could be invoked against them, Borschette indicated *(EUROMARKET NEWS, July 10; Common Market Reports, Par. 9586)*.

Compromise on EC Environment Policy

The Council of Ministers has adopted the environmental action program of the European Commission in what has been hailed as a major breakthrough toward establishment of a common EC environmental policy. Although France once again triumphed in the institutional battle over the distribution of powers between national governments and the Community regarding environmental control, there has been no change in the program's major objectives: pollution reduction and prevention; improvement of the environment and quality of life, and cooperation with international organizations concerned with environmental matters.

Two major principles of the program remain untouched, though one has been modified in terms of territorial applications. Firstly, Community standards to be established in the future would preclude stricter national legislation. However, a compromise calls for coordination by the Council of Ministers whenever national governments do take steps in order to avoid conflicts over unilateral actions such as Germany's anti-lead statute. Secondly, the polluter would have to pay for damage to the environment. Italy had feared that industry would be deterred from settling in underdeveloped regions if business had to bear the full cost of pollution control, but the Council's resolution now suspends the polluter-pays principle where it might hamper regional development.

This fall the Commission is expected to present first proposals setting permissible levels of pollutants such as lead, mercury, and chlorine compounds, whose toxic effects on the environment need little further demonstration. If the Council of Ministers accepts the Commission's time schedule, the first regulations would be adopted before the end of 1974 and could be enforced after a certain period - a year or two - to allow industry to familiarize itself with them and adapt production accordingly. Prior to that Ministers of the Nine will have held their September meeting in Paris with other representatives of the European coastal nations to discuss problems of offshore pollution and possible solutions *(EUROMARKET NEWS, May 1; for text of Council's release, see Common Market Reports, Par. 9590.)*

Germany: Debating the Cost of Clean Water

Difficulties in determining the basis for levying the specific charge (*Abwasserabgabe*) to be imposed on private and public water polluter have delayed the preparation of clean-water legislation by federal and state government experts in Germany. The principle

Clean Water
(contd.)

that the polluter pays remains undisputed. The Brandt administration had promised to submit the bill by December 1972, but changes in the philosophy behind the draft have led to the postponement. Originally, the charge was intended merely to put businesses that had gone to the expense of treating effluents on an equal competitive footing with those that did not. Now, however, the consensus is that even businesses that maintain water treatment facilities should pay, although less than those discharging untreated effluents into rivers and sewage systems. Even after biological treatment the water is still said to contain certain chemicals and thus is not restored to its former state. Since further and more costly treatment is needed to remove the remaining impurities, profit-oriented public and semipublic water suppliers want the federal government to charge businesses even more than what it is presently considering in order to make up the difference.

Industry, on the other hand, supports the government's original concept of removing competitive distortions and opposes the idea of burdening those enterprises that have made investments to treat effluents according to existing technology. The amount of the charge has not yet been decided, although the base for it would be the number of inhabitants living in the community where the business is located plus other factors such as the number of employees, the average quantity of effluent discharged daily, the content of inorganic and organic chemicals, and the quantity of oxygen needed for biological treatment of the particular waste *(Doing Business in Europe, Par. 23,549B)*.

Britain:
rd Tax and
ial Security
Reform

Proposals leading to a major restructuring of the U.K.'s taxation and social security systems have been endorsed by a slim majority at House of Commons select committee level. The Green Paper on tax credits released last October *(EUROMARKET NEWS, Oct. 25, 1972 and Doing Business in Europe, Par. 30,621)* provided in essence for the granting of credits to employees as part of their weekly wage and to pensioners as part of their weekly pension benefits. Possible figures mooted in October were Ł4 per week for a single person, Ł6 per week for a married man, and Ł2 pounds for each child. Implementation of such a program would mean the end of the present pay-as-you-earn system, family allowances, and Family Income Supplement. As expected, there was a sharp division of opinion between Labour and Conservative members of the committee, the former submitting that the proposals should be rejected outright on grounds that the existing PAYE program has "greater flexibility." Nevertheless, the committee feels that the proposals should be implemented at the levels suggested. It also recommends that child credits should be granted to the mother rather than the father. Further, married women earners should be entitled to a single person's credit in cases where they qualify for entry to the system, with the right to transfer a portion of their credit (possibly half) to their husband if they do not qualify because of too low earnings. Single parent families would receive a special social security benefit, not yet determined.

The committee felt on balance that such a program would be a way of increasing income from earnings and would accord equal treatment to a very large majority of the population by granting "differential help to those in greatest need and levying differential taxation on the highest paid." Dissenters claimed that the method as outlined in the original Green Paper sacrificed

Social Security *(contd.)*

social justice to the paramount aim of tax simplicity. They also believed that the program would do far less to relieve poverty where it is most acute than would the expenditure of Ŀ1,300 million (the projected cost of the program to the Exchequer) on further reforms of the existing social security system. An announcement by the Chancellor of the Exchequer that payment of benefits to wives in regular employment might cause "administrative complications" did however highlight one of the more curious features of the proposed system: namely, that it could not be implemented much before 1978 because of the efforts involved in computerization.

Clashes Loom on Wage Escalators, Co-determination

Upcoming talks between the U.K. government and the country's labor unions are not expected to be cordial. More important than the controversial Industrial Relations Act is the issue of rising prices: latest figures indicate that, even ignoring seasonal factors, the U.K.'s price index continues to climb at an alarming rate. An 0.7% increase was reported for June alone and this does not mirror the increases (more than 1,000) sanctioned by the Price Commission last month nor does the number of increases applied for (again over 1,000) leave much room for optimism. Prime Minister Edward Heath favors threshold agreements geared to rises in the cost-of-living index. The unions, i.e., those that have even agreed to participate in the talks, which might last well into September, have immediately countered that such agreements do not represent an adequate alternative to collective bargaining. Most probably, they fear that their historical positions as exponents of bargaining techniques will be eroded by such automatic increases. The unions feel that their status and power have been diminished already by the Phase Two Ŀ1-plus-4% rule and do not wish to weaken their position further.

Elsewhere on the labor front other clashes seem inevitable. The Confederation of British Industry has now formally endorsed works councils as the favored route to workers' participation in companies. This runs counter to the EC Commission's two-tier board proposal but is also - and this is if anything more serious - in direct opposition to the TUC policy document on industrial democracy which advocates a two-tier system of management and supervisory boards *(EUROMARKET NEWS, July 10; Common Market Reports, Par. 1350.36)*.

Italy: Price Freeze, Lower Spending

Prime Minister Mariano Rumor's government may have successfully taken its first parliamentary hurdle by winning a vote of confidence, but the economic obstacles it faces still seem almost insurmountable. Though the lira's standing on foreign exchange markets has improved considerably as a result of the measure of political stability that has returned to the country with the formation of the new center-left government, inflation still averages around 16% and shows no letup. Rome's emergency program calls for a 90-day price freeze, from the manufacturer down to the retailer, and price controls thereafter. Both price controls and increased imports, particularly of staple foods, are designed to hold inflation down to the level of other west European countries, where it averages between 7 and 14%.

While the government itself has promised to show restraint in spending, it is calling on the lawmakers in Parliament and city halls to act likewise and help throttle one major source of inflation. Also, aid to ailing businesses without hope of recovery

Prices, Spending *(contd.)*

would be suspended, but small and medium-sized enterprises in the *Mezzogiorno* could count on even more incentives to counteract an accelerating economic downtrend in that region.

The government's goal of stabilizing the external value of the lira has come closer to realization with the decision of the Common Market's Monetary Committee to make the Community's short-term monetary support system available to the Bank of Italy. Italy was the first member state to have asked for access to the full 1.3 billion units of account available under the system *(EUROMARKET NEWS, July 18)*.

Belgium: Renewed Assault on Inflation

The Belgian government has submitted a second anti-inflation program modifying or adding new measures to the package proposed last February *(EUROMARKET NEWS, Feb. 20)*. Businesses still would be required to report price increases to the government in advance, but the notification period would be reduced from the originally proposed three months to two months. Small companies exempt from the price reporting requirements under the earlier proposal would now be obliged to report price boosts of over 2%.

An innovation important to industry would be the projected 3% freeze on export revenue. This would mean that any business selling goods abroad would be required to deposit 3% of the trade bill amount with the central bank. There would be some exceptions for certain industrial sectors and for certain countries of destination. The idea of partially freezing export revenue as an anti-inflationary measure is not entirely new. In 1971 the Swiss government received statutory powers to do so up to 5%, but it has not made use of them so far *(Doing Business in Europe, Par. 29,115)*.

The government's own contribution toward slowing inflation would be less borrowing and reduction of regional development aids. In addition, the government would abandon the special measures taken last year when the economy was at a low.

The second anti-inflation program follows the latest assessments made by Belgium's National Committee for Economic Expansion, an economic advisory group that includes representatives of industry and the unions. According to the Committee, retail prices have risen on the average of 7.5% a month since April.

Austria: Relief for Export Financing

Austria's export-oriented industries have won a major skirmish with the federal government and the Nationalbank (central bank) over export financing conditions. As a result of the central bank's restrictive monetary policy and rapidly increasing exports, in May Österreichische Kontrollbank (ÖK), the country's special bank for medium- and long-term financing, decided as of 1974 to stop granting export loans by rediscounting export trade bills. The move threatened all exports, particularly those of manufacturing firms with multimillion-schilling contracts for the sale of production facilities to foreign customers.

Now the government has come up with a solution providing ÖK with sufficient funds to process applications filed by industry since May (representing a volume of some 3 billion schillings) as well as all future applications. ÖK has been granted a special 1.5-billion schilling credit from the central bank and will be allowed to float several bond issues this year and next in order

Export Relief *(contd.)*

to obtain the needed liquidity. The government's resistance reportedly crumbled under pressure from its own economic backyard - the nationalized steel industry, which had landed lucrative contracts from eastern Europe and feared losing them as a result of the central bank's actions.

AROUND THE MARKETPLACE

Unidata: 'European Challenge' for IBM?

Europe's three major computer manufacturers - Philips of the Netherlands, Germany's Siemens, and France's CII - finally have signed a formal cooperation agreement that calls for establishment of a common sales network and customer service to be known as "Unidata." The three also agreed to promote sales of a new computer product line. The first of six models will be introduced later this year.

Each partner is to concentrate on specific areas: CII on large computers, Siemens on the intermediate sector, and Philips on small computers. Unidata is expected to benefit from Siemens' selling expertise, Philips' experience in data gathering, and CII's know-how in building large computers.

Cooperation under the Unidata system will cover 35,000 employees in 14 development and production facilities in six countries as well as sales and service organizations in 30 countries. Three Unidata administrative centers are to be set up in Paris, Apeldoorn, and Munich.

Even though the consolidation is an attempt to meet the challenge of omnipotent IBM, the decision may have come too late; combining marketing and distribution efforts alone will not cure all ills, although it will save costly manpower. The European computer industry's chief problem is the fact that its computer systems are not fully compatible and there is a lot of overlapping. The companies have sunk millions into the EDP sector, but both Philips and CII so far have produced only losses. Siemens is in a slightly better position.

Ironically, this latest move by Europe's three EDP leaders may be a setback to the European Commission's drive for cooperation on a much wider scale. Commission officials have been discussing ways of cooperation involving R&D and production with executives of Britain's ICL, Siemens, Nixdorf, CII, Philips, and Olivetti, among others. Commission plans have called for the exchange of know-how and of licenses for developing new systems. As for production, the Commission felt that EDP manufacturers should attempt to standardize their products. Although the discussions have not borne tangible fruit, Commission officials are not discouraged and will continue to explore grounds for further cooperation *(EUROMARKET NEWS, June 19)*.

EURO COMPANY SCENE

Volvo

Spokesmen for Volvo have indicated that the Swedish auto company plans to build an assembly plant in the United States, possibly in Virginia.

Volkswagen

Officials of Germany's Volkswagen say that a decision on construction of U.S. assembly facilities should not be expected before the end of the year, "after the foreign exchange situation has stabilized" *(EUROMARKET NEWS, July 10)*.

VW/Porsche

Volkswagen and Porsche, also of Germany, are rumored to be considering a breakup of their long-standing commercial alliance. The two are 50:50 partners in VW-Porsche Vertriebsgesellschaft mbH, a marketing subsidiary, and are linked through an R&D contract. Both car manufacturers are said to be seeking "a new basis" for their relationship, primarily at the instigation of Volkswagen, which is anxious to cut costs in the joint sales company. In any case VW will still be obligated to pay license fees of one D-mark per finished "beetle" to the family-owned Porsche concern.

Pirelli

In a case brought by three shareholders, a Milan court has ruled that the balance sheets of Pirelli SpA for the fiscal years 1962 through 1969, the eight years before the Dunlop-Pirelli union, are invalid because they were based on "false published information and illegal allocations of profits." Since the company's activities during these years have been shifted to Industrie Pirelli SpA, the Italian operating concern, however, it will probably be impossible to recalculate the accounts. Pirelli SpA has been ordered to adjust the books so that they conform to Italian law, which provides jail terms of one to five years and fines of 80,000 to 800,000 lire for falsified balance sheets.

Industrie Pirelli

In other news, Industrie Pirelli SpA has presented a modest investment plan for the next five years reflecting the company's heavy losses in recent years. Before the plan was officially announced, Italian unions had called a strike to protest it. The company disclosed that investments in 1973-77 would average 20 billion lire per year compared to 50 billion during 1969-72. While the firm hopes to finance the investment program through profits, it has also arranged for 40 billion lire in standby credits.

Veba/
Gulf Oil/
Frisia/
Gelsenberg

Veba AG of Germany, the 40% state-owned oil concern, is expected to sign a final agreement with Gulf Oil Corp. for the acquisition of Erdölwerke Frisia AG by the end of August, in time for Frisia's annual shareholders' meeting *(EUROMARKET NEWS, June 26)*. Board chairman Rudolf von Bennigsen has announced that Veba's takeover of Gelsenberg AG should be completed before the end of 1973.

Finmeccanica/
Salmoiraghi/
Worthington

Finmeccanica, of Italy's IRI group, has sold Salmoiraghi to Worthington Italiana, subsidiary of Worthington Corp., Harrison, N.J., for 1.2 billion lire.

Rhône-Poulenc/
Du Pont

Rhône-Poulenc, the French chemicals concern, and Du Pont de Nemours of the United States are discussing a project for joint construction and operation of a FF 200-million nylon factory in France, probably in Alsace. The plant would be Du Pont's first French production base.

New England Fish/
Fisch-Union

New England Fish Co. (Nefco), headquartered in Seattle, Wash., has taken a 50% stake in the DM 12-million capital of Germany's largest privately owned fish processor, Fisch-Union GmbH & Co. KG, while Fisch-Union in turn has obtained an unspecified interest in Nefco. The partnership is expected to benefit both companies through improved supplies, expanded product ranges, and access to new markets. Fisch-Union sales topped DM 125 million last year; Nefco had turnover of about $100 million.

Gutehoffnung/ Siemens/ Felten & Guilleaume/ Vereinigte Draht- u. Kabel

The Berlin Court of Appeals has upheld an appeal brought by four leading producers of heavy-duty electrical cables, Kabel- und Metallwerke Gutehoffnungshütte AG, Siemens AG, Felten & Guilleaume Kabelwerke AG, and Vereinigte Draht- und Kabelwerke AG, against the Federal Cartel Office's December 1972 antitrust ruling. The cartel authorities had imposed fines totaling DM 141,000 against the companies, four of their board members, and one top executive for alleged activities in restraint of trade resulting from their joint takeover and partitioning of a rival cable manufacturer. The court acknowledged that the firms had limited their freedom of action as competitors to some extent by participating in a common agreement, but that this particular case did not constitute a violation of competition law. The Cartel Office has not appealed the decision *(EUROMARKET NEWS, Dec. 27, 1972)*.

Suiker Unie/ CSM

Suiker Unie of the Netherlands is suing Centrale Suiker Mij (CSM), the object of its pending takeover bid and of one by Koninklijke Scholten-Honig, for taking undisclosed "protective" measures to block outsider offers while carrying out merger proceedings with Gist-Brocades and Meneba *(EUROMARKET NEWS, July 24)*.

Ebauches/ Lip

The Official Receiver of Besançon, France, is carrying out an inquiry into the role played by Ebauches SA of Switzerland in the financial collapse of its 43% subsidiary, Lip SA d'Horologie, the French watchmaking company now being operated by its 1,300 employees. Lip workers have charged that after buying into it two years ago, Ebauches deliberately allowed the company to drift into insolvency in favor of its other interests at home. If the investigation proves damaging to Ebauches, the Swiss company could be assessed for a sizable portion of Lip liabilities, brightening prospects for a saving takeover.

Meanwhile, Lip employees have refused to turn over to the Official Receiver a stockpile of watches sequestered last month as security against possible pay losses and the proceeds from the illegal sale of some 50,000 watches *(EUROMARKET NEWS, July 24)*.

Citibank/ Trinkaus/ Banque de Suez/ KKB

First National City Bank, New York, has taken a 15% interest in C.G. Trinkaus & Burkhardt, Germany's largest private bank, in a deal valued at an estimated DM 50 million. The two have signed a cooperation agreement as well. At the same time, in an increase of Trinkaus share capital from DM 153.6 million to DM 163.7 million, shareholder Banque de Suez et de l'Union des Mines of France has raised its previous stake of 5.5% to 15.5%. Along with its participation in Trinkaus, Citibank is acquiring 30% of C.G. Trinkaus & Burkhardt Vermögensverwaltungsgesellschaft, a holding company that owns a majority in Kundenkreditbank - Deutsche Haushaltsbank KGAA (KKB). Between them, Citibank and Trinkaus directly and indirectly control some 80% of KKB capital, an engagement which is said to have cost the U.S. bank an additional DM 80-100 million. Stiffer German monetary controls and the fear that foreigners may soon be barred from acquiring shares in German partnership (*KG*) and limited liability (*GmbH*) companies reportedly precipitated the Citibank and Banque de Suez moves. Chase Manhattan, Bank of America, and various British, Dutch, and German banks had been interested in Trinkaus, too.

Citifin

In related news, Citicorp Finanziaria SpA (Citifin), an affiliate of First National City Corp. of New York, has been established in Milan to deal in personal credits and mortgages.

Common Market Reports

EUROMARKET NEWS

Issue No. 238 August 7, 1973

IN THIS ISSUE

Community: Cold Shoulder from Africa...

Representatives from 43 African, Caribbean, and Pacific states will be meeting in Brussels again in October to hammer out new forms of cooperation after their recent rejection of the European Commission's offer for association. Patterned after the 1963 Yaoundé Convention that made former French colonies associates of the EC, the contract would have tied financial aid to free trade and would have required reverse preferences as well. The French, who had insisted on this point, secretly hoping that at least leaders of the former colonies would show understanding, were shocked more than any other representatives of the Nine or Commission officials when the African delegates unanimously refused the offer.

The Africans' decision was primarily motivated by their wish for a new form of economic link-up resting on free trade without reverse preferences, financial aid without strings attached, and guaranteed prices for crucial raw materials rather than leaving them at the mercy of world market forces. The delegates made it clear that they simply cannot afford to grant reverse preferences because customs duties are still an important source of revenue. In addition, the African states do not want to join yet another economic bloc that does not extend intra-bloc preferences to third countries, a point that the United States has been making all along. In spite of the problems these demands are likely to create at the October conference, EC officials are confident that the bargaining will be concluded in time for the new agreement to go into effect on Feb. 1. 1975, when the Yaoundé Convention expires.

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...and a Hand Outstretched from the East

Comecon's readiness to start negotiations with the EC naturally found a willing response at Commission headquarters in Brussels. Officials were quick to point out, however, that although the Commission now has powers to negotiate trade agreements with third countries, Comecon partners have retained their national prerogatives in this area against pressure from Moscow, which has failed in the past to make east European governments surrender their rights to Comecon institutions *(EUROMARKET NEWS, April 3)*. The one notable exception concerns international cooperation in the scientific-technological sphere, where Comecon has full jurisdiction. All attempts to include this area in the EC's common commercial policy as administered by the Commission have failed due to French objections. Paris signed a separate agreement on economic and technological cooperation with the Soviet Union last year and most EC members have followed suit.

Despite this unbalanced situation, Commission officials believe that there are still some areas left in which both sides could cooperate, for example, the energy and environmental fields. But here again cooperation on the supranational level may be expected to depend, lastly, on the attitude of France. No action is anticipated until September, in any case, when the Commissioners return from their vacation recess.

Britain: Increasing Corporate Responsibility

The White Paper on Company Law Reform published by the U.K.'s Dept. of Trade and Industry is a significant forerunner of the Companies Bill scheduled for introduction in October and expected to become law next spring. On the whole, the DTI's White Paper represents an attempt to restate and extend statutory responsibilities of company directors, to outline and subsequently outlaw practices such as insider dealing and aggressive use of nominee shareholdings, and to introduce a range of essentially technical changes, many of which were recommended in the 1962 Jenkins Report on Company Law. The document emphasizes the need for greater disclosure, proposing, for example, that boards of directors be required to give much more detailed information in the annual reports on matters such as safety and health, consumer complaints, industrial relations, directors' interests, dealings in company shares, and details of acquisitions both effected and contemplated.

Moreover, the White Paper recommends legislation that would enable minority shareholders to sue directors they consider negligent. It also indicates that the Companies Bill will redefine the status of public and private companies in terms of minimum paid-up capital and will tighten rules on companies' buying their own stock. But issues entailed in EC membership (i.e., workers' participation and the two-tier board system) are left to the Green Paper scheduled for September.

The White Paper recommendations on insider dealing *(EUROMARKET NEWS, May 1)* and on warehousing have awakened the greatest interest. The paper defines an insider as a director, employee, major shareholder, professional advisor or near relation to any of these. Insider trading is thus any deal by an insider who has information that he knows to be "price sensitive," unless, however, "he can show that his primary intention in dealing...was not to make a profit or avoid a loss" at any particular time. It is felt that although insiders should not be given undue advantage because of their special knowledge, neither should they be penalized for having it. Earlier recommendations, such as suspensions of dealing

Company Law *(contd.)*

in periods immediately prior to interim or preliminary results *(Doing Business in Europe, Par. 30,611)*, may be incorporated into draft legislation.

Warehousing, a practice in which a number of parties act in undisclosed collusion, often via nominees, to acquire equity stakes in a given company so that the aggregate is a dominant stake, is also attacked. The White Paper proposes that anyone accumulating 5% (possibly as little as 2% in the final bill) in a nominee name reveal his true identity to the company in question, and that the company acquire a "reasonable right" to demand to know who the beneficial - as opposed to the nominal - owners of its shares are. Such an approach would make warehousing more difficult by obliging a warehouse consortium to recruit twice as many or more members to achieve the same over-all effect.

The Fall of Sterling

The dramatic decline in the value of the floating pound on the world's currency markets continues. The total devaluation from the level established in December 1971 now amounts to 19.5%, a figure that is far greater than in November 1967 when sterling was formally devalued by the then Labour government. Thus, it came as no surprise when the Bank of England posted the minimum lending rate at 11.5%.

The fall directly reflects the U.K.'s widening trade deficit (now running at its highest level in relation to output since the early '50s) and apprehension as to the outcome of the government/labor union negotiations on Phase Three anti-inflation policies. Labor leaders are well aware of the impact that the falling pound will have on food prices and will undoubtedly press even harder for price concessions that the government is not inclined to make now. The Chancellor of the Exchequer has maintained that there is no justification for sterling's decline and that the pound is in effect undervalued. Observers in the City point to the most obvious danger: if the Chancellor holds to his budget forecast and continues to opt for a growth rate of 5%, the economy will overheat. Many feel that the only viable alternative would be to end the float and repeg sterling vis-à-vis other European currencies. This in itself could prove dangerous, however, since the U.K. might have to use precious currency reserves to maintain the fixed rate.

Stock Market Sets up EC Watchdog

The U.K.'s Stock Exchange Council has announced formation of a special committee to monitor Common Market developments. The committee will examine all EC draft proposals concerning the securities industry and advise on their implications for the exchange. In addition, it will arrange appropriate S.E. representation, when required, on working parties, committees, or conferences in connection with EC proposals and will act as liaison between the S.E. and the European Commission, the Bank of England, and the relevant government departments.

Germany: Corporate Tax Reform Due Soon

Adoption of the Brandt administration's proposals on corporate tax reform seems a sure thing now that the Christian Democrats, who still control the upper house in Parliament, have not opposed major changes made in the original draft. While that draft would have abolished the present split-rate system (51% for retained profits and 15% for dividends, not counting surcharge and stability charge) and would have introduced a uniform tax rate of 56%, the new bill retains the old system, Tax Reform *(contd.)*

though with different rates - 56% and 36%, respectively. The revised draft also modifies the strict tax credit system set forth in the original draft.

The change in the government's original 56:56 tax rate concept was largely politically motivated. Since the maximum rate proposed in another pending bill on individual income tax is also 56%, according to the earlier plan even if a resident shareholder were in the highest income bracket he would never have had to pay income tax on dividends. In fact, he would always have obtained a refund because the corporation tax withheld would have exceeded his over-all income tax. Preservation of the original system could have turned into a political scandal such as that fired by France's *avoir fiscal* controversy last year *(EUROMARKET NEWS, March 21, 1972)*.

A second major change applies to taxation of German subsidiaries of foreign parent corporations. The present system favors foreign parent concerns because the tax burden on dividends paid to them never reaches more than 45%, even with the additional withholding tax *(Kapitalertragsteuer)*. The original proposal called for increasing this rate to 56%, but government tax experts, wishing to keep the rate down to the internationally prevailing level of 50%, suggested two alternatives: either a reduction from 36% to 32% of the rate on dividends distributed by German subsidiaries to their foreign parents or a reduction in the withholding tax from 25% to 20%. The bill as it now stands adopts the second proposal because this is felt to favor chances for renegotiating the present U.S.-German tax treaty, which has long been a bone of contention. While all of Germany's tax treaties with other countries entitle German tax authorities to levy a withholding tax of 25% on dividends distributed to foreign entities, Article VI of the German-U.S. treaty limits the tax to 15%. Only when such dividends are deemed to be reinvested may Germany impose a rate of up to 25% *(Doing Business in Europe, Par. 23,395)*.

Insolvency Insurance for Employees

Sources in Bonn report that the federal government plans to legislate a new form of mandatory insurance that would guarantee that employees lose no pay if an enterprise goes bankrupt. This "insolvency insurance" would be financed through contributions by the employer alone.

Members of Parliament have long been urging the government to study the concept of insolvency insurance and to come up with ways of implementing it - through legislation, if necessary. Although Section 62 of Germany's *Konkursordnung* (Bankruptcy Act) provides that remuneration for employees is to take priority over payment of other claims, this statutory safeguard and case law have not sufficed in many past instances to keep employees from losing their paychecks for the last month prior to the day of filing bankruptcy. Often former employees have had to wait for months and not seldom for a year to receive their wages or salaries.

Justice Ministry attorneys point out that although the number of bankruptcies did not fluctuate much before 1970 (varying between 1,900-2,000 yearly), it has increased since 1971 and recently even made headlines with the collapse of several major construction firms *(EUROMARKET NEWS, July 18)*. In addition, the volume of unsettled claims has doubled to DM 750 million from 1968 to 1971. Still, experts believe that if insolvency insurance becomes law a company's contributions would be far less than what it must pay

German Insurance *(contd.)*

into the unemployment insurance system, where contributions range from approximately 1-2% of earnings up to the variable income ceiling established for the old-age pension system, although they are shared by both employer and employee.

France: Lavish Spending Marks 1974 Budget Proposal

The government's draft budget calling for total expenditures of FF 225 billion in fiscal 1974, up 12.3% over fiscal '73, may be balanced but hardly anti-inflationary, according to independent French economists, European Commission officials, and OECD reports. With an anticipated real growth in GNP of 5.7% and annual inflation standing at around 6.5%, the volume of increased public spending clearly goes beyond recommendations of both the finance ministers of the Nine and the OECD.

The budget must be seen in the light of the government's commitment to carry out the promises it made prior to the last national elections in March in order to stave off a victory by the Communist-Socialist alliance. Most of the additional funds will go for education and improving the infrastructure (telecommunications, 34%; road construction, 20%; new hospitals, 30%). Not surprisingly, there are no cutbacks on controversial programs such as atomic weaponry and prestige projects such as the Concorde and EDP.

Although Finance Minister Giscard d'Estaing promised that the government would tap the capital market more frequently for needed additional funds and that there were no plans for introducing new taxes or increasing existing ones, observers do not rule out a tighter squeeze on high-income brackets through more vigorous enforcement of present tax laws. A final decision on taxes will not come until September, when the government plans to make public the remaining portion of its budget proposal - the figures on anticipated revenue.

Even the government's most outspoken critics concede that serious efforts have been made to trim administrative costs (accounting for FF 88 billion) by cutting down the number of new openings in the civil service from 36,000 in 1973 to 30,000 in fiscal '74. FF 1.5 billion also has been added to the FF 2.5 billion set aside last year for the *Fonds d'action conjuncturelle*, a business-cycle reserve to be injected into the economy in times of downtrend. The action seems to show that the French government expects an end of the current boom in a year or so, depending of course on success or failure of the anti-inflationary measures taken by Germany and the United States, France's most important trading partners *(EUROMARKET NEWS, July 18)*.

Sweden: More Security against Job Loss

Some time this fall the Rigstag, Sweden's Parliament, is expected to adopt the government-sponsored Bill Protecting Employees against Dismissal. The new law will severely curtail employer rights deriving principally from Section 32 of Statutes of the Swedish Employers' Association, the code governing employment practices of the group's members, among others.

Under the proposed law an employer would no longer have unlimited discretion to fire someone. Notice of termination of employment could be given only for cause, which the bill does not specify, merely providing that management must have substantive grounds for dismissal. Age, long absence due to illness, uncoop-

Dismissal Rules *(contd.)*

erativeness or occasional tardiness would not constitute grounds for discharge.

If an employee's age or health no longer permit him to fulfill his duties as previously, the employer will be obliged to ease working conditions accordingly, or, if this is not possible, to give him another job within the company. If an employee feels his dismissal is unjustified, he may appeal to the local court, retaining his job until the court decides. If production cuts (possibly due to lack of orders) call for mass layoffs, management will have to be selective in its dismissals; in the event of employees with equal length of service, the older employee must be retained.

The bill also would lengthen the periods for giving notice to a minimum of one month for employees under 25 and up to six months for employees over 45 as well as for disabled persons.

AROUND THE MARKETPLACE

Austria: National Umbrella for Nonferrous Metals

After consolidating the country's nationalized steel industry on Jan. 1, 1973 *(EUROMARKET NEWS, Feb. 27 and Feb. 6; Aug. 15, 1972)*, the Austrian government has moved to do the same with the state-owned nonferrous metal concerns. A bill has been prepared, and management of ÖIAG, the holding company for the state industries, has taken its first policy decision: the Vereinigte Metallwerke Ranshofen-Berndorf AG has been selected to put its corporate mantle around a total of four or five companies having some 6,000 employees and combined annual sales of 3 billion schillings (1972).

The new combine would consist of two divisions: aluminum (Ranshofen), including the Wiener Metallwerke, and copper (Berndorf), operating Kupferhütte Brixlegg, Werk Möllersdorf, and possibly Caro Enzesfeld AG. In contrast to the steel industry, the Ranshofen-Berndorf combine would not absorb all government-owned enterprises. Bleiberger Bergwerksunion in Carinthia would remain outside because of management and union opposition and Kupferberg Mitterberg AG, near Salzburg, would not lose its legal identity but would become a subsidiary of the new combine.

Previous plans to fuse Österreichische Stickstoffwerke AG, a fertilizer producer, with the oil group ÖMV-AG have been dropped for good. Management of both companies resented the idea because of differing production lines and both companies had already merged efforts in the petrochemical field, anyway, by forming a joint subsidiary, Petrochemie Schwechat GmbH *(see Euro Company Scene)*.

EURO COMPANY SCENE

Volkswagen

Volkswagen of America, subsidiary of Germany's Volkswagenwerk AG, may face civil or criminal proceedings or both at the hands of the U.S. Dept. of Justice if the Environmental Protection Agency (EPA) makes good its charges that 25,000 1973 models imported by Volkswagen violated exhaust-gas provisions of the Clean Air Act. The EPA allegedly notified Volkswagen in July 1972 that the existence in their automobiles of so-called "defeat devices" to switch off exhaust-control systems at high temperatures must be reported in detail. The EPA says Volkswagen never responded to this letter. Spokesmen for the German firm, however, have denied that the let-

VW *(contd.)*

ter was ignored, claiming that the EPA had merely requested supplemental information on the switch devices. Since its registration of 1973 models had already fulfilled U.S. information requirements at the time, VW maintains, the letter needed no answer. No further action was taken until January, when the EPA finally declared certain of the devices to be illegal. By May 1 VW had completely retooled production to eliminate the offending equipment. Although the Clean Air Act provides for fines of up to $10,000 per vehicle for violations, Volkswagen reportedly is confident that it will emerge from any ensuing Justice Dept. investigation unscathed.

Gulf/ Frisia/ Stinnes-Veba

Gulf Oil Corp. has finally sold its subsidiary Erdölwerke Frisia AG and other German holdings - including its entire service station network - to Hugo Stinnes AG of the Veba group for an undisclosed amount *(EUROMARKET NEWS, August 1 and June 26)*.

Total/ PUK/ Conoco

Total Cie. Minière et Nucléaire, subsidiary of France's Total oil group, Péchiney Ugine Kuhlmann, and Conoco of the United States are forming a joint venture for uranium exploration in Texas. Conoco will manage the operation, controlling 50%, while each of the French partners is expected to take 25% through investments over a three-and-one-half-year period.

Vereinigte Schlüssel

Vereinigte Schlüsselfabriken AG of Germany is setting up a $4-million subsidiary operation in Camden, Tenn., for production of malleable castings. Company spokesmen attributed the decision to manufacture in the United States to currency fluctuations, the tight labor market in Germany, and the fact that some 30% of production is sold on the American market.

Böhler/ Schöller-Bleckmann/ Steierische

Austria's Gebr. Böhler & Co. AG and Schöller-Bleckmann Stahlwerke, two special-steel offshoots of the state's Vöest-Alpine AG, are to be merged with Steierische Gussstahlwerke AG, an Alpine subsidiary, into a new refined-steel division within the Austrian iron and steel combine. The fusion, announced by ÖIAG, should be completed by next year.

Barnes-Hind/ Lamard/ Bausch & Lomb

Barnes-Hind Pharmaceuticals, Sunnyvale, Calif., reportedly has agreed to sell its French subsidiary, Optique Scientifique de Lunetterie A. Lamard, to Bausch & Lomb, of Rochester, N.Y., for an unnamed sum.

Equity/ Russeks

The U.K.'s Equity Enterprises, a creation of entertainer David Frost, is bidding for 65% of Russeks, the Los Angeles construction equipment and plywood firm. The deal involves an investment of some £3 million on Equity's part, but a final agreement will only be reached subject to Bank of England approval.

Watney/ Stifts-Brauerei

The U.K.'s Watney Mann continues to expand its brewing interests in Germany. Earlier this year Watney acquired 57.6% of Dortmunder Stifts-Brauerei when it purchased control of Stern-Brauerei Carl Funke of Essen. The latest deal involves the purchase of an additional 37.5% of Stifts brewery from Commerzbank (25%) and the Funke family (12.5%) for an undisclosed sum *(EUROMARKET NEWS, June 12)*.

BAT/Pricerite

British American Tobacco has declared its latest £12-million offer for the Pricerite supermarket group unconditional fol-

BAT/Pricerite *(contd.)* lowing the announcement that rival bidder Fitch Lovell had allowed its offer to lapse. The battle for control of Pricerite has been waged for more than three months and, in the latter stages, Fitch Lovell was criticized for overextending itself *(EUROMARKET NEWS, July 24)*.

Slater Walker More than a week before the U.K.'s Dept. of Trade and Industry came out with its White Paper on Company Law Reform, the City's top entrepreneur Jim Slater had already gone to surprising lengths to disclose details of the Slater Walker Securities group's structure and holdings. Specifically, he listed a full 45 companies in which Slater Walker's stake exceeded 10%. He also promised that the companies involved would be regularly notified of any changes in aggregate shareholdings and that any new companies in which Slater builds a stake of over 10% would be duly notified.

ENEL Italy's Ente Nazionale per l'Energia Elettrica (ENEL), the state power authority, has obtained the biggest loan ever made to an Italian concern outside the country. A consortium led by S.G. Warburg of London has granted ENEL a 10-year, $1-billion credit at 13%, guaranteed by the Italian government, for expansion of its power plant capacities. The company is planning to double its electrical power supply within the next 10 years in order to accommodate a yearly demand increase of 7-8%. In addition, ENEL seeks to boost its nuclear energy output from its present 3% share (3.6 billion kWh) of annual production to 20% (55 billion kWh) by 1982 *(EUROMARKET NEWS, June 12)*.

Other major Eurodollar loans reportedly being negotiated for Italian borrowers are $200 million for Consorzio di Credito per le Opere Pubbliche (Crediop), $200 million for the Italian State Railways, $50 million for the builders of the new Messina-Syracuse highway in Sicily, and $500 million for Mediobanca.

International Energy Bank The Bank of Scotland and the Republic National Bank of Dallas figure prominently in a proposed major international bank designed to offer financial services to the energy industry. Principal shareholders in the new International Energy Bank will be Barclays Bank International (15%), Canadian Imperial Bank of Commerce (15%), Banque Worms of France (10%), Bank of Scotland (15%), Republic National Bank of Dallas (15%), and Société Financière Européenne of France, itself a consortium with eight shareholders (including Bank of America), which will hold the largest participation of 30%. Bank of Scotland and the Dallas bank can be expected to fulfill major roles in IEB, the former by virtue of North Sea oil strikes and their importance for Scotland's economy, and the latter by dint of its extensive experience in oil industry financing.

TRW The TRW group of the United States, specialists in electronic systems, computer services, and industrial components, is seeking a listing on the London Stock Exchange for the whole of its issued share capital. TRW currently does some 6% of its business in the U.K.

Banca Commerciale Banca Commerciale Italiana has become the first Italian commercial bank to gain permission for establishment of a permanent office in the USSR. The Moscow representation will probably open in September.

Common Market Reports

EUROMARKET NEWS

Issue No. 239 *Report No. 219, August 17, 1973*

IN THIS ISSUE

Community: Enforcing Equal Pay Provisions

European Commission attorneys are putting the finishing touches on legal action against the Netherlands that will be the first of its kind considering the charge: violation of Treaty Article 119, which requires member states to enact legislation ensuring equal pay for men and women doing the same work. In taking a member state before the European Court of Justice, Brussels is reverting to its main function of enforcing the Treaty provisions. And Holland will be the defendant because its government is regarded as the worst offender of the equal pay rule.

In the Commission's recent Report on Application of the Equal Pay Principle all member states got more or less poor grades on compliance, but the Netherlands and Luxembourg ranked last because both still lack the required legislation. The other four countries (the report does not cover newcomers U.K., Ireland, and Denmark) do have rules on the books but still tolerate discriminatory practices.

Treaty Article 119 set the end of 1964 as the deadline for enactment of equal pay rules *(Common Market Reports, Pars. 3941 and 3942.21)*. Commission statistics show that for three industries - textiles, clothing, and food - the smallest differences in hourly wages for men and women were recorded in Italy (13%) and France (15%), followed by Germany (20%), Belgium (22%), and the Netherlands (27%). Germany's standing is expected to improve as a result of a recent Supreme Court ruling to the effect that female workers are entitled to equal pay for equal work.

The Commission also stressed in its report the need for national rules establishing severe penalties for employers' failing to comply with equal pay provisions. Apparently none of the member states has such rules.

This issue is in two parts, consisting of 168 pages. This is Part I.

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Equal Pay *(contd.)*

The Court of Justice ruling in the case against the Netherlands can be expected in a year or so and should also have implications for businesses. If the Commission wins its point, national governments obviously will find it harder to flout Treaty provisions that they find difficult to implement. A major issue in the case will be whether legal responsibility for failure to comply can be pinned on the Dutch government; Commission attorneys feel confident that it can be done. The Dutch as well as other governments argue, on the other hand, that they have no control over collective bargaining in which employers and unions negotiate wages and salaries.

Policy toward Multinationals Still at Study Stage

A Danish move to request Commission proposals establishing controls over multinational companies is considered somewhat superfluous in Brussels. It came, in fact, only days after a caucus of Commission officials from various directorates had discussed a number of studies concerned with the activities of multinationals in the EC. These studies cover many aspects of corporate operations - financing, dividend policies, taxes, employment, R&D, general management policies, corporate behavior during periods of monetary upheaval, and impact on national balances of payment.

At this point, Commission sources refuse to speculate whether the conclusions reached in these studies will result in some forms of control (the Commissioners will not take up this subject until October or November). However, the Commission's industrial poli action program, to be adopted by the Council of Ministers by the end of the year, will indicate whether such plans exist and what direction might be taken.

Whatever these plans, Brussels sources expect the Communities' attitude toward the multinationals to be basically benevolent rather than hostile, on the assumption that bigness does not necessarily mean badness. At least one area - competition - has been accounted for in the Commission's recent merger control draft regulation *(EUROMARKET NEWS, Aug. 1, July 10)*. Here, the Commission found it easy to come up with a proposal after the European Court of Justice had backed its interpretation of Treaty Article 86 in the Continental Can case *(EUROMARKET NEWS, March 6 and Feb. 27; Common Market Reports, Par. 8171)*. In some areas the EC's approach would be to harmonize or coordinate national rules; in others, it could assume powers only through Article 235 and unanimous decision of the Council of Ministers.

Commission experts would like to see common rules for two specific areas of particular weight: formation and operation of companies and taxation. Brussels has acknowledged that it is paying closer attention to efforts aimed at combating international tax evasion and curbing corporate manipulations that take advantage of the differing tax burdens imposed within the EC. Except for Germany's 1972 Tax Evasion Act, Commission officials have little to go on, and even German tax authorities have not gained enough experience in enforcement *(Doing Business in Europe, Par. 30,603)*. At this time, Brussels is investigating whether and to what extent national rules could be harmonized, with the object of narrowing management's freedom of action to avoid or reduce taxes.

Britain: Disclosure Rules Urged for Multinationals

In related developments, the U.K.'s National Economic Development Council has urged international agreement on disclosure procedures by multinational companies. Following closely on the proposals of the government's White Paper on Company Law Reform *(EUROMARKET NEWS, Aug. 7)* that disclosure at national level should be intensified, the recommendations relate specifically to the problem of industrial relations. Labor union representatives on the Council have expressed particular concern at the freedom enjoyed by multinational companies to transfer centers of operation if conditions in one country become unsatisfactory, nullifying the unions' ultimate weapon, the threat of strike action.

The Confederation of British Industry has endorsed the need for some form of action, possibly in the form of mandatory guidelines, but has come out strongly against unilateral disclosure which, it feels, could prove seriously deleterious to U.K. companies. In the CBI's view, Britain reaps considerable benefits from the operations of multinationals and these advantages should not be overlooked. A similar attitude has been adopted by the Secretary for Trade and Industry who stressed that a code of conduct, to be effective, would pose serious practical problems.

Reports of 'EC Disaster' Discounted

Following allegations in the U.K. that British officials and civil servants had reported from Brussels that EC membership was an "economic disaster" for the country, the British Mission to the Common Market, the Foreign Office, and the Prime Minister have all issued statements to the effect that (a) no such reports were sent or received and (b) there is no substance to these speculations.

Despite these denials, however, it is widely - if unofficially - accepted that British officials in Brussels have privately expressed misgivings about the possible effects of certain EC policies on the U.K. A recent poll has echoed these misgivings and indicated that, on the basis of the sample, the U.K. public as a whole is becoming increasingly disenchanted with the Market or, more exactly, with the lack of immediately observable and tangible benefits of membership.

Cynics in both major political parties have pointed to the fact, though, that certain EC policies - notably the Common Agricultural Policy and the plans for economic and monetary union by 1980 - were known prior to joining and that it is thus rather late to register dismay. The government, on the other hand, cites the commitment to some form of review of CAP, the fact that U.K. state aids to development areas are still permitted, the proposals for a common position on world trade talks and, significantly, the fact that there has been no direct EC pressure to effect what would be for the U.K. a premature end to the sterling float.

Patent Office Dispute Cited as Example

A timely example of the gradual awareness of the U.K. that the responsibility of EC membership can have negative side effects is British reaction to the EC proposal to establish the European Patent Office in Munich *(EUROMARKET NEWS, July 11, 1972)*. For U.K. business such a move will dramatically affect the costs of applying for and maintaining a European patent. At the moment a U.K. patent can be maintained in force for its maximum period for a total outlay in the region of £300. Estimated total cost for maintaining an EC patent would run close to £5,000 and - to rub salt into the wound - this would be payable in costly German D-marks. Novelty search, which now entails a £23 filing fee, would be carried out in The Hague and would cost some £100 more. Ac-

Patent Office *(contd.)*

ceptance would have to be negotiated in Munich, so air travel must be calculated into the total expenses, with the result that the full bill would assume prohibitive proportions. Finally, there is a distinct chance that the formidable Articles 85-87 of the Treaty of Rome may negate national patents, although it is still possible that small companies (and inventors) would be able to file U.K. national patents.

The full impact of the proposals to locate the EPO in Munich has been analyzed and documented ("Hansard," Vol. 860, No. 153): what emerges is that the British Patent Office and U.K. patent agents as well as industry and inventors will take a beating if the U.K. does not take a firm stand against Munich as a location and D-marks as the "patents currency." English-language filings at the EPO will account for some 80% of all patents filed and it does seem, on the face of it, rather irrational that the office should be sited in Germany rather than in the U.K. The issue itself is less important, however, than its symbolic value: the "minor" consequences of membership are gradually emerging as major problems, perhaps not for the country as a whole but certainly for individual sectors of the business and legal community.

Germany: First Results of Stability Program

The imposition of price controls - a subject often quietly discussed but so far officially off limits in Bonn - can still be considered a possibility if the German government's current stability measures do not show a more lasting impact by Christmas or early next year *(EUROMARKET NEWS, May 22 and 15; Doing Business Europe, Par. 30,651)*. As it is, the Brandt Administration is having a hard time convincing the public that the wide-ranging stability package is producing first tangible results - too many empty promises about inflation control have been made in the past.

However, there are now some indications that the *Stabilitätsprogramm* is indeed beginning to make itself felt, though on a limited scale. In the month of July, the cost-of-living index increased 7.1%, as compared to 7.4% a year ago - the first time in several years that its steady rise was interrupted. Likewise, industrial order volume in June, on the average, was down 10% from June 1972. Economics Ministry officials attribute the drop in orders primarily to the 11% tax on new investments, which affects mainly the purchase of capital goods. But they also admit that the 32% increase in order volume reported by businesses in May, a month prior to the effective date of the stability program, was exceptionally high.

While independent economists concede that Bonn's program is beginning to show its first braking effects, they doubt whether the administration will ever succeed in attaining its announced goal of returning Germany to the lower rungs of the inflation ladder occupied by the industrialized nations. With a 7.9% inflation rate in May, Germany still maintained a central position, ahead of such countries as France (7.4%) and Sweden (7%). And the Germans can take only small consolation in the fact that some of their neighbors are plagued by worse performances, notably Italy with 11.5%, the U.K. (9.3%), the Netherlands (8.3%), and Switzerland (8.2%).

Italy: Rome Proposes Environment Program

After a long period of nearly total neglect, the environment now seems on its way to becoming a hot public and official issue in Italy, too. The new administration of Mariano Rumor has purposed to do at least something about the blanket of pollution that has spoiled beaches and seashores, created filthy rivers and lakes, and poisoned air in many parts of the erstwhile "garden of Europe." For the first time, an ecology minister, Achille Corona, is sitting in the Italian cabinet, and he has now presented an eight-point program proposing, among other things:
- to employ annually some 40,000 of Italy's 300,000 military draftees for special ecological projects such as reforestation;
- to obligate communities with populations of more than 100,000 to build waste treatment facilities;
- to force the oil industry to lower, until the end of 1975, the lead content of gasoline from 0.64 to 0.4% (a bill to that effect is to be introduced in Parliament next month), and
- to require a 15-lire deposit on beverage bottles (most beverages are now being sold in disposable containers that constitute a major litter problem).

In addition, Corona announced that his ministry would present an ecological progress report to Parliament every two years.

Given the advanced deterioration of the Italian *ambiente* (environment) and its own limited powers, the central government is facing a monumental and, according to some experts, nearly hopeless task. Under the prevailing constitutional setup, the new ministry can do little more than coordinate the actions of other governmental agencies and hope to bring some pressure on regional administrations. The latter have prime jurisdiction in such vital areas as urban and industrial development and, at this stage, tend to regard resultant environmental damage as an unavoidable by-product.

But even industry, a major source of pollution, is now awakening to the fact that the matter requires urgent attention. Largely corroborating the findings of a European Commission study of a year ago, a recent 1,300-page report by Teneco (a subsidiary of the state-owned ENI oil concern) has confirmed that Italy's environment is deteriorating more rapidly than that of any other European nation. Supporting this claim with numerous statistics, the report agrees that the lack of planning and clear-cut responsibilities for the central and regional governments, a shortage of funds, and - last but not least - civic apathy must be blamed for the situation.

AROUND THE MARKETPLACE

EC Directives for Insurance Sector

With the adoption of two directives the Council of Ministers has approved the Commission's blueprints for a common market in the insurance sector. In the next 18 months the nine member states will have to do a lot of remodeling to bring their rules governing fire, accident, liability, and damage insurance activities in line with the requirements outlined in the first directive and to remove discriminatory restrictions against other nationals as required by the second directive. Life insurance is not covered by either directive but proposals are already being drawn up in Brussels.

Though any type of insurance activity is rather strictly regulated in all member states, there are considerable differences in

Insurance *(contd.)*

national rules as to the extent and type of guarantees the authorities may demand from insurance carriers. These differences will be eliminated for the most part because the member states must pattern their future rules after a uniform system based on a solvency margin. Any insurance company would be required to maintain this margin and, if it dropped below the percentage specified in the first directive, the national authorities could step in. Insurance companies would have to allocate part of their assets as technical reserves to cover foreseeable risks, and percentage and location of these reserves would continue to be governed by the law of the state in which the company operates. Apart from these obligations, an insurance carrier would be free to use its assets but in return would need a license and would have to submit detailed information on risks involved, proposed premiums, and reinsurance terms.

The first directive is also important to U.S. and other third country-based insurance companies. In short, access to the EC insurance market would be subject to government approval. A license for operating a branch or agency would be issued if the applying company were entitled to do business in its home state, kept separate accounts at the branch's or agency's domicile, kept a certain percentage of assets in the country of operation, maintained the solvency margin required for domestic businesses, and obtained the national authorities' consent to its choice of agents *(Common Market Reports, Par. 1349.35)*.

EURO COMPANY SCENE

Gelsenberg/ Veba

Dr. Walter Cipa, chairman of the board of Gelsenberg AG, has countered the German government's plan for a merger of domestic oil refining and processing interests through Veba AG's takeover of Gelsenberg *(EUROMARKET NEWS, June 26)* with a proposal that Gelsenberg form the nucleus of a consolidated German petroleum industry, instead. Cipa suggests that other companies - including Veba - should bring their oil interests into Gelsenberg in exchange for shareholdings facilitated through an increase in Gelsenberg capital. Unlike the government's Veba project, Cipa pointed out, his plan could be implemented entirely through private investment and would require no public subsidies. Spokesmen for Veba have categorically rejected Cipa's proposals, however, saying that Veba would be neither able nor willing to transfer its mineral oil interests to Gelsenberg. And without Veba's cooperation, the Gelsenberg plan is considered virtually inoperable.

Aérospatiale

The government of France is reorganizing Société Nationale des Industries Aéronautiques et Spatiales (Aérospatiale), the state-controlled aerospace group formed three years ago through the merger of Sud-Aviation, Nord-Aviation, and Sereb. To be administered by a supervisory board composed of government representatives and an executive board appointed by the supervisory board, Aérospatiale will operate as a *société anonyme* with four semi-independent divisions responsible for airplane manufacture, helicopters, tactical weapons, and missiles and space equipment. Last year the group had losses of almost FF 13 million.

Crédit Lyonnais/ Société Générale/ Banque Nationale

Following the example it set with Renault, the nationalized auto manufacturer, in January 1970, the French government reportedly is awarding employees of state-owned banks and insurance concerns

C.L./S.G./B.N. *(contd.)*

gratis shareholdings amounting to 5% of the stated capital. Some 70,000 employees of Crédit Lyonnais, Société Générale, and Banque Nationale de Paris will control stock nominally valued at FF 62 million but worth an estimated FF 400 million on the current market, according to Finance Minister Giscard d'Estaing. The share issue for 20,000 insurance employees has been postponed because of pending mergers. The grants stipulate that the shares may not be resold for five years except in case of "special circumstances" (marriage, dismissal, etc.). The government also plans to make 5% participations in the three major state banks available for purchase by public authorities, other banks, and insurance institutions. The state could retain a minimum interest of 75% in its banking and insurance holdings.

Du Pont/ BASF

E.I. Du Pont de Nemours & Co. Inc. of Wilmington, Del., has filed suit in Paris against Badische Anilin- & Soda-Fabrik AG (BASF) of Germany and its French subsidiary for alleged infringement of a Du Pont fungicide patent held in France. Du Pont took similar legal action against BASF United Kingdom Ltd. last March *(EUROMARKET NEWS, April 3)*. The French patent is a counterpart of the company's U.K. patent.

Cartel Office/ German Packagers

Germany's Federal Cartel Office has imposed fines totaling over DM 1 million against 30 producers of heavy corrugated cardboard, mailing cartons, and other packing materials and 23 of their executives for alleged participation in price-fixing agreements. The manufacturers are charged with collusion in attempting to establish uniform price rises of up to 8% after July 1, 1972, and in pledging not to reduce prices below the level prevailing at that time. Although they have denied the existence of any such agreement, the accused parties have not appealed the Cartel Office decision, which accordingly is binding.

Lip

The 1,300 employees of France's embattled Lip SA d'Horologie have rejected a government rescue plan proposed shortly after a commercial court in Besançon declared the company closed for immediate liquidation. The court decision reportedly resulted from the workers' refusal to cooperate with the Official Receiver *(EUROMARKET NEWS, Aug. 1)*. While employees continued to occupy the plant and voted to pay out wages for June, Jean Charbonnel, French Minister for Industrial Development, announced a program to save Lip by splitting it three ways: the largest segment would continue as a watchmaking company bolstered by new investments of FF 30 million, to be shared equally by 43% owner Ebauches of Switzerland and the state's own Institut de Développement Industriel (IDI); Lip's electronic defense equipment division would then be sold to Spemelec of Paris, and the machine tool operations, to Ernault-Somua, the country's leader in the sector.

The Lip work force and France's two strongest trade unions, the CFDT and Communist-backed CGT, rejected Charbonnel's proposal because it admittedly would entail the dismissal of 400-600 employees and partition of the company.

Seducta/ Salamander

Apparently emboldened by the tactics of their Lip counterparts, employees of shoe manufacturer Seducta-Charles Jourdan in Romans, France, a subsidiary of Genesco, Inc., of Nashville, Tenn., are occupying company facilities to protest the dismissal of 84 of the 1,200-member work force. The workers want immediate reinstatement of those laid off and are calling for an industry-wide strike to

Seducta *(contd.)*

dramatize the crisis in the country's quality-shoe sector. Like Seducta, which was forced to rationalize, Germany's Salamander has felt the pinch of higher personnel costs in the Romans region and has announced the closure next month of its Ets. Paul Arnoux SA subsidiary, throwing some 300 employees out of work.

Mothercare/ Motherhood Maternity

Britain's Mothercare group, the leading maternity and babywear retailer, is contemplating a cash offer for Motherhood Maternity Shops of Santa Monica, Calif., which operates almost 200 retail stores in 38 states and which reportedly posted sales of nearly $9 million last year.

Trafalgar/ Dearborn

The U.K.'s Trafalgar House Investments is planning to purchase a 40% stake in the Chicago-based offshore drilling company Dearborn-Storm. The bid is in line with Trafalgar plans to expand its interest in North Sea oil exploration. Talks between J.H. Vavasseur, the U.K. financial group, and Dearborn were called off last month. The Trafalgar offer is subject to the approval of the U.S. Maritime Administration. Trafalgar has already arranged financing and secured consent in principle from the Bank of England, the Treasury, and the Dept. of Trade and Industry.

CU/ Nationale Nederlanden/ Delta Lloyd

The British Commercial Union (CU) insurance group faces a tussle with Holland's largest insurance company, Nationale Nederlanden, over control of Delta Lloyd, the second-largest insurance concern in the Netherlands. CU, which already holds 28% of Delta Lloyd shares, is bidding for the remainder, valuing each share at 150 guilders cash. The Nationale bid has not been disclosed. Labor unions and management had registered initial objection to being taken over by a foreign company and Nationale's intention to bid was accompanied by a statement expressing concern lest the business pass out of Dutch control. The Dutch unions now believe they have driven a hard bargain with CU and have "a model contract for multinationals on the takeover warpath." Further, the unions have indicated that they are not interested in a takeover by Nationale since this would possibly lead, on the one hand, to redundancies and, on the other, to overconcentration of the market. Nationale has announced it will meet with Delta Lloyd's board and with the unions.

Alcoa U.K.

Alcoa of Great Britain has now completed arrangements with Hambros Bank for a floating rate loan of £18 million to finance a new rolling mill complex in South Wales. There will be a dollar option in the loan.

St. Regis/ Rochette

St. Regis paper of New York plans to acquire 20% of Rochette-Cenpa, France's third-largest paper group. The French government is said to have subjected approval of the deal to St. Regis' guarantee not to seek to increase its holding or try to take over other large French paper manufacturers. Other major shareholders in Rochette-Cenpa are the Paribas group (15%) and Banque de l'Indochine (10%), with La Cellulose du Pin, France's No. 1 paper company, probably to take 10% in an effort to offset the U.S. purchase.

Pera/ ISO

Italian-American businessman Dr. Ivo Pera has bought ISO Automoveicoli (ISO Rivolta) of Milan through his New York-based holding company, ISO Industries Corp. Pera had already controlled 50% of ISO Rivolta, which is to be renamed ISO Motor Co. SpA.

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Common Market Reports

EUROMARKET NEWS

Issue No. 240 August 21, 1973

IN THIS ISSUE

Community: [illegible]y Progress [illegible]uel Excise Tax Alignment

Brussels observers give the European Commission's draft directive on harmonizing national structures of mineral oil excise taxes no chance for speedy adoption by the Council of Ministers. Because of technical and budgetary problems, the nine member states will not be able to meet the Jan. 1, 1974, deadline an optimistic Council set for itself in March 1971. Prolonged discussions in the Council are predicted even with the limited goal of the draft directive: harmonization of rules governing coverage and exemption of products, taxable event, and method of collection - but not tax rates.

In the conferences with government representatives during the Commission's draft work on the directive, several member states were at loggerheads on the matter of exemption. The Commission wants lubricants gradually exempted from the mineral oil excise tax and also proposes exemption of heavy oils at a later date. Eventually, though, it would like to see a uniform tax imposed on heavy oils to combat pollution.

Under French, Irish, and Danish law, heavy oils (except diesel fuel) are largely exempt, while British and Italian law extend this exemption only to the petrochemical industry specifically. The Commission's proposal would require the other member states to follow suit gradually, since mineral oil tax revenue represents a substantial fiscal source for the Benelux countries and even more so for Germany (around 12% of the national budget).

So far the Council has made only one move (by adopting the directive on manufactured tobacco) to validate its resolution to create an area within which...goods move freely and without

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Fuel Taxes *(contd.)*

distortion" by adopting measures harmonizing those excise taxes that substantially affect interstate trade. Five excise taxes have been singled out by the Commission in a 1972 outline directive, namely those on tobacco, mineral oils, alcohol, wine, and beer. All other taxes would be abolished gradually so that when the proposed Economic and Monetary Union is completed, only VAT and these five excise taxes would remain *(Common Market Reports, Pars. 3026.07 and 9499)*.

France: Government Lifts Exchange Restrictions

Exactly four years after the official devaluation of the franc in August 1969, the French government has removed domestic exchange restrictions to a far greater extent than had been expected by most observers. Announced by Finance Minister Valery Giscard d'Estaing, the liberalized rules now allow French importers and exporters to handle transactions worth up to FF 50,000 (previously FF 10,000) without going through domestic banks. Up to the same amount, such foreign trade transactions are also freed of stringent customs and clearance formalities previously required. Money transfers abroad up to FF 1,500 are now entirely free of clearance requirements, and foreign-owned deposits held in blocked accounts are also cleared for transfer. The same provisions apply to the payment of services and property commitments outside of France.

The liberalized exchange regulations - detailed in 14 pages of the *Journal Officiel* of Aug. 10 - also allow French companies again to protect themselves, within certain limits, against losses resulting from parity changes by dealing in currency futures. The limit for private property purchases abroad was doubled to FF 300,000 per unit, and Frenchmen establishing residence abroad are permitted to take along all their personal assets. The purchase of securities at foreign stock exchanges is permissible, though only through domestic banks. French tourists may now take FF 5,000 instead of 3,500 out of the country and businessmen are permitted an additional per-diem quota of FF 500. Credit card purchases abroad now have a ceiling of FF 1,000 per week.

All these provisions, of course, involve only French capital transfers abroad and have no bearing on the government's defensive measures - specifically the two-tier exchange system - directed against a speculative inflow of foreign capital. And the government has made it clear that the liberalized restrictions will be tightened again on the shortest notice should the situation require it. France's exchange reserves now amount to FF 47.1 billion, most of it in U.S. dollars.

Italy: Effectiveness of Price Stop Questioned

The grim news that the Italian price inflation rate topped the 18% mark in mid-July has been accompanied by widespread doubt whether the 90-day price freeze imposed on staple foods and important industrial products is actually working. As with so many previous decrees issued in Rome, much of the fault apparently lies with the "confusing and vague" language of the regulations, which lend themselves to conflicting interpretation and thus circumvention.

As of Aug. 6, retailers are required to display price lists in order to allow customers to make sure that the freeze is being observed. But this order often is blatantly ignored, especially in smaller communities, and the authorities admittedly are in no position to do much about it. In Milan only 70 officials are said

Price Stop
(contd.)

to have been assigned to conduct price checks and in Rome, only 60. To make matters worse, these watchdog units are severely understaffed during the current vacation season. This situation will not improve until late September - yet the price freeze is officially scheduled to expire on Oct. 31.

Though consumers are busily reporting allegedly illegal price increases to "complaint offices" set up at city halls all over the country, few of them are willing to file formal charges. Some isolated, though spectacular arrests and fines involved manufacturers and retailers of spaghetti and other pasta products. (Meanwhile, many shopkeepers are refusing to sell spaghetti at all, claiming that wholesale prices have outstripped the "frozen" retail prices.) In other industries, some manufacturers nimbly sidestepped the freeze by surprising retailers with pre-dated new price lists.

At the same time, the controversy over gasoline prices also rages on, mostly over the question of how high the future markups should be. The oil companies are demanding a minimum increase of 8 lire per liter, and if this seems inevitable the government would just as soon approve an 18-lire raise in order to gain much-needed revenue for the higher minimum pensions it has promised.

Britain:
Clarification of City Code Rules Urged

Financial commentators and analysts in Britain are showing increasing preoccupation with the workings of the City Code, the U.K. Takeover Panel's guide to takeovers and mergers *(Doing Business in Europe, Par. 24,027)*. The Code in its present, revised form has been in operation for all of 18 months without alteration except for an additional practice note (No. 7). The main problem area is felt to be in respect of Rule 34, which calls for a general offer from anyone purchasing effective control of a company from an unlimited number of sellers, and Rule 35, which requires a cash offer from anyone securing 40% of a company's voting equity either on his own or in concert.

In the recent deal by Marc Gregory for Greencoat Properties, the Panel required Gregory to bid although the company's "selective" purchases had not exceeded 30%, since another purchaser was deemed to be a "concert party." According to one source, Gregory in this case had effectively introduced the "concert party" to the seller of Greencoat shares, so that the Panel's ruling was understandable. Since the Code is vague on the definition of a "concert party," however, subsequent situations may prove infinitely more complex.

City experts are now advocating that the Code should establish one percentage figure (in place of Rule 34's 30% and Rule 35's 40%) at which a general bid would be required. Holdings of associates would count toward this percentage. This would, of course, require a watertight definition of "associate status." The recent White Paper on Company Law Reform provides little help in this respect since, although it indicates that individual stakes in a company will have to be disclosed at a lower threshold to make the practice of "warehousing" more difficult, there is no sign that upcoming reforms of company legislation will call for associates' stakes to be aggregated. In the light of current preoccupation with the Code's equivocation on this point, however, it cannot be ruled out that the next revision of the Code will contain certain provisions in this regard.

Post Office Hurt by Prices Policy

One of the institutions dealt a severe blow by the U.K. government's prices and incomes policies has been the Post Office, which has just reported its first loss in 16 years. The P.O. was on the brink of raising rates last year when the November freeze was imposed: increases as then planned would have earned another £140 million. Instead, the P.O. now finds itself £64 million in the red. Even the telecommunications division, whose consistent profits previously helped to offset any losses incurred in the mail sector, has registered a loss of some £10 million. Consequently, the Post Office has applied for rate increases which, if granted, would go some way toward closing the deficit by bringing in about £58 million this year. However, this would still fall short of the total required - costs on the telecommunications side alone rose by over £100 million last year.

The P.O.'s problems have direct implications for those doing business in the U.K. Local letters will cost more (up by 1/2p to 3 1/2p); telephone connection charges will be increased (from £35 to £40); local daytime telephone charges will be doubled (three minutes for 1p as opposed to six minutes); long-distance calls will cost an unspecified amount more, and telegrams will move from 25p for 12 words to 40p for 10.

Criticism of the Post Office proposals has come from a number of quarters, including the business community, and it has been pointed out that doubling local telephone rates does not appear to be consistent with the Price Commission's structures elsewhere. Since the difficulties in which the P.O. finds itself are attributable to the timing of the freeze, however, there is every likelihood that these proposals will be approved, especially since even they will not be sufficient to effect a turnaround from a loss-making situation.

Netherlands: Crackdown on Illegal Employment of Aliens?

The Dutch Justice Ministry, according to sources in The Hague, is seriously considering proposals to impose harsher penalties against the illegal employment of aliens. Current provisions of the Work Permits for Foreigners Act *(Doing Business in Europe, Par. 26,965)* call for fines not to exceed 1,000 guilders in case of violations. However, such penalties are merely regarded as a slap on the wrist by many employers. Also, as Justice Ministry statistics bear out, the number of convictions has gone down - from 171 in 1971 to only 54 last year - although this is not true of the estimated number of aliens employed without legal work permits.

Among proposals reportedly evaluated by the government are a drastic increase in maximum fines and, in extreme instances, forcible closure of companies that repeatedly violate the provisions of the Act. These toughened regulations, it is hoped in The Hague, would also help stem the unabating influx of foreign workers into Holland.

Germany: No Change in Unemployment Insurance Rate

In what amounts to a rare bit of good news for Germany's business community, the federal government apparently has abandoned plans announced last fall to raise the unemployment insurance rate from the present 1.7% to 2%. The contributions, based on gross wages or salary, are shared by employer and employee *(Doing Business in Europe, Par. 23,456)*. Business associations and the unions had been fighting the proposals for essentially the same reason - to

Insurance Rate *(contd.)*

avoid putting an additional burden on their members. Each group, however, had different ideas of how to finance the resulting deficit of the Federal Labor Agency *(Bundesanstalt für Arbeit)*. Business leaders had demanded cutbacks in the agency's broad program, while the unions felt that the needed funds should be made available from tax money.

The Labor Agency, which maintains a nationwide network of employment offices, had asked for additional funds to support a great variety of programs, particularly vocational training, retraining, and job counseling (in addition to paying unemployment benefits). These programs had left the agency DM 25 million short in 1972. However, for the current year a surplus of DM 300 million has been forecast, and even more for 1974, provided the economy continues to operate at full employment (early August figures were 230,000 unemployed and 450,000 openings).

Agency officials point out that the financial situation has improved since local offices have started following earlier instructions to be less generous with grants for training and retraining. The agency now has set aside some DM 4 billion in reserves, considered large enough to meet future eventualities such as a sharp rise in unemployment in the event the current boom turns into a recession.

Switzerland: Guidelines Issued by Price Monitors

About half a year after assuming its functions, Switzerland's Price Monitoring Agency has issued the long-awaited guidelines it will follow in 1973 and 1974 to determine whether or not price increases are justified. A main criterion: any increase that exceeds upward costs and leads to exceptional gains in profits will be considered unjustified. The same will go for price boosts resulting from any valuation of raw materials or products not based on the purchase price. An importer raising prices of imported goods without passing on benefits resulting from parity fluctuations will be facing government action. Industrial associations are also prohibited from making price recommendations to their members.

Although the guidelines contain little in terms of direct wage and profit controls, indirectly they do have an influence. Costs resulting from wage settlements, including fringe benefits, that clearly go beyond the general pattern followed in collective bargaining will not be fully accepted by the agency.

In related news, the Swiss Supreme Court has rejected an appeal by 11 oil companies - including BP, Esso (Exxon), and Shell - seeking a stay of execution for a price reduction order issued by the Price Monitoring Agency in June. The high court thus backed the Economics Ministry, which had turned down the companies' initial appeal of the agency's order to rescind "unjustified" gasoline price increases. The Supreme Court held that the ministry acted within its statutory latitude when it refused to suspend enforcement of the agency's order. The decision sets a legal precedent inasmuch as individuals or companies affected by price orders cannot hope to gain time by appealing them.

Critics of the price monitoring system point out that inflation is still running high at a rate of 8%, but most economists agree that without government action, including the price-labeling requirements, it would have been much worse.

EURO COMPANY SCENE

Garrett-Mack/ KHD/ Volvo

Garrett Corp., Los Angeles, and Mack Trucks Inc., Allentown, Pa., both members of the U.S. Signal group, have teamed up with Klöckner-Humboldt-Deutz AG (KHD) of Germany and Sweden's AB Volvo in a venture to develop a new line of 500-h.p. turbines for trucks, buses, ships, and industry. Garrett's subsidiary Industrial Turbines International, in which the other three partners have now taken holdings, is to undertake the project.

In Germany, KHD has reportedly denied any plans to combine its commercial vehicle operations with Daimler-Benz, the automotive concern.

Wilkinson Sword

Britain's Wilkinson Sword has disclosed details of contracts secured in the Soviet Union for the supply of equipment and know-how for the production of stainless-steel razor blades. Factories in Moscow and Leningrad will be operational within three years. Wilkinson won the contract, valued at some £3.5 million, in the face of competition from other leading razor-blade manufacturers, including Gillette. Wilkinson supplied a plant to Poland some five years ago in a smaller deal valued at around £1 million.

BBC/ Kolo-Elk

A consortium of German companies led by Brown, Boveri & Cie AG, a member of the Swiss BBC group, has landed a DM 40-million contract for supply and assembly of complete operating facilities for Poland's Kolo and Elk meat-processing combines. Including cooling, freezing, and storage equipment as well as electric power, heating, and air conditioning systems and sanitary installations, the facilities are to be ready by the end of this year. They will have a yearly capacity of 60,000 tons each, ranking among Europe's largest and most modern.

Montan Staal/ Mitsubishi

Montan Staal BV, Dutch subsidiary of Germany's Klöckner steel group, and Japan's Mitsubishi Corp. have set up Namascor BV to operate a new 20 million-guilder "steel service center" south of Rotterdam. The facilities are to begin production of steel plates by fall 1974 with an initial annual output of about 150,000 tons.

Mitsubishi Aircraft

Mitsubishi Aircraft International, Inc., Texas-based subsidiary of Japan's Mitsubishi Heavy Industries, has opened an office in Geneva, Switzerland, to promote sales of the company's business jets in Europe, the Middle East, and Africa.

Bührmann/ Van Dam

Bührmann-Tetterode NV of the Netherlands is said to be negotiating the purchase of Van Dam Machine Corp., New York, manufacturer of special offset printing machinery. The Dutch company specializes in equipment for the graphic industry. Much of Van Dam's production is already concentrated in Holland.

Tyresoles/ Mazda

Tyresoles GmbH & Co., one of Germany's four top tire dealers, has agreed with Mazda Motors (Deutschland) GmbH to handle sales and service of the Japanese automobiles at about 30 of the 60 Tyresoles outlets throughout the country.

NCR/ Multinational Data

National Cash Register (NCR) of Dayton, Ohio, has taken a 25% interest in Multinational Data SA of Belgium. The joint venture was set up in 1971 by Control Data, Britain's ICL, and CII of France to establish uniform design standards - differing from those of IBM - for the U.S. and European computer industries.

Euroc/ Gullhogen

Sweden's leading cement producers are to merge in a deal valued at an estimated 170 million kronor. Euroc, through its Cementoa division controlling some 80% of the domestic market, is acquiring Gullhogen, which accounts for the rest, with the Swedish government later to buy into the new combine. The government already holds almost 4% of Euroc and 15% of Gullhogen, in which St. Gobain of France has a 20% interest.

PUK

The seven-week-long strike at Péchiney-Ugine-Kuhlmann's aluminum plant in Noguères, France, is over. The settlement is considered highly favorable to labor and includes PUK's agreement to renounce all punitive sanctions against the 650 striking employees, who had demanded job reclassification and pay increases. Loss of production at the company's largest and most modern aluminum foundry, which accounts for almost one-third of French output, had been a severe blow to the domestic aluminum industry at a time of peak demand and rising prices. PUK has not revealed the cost of the damage, particularly to the plant's electrolytic smelting vats, which were shut down by work stoppages late in June, but it reportedly may take up to six months to get operations at Noguères back to normal.

Seducta-Charles Jourdan

Employees of the Seducta-Charles Jourdan shoe factory in Romans, France, reportedly have agreed to suspend their strike and return to work until Aug. 27 in exchange for management's rescission of 84 dismissals and an agreement to negotiate. The workers at the Genesco subsidiary hope to obtain a full-employment guarantee for all.

Paul Arnoux

In related news, French shoe producers have come up with a national plan to save the jobs of Romans factory workers threatened with layoffs - particularly those of Ets. Paul Arnoux SA, the subsidiary that Germany's Salamander AG plans to close. The manufacturers are channeling production orders - mostly for cheaper shoe exports to eastern Europe - to Romans and are said to be raising capital to set up a new rescue company. The unions, for their part, will be expected to obtain state credits or subsidies in order to realize the project.

Schulte & Dieckhoff

Schulte & Dieckhoff GmbH, the German hosiery manufacturer in which Westdeutsche Landesbank recently took a 58.2% interest and in which Chadbourn of the United States holds an estimated 6-7%, has pulled out of the American market after suffering cumulative losses of around DM 40 million during its engagement there. The company had operated six hosiery factories in Puerto Rico and a sales subsidiary in Charlotte, N.C., Schulte & Dieckhoff (USA) Inc., which has now been bought out by Fritz-Karl Schulte, former manager of the German company. Schulte, who personally owns the Puerto Rican mills, reportedly plans to run the U.S. firm on an independent basis.

Nijverdal/ Textile Investment

Nijverdal-ten Cate NV, a major Dutch textile concern, and Textile Investment Group of Texas have announced they will cooperate in construction and operation of a spinning and weaving mill complex near the city of Lubbock. Nijverdal-ten Cate will hold 47.5% of the venture, which will initially cost over $3 million.

h.i.s.	h.i.s. Inc. of New York, a leading U.S. sportswear manufacturer, has founded a European marketing subsidiary in Munich, h.i.s. Sportswear GmbH.
Children's Television/ Gruner + Jahr	Children's Television Workshop, a U.S. non-profit organization, has awarded German publisher Gruner + Jahr AG & Co. complete rights to the "Sesame Street" preschool television series for the Common Market, Switzerland, and Austria. The license includes manufacture and sale of books, games, dolls, records, and novelty items, some still to be developed by Gruner + Jahr. In February G+J concluded a licensing agreement with Hearst of New York for German rights to "Cosmopolitan" magazine.
Allied Breweries/ Skol	The U.K.'s Allied Breweries has become the major shareholder in Skol International, the lager marketing group set up nine years ago by a consortium of breweries to "brew a beer of high quality to suit the majority of tastes around the world." Skol is now brewed in 18 countries and sold in 51. Allied Breweries has secured some 80% of Skol, with the rest being shared by Schwechet (Austria) and Unibra (Belgium). Skol is also to be brewed and sold in Germany - a major breakthrough for a foreign brand in that country. The beer will be produced, bottled, and sold by Henninger Bräu.
Pepsico/ Agros	Pepsico Inc., Purchase, N.Y., has signed a second exclusive agreement with Poland's Agros trade organization for production and distribution of Pepsi-Cola in four more Polish cities. The company will add plants in Wroclaw, Poznan, Lodz, and Szczecin to the Cracow and Gdansk production bases contracted for last year.
Spalding/ Snauwaert-Depla	Spalding sporting goods of Chicopee, Mass., has taken a majority in Belgium's Snauwaert/Depla, a leading European producer of tennis equipment, for an undisclosed price.
Quelle/ Matsuzakaya	Quelle, Germany's leading mail-order house, has signed a cooperation pact with Matsuzakaya Co. of Tokyo to promote Quelle sales through the Japanese firm's department stores.
TIA/ Melía	Trans International Airlines (TIA), a subsidiary of Transamerica Corp., San Francisco, has paid $6.5 million for a 45% stake in Melía International Hotels of Panama, a branch of Spain's Melía hotel group. TIA and Melía International reportedly plan to set up a chain of 16 hotels in Europe, the Near East, and North and South America.
Adda/ Crome & Goldschmidt	The London-based hotel group Adda International has agreed to purchase a 210,000-sq.-ft. property in the heart of Copenhagen from Denmark's Crome and Goldschmidt. The deal, valued at £2 million, is in line with Adda's acquisition policy aimed at a property foothold in European capitals. Slater, Walker has a 21.19% share in Adda.