



Common Market Reports

EUROMARKET NEWS

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May 18, 1971

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D-mark, guilder float; Swiss, Austrians revalue

FRANKFURT -- A formal revaluation of the Deutschmark, on the order of 5%, from the D-mark of 3.685 per dollar, is generally expected to follow the current floating-rate period in which the value of the D-mark has risen by around 4%. The West German Government closed the money market on May 5, the day after some \$1 billion in speculative money had poured into Germany. In the period of confusion that followed, speculators turned elsewhere and forced the Swiss franc, the Dutch guilder, and the Belgian franc up to or over their intervention points. Many European financial authorities -- including French Finance Minister Valéry Giscard d'Estaing and several leading Swiss bankers -- publicly placed the blame for the immediate situation on the Germans, although continuing to state that the basic reason for the crisis was the U. S. balance-of-payments deficit.

At a stormy meeting of the Six in Brussels on May 8, Community finance ministers tried to hammer out a solution to the German currency problem that would also ensure the normal functioning of the common agricultural system. The finance ministers of the Six, after long discussion, agreed to permit the D-mark and the Dutch guilder to float, but reportedly only to a 2.5% upward limit. The Belgians decided to maintain the parity of their currency against the dollar, and to absorb speculative pressure in the free sector of their two-tier money market. Meanwhile, the Swiss and the Austrians, who had been following the EEC proceedings closely, revalued their currencies against the dollar: The Swiss by 7%, and the Austrians by 5.5%. The Swiss feared that a consequence of a floating D-mark would be a shift out of that currency and into their franc. The Swiss decision to revalue left the Germans without one of the outlets that they needed if speculative pressures on the D-mark were to be reduced or diverted.

Pressure on the D-mark was still evident when the Frankfurt money market reopened for business on May 10. The D-mark quickly rose to 4.5% against its former dollar parity, then fell back to around 4%, mostly on news that commercial banks would no longer be paying interest on new deposits in Germany by foreigners. The guilder remained around 2.5% above its former dollar parity, and the Belgian franc rose by about 1.5%.

A formal revaluation of the D-mark and a return to stability on European money markets may not be quick in coming. Bundesbank president Karl Klasen indicated that the D-mark would continue to float until the Common Market agreed to take joint action to improve the international monetary system, but the Germans in their handling of the affair are under the sharp attack of the French and the Italians within Community circles.

Britain and Common Market make progress in talks

BRUSSELS -- Britain and the Six have reached agreement on touchy agricultural problems, such as the principle of Community preference, increased British food prices, and Commonwealth sugar, and they have also made a start on how much of the cost of the EEC's common agricultural policy the British must pay. The statement on sugar provides that the Common Market will take account of the need to safeguard the British Commonwealth sugar producers.

Many other problems remain to be solved, such as New Zealand's markets for butter, cheese, and lamb in Europe, the role of sterling as a reserve currency, and the amount the British will contribute initially to the Common Market's budget.

The two-day conference between French President Pompidou and British Prime Minister Heath, scheduled for May 20 and 21, is seen as the opportunity to resolve "conceptual differences" about Europe and Britain's role in it.

Gold interest heightens

LONDON -- The absence of any lasting solution to current European monetary problems has led to a revival of investor interest in the London bullion market, where the price of gold rose to \$40.40 an ounce, the highest quote of the past nineteen months. The most interesting feature of the London money market is a developing shortage of dollars, needed by speculators to finance their holdings of European currencies. As a result, sterling has weakened, and the interest rate for overnight Eurodollar borrowings has shot up to 11% per annum.

RB-211 pact signed

LONDON -- After months of negotiations, the U.S.'s Lockheed Aircraft has signed a new contract with the UK's Rolls-Royce for the supply of RB-211 jet engines for the TriStar airbus. The contract, which must be approved by the U.S. Congress, provides for the development, production, and supply of the engines to Lockheed, and for extensive after-sales service during the period of the engine's use by airlines. The UK Government, which now owns Rolls-Royce, has indicated that it will continue funding the RB-211's continued development if the U.S. Congress approves. Although immediate details of the contract are not available, it appears that most of the banks and airlines that will have to provide support to the project are satisfied. It is hoped that work on the engine will be completed in time for certification of the TriStar by April, 1972.

Mannesmann fined for cartel activities

FRANKFURT -- Mannesmann, the West German steel firm, has been fined \$36,000 by the West German Cartel Office for failure to report to the Government its participation in an international cartel agreement. According to the West German news weekly "Der Spiegel," Mannesmann's partners include British Steel, France's Comptoir FBT, the Dalmine and Siderexport subsidiaries of Italy's Finsider, and Japan's Nippon Steel, Nippon Kokan, Kawasaki, and Sumitomo. The cartel is thought to cover areas outside North America and the home countries of the firms concerned. Reportedly, an office was established in London to channel and supervise secret orders for pipe with oil-producing nations. The fine, which Mannesmann plans to appeal, is the

heaviest ever levied during the 14-year existence of the cartel office. The Common Market Commission is reported to also have been making inquiries into the affair.

UK food prices continue to advance

LONDON -- The price of food continues to rise in Britain. According to "The Grocer," a UK trade journal, sixteen major British food firms have raised prices in the past two weeks. Butter alone, says "The Grocer," today costs 20% more than it did in May of last year.

U. S. - Dutch cooperation

AMSTERDAM -- The Netherlands' Lips Aluminium will hold 75%, and the U.S.'s Leveler Lorentzen, 25% of the \$250,000 capital of Lips-Leveler, a new Dutch firm that will manufacture pre-treated slats for venetian blinds. Two of Lips Aluminium's major shareholders -- each holds a 25% stake -- are the U.S.'s Alcoa and Norway's Elken. The venture will be Leveler Lorentzen's first in the Common Market.

Control Data expands in France

PARIS -- Control Data Corporation, which together with its Commercial Credit Corporation subsidiary recently formed Commercial Computers France, a concern that leases Control Data computers, plans to form a French finance company specializing in leases of real estate. Control Data's moves in France parallel those already taken in West Germany, The Netherlands, Italy, Great Britain, and Switzerland.

Drop in demand forces Leyland to lay off 300

LONDON -- A dramatic decline in domestic demand for heavy commercial vehicle engines, with little hope for any immediate improvement, has forced British Leyland to announce the layoff of 300 workers at its plant at Leyland, Lancashire. About 40% of the production at the plant goes to other UK auto manufacturers, who have been hard hit by economic, labor, and liquidity problems. Demand has dropped off particularly for Leyland's biggest engines; medium-range products have continued to sell fairly well.

Ford examining UK import possibilities

LONDON -- Ford of Britain is reportedly set to appoint up to 25 new dealerships in the UK for the marketing of Fords made in the U.S., West Germany, and Australia. Officials at the company have been hesitant to reveal full details of their plans, which could upset not only the British Government, which is worried over the increased imports of cars into Britain, but also the firm's workers, who have just come back to work after a nine-week strike. Currently, sales of Ford imports in Britain are largely limited to models not made in the UK.

Falconbridge Europe formed

BRUSSELS -- Falconbridge International Ltd., a subsidiary of Canada's Falconbridge Nickel Mines, has subscribed the \$500,000 share capital of Falconbridge Europe, a Brussels-based company that will direct all of the group's mining and metallurgical interests in Europe.

Japanese-German shipyard agreement

FRANKFURT -- Two of the world's major shipyards, West Germany's Blohm and Voss, and Japan's Kawasaki Heavy Industries, have signed a cooperation

agreement under which Kawasaki will receive the right to build B and V car decks and folding decks. In return, B and V will receive Kawasaki know-how on the construction of large crude oil carriers. The agreement will run for five years. B and V has also purchased Kawasaki's plans for a 230,000 dwt tanker, a move which, when current shipyard expansion projects are complete, will permit B and V to make a fast entry into the business of giant tanker construction.

BNP buys full control of French American Banking Corporation

PARIS -- Banque Nationale de Paris (BNP) has acquired full control of the French American Banking Corporation, through purchase of the holdings of Compagnie Financière de Suez and the Banque de l'Indochine. French American is a New York-based investment company specializing in international operations. BNP would like to expand these activities to include a full range of services for European firms that locate in the United States.

ICI arranges credit for Atlas purchase

LONDON -- Imperial Chemical Industries, Britain's largest industrial concern, has borrowed \$300 million in the Eurodollar and U.S. capital markets to finance the acquisition of the U.S.'s Atlas Chemical Industries. Early in April, Chairman Jack Callard revealed that ICI was ready to pay nearly \$170 million for Atlas, a sum equivalent to 26 times the net earnings per Atlas share. ICI's Eurodollar credit is for \$200 million, and is to run for seven years.

Saint-Gobain subsidiary transfers holdings to U.S. - UK combine

FRANKFURT -- Halbergerhütte, a West German subsidiary of France's Saint-Gobain-Pont-à-Mousson, reportedly is to transfer its 92% holding of Halberg-Maschinenbau to a joint subsidiary of the U.S.'s Studebaker-Worthington and the UK's Weir. Halberg-Maschinenbau, which produces compressors, pumps and heat exchangers, in 1970 had a turnover of \$19.11 million.

Windy International formed

LONDON--The UK's Associated Leisure will link with the U.S.'s Helium Balloon Systems to form Windy International, which will manufacture and distribute balloons for use in publicity campaigns. Windy's production facilities will be in Britain, but distribution will be Europe-wide.

Bourse report

LONDON -- Most equities advance strongly as investors view current monetary adjustments as being encouraging for sterling. Gilts rise in very active trading. PARIS -- Firm in very active trading conditions. Michelin and Citroën among industrials making the most significant gains. FRANKFURT -- Hesitant. Most investors awaiting D-mark developments. MILAN -- Most sectors slightly lower. BRUSSELS -- Internationals weaken; monetary confusion keeps trading in plantations and shippings dull. Local industrials very hesitant.

EUROMARKET NEWS

COMMERCE CLEARING HOUSE, INC.



Common Market Reports

EUROMARKET NEWS

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Paris summit talks open way for British entry; strong opposition in Britain

PARIS -- The Pompidou-Heath talks in Paris apparently convinced the French President that the British Government was serious about joining Europe. The French had hammered at this theme for years--that the British outlook and interests were not sufficiently "European" to warrant their membership in the Common Market. Twice before, the French vetoed British entry attempts for this reason. The joint communiqué issued after the talks concluded states that "it was desirable and possible to reach early agreement on the main outstanding issues in the negotiations for British entry." These negotiations will start on June 7.

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Some 60% of the British electorate, according to recent polls, do not want their country to join the Common Market. The Government of Prime Minister Heath is making extensive efforts to convince the British public that in the long run the UK's entry into the Common Market would be to the country's advantage.

Log jam breaks, EEC and Britain agree on two crucial issues

BRUSSELS -- As Dutch Foreign Minister Hans de Koster put it, Britain now has one foot in the Common Market. Most observers felt that the other foot would be in by June, as the Six and Britain settled two of the four key issues of the negotiations and made headway on a third. To meet British demands, the Six have changed their previous proposals and will now permit Britain a six-year transitional period for agriculture that would end in December, 1977. For their part, the British must agree to slow down the industrial transitional period -- to correspond to the timing of the agricultural period--and accept the principle of Community preference on farm goods. Agreement has also been reached on the knotty question of Commonwealth sugar. Essentially, the Six and Britain will allow their respective sugar arrangements to run until 1974 -- when they both expire -- and then reach a binding solution to the problem.

The EEC has also presented Britain with a set of principles, but no figures, on the British contribution to the Community budget. Britain will be required to pay a full contribution from the moment of entry, but will receive a series of rebates to soften the effect on its balance of payments. In a major step down from its previous position, France admitted that the rebates could continue even after the transitional period was up. Final agreement on the budget question will have to wait until the EEC presents hard figures.

France raises discount rate

PARIS--France has reacted to Swiss revaluation and German currency unrest by raising its discount rate by one quarter of one percent, to 6.75%, and

increasing the level of compulsory bank deposits to 9.25% for current accounts, and 4.25% for savings and deposit accounts. The Finance Ministry clearly fears the inflationary effect the present round of European parity adjustments may hold for France's economy. There is already pressure for steep wage increases at Renault, which is one of France's leading exporters, and one of the firms that can be expected to be seriously affected by any D-mark revaluation. Most French officials think that current inflationary trends -- now unofficially put at 5% per annum -- can be expected to intensify. The discount rate and bank deposit action are intended to prevent two possible developments that could lead to overheating. One is a danger that inflows of "hot funds" could spill over into the domestic economy. The second is that demand could step up. The discount rate hike is aimed at making credit terms more difficult, although it could attract more foreign money. The bank deposit move is directed toward mopping up some \$365 million from the money supply. French monetary officials seem to be ready to make much more use of a new tool, also -- the tying of increases in central bank deposits to the amount of growth in bank lending.

Carr tries to soften Davies' statement on UK car import duties

LONDON -- UK Secretary for Employment Robert Carr moved quickly to blunt the effect of a statement by Secretary for Trade and Industry John Davies on removal of car import duties, following a loud uproar from British auto industry officials and workers. Davies had said that removal of tariffs on cars imported into the UK was under active consideration by the Government as one means of improving the competitiveness of the industry. He had also implied that such a move would be in line with Conservative aims of using competition to check price increases. Carr has since explained that current Government thinking on import duties was not reflected by Davies' statement.

Italian Government lowers oil tax

ROME -- The tax on major oil products in Italy is to be cut by some two to three lire per liter, with companies maintaining prices and getting a bigger profit. The companies estimate they will now net nearly \$200 million more yearly, which is needed to meet the increased costs brought on by the Teheran and Tripoli oil agreements. They will also avoid the drop in business that higher prices traditionally bring in Italy. It is thought that the Government was swayed in its decision to lower oil taxes by the nearness of important local elections, since more inflation could have a heavy impact on the voter.

Spanish truckers block Saragossa accesses in price dispute

MADRID-- Several hundred Spanish truckers parked their rigs on the six access roads to Saragossa, blocking traffic between Madrid and the industrial areas surrounding Bilbao and Barcelona. Government and police officials attempted to break up the strike, in order to insure normal transport of essential supplies. However, negotiations on the issues that precipitated the action have not progressed. Instead, a counter blockade by Saragossa truck owners has complicated discussions. The main issues at stake involve demands by national and local trucking syndicates for higher transport prices, and abolishment of the custom of offering cut-rate prices to insure full loads for return trips.

Record lending by UK building societies

LONDON -- Britain's building societies advanced a record £211.6 million (about \$507 million) to home buyers in May, the first time ever that the figure has broken through the £200 million mark, and an increase of nearly \$34.3 million over March lending. The societies were committed to lend a further \$1.6 billion by the end of April, representing a jump in commitments of over \$68 million in comparison to March. The April performance could bring added pressure on the societies to reduce their lending and borrowing rates. However, most of the industry's officials seem to think that a rate reduction would only jeopardize recent successes in reducing mortgage demand to manageable proportions. In the first three months of this year, Britain's building societies advanced a total \$1.2 billion -- up by \$309 million over the same three months of last year.

More effective incomes policy needed in Sweden, says OECD

STOCKHOLM-- Sweden needs a more effective incomes policy and improved collective bargaining methods if it is to cure its inflation and foreign payments problems, the Organization for Economic Cooperation and Development (OECD) said in a semi-annual survey. The past 12 months have been a period of progress for Swedish industrial relations, but the Swedes have not yet found a way to coordinate prices and incomes that will insure price stability. On the basis of present trends, the OECD forecast only modest pressure on prices from demand and foreign trade. No immediate improvement is foreseen in Sweden's balance of payments position, however.

Renault's Le Mans strike continues

PARIS -- By a majority of 275, with some 1,500 abstaining, workers at the Le Mans factory of France's Renault voted to ignore an offer from management and continue their strike, now in its third week. The strikers contend that the latest proposal of a 3% wage boost is not enough, and have called upon Renault president Pierre Dreyfus to personally negotiate a settlement. The company seems to have succeeded in keeping the walkout confined to Le Mans through the offer of a token payment to workers in other plants where production has been affected. In a television address on the state of the French economy, finance minister Valéry Giscard d'Estaing called the Le Mans strikers to task, placing the blame for France's current inflation troubles on worker and wage demands.

No immediate additions to European bank group

FRANKFURT-- A high Commerzbank official has said that the "merger" between Germany's Commerzbank, France's Crédit Lyonnais, and Italy's Banco di Roma will be strengthened before any more European banks are admitted to the organization. Paul Lichtenberg, the official, indicated that banks based in non-Common Market countries would have to wait until negotiations on enlargement of the Community were complete before they would be admitted. He hinted, however, that applications from such banks would continue to be considered.

Climax Molybdenum to build big Dutch plant

ROTTERDAM--Climax Molybdenum Company, a division of American Metal Climax, has revealed plans for the construction of a 4.5 million-pounds-per-year ammonium molybdate plant--the largest of its kind in Europe -- at Rotterdam. The unit, to be built on a site adjacent to an existing facility of the firm, will utilize new technology developed by the company. It is expected to be in operation by mid-1972. Raw materials will be imported from

AMAX mines in Colorado. The market for ammonium molybdate is expected to expand rapidly in view of new efforts by European Governments to control pollution.

Boussac suffers another blow

PARIS -- The hard-hit empire of former French cotton king Marcel Boussac has received another shock, the closure of Cotonniere de Fives, one of the organization's biggest plants in northern France. The Boussac group is believed to have incurred losses of up to \$30 million in 1970. Another \$60 million of almost worthless inventories is said to be sitting in warehouses.

British, French firms to build chemicals plant in Spain

MADRID-- The Spanish subsidiary of Britain's Rio Tinto Zinc will hold 66%, and France's Aquitaine Organico 34%, of a polyethylene-producing firm in Spain. The operation will begin production in mid-1973, with an output of some 50,000 tons of polyethylene per year. The two firms have not yet decided on how to split the initial \$20 million cost of setting up. Aquitaine will be supplying the production know-how.

Gelsenberg expands

FRANKFURT -- Gelsenkirchener Bergwerke AG (Gelsenberg), the German coal-based company which has developed major petroleum interests in recent years, is to take over the Neumuenster chemical fiber plant of Prix Werke, a BASF-Dow Chemical subsidiary. The plant, which employs 1,200, produces polyester and polyamide fibers. Last summer, BASF and Dow decided to cut back on Prix's production and close some Prix plants. Gelsenberg will now no longer be forced to rely solely on its Swiss operations for chemical fiber production.

Lloyds Register in Dutch move

ROTTERDAM-- Lloyds Register of Shipping has acquired a 50% stake in Roentgen Technische Dienst (RTD), a Dutch firm supplying industrial research services. The other 50% is owned by the Philips electrical group.

Bourse report

LONDON -- Equity leaders drop back; gilts lose heavily in wake of decision by Bank of England to restrict its trading. PARIS -- Dull market. FRANKFURT -- Lackluster trading attributable to unresolved parity problems. MILAN -- Most stocks trending downwards. BRUSSELS -- Very well maintained. AMSTERDAM -- Plantations actively sought; shippings ease; local industrials mixed.

EUROMARKET NEWS

COMMERCE CLEARING HOUSE, INC.



Common Market Reports

EUROMARKET NEWS

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June 2, 1971

Public opinion is last obstacle to Britain's EEC entry

PARIS -- The biggest obstacle to Britain's entry into the Common Market now seems to be British public opinion. As a result of Prime Minister Heath's meeting with President Pompidou, French opposition to Britain's candidacy seems to have vanished, and Britain is almost certain to obtain acceptable Community entry terms by June 24--the date of the final negotiating session. Significantly, President Pompidou has ordered Gaullist ministers to stop their public criticism of the British bid. However, the latest Louis Harris poll shows that 62% of the British public do not want to join the Six, versus 20% who do, with 18% undecided.

Morgan Bank says "hot" funds come from U.S.

BRUSSELS -- The bulk of funds that moved into Europe and Japan during the recent currency crisis originated in the United States, says the May issue of Morgan Guaranty Trust Company's "World Financial Markets." The Bank's experts support this conclusion by noting that the U.S. had a \$2 billion increase in its balance-of-payments deficit in the first six weeks of the second quarter. The huge dollar outflow of April and early May came mainly from: Sales of dollars by U.S. corporations and U.S. subsidiaries of foreign corporations anxious to limit their currency risks; withdrawal of funds by the U.S. branches and agencies of foreign banks; "leads and lags" in international payments, accelerating payments due in currencies believed likely to go up in value, and delaying payments due in dollars because they might become cheaper; and reduced investment by foreigners in U.S. securities.

Schiller comments strengthen dollar

BONN -- Comments by German Economics and Finance Minister Karl Schiller that the D-mark would be left to float for several months and then be returned to its former fixed parity sent ripples through foreign exchanges, causing the D-mark to weaken sharply. Schiller also said that Germany would not necessarily return to the old fluctuation margin of 0.8% on either side of the 3.66 dollar parity. The D-mark closed May 25 in Frankfurt at 3.5375 to the dollar. This was a big change from May 21, when the dollar slid to an all-time low of 3.497 D-marks, before closing at 3.5075. The May 21 fall was caused by a Bundesbank announcement that it would stay out of the market and not offer its massive funds at cut-rate prices. At one point in the May 21st trading, more than \$100 million was offered for marks. Although the Bundesbank is not officially in the market, many dealers think that it is offering dollars for sale through foreign institutions, such as the Basel-based Bank for International Settlements.

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Dutch banks stop interest payments

AMSTERDAM -- Dutch banks have decided to imitate German banks, and stop paying interest on speculative money deposited in The Netherlands. No interest will be paid on deposits of non-resident banks, companies, and individuals that can be withdrawn without notice. Banking sources have indicated that foreign capital had been flowing from Switzerland into Amsterdam in steadily increasing amounts, in the aftermath of the Swiss revaluation and the floating of the guilder.

Denmark to accept EEC fisheries policy

BRUSSELS -- Representatives of Denmark have told Common Market representatives that the Danes will accept the Community's common fisheries policy without a transitional period, subject only to special provisions for the Faroe Islands and Greenland. Up to now, the Danes have steadfastly refused to accept the EEC's fisheries policy. Denmark has informed the Six, however, that it wants special measures for horticulture, and assurances that the current arrangements under which export of some 140,000 Danish cattle is exempt from Community levies will be maintained.

German industrial growth slows

BONN -- The Federation of German Industries has revealed that growth of West German industry is still slowing, with some sectors seriously plagued by a lack of new orders. After increases in January and February, demand fell in March, and has continued to fall since. The sluggishness of demand has made it all but impossible for German firms to pass on recent wage increases in the form of price rises, and has crimped profit margins, forcing some large companies to rethink their investment plans. A separate auto industry report showed that German car makers produced only 353,409 units in April, down by 10% from March's total output, and 3.7% over the output of April of last year. Automobile production declined by 6.3% in April, compared with the same month of the year before.

Italian steel output drops

ROME -- Italian steel production dropped by 10.9% in April, in comparison with the same month of last year. According to the Steel Producers' Association, total output has declined by 3.7% during the first four months of 1971, in comparison with 1970. The decline is thought to be due mainly to a slowdown in new construction.

UK cost of living rises again

LONDON -- The cost of living in Britain continues to soar, rising faster in April than in any month since the current index was introduced nine years ago. The Department of Trade and Industry revealed that the official index of retail prices at the end of April was 152.2--on a 1962 base of 100--a 3.2 point, or 4.5%, rise over March. The biggest previous monthly increase in the index was 2.2 points in April, 1968.

Siemens puts 4,000 more on reduced work schedules

FRANKFURT -- Because of lagging orders, Siemens, the West German electrical giant, has told 4,000 of the workers at its Amberg switchgear factory that they will be put on "short-hours" work schedules, until further notice.

Orders at Amberg are reported to be running at almost 20% below the level of a year ago. Lower demand from the construction industry and less demand for consumer goods have forced Siemens to put almost 10,000 of its employees on short hours this month. Siemens employs nearly 230,000 workers. Company president Gerd Tacke said that he expects Siemens' growth rate--it was 12% a year over the past ten years--to fall to 8% or 9% this year.

BNP is France's largest bank

PARIS -- Banque Nationale de Paris (BNP) is France's largest deposit bank in terms of assets, according to the annual listing published by the French business magazine "Entreprise." BNP had total assets of \$9.9 billion, and Société Générale nearly \$8.5 billion. France's biggest investment bank is Cie. Bancaire, with assets of \$3.4 billion.

Lufthansa looking to sell 737's

FRANKFURT -- Lufthansa hopes to persuade the West German Defense Ministry to buy four or five of its Boeing 737 jet airliners as a first step in selling its entire fleet of 26 of the planes. Lufthansa took its initial delivery of the 737 only three years ago, but the routes the plane was intended to service have grown beyond the plane's potential. Lufthansa is expected to order stretched 727's to replace the 737's. The airline has a "Boeings-only" policy.

Chevron refinery plans vetoed

LONDON -- After nearly three years of discussions, the U.S.'s Chevron Oil has been refused permission to build a \$120 million refinery at Hunterston, on the Clyde Estuary in Scotland. The installation threatened to pollute the Clyde. Earlier this year, Secretary of State for Scotland, Gordon Campbell, vetoed a proposal by Murco Oil Co. for a plant some 40 miles from the Chevron site. Chevron reportedly is seeking a location for the refinery in Germany.

German rubber firms hold merger talks

FRANKFURT -- Two West German rubber firms, Continental Gummi Werke and Phoenix Gummiwerke, have begun cooperation talks that could lead to a full merger. The two firms are seeking the means to rationalize and widen their production bases. According to a member of the Continental board, the firms will merge if a merger does not harm their present market positions.

Genesco reorganizes

ZURICH -- Genesco Europa, the Zurich-based European holding company for the U.S.'s Genesco textile group, has announced the merger of its German subsidiaries--Bohne Morgenroecke, M. Uebel KG, M. Uebel Verwaltungen, Charmor GmbH, Charmor Wohnungsbau, and Eterna Herrenwaesche-Fabrik--into a single company. The new firm, Genesco AG, to be headquartered in Munich, is expected to have an annual turnover of some \$15 million.

Monsanto-Deminex to explore for oil

LONDON -- Monsanto Textile of Britain and West Germany's Deminex group are forming a consortium to explore for oil and gas on the British continental shelf. Two firms that are thought to have joined are Britain's Trinidad Canadian Oil and the U.S.'s Offshore Co. Monsanto and Deminex are said to have reached an agreement in principle with a major, unidentified UK firm to take an interest of up to 15% in the consortium.

Italian appliance makers form coordinating company

MILAN -- Three Italian electrical appliance manufacturers--Candy, Kelvinator-Italiana, and Nivan-Sovrana--have formed a joint company to coordinate and direct their sales promotion, market research, and after-sales-service activities. The new firm, Gruppo Industrie Elettrodomestici, will attempt to cut down the overhead costs of the participating firms through joint programs. Until now, the three have been forced to compete with each other in each area without having the turnover or range of products to sustain them under highly competitive conditions. Each of the three participating firms will also be able to concentrate solely on their respective product lines: Candy, on washing machines; Kelvinator, on refrigerators; and Nivan-Sovrana, on gas and electric ovens.

Brown Boveri-Sulzer signs U.S. turbine pact

ZURICH -- Brown Boveri-Sulzer Turbomaschinen, the giant Swiss turbine maker, has signed an agreement with the Turbodyne Division of the U.S.'s Studebaker-Worthington, giving Turbodyne the right to manufacture and market Brown Boveri-Sulzer products in the U.S. In return, the Swiss group will get a stake in Turbodyne's capital and a seat on its board.

Ford hopes to up German output

FRANKFURT -- Ford of Germany has added extra work shifts at its Saarlouis plant in order to catch up on order backlogs caused by a lengthy strike early this year. Ford hopes to increase Saarlouis' capacity to 900 units per day by the end of this year. It is currently at 770 units per day--670 Escorts and 100 Capris.

New freight documentation system

LONDON -- A new electronic freight documentation system has been introduced in Europe and North America by the Atlantic Container Line. The system is called "Datafreight," and is thought to be simpler and quicker to use than current bill-of-lading procedures. Datafreight produces a non-negotiable receipt that does not have to be sent across the Atlantic ahead of cargo. It therefore averts delivery delays when documentation is slowed or lost.

Bourse report

LONDON -- Equities remain firm, although early week demand for leaders trails off. Gilts firm. PARIS -- Well maintained in very active trading. FRANKFURT -- Market quietly firmer, but investors still hesitant while awaiting D-mark developments. MILAN -- Most sectors firm on technical considerations. BRUSSELS -- Most stocks lose some ground, after steady advances of previous weeks. AMSTERDAM -- Plantations and shippings narrowly mixed; local industrials dull.

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COMMERCE CLEARING HOUSE, INC.



Common Market Reports

EUROMARKET NEWS

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Connally tells U.S. allies to spend for defense

MUNICH -- The loudest shot in the battle of economic opinion between the United States and major European countries has been fired by U.S. Treasury chief John Connally. He told top bankers at the 18th International Banking Conference that America expected leading trading nations to pay for their defense. He also urged liberalized trade policies -- especially in the Common Market and Japan -- and asked the U.S.'s allies to be more responsible in world money matters.

In view of the current international money situation, the International Banking Conference was watched closely, not only by governments but also by speculators. Bundesbank deputy chairman Otmar Emminger's statement that the D-mark might float for six months drew a sharp retort from French President Pompidou and pushed the dollar up to the strongest position in weeks on the Frankfurt exchange. One thing that emerged clearly at the meeting --and in Brussels, where Pompidou seemed to be trying to oversee the Conference on behalf of the Community--was world displeasure with the Germans for their D-mark action. U.S. Federal Reserve Board chairman Arthur Burns spoke for all when he accused the Germans of moving when the peak of the danger had already passed. From start to finish at the meeting, the Germans attempted to divert attention to what they termed pressure on Europeans to pay for U.S. balance of payments deficits. But most of what they said served as counterpoint for Connally's remarks.

In insisting on greater European and Japanese spending for defense, Connally caught the bankers by surprise. The suggestion had rarely been put so forcefully in public -- only suggested behind the scenes. The Germans particularly are caught in a trap, since the other European countries will not permit them the use of atomic weapons. They can only follow U.S. suggestions on how the cost of maintaining U.S. troops in Europe can be offset. Connally made clear that the U.S. will never devalue the dollar.

Post-revaluation moves in Switzerland

BERNE -- As a follow-up to revaluation of the franc, the Swiss Government is to introduce a bill calling for a ban on nonessential construction and demolition. The regulations will affect regions suffering from "strained building capacities," and will limit the construction of public and private dwellings, hotels, restaurants and sports grounds. They will halt demolition of private and commercial buildings in the same regions for a period of three years. The Swiss introduced similar controls in 1964, to reduce overheating of the economy.

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An important critic of the revaluation has stepped forward: Swiss Bank Corporation president Samuel Schweizer said in a full-page analysis in the Neue Zuercher Zeitung that revaluation would not be enough to cool Switzerland's overheated economy. He said that it would lose profits for many branches of industry, and good will for the country.

Eurodollar rates firm

LONDON -- The interest rate on three-month Eurodollars shot from 6-3/4% to 7-3/4% overnight, and probably will go still higher. Dealers say that news from Munich, where the International Banking Conference was being held, of a definite end to the Central Banks' policy of recycling capital into the Eurodollar market is behind the movement. U.S. Treasury efforts to mop up excess Eurodollars have helped, too. Should the rates attract floods of capital from America, however, they could fall back once more. After a slight dip, the D-mark firmed in London, and now is quoted at 3.535 to the dollar. Sterling, pushed by the Eurodollar rates, has gained ground and has been traded over its dollar-intervention point. The guilder and the French franc have suffered slightly.

Italians consider reflation measures

ROME -- Italian officials are said to be considering emergency reflation measures, including tax relief for companies, to go into effect before this month's elections on June 13. For the past twelve months, Italian factories have not been operating at capacity. Italian economic experts remain puzzled by two sets of recent economic statistics: One set shows that March imports rose by 30% and exports by 17% over March, 1970, to produce a payments deficit of \$248 million, three times the deficit of March, 1970. The other set of figures shows that exports and imports both grew by nearly 16% during the first three months of 1971, in comparison with the first three months of 1970, to produce a payments deficit of \$460.8 million, \$81 million less than during the same period of last year.

UK foreign borrowing rules modified

LONDON -- The Bank of England has modified some of the January, 1971 rules governing foreign borrowings of UK residents. Authorized banks can now lend freely if the sums advanced are used to finance credit on exported goods, or if they are payments to non-sterling area wholesalers for sales of goods abroad, or payments to non-sterling area residents for commodities dealings. The January rules seek to curtail the use of foreign funds to finance UK economic expansion.

Chemical investment up in Italy

ROME -- Investment in Italy's chemical industry shot up by \$1.18 billion in the past twelve months. This was an increase of 43%, according to the weekly trade journal, Chemical Age. The value of chemical projects under way or completed during the past twelve months is \$3.156 billion, with 48% of this going to projects in Sardinia and Sicily, and 25% to operations in the regions just south of Rome.

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Chemical Age also says that Italy currently invests more in chemicals than any other European country, surpassing Germany (\$2.88 billion), Britain (\$2.64 billion), Benelux (\$2.40 billion), and France (\$1.96 billion). Interestingly, in contrast to the above countries, nine of the top ten spenders in Italy are domestic concerns.

Greek payments deficit laid to drop in exports

ATHENS -- A decline of 13% in exports seemed to be the big factor behind the \$169.6 million deficit in Greece's balance of payments in the first quarter. A 24% rise in invisible earnings kept the sum from rising higher, but it still represented an increase of \$51.6 million over the January-March period of last year. The export sag so alarmed Greek officials that the Government appointed a special commission to investigate the problem. The country's gold and foreign currency reserves have remained fairly steady during the past year, with reserves of \$258.6 million reported at the end of March, 1971, compared with \$256.1 million at the same point last year.

OECD plans pollution warning system

PARIS -- Member states of the Organization for Economic Cooperation and Development (OECD) will test a pollution warning system for the next two years. The procedure involves advance notice to the OECD from the state planning pollution control measures that could harm the environment or the trade of a neighboring country. U.S. representatives to the organization have indicated they would like to make more use of the OECD as a clearing house for environmental information.

German garment workers walk out. . .

FRANKFURT -- Following a breakdown in negotiations with employers, Germany's 380,000-member garment unions are preparing strike action. Seven hundred workers have walked out already, and when the unions officially give the call, many others will follow. Employers call the garment workers' demands for an 11% wage increase inflationary, and have insisted they will go no higher than 8%. Several cracks in the employers' unity, however, have already appeared.

. . .while French workers march for early retirement

PARIS -- Tens of thousands of workers marched through central Paris to demand earlier retirement. All of France's labor unions have united in an attempt to pressure the government and industry into permitting workers to retire at age 60 at 75% of final salary, which the unions say should be a minimum of \$150 per month.

Europe's deepest oil well sunk in Adriatic

ROME -- An AGIP-Shell exploration team has sunk Europe's deepest oil well, fifty miles off the coast of Pescara, in the Adriatic. It was drilled by a Saipem offshore semi-submersible rig called Scarabeo II, and goes down 6,171 meters (some 20,252 feet).

Company tax to pay for Paris transport

PARIS -- Despite strong protest from deputies representing Paris, the French National Assembly has passed a bill calling for a 2% payroll tax on businesses in greater Paris to pay for public transport in the area. Both the

subways and the Parisian suburban railway system are currently operating at a loss, and the Government would like to put them back in the black. It would also like to silence critics from other French cities, who say that funds intended for their transport projects often are diverted to pay for operating deficits in Paris. If the bill wins Senate approval, it will become law on September 1.

The government hopes eventually to combine the Paris transport, the national railways, and various agencies responsible for roadways, into one central authority, mainly for reasons of cost.

Slater Walker attempt to increase insurance interests

LONDON -- Slater Walker Securities is to offer \$22.8 million and the control of its insurance-brokerage business to Wigham-Richardson and Bevington. Insurance transactions will be directed by Wigham-Richardson, and Slater Walker will oversee the combined operations of the two firms. The two firms would continue to be separately quoted on the London Stock Exchange. Wigham-Richardson and Bevington, London insurance brokers, earned \$1.07 million in pre-tax profits in 1970; Slater Walker's pre-tax insurance business profits amounted to \$573,600 in the same year.

Le Nickel to raise \$65 million

PARIS -- Société Le Nickel will ask shareholders at the June 23 annual meeting to approve plans to raise \$65 million through a nonconvertible loan. Société Minière et Métallurgique, a Le Nickel subsidiary, will ask stockholders to approve a \$30 million loan on June 15.

BSR offer for Bulpitts

LONDON -- Shares of Bulpitts rose on the London Stock Exchange, in the wake of a takeover offer by BSR, producer of Monarch record-changers. Shares in BSR, however, fell on the same news. BSR officials maintain that a merger with Bulpitts, which makes aluminum home appliances, is a "natural" for their firm since both companies use almost the same industrial processes.

Standard Fruit opens Brussels office

BRUSSELS -- Standard Fruit Sales Company of New Orleans has named Jan van Meerveld to the top post for its new branch in Brussels. He will organize and supervise Standard Fruit's European activities.

Bourse report

LONDON -- Threat of steel strike, holiday influences keep trading heavy. Biggest excitement was among Australians, where Whim Creek doubled in value on assay news from Ruth Well. PARIS -- Well maintained, in fairly active market. Most French oils and gases gained, despite Norwegian denials of North Sea finds by French consortium. FRANKFURT -- Most leader issues higher and firmer. MILAN -- Very irregular. Industrials post modest gains overall. BRUSSELS -- All sectors except gold hold steady. AMSTERDAM -- Shipping and plantations narrowly mixed. Local industrials show slight losses.

EUROMARKET NEWS

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Common Market Reports

EUROMARKET NEWS

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June 15, 1971

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Control of Eurodollar movements

AMSTERDAM -- U.S. Federal Reserve Chairman Arthur Burns arrived here to continue the conversations he had started in Munich with Dutch Central Bank head Jelle Zijlstra on multinational moves to control large Eurodollar movements. Zijlstra heads a group of European central bankers studying the problem. U.S. officials are believed to be considering issuing new long-term securities in which other countries could profitably invest their surplus dollars. At the breakup of the International Banking Conference in Munich, Western officials appeared determined to take concerted action to control the Eurodollar market. Germany has instituted a month-long freeze (for June) on D-mark Eurobond offerings, and the group that Zijlstra heads is observing the effects of this action on the market. Among Western nations, only Britain seems to be opposed to Eurobond market controls. Most Eurocurrency dealings are channeled through British banks.

Commonwealth sugar producers satisfied with EEC terms

LONDON -- In a two-page communiqué, the result of two days of hard bargaining, Commonwealth sugar producers have endorsed the terms arranged for them with the Common Market by Geoffrey Rippon, Britain's chief EEC-entry negotiator. The Community-British agreement on sugar is presently little more than an arrangement that permits the EEC and the Commonwealth to continue their separate systems until 1974, when the sugar accords expire. Britain's Commonwealth partners have felt that they would be the losers once the Community and Britain hammer out a detailed sugar agreement. Now, the UK has committed itself to getting fair terms for Commonwealth sugar producers in 1974.

Bundesbank sells dollars at 3.5% below old value

FRANKFURT -- The Bundesbank made its long-awaited move into the money market, selling nearly \$100 million at prices representing a 3.5% revaluation of the D-mark over its former fixed dollar parity. The action sent dollars flowing out of Germany for the first time in months, to London and Zurich. It pushed three-month Eurodollar rates down 0.5% to 0.75%, and increased speculation among dealers that an official D-mark revaluation was not far off. Most dealers argued that the Bundesbank selling was designed to bring the D-mark to its ultimate revaluation range -- 3.5 to the dollar, as compared to 3.66 before.

German economic officials maintain that the D-mark will continue to float, however, and top officials of the Economics Ministry predict that it will not be fixed until September.

Free market platinum prices rise

LONDON -- The free market price of platinum continues to rise, following an agreement by Britain's Engelhard Industries to supply Ford Motor Company with an exhaust control device based on a platinum catalyst. The 1972 forward delivery price for the metal has moved above \$120 a troy ounce, the level officially set by producers. Prices for immediate delivery are still slightly below \$120 an ounce, however. Speculators hope that other big U.S. car manufacturers will follow the Ford lead, and turn to platinum catalysts in their efforts to meet U.S. anti-pollution standards. International Nickel is Engelhard's main platinum supplier.

\$105.2 million added to UK reserves in May

LONDON -- Britain's official reserves rose \$105.2 million in May, illustrating the strength of the pound during the recent currency crisis. This is the eighth month in a row British reserves have risen, indicating that the pound seemed removed from the pressures confronting the dollar and the D-mark in May. British monetary authorities may have helped the U.S. last month with support in the market, but this will not be known for sure until September, when the Bank of England publishes its quarterly bulletin. The British reduced by \$5 million their debts to the International Monetary Fund during the month. Interestingly, the heavy inflows of funds attracted by high UK interest rates seem to have stopped; now it is the strength of sterling that has maintained the increase in reserves.

Carli says Italian economic prospects are bleak

ROME -- Bank of Italy Governor Guido Carli presented a bleak picture of the Italian economy in his annual report. Carli said that Italian investment remained stagnant, private consumption restricted, and construction and industrial production below potential. In addition, Italy seems to have an incurable balance-of-payments deficit.

Italy's Central Statistical Institute has revealed that the country's consumer price index was 4.7% higher in April 1971 than in April 1970, and that the index for wholesale prices had risen by 2.9% during the same period.

Rise in Danish payments deficit raises devaluation fears

COPEHHAGEN--The deficit in Denmark's balance of payments rose to \$192 million during the first quarter, adding to Danish officials' fears that the kroner will have to be devalued soon. Observers say that Denmark is already under pressure from creditor countries to devalue, and can escape the move only if its balance-of-payments problems are cured. The official forecast, however, is for the deficits to go on rising...up to \$214 million by the end of the second quarter.

French retail prices rise 0.6% in April

PARIS -- Retail prices in France increased by 0.6% in April, bringing the total rise for the year to 2.1%. Indications are that price figures for May will match those of April, and that by year-end prices will have risen by at least a full point above the 3.1% officially predicted for this year. The Finance Ministry is increasingly concerned over a tendency of manufac-

turers to raise prices -- by 0.5% in April -- in order to offset higher wages. Wages, which rose by 3.1% in the first quarter, are expected to be up by 8% by the end of the year. French food prices rose by 0.7% in April, and the cost of services went up by 0.8%.

Dutch, Belgian firms unite in bid for Foulness

THE HAGUE -- Dutch and Belgian dredging concerns, hoping to secure big contracts in connection with the construction of London's third airport (Foulness), are beginning to form bidding groups. The latest to follow the trend are the UK subsidiaries of several Dutch and Belgian firms, Westminster Dredging Company, HAM Dredging, Harbour and General Works Company, and Nash Dredging and Reclamation. The parent firms together not only own the world's largest dredging fleet but also are located not far from Britain's east coast. It is believed that the contract for land reformation alone will run to \$168 million.

Vickers to sell German subsidiary

LONDON--Vickers is negotiating with Davy-Ashmore for the sale of Vickers-Zimmer, its German chemical engineering subsidiary. The talks were prompted by last year's losses at Vickers' chemical engineering division, and the belief that the sale of Vickers-Zimmer would release some \$12 million for investment in other interests. Vickers-Zimmer manufactures fiber-producing equipment.

ICI opens its biggest European chemicals plant

PARIS --Imperial Chemical Industries (ICI) has opened its largest European chemical plant yet, at Rheims in France. The unit is to produce medical products, and will be operated by ICI's Avion subsidiary. France is currently buying more ICI products than any other European country. ICI opened a similar plant near Milan some eight months ago.

Direct foreign investment in Belgium dropped in 1970

BRUSSELS -- Direct foreign investment in Belgium fell sharply in 1970, to \$169 million, from the 1969 level of \$659 million, according to figures released by the Belgian Economic Affairs Ministry. The 1969 figure had been inflated by several giant chemical and petroleum projects. The number of individual plant investments actually increased in 1970, to 671 projects, in comparison with the 643 undertaken in 1969. The normal ratio of three new companies created by foreigners to every one created by natives was maintained.

Renault wins Kama River project

PARIS -- Finance Minister Valéry Giscard d'Estaing said that France's Renault has been asked by the Soviet Union to begin studies for the 150,000-truck plant to be built on the Kama River. The request is tantamount to designation of Renault as the project's sole contractor. Specifications submitted by the Russians are said to include the projected diesel engine plant. France has already opened a \$750-million credit line to the Russians, valid until March, 1972.

Giscard d'Estaing said that the French and Russians will also build a joint oil refinery to process Soviet crude imports into France. The unit will be near Le Havre, and will be operated by Elf-Erap and a Russian organization yet to be named.

Swiss "big four" banks limit branch growth

ZURICH -- Switzerland's four biggest banks--Swiss Bank Corporation, Union Bank of Switzerland, Swiss Credit Bank, and Swiss Volksbank--have agreed to limit the number of branches they will open from now until 1974. The four banks will use a point system to determine the openings, with one to three points counted for each new branch, depending on size. None of the banks will exceed a 35-point limit. High start-up costs and personnel shortages are the main reasons for the agreement.

Thomson bids for Italian firm

PARIS -- In an effort to improve its position vis-à-vis Philips and ITT, France's Thomson-Houston-Hotchkiss-Brandt has bid to take over Italy's Ergon, which makes shadow mask color television tubes. Ergon will be organized as a subsidiary of Videocolor, the firm Thomson formed in cooperation with the U.S.'s RCA, if the bid is approved by the French and Italian Governments. Output from Videocolor's plants would be sold worldwide, with only one serious competitor--Japan's Trinitron tube.

UK auto output down

LONDON -- Output of British auto firms was down by 20%, to 414,386 units, during the three months ended April, in comparison with the three previous months. Much of the drop was due to labor disputes, with Ford being the hardest hit.

Ford is known to be seeking a site in France to locate a European assembly plant. Most unlikely choice is Bordeaux, where the firm is building a gear-box plant. Most French plant location experts figured Ford moved into Bordeaux because of the port and expansion facilities the city could offer. However, the political row caused by the gearbox plant makes further Ford expansion there practically impossible. This time, the big U.S. auto maker will probably choose a city in France's northern regions.

Bankers Trust in Zurich

ZURICH -- After a six-month wait, Bankers Trust Company of New York has received approval of the Swiss Banking Commission to open a Zurich office. The unit is to offer commercial and trustee services, and will gear most of its investments toward the Eurodollar and Eurocurrency markets. The habitual reticence with which the Swiss greet applications from foreign banks to operate in Switzerland has increased, following the failure of United California Bank of Basle.

Bourse report

LONDON -- BP's first quarter results help strengthen oils. Other shares firm in response to Wall Street advance. PARIS -- Interest grows in leader stocks. Week closed firm after very hesitant beginning. FRANKFURT -- Foreign exchange uncertainty kept many investors away. Major chemicals and oils almost one dollar lower. MILAN -- Most stocks trending downward. BRUSSELS -- Firm market despite slack investor interest. AMSTERDAM -- Local industrials narrowly mixed; shippings and plantations mixed.

EUROMARKET NEWS

COMMERCE CLEARING HOUSE, INC.



Common Market Reports

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Heath preparing debate on UK's EEC entry

LONDON -- Prime Minister Heath has announced to Parliament the legislative procedures he considers necessary to permit Britain's entry into the Common Market. The key House of Commons vote on entry will be postponed until fall, but an exhaustive debate on the entry problems is planned before Parliament's summer recess. Mr. Heath's intention is to underline the fact that the Government is not trying to rush UK entry into the Community without ample discussion, once the final terms are known. Although most polls show a majority of Parliament members are for entry, the course of action that former Prime Minister Wilson advocates could be a powerful influence on their final decision. While Mr. Wilson was in power, he advanced the UK's Common Market bid, but he has since sat on the fence. The understanding Britain reached with the EEC on sterling balances has aroused suspicion and fear, among both anti- and pro-Common Market entry forces in the UK, of a "hidden clause" agreement. Another rumor that has made British parliamentarians uneasy relates to an alleged demand for limits to the future expansion of British Steel, the state-controlled firm, which would easily become the EEC's largest single steel producer.

Upper Clyde Shipbuilders to be liquidated

LONDON -- The board of directors of Upper Clyde Shipbuilders Ltd. has petitioned for the firm's liquidation following the refusal of the British Government, a 48% shareholder, to stake \$10 million to \$14.4 million in badly needed short-term funds. Upper Clyde, which has received nearly \$48 million over the past few years from the Government in exchange for equity, is the third major UK concern to fail since the beginning of this year, and Government refusal to grant the funds necessary to keep the firm in business is the subject of sharp controversy in the House of Commons. Upper Clyde is thought to have an order book worth \$216 million, with work on fourteen ships under way and orders for sixteen more in hand, but UK Minister of Trade and Industry John Davies has revealed that the firm has "excessive liabilities." Closing of the yard immediately affects the jobs of 7,600 workers, with the jobs of another 20,000 in supplier companies being endangered.

Report of Swiss banks' revaluation losses

ZURICH -- Swiss banks lost some \$33 million through the recent Swiss currency revaluation, because of non-guaranteed rates on some of their holdings of foreign exchange and banknotes, according to a study about to be published by the Union Bank of Switzerland (UBS). Swiss insurance firms, which have foreign assets estimated at some \$1 billion, were believed to have suffered also. A book loss of nearly \$300 million resulted from Swiss

holdings of foreign securities. The profits that foreign holders of Swiss stocks gained through revaluation were largely canceled out by a slide in stock quotations.

New plan for Eurodollar controls

BASEL -- Agreement has been reached among major Central Banks not only to halt the flow of funds to the Eurodollar market but also to withdraw money as warranted. The new policy was revealed at the annual meeting of the Bank for International Settlements (BIS) by Dutch central banker Jelle Zijlstra, chairman of BIS, and of a special international committee studying possible Eurodollar controls. The BIS could be one of the international institutions most affected by the measure, since much of a \$4.9 billion increase in its short-term loans last year was thought to have been placed on the Eurodollar market. Zijlstra did not elaborate on the methods that Central Banks would choose to move funds out of Eurodollars, but he emphasized that such actions would be timed to give "guidance and supervision" to the market.

A 194-page report prepared by the BIS estimates that direct corporate borrowings of Eurodollars rose by \$7 billion last year to a total of \$15 billion. It recommends, among other things, that Central Banks be given authority to regulate such borrowings, but this view is likely to find support only from the Central Banks of countries without exchange controls, i.e., Switzerland and Germany.

UK manufacturers to reduce investments

LONDON -- UK manufacturers will reduce capital spending by 6% to 8% this year over last year, a much larger drop than that initially forecast by Government economists. The new prediction is contained in a survey released by the Department of Trade and Industry. It contrasts sharply with one prepared late last year that indicated manufacturers' investments would fall by only 2% in 1971. The latest forecast is supported by figures of actual first quarter company investment expenditures, which show that spending was 7% below the level of the fourth quarter of 1970.

Britain's visible trade surplus grew to \$67.2 million in May, up from \$38.4 million in April.

Commission approves ARBED move

BRUSSELS -- The EEC Commission has approved the sale by Luxembourg's ARBED of its German plant to Roehlingsche Eisen und Stahlwerke for 50% of Roehlingsche's shares. The deal will make ARBED the EEC's fourth largest steel firm. Roehlingsche is a family firm, currently valued at about \$45 million.

New Morgan unit for Switzerland

GENEVA -- Morgan Guaranty International Banking Corporation, a subsidiary of Morgan Guaranty Trust Company of New York, is in the process of forming a Geneva-based investment advisory company. The concern, which is expected to be called Morgan Guaranty Investment Services, will offer advisory

services to individuals and institutions in countries outside the U.S. It will not solicit deposits nor accept accounts from U.S. residents.

Hoogovens helps set up U.S. trading firm

THE HAGUE -- Dutch steel maker Hoogovens and Robert E. Leoni, former head of William H. Muller, a Dutch transport and trading group, will each stake 50% of the \$400,000 capital of Oremco Inc., a New York-based firm that will represent foreign mining and steel companies in the U.S. Hoogovens plans to use the firm to guide its purchases of American coal and equipment and also for its mineral prospecting. Oremco will also aid Hoogovens' acquisition of American firms.

\$10 million loan to Irish Industrial Credit Company

DUBLIN -- The World Bank will lend the Irish Industrial Credit Company (ICC), a state-controlled investment bank, \$10 million to buy shares in and make loans to Irish industrial concerns, as an aid in the country's industrial development. The ICC expects to be providing \$36 million to Irish manufacturers by 1975. The loan, which is repayable in 1988, carries a 7-1/4% coupon and a 3/4% commitment charge on undrawn balances.

Monsanto shares quoted in Belgium

BRUSSELS -- Shares of Monsanto will be quoted on the Brussels and Antwerp stock exchanges. According to company officials, the listings should give the firm a broader participation in Belgium's economy and provide a wider spread of Belgian ownership. Other big international concerns, including Bayer, Honeywell, and Sperry-Rand, are expected to take similar action soon.

Westinghouse to get stake in Jeumont-Schneider

PARIS -- The French Government is reexamining Westinghouse Electric's application for permission to buy control of the Jeumont-Schneider electrical equipment company, as part of its plan to establish a Europe-wide heavy electrical combine. Westinghouse bids for Jeumont-Schneider have been turned down by both General de Gaulle and President Pompidou, who have sought a "French solution" in regrouping the heavy electrical industry. But Jeumont-Schneider is still outside such arrangements as have been made, and is experiencing severe difficulties. Sources close to the Pompidou Government say that C.G.E. Alsthom, a French electrical group, will probably be allowed to buy Jeumont-Schneider's heavy alternator division outright, with Westinghouse receiving permission to acquire up to 49% of the remaining assets. The other perennial bidder for Jeumont-Schneider, Switzerland's Brown Boveri's Compagnie Electromécanique, will be out of contention. Shares of Jeumont-Schneider recently rose sharply on the Paris Bourse.

Pending Daimler-BMW cooperation on "safety car" admitted

STUTTGART -- Top officials at Daimler-Benz have confirmed press reports on pending cooperation between Daimler and Bayerische Motoren Werke (BMW) to build a "safety car." Joachim Zahn, one of the officials, said that no decisions have been taken yet, and none are likely in the immediate future. However, Zahn stressed that Daimler's current joint research and overseas marketing efforts with Volkswagen were to remain more important than an agreement with BMW. According to German auto industry observers, Daimler and BMW will soon announce a cooperation pact covering gear box and engine development and production.

Air France gets loan

PARIS -- The French Government has agreed to act as guarantor for a \$63.3 million loan for Air France, France's national airline. The money will be used to purchase four Boeing 747 jets, along with spare engines and parts and ancillary services.

Socata to build Israeli aircraft under license

PARIS -- Socata, a subsidiary of France's state-controlled Aérospatiale group, has revealed that it will build, under license, a small bush aircraft of Israeli design. The plane, called "Arava," is a STOL (short take-off and landing) craft, with twin nacelles ending in a twin tail. It can haul up to twenty passengers or two tons of cargo.

It is also generally believed that if Aérospatiale wins a contract to manufacture Piper aircraft under license, it will be Socata that will build them.

Headhunters unite

ZURICH -- Zurich-based Egon Zehnder International, Europe's most respected executive search firm, is to link with William H. Clark Associates of New York, to form Zehnder and Clark International. Branch offices are to be maintained in Brussels, Copenhagen, London, Paris, and Milan in Europe, and Chicago in the U.S. The firm's main offices will be in Zurich and New York.

Bourse report

LONDON -- Highly selective buying in generally dull market. Most investors worried over continued low UK industrial output. PARIS -- Irregular in very active trading. FRANKFURT -- Major electricals and chemicals, led by Siemens, higher and well maintained. MILAN -- Most stocks higher, under fairly active trading conditions. BRUSSELS -- Quiet and firm. AMSTERDAM -- Plantations and shippings stage strong advance. Gains outnumber losses among local industrials.

EUROMARKET NEWS

COMMERCE CLEARING HOUSE, INC.



Common Market Reports

EUROMARKET NEWS

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Britain, EEC reach agreement

BRUSSELS--The negotiations that had been "condemned" to succeed ever since UK Prime Minister Heath's meeting with French President Pompidou, almost didn't. Most observers thought that what was to have been the last negotiating session between British and Common Market representatives would be easy, despite the fact that two major problems remained to be resolved. Agreement was needed on: a guarantee for sales of New Zealand's dairy products to the EEC, and the amount of Britain's initial contribution to the Community budget. New Zealand, backed by Britain, had asked to be allowed to continue its present levels of exports of butter and cheese to Britain for the next five years, with a review of the situation at that time. The Community had been seeking reductions in these exports, and France had asked that they be phased out over five years. British officials were certain that they would obtain attractive financing terms, including an initial British payment of just under 10% of the EEC budget. Trouble for Britain on both issues came from an unexpected, but old, source -- France. Foreign Minister Maurice Schumann told the UK that it was trying to get a permanent exemption from Community rules for New Zealand, and that France would stick to old demands that Britain contribute 11% to 12% of the budget in the first year. The two sides did manage to avoid a clash over fishing rights and offshore territorial limits when the EEC agreed that the UK's proposals on fishing should be considered on July 12. Two of the other candidates, Norway and Ireland, are highly involved in this issue.

After a very difficult day and night, a compromise was reached, first on New Zealand dairy products, and then on finance. The Common Market will guarantee outlets for 71% (milk equivalent) of New Zealand's dairy exports to the UK (80% of the present market for butter, 20% for cheese) until the end of 1977, at which time the guarantees will be abolished. The UK's contribution to the Community's budget will be 8.64%, about \$220 million, in 1973, the first year of membership. It will rise to 19.19% of the total budget by 1978.

Of course, entry still has to be approved by the British Parliament. The issue will not be debated in the House of Commons until fall, and after the major political parties hold their conferences. Mr. Heath plans, however, to outline the final terms that Britain has received for EEC entry to Parliament before the summer recess. This, he hopes, will give the issues considerable public airing and help him avoid charges of pushing Britain too quickly into the Community.

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Other entry candidates to hold referenda

LUXEMBOURG-- Governments of the three other candidates in the negotiations to enlarge the Common Market -- Denmark, Norway and Ireland -- have decided to hold national referenda before agreeing to join the EEC. Denmark, which has seemed ready to join the Community from the opening of the negotiations, faces the fewest problems. The Danes, being big food exporters, expect to gain substantially from the higher EEC food prices while suffering no large increases in their own domestic prices. Public opinion in Norway and in Ireland is less in favor of Common Market entry. Norway has long feared that its fisheries will be compromised by the Community fishing policy and is worried that Community farm-pricing systems will cut the income of Norwegian farmers in half. Norway has argued hard to get the EEC to respect its coastal 12-mile territorial fishing limit. The EEC has said that Common Market fleets would respect a 6-mile limit, but the subject is still open for discussion. Norway's referendum on entry, however, will be only advisory; it is not binding, and might not influence voting in the Parliament. Ireland backs the Norwegians in their fishing demands and hopes for the same 12-mile territorial concession. In addition, the Irish would like to continue their export tax relief system and enforce some restrictions designed to keep foreign -- especially Common Market -- investment in auto manufacturing down. Some 90% of the Irish Parliament is thought to favor entry, but the vote in the referendum will be binding.

Ford shifts Pinto production

LONDON -- Ford Motor Company has decided to shift production of the engine for its Pinto subcompact car from Britain and Germany to the U.S. by 1973. The decision will mean the loss of the biggest dollar-earning contract that the British automotive industry has ever held. Although they are known to be dissatisfied with Britain's present labor situation, Ford officials said that long-term plans and not labor problems dictated the move. The Pinto is expected to be sold mainly in the U.S. Ford capacity in Germany is under strain and any slack created by the withdrawal is to be taken up by the production of cars intended for marketing in Europe. Ford has not had any strike problems in Germany since early last year. In contrast, its labor problems in Britain have been immense.

German foreign exchange reserves fall

FRANKFURT -- The Bundesbank has reported that German foreign exchange reserves fell 3.37 billion D-marks (some \$963 million, at the current rate), to 44.4 billion D-marks during the week ended June 15. The decline is in part the result of heavy dollar sales by the Bundesbank on the open market. Since June 3, the Bank is believed to have sold \$1.65 billion, with the biggest recent sale -- of \$200 million -- having been made on June 21.

U.S. makes IMF drawing of \$250 million

LONDON -- The U.S. Government has drawn \$250 million in Belgian francs and Dutch guilders from the International Monetary Fund for use in the redemption of some European-held dollars. The drawing -- \$150 million in Belgian francs, \$100 million in guilders -- was an automatic one, since it fell within the U.S.'s gold subscription to the Fund.

Commission seeks farm price increases

BRUSSELS -- The EEC Commission plans to raise most Community farm prices by 2% to 3% for the 1972-1973 season. The proposals have not yet received the approval of the Council of Ministers, but the Commission hopes at least to get authorization for an increase in grain prices by August 1.

UK production up slightly in April

LONDON-- Industrial production in the UK rose by 2.2% in April over March, pushing Britain's seasonally-adjusted production index up to 125.4 (on a 1963 base of 100). This is an impressive gain over March's 122.7, but just a fraction above the 124.6 of April of last year. Britain's Central Statistical Office revealed that output in the three months ending in April of this year was down by 0.9% over the preceding three months. The largest drops were reported in the metal manufacturing industries, which fell by 5.9%, and engineering concerns, which were off by 2.7%.

A recently published survey by the Confederation of British Industry (CBI) indicates that prospects for new orders and output remain sluggish in the UK. The survey, which was made during the five weeks ended June 2, showed that British firms are suffering from substantial cost increases that are not reflected in domestic or export prices. It also showed an extremely low level of activity in manufacturing, and an ebb in business optimism. The CBI expects capital spending to dip further in 1972, and commented that the decline could be the second largest in the past ten years.

Italians to buy North African gas

ROME -- In order to meet gas requirements that may exceed 20 billion cubic meters per year by 1980, Italy is exploring the possibilities of trading links with Libya and Algeria. Many technical and price difficulties remain to be solved, but initial shipments of Libyan gas are believed ready to start. Italian negotiations with the Libyans are far from over. However, the Governments of the two countries have agreed to 34.5 cents per BTU as a posted price. Algeria has proposed the construction of an undersea gas pipeline between North Africa and Sicily. But the Italians are proceeding on the assumption that such a project would take too much time and money, and are planning the construction of plants near Taranto that would regasify liquid gas shipped by tanker. Current gas consumption in Italy is now nearly 13 billion cubic meters per year, with most of it coming from fields in Italy.

Swiss purchase more gold

ZURICH -- Switzerland is believed to have made another gold purchase, this time exchanging dollars for \$50 million worth of gold. The Swiss National Bank's total gold purchases this year are believed to amount to about \$125 million. Last March, the Swiss National Bank admitted buying \$75 million worth of gold from the U.S.

Dutch report balance-of-payments deficit

THE HAGUE -- The Netherlands has reported a balance-of-payments deficit at the end of the first quarter of this year of \$190 million, a significant reduction from the nearly \$250 million deficit reported at the end of the last quarter of 1970, but an increase over the \$90 million deficit of the first quarter of 1970. Dutch officials fear, however, that a payments gap for the entire year of \$240 million is the best they can hope for.

Italian hotel workers strike

ROME-- Two hundred twenty thousand Italian hotel employees staged a three-day strike, the longest since their unions began pressing for higher pay and better working conditions, prompting charges that they would ruin Italy's tourist trade. The Italian Tourist Ministry charged that strikes by hotel workers and airport crews were the biggest factor behind a 1.9% drop in hotel reservations in May. Also, the number of days that foreign tourists stayed in Italian hotels dropped by 2% in May. Tourism is Italy's biggest foreign-currency earning industry. The number of tourists visiting Italy increased during the first four months of 1971, but now is beginning to decline. Italian unions maintain that hotel employees are treated like "slaves," and that only strikes during the tourist season will bring enough pressure for changes in pay and working conditions. Employees of Italy's 94 provincial tourist offices are preparing a round of strikes also.

French rail strikers return to work

PARIS -- A majority of French railroad workers have voted to end a ten-day strike which has seriously disrupted all French rail services. However, some militants have decided to continue the walkout, making the resumption of regular service on the national railways' southeastern section doubtful. Some 60% of France's scheduled long-distance trains were reported to be rolling on June 21. Suburban Paris service was operating at 20% to 80% of normal, depending on the area. The railways were refusing to accept reservations, with passengers and freight being handled on a first-come, first-served basis.

U.S. firm takes French wine interest

PARIS -- Brown-Forman, one of the U.S.'s largest distillers, and Cruse Fils et Frères, a major producer and shipper of French wines, have signed an agreement that will give them both a major interest in France's Burgundy wine region. The two firms will become majority partners in the firm of Lionel J. Bruck, a major vintner in Nuits-Saint-Georges. Bruck has been in operation since 1807.

American Express opens Copenhagen banking operations

COPENHAGEN -- American Express Bank A/S has opened a bank in Copenhagen, the first foreign banking institution to be set up in Scandinavia. American Express has maintained a travel office in Copenhagen since 1905. It qualified early for registration as a Danish limited company, thus opening a way, through the complicated maze of Danish restrictions, for it to establish a bank. The American Express move is being studied by other large financial organizations that hope to set up operations in Scandinavia. However, there is not much chance for major banks to establish in Denmark until the country becomes a member of the Common Market.

Bourse report

LONDON-- Hope of a relaxation of Government installment sales restrictions sent most issues higher, with firm end-of-week close. PARIS -- Narrowly mixed under quiet end-of-account trading conditions. FRANKFURT -- Most leader stocks in small but well-maintained rise. MILAN -- Generally higher, with investor interest centered on holdings, properties and insurance. BRUSSELS -- Narrowly mixed. AMSTERDAM -- Plantations and shippings mainly lower. Local industrials mixed.

EUROMARKET NEWS



Common Market Reports

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D-mark to float for long time

FRANKFURT -- Indications are that Germany is preparing for a long float of the D-mark despite pressures from France and the Common Market for a quick return to a fixed rate. German authorities seem to be taking the view that a repegging of the D-mark would only bring new inflows of dollars into the Federal Republic. Bundesbank President Karl Klasen said that the Bank was giving careful consideration to criticism of its D-mark policies, but that no changes in the policies are likely to be made. Klasen also called attention to the fact that the reason the D-mark was floated -- at least in part -- was to let the Bundesbank slow inflation, and that as yet, the rate of inflation in Germany has not decreased. Other top authorities in Germany have expressed concern recently over the rapid expansion of the money supply in the United States in the first half of 1971. Their view is that U.S. inflation will grow worse, and further weaken the dollar's international position, thus affecting the D-mark.

The Bundesbank has revealed that since the floating of the D-mark on May 10, 1971, some 6.5 billion D-marks have left Germany. This total is increased to 8.5 billion D-marks, if some 2 billion D-marks in forward money that became payable recently is also counted. Klasen says that the sum represents "a notable proportion" of the funds that Germany had taken in. The Bundesbank did not sell any D-marks on the foreign exchange market on June 23 for the first time since it resumed sales on June 3. However, the bank came back into the market on June 25, selling an estimated \$150 million worth. The dollar is currently hovering around a rate of 3.5010 D-marks.

French cost of living still going up

PARIS -- The cost of living in France rose by 0.7% in May, the sharpest monthly increase this year. The cost of services in France was up by 0.8%, and that of manufactured goods 0.7%, and of food, 0.6%. The total rise in French prices so far this year amounts to 2.8%, a pace that would produce an annual increase of 6.7% if continued.

The Finance Ministry has declared a freeze on the prices charged by manufacturers of mechanical loading and lifting equipment, and forced seven firms in other sectors -- including Philips' record division and Adidas shoes -- to roll back recently announced increases.

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The Ministry is known to have drafted an anti-inflationary program, ready for implementation should prices rise further. It is similar to the stabilization plan begun in September 1963, which all but froze prices and wages, and succeeded in controlling inflation, but brought on record unemployment and economic recession. Finance Minister Valéry Giscard d'Estaing has said that he expects the rate of price increases to slow in the fall. Businessmen, noting the past inability of the Finance Ministry to correctly predict inflation rates, are much less optimistic. Official surveys show that most businessmen expect prices to keep moving upward in the next few months.

UK Government denies RB-211 contract ties

LONDON -- In an attempt to rebuff criticism of its role in securing the engine contract for Lockheed's TriStar airbus for Rolls-Royce, the British Government has denied participation in the affair. UK Minister for Aerospace Frederick Corfield says, in a statement that will be transmitted to the U.S. Senate Banking Committee, that the UK Government was "in no sense" a party to the contract, and played no part in the price settlement that secured the order for Rolls-Royce's RB-211 engine from Lockheed. He also states that original Government aid to Rolls-Royce of \$11.2 million for development costs did not imply a commitment to support Rolls-Royce generally.

British wages 12% above those of last year

LONDON -- Wages in Britain continue to be nearly 12% above 1970 levels, according to a study published by the Department of Employment. Despite a slight fall in March, the official index of average earnings was up to 115.9 at the end of April, on a January 1970 base of 100. Earnings had been up by as much as 14% in the last quarter of 1970, then fell to 12.5% in January. The drop in the level seems to be caused by a decline in overtime pay, and not by any reduction in the rate of increase of hourly wages. The level may be pushed up in the current quarter, since settlements currently under negotiation affect a greater number of plants than those negotiated during the first quarter.

EEC, applicants to discuss fishing policy

BRUSSELS -- The Six are scheduled to discuss fishing policy, the last outstanding entry problem, with the four candidates for EEC membership, this month. A plan for holding a general conference on the subject has been dropped in favor of separate talks with each applicant to permit discussion of the concessions to be granted. Norway and Ireland have both demanded special protection for their coastal fishermen from Common Market competition. It is thought that Norway will be allowed such protection within a 12-mile limit of its coast for several years. The other candidates will be allowed the same protection, with a 6-mile coastal limit for five years.

Robert Schaetzel, head of the U.S. Mission to the Common Market, has called on Theodorus Hijzen, the Commission's general director for external trade, to protest a proposal for price increases for major Common Market farm goods by 2% to 3%. Schaetzel has labeled the increases contrary to EEC promises to hold down farm prices.

Two D-mark bond issues for July

FRANKFURT -- The West German Central Finance Committee has decided to permit two D-mark bond issues to be floated in July, the first such offerings allowed since mid-May. One issue, of 250 million D-marks (\$71.4 million at the current exchange rate), carrying an 8% coupon, will be floated by the West German Reconstruction Loan Corporation. The other issue will be made by Britain's Glaxo Group. It will be for 75 million D-marks, also at 8%. The Committee will meet on July 14 to review the market's response to the bonds.

Continental - Burmah merger off

LONDON -- The U.S.'s Continental Oil and the UK's Burmah Oil have broken off their merger discussions, largely because of what Burmah officials have termed the inability to arrive at a mutually acceptable basis for merger. The two firms had planned to combine their assets and operations into a multinational company. One stumbling block to the linkup was Burmah's 23% holding in British Petroleum Company (BP). In mid-April, Burmah offered a cash payment to BP in return for some operating assets as one means of divesting itself of the stock. A variation of the proposal may yet be accepted. Burmah had hoped to obtain access to U.S. markets through a merger with Continental.

Beetles for Poland?

FRANKFURT -- Volkswagen is reportedly readying a proposal for submission to Polish authorities for construction of a plant in Poland. The plant would be for production of the firm's "beetle" model. Italy's Fiat is known to have presented a similar bid. Recently, Japan's Toyota received permission to set up an auto plant in Poland.

CFP - Algeria reach agreement

PARIS -- Compagnie Française des Pétroles (CFP) is expected to end its boycott of Algerian crude oil under the terms of a five-year contract with Algeria's state-controlled Sonatrach Oil Company, soon to be announced. The agreement reportedly settles all outstanding problems between the two organizations as a result of Algerian nationalization of CFP interests last February. CFP is to receive some \$65 million in compensation. The original Algerian offer was for \$53 million. When CFP suspended its Algerian purchases, Algerian production dropped to nearly one-third of normal.

Some British Steel interests to be sold

LONDON -- Some of the peripheral interests of state-owned British Steel are to be sold to private industry, in order to raise needed funds and streamline operations. Government officials have emphasized that at least 90% of the company will remain under Government ownership, and that nothing resembling "the de-nationalization of 1951" is likely to take place.

Capital expenditure at British Steel is expected to rise by \$96 million, to \$538 million, this year. The firm has been authorized to increase borrowings to a level of \$720 million.

Swissair, Austrian Airlines linkup slowed

VIENNA -- Several serious difficulties have emerged in the talks between Swissair and Austrian Airlines, on formation of a joint operating company. The Austrians fear that the Swiss proposal of only a 10% minority stake for them in the Swissair capital, and no say in decision-making, borders on takeover rather than on cooperation. The Austrians are also incensed over the prospect that the future joint organization would be called simply "Swissair," instead of "Swissair-Austrian" as was suggested. Last year, Austrian Airlines bought nine DC-9 jet aircraft, which Swissair uses, in anticipation of the linkup.

Kloeckner to increase capital

ULM -- Kloeckner-Humboldt-Deutz (KHD) is to offer stockholders the right to buy one new share for every three held, in a stock issue designed to increase capital from \$34 million to \$45 million. The increase is needed to help finance construction of a truck plant at Ulm and an auto factory at Cologne, as well as streamlining at several existing facilities.

Shell invests in oil project

LONDON -- Shell Petroleum plans to enter the bidding for the construction of a five-million-ton-per-year oil refinery in Java, although claiming that no oil has yet been found there. Part of the Shell tender will involve a commitment to arrange up to \$100 million in financing for the project.

Work begins on Glad Products plant

FRANKFURT -- Construction has begun on a \$3.3 million plant at Alsdorf, Germany, for the Glad Household Products subsidiary of Union Carbide. The unit is scheduled for completion in the first quarter of 1972, and will be operated by Union Carbide Deutschland GmbH. Although Glad's products are already well known in Europe, the firm has not had a European plant.

Chase opens first French branch outside of Paris

PARIS -- Chase Manhattan has opened a branch in Lyon, France -- the second American bank to be represented in that city. The new operation is the bank's fourteenth in Europe, but only its first in France, outside of Paris.

Bourse report

LONDON -- Most leader stocks listless; heavy speculative trading in mining shares. PARIS -- Mixed, in very light trading. Chemicals, electricals especially weak. FRANKFURT -- Most issues edge higher, aided by generally easier money market rates. MILAN -- Dull market. BRUSSELS -- Irregular trend. Chemicals well maintained; mining issues gain, oils dip. AMSTERDAM -- Local industrials and plantations quietly mixed. Shippings generally higher.

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COMMERCE CLEARING HOUSE, INC.



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July 13, 1971

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Pompidou, Brandt meet

BONN -- French President Pompidou, accompanied by all of his top ministers, arrived in Germany determined to win a commitment from German Chancellor Brandt for a quick return of the D-mark to a fixed parity, but apparently he did not get it. The two leaders conferred for two days on a broad range of European problems that concerned not only European defense and enlargement of the Common Market but also moves toward a European Government, EEC monetary and agricultural policy, French arms sales to Germany, and Franco-German cooperation in industry, research and aerospace. One of the first solid results to come out of the Pompidou-Brandt discussions was an agreement that an enlarged Community must not erect new tariff barriers against the United States. Both leaders expressed the hope that the British House of Commons would approve UK entry into the EEC.

Italy introduces measures to spur investments

ROME-- In an effort to produce a "more attractive climate for investment," the Italian Government has introduced a series of measures calling for establishment of low-interest investment credit facilities, increased funds for industrial research, and tax and welfare payment relief for companies. Some special benefits have been granted to firms operating in Italy's depressed southern regions. Officials have been concerned by indications that Italy's GNP would grow by less than 3% in 1971, and Premier Colombo has laid the blame for this on a slackening in investment. The Government expects to lose upwards of \$960 million in revenues this year because of the measures, but it has promised not to introduce new taxes or to increase existing taxes to recover the loss.

EEC close to agreement on dollar inflow controls

BRUSSELS-- French and German differences over the current D-mark situation seem to be the only obstacle to Common Market agreement on a broad package of controls designed to protect the Community from excessive dollar inflows. France wants a speedy return of the D-mark to a fixed parity, and refuses to initial Community monetary plans until this happens. The Germans insist that they will not set a date for future fixing of the D-mark, nor fix it, until the world monetary system has been changed in a way that would protect them from intense currency speculation. Measures in the package that Community Finance Ministers have designed call for wider bands for currency fluctuations to provide greater monetary flexibility. Last year, the EEC was moving toward the adoption of narrower bands.

Central bankers to reduce Eurodollar placements . . .

BASEL-- A special facility to isolate some Eurodollars from further circulation is being negotiated between the Bank for International Settlements (BIS) and the New York Federal Reserve Bank. Initially, the facility is to be used only by the Group of Ten; but, if it works, the central banks and official institutions of smaller countries would be invited to participate. Central banks are to be permitted to deposit their dollar reserves at the BIS for re-investment with the New York Federal Reserve Bank, at rates exceeding those of U.S. Treasury bills, but below those of the Eurodollar market. Eurodollar placements by the Group of Ten total only \$3 billion; however, restrictions placed on these funds could ensure a proportionately high measure of Eurodollar regulation because of the multiplier effect of reserve money.

. . . but London bankers criticize Eurodollar controls

LONDON -- London bankers have expressed concern over the possibility that restrictions may be applied to the \$60 billion Eurodollar market. At a dinner attended by London's top Eurodollar bankers, W. Kenneth Mendenhall, vice-president in charge of corporate lending at the London office of First National City Bank of New York, predicted that if lenders are saddled with reserve requirements or interest restrictions, the effect would be simply a move of the Eurodollar market out of London to a less regulated location. Many London experts consider that a Group of Ten decision to refrain from placing funds in the Eurodollar market, combined with recent "mop-up" arrangements (placement of funds in U.S. Treasury securities), could reduce the market's liquidity to such an extent that rates would be driven up, and additional controls would not be needed.

Belgium plagued by wildcat strikes

BRUSSELS -- Belgian industry has been hit by a wave of wildcat strikes, brought on largely by Government inability to check rising prices. The unrest has been most marked at large companies such as Agfa-Gevaert, Bell Telephone, and Glaverbel. Only the smallest of Bell's five Belgian plants was operational recently despite a back-to-work vote by the company's 13,000 workers following an official strike. A similar situation exists at Glaverbel and Agfa-Gevaert. The Government says that Belgium's retail price index has risen by only 2.5% so far this year, but workers, whose wages are linked to the index, don't believe the official statistics. Part of Belgium's inflation problems stem from the country's adoption of the Common Market's value-added tax system this year.

EEC report says Italian workers gain biggest salary increases

LUXEMBOURG -- Italian workers won the highest wage increases -- on a percentage basis -- in the Community between October, 1969, and October, 1970, a period during which workers' wages rose dramatically in every Common Market country, according to a report prepared by the EEC's statistical office. Italian workers were paid at a level that was 24% higher in October, 1970, than that in October, 1969. The increase in The Netherlands was 14%; in Luxembourg and West Germany, 13%; and in France, 12%. (Belgian officials were unable to provide figures before the list was completed.) According to the EEC report, Italian purchasing power increased 43% between April, 1964, and October, 1969. In Germany, it rose by 40%; in The Netherlands, by 36%; in France, by 32%; and in Luxembourg, by 24%.

Renault is top French exporter

PARIS -- State-run Renault, which sold nearly \$800 million worth of goods abroad, was France's leading exporter in 1970, according to the annual report published by Entreprise, a French business magazine. Renault's total sales represented a 44% gain over its sales abroad in 1969, a year when it was also the leader. In second place was pharmaceuticals-producer Rhône-Poulenc, which exported nearly \$600 million worth of products. Air France was third. Chrysler-France, with \$300 million in export sales, was the leader among foreign-owned French firms; IBM, with sales of some \$250 million, was second.

Reorganization of German steel industry

BRUSSELS--The EEC Commission and West Germany's major steel producers have almost completed work on the reorganization of the German steel industry into four cartel-like "rationalization groups." The object of the reorganization is to provide an orderly market without preventing competition. Formerly, this was done through four sales organizations, which represented nearly all of the producers, but the legal basis for this arrangement (which was agreed to by the European Coal and Steel Community), expired on June 30. A new pact is expected to be made retroactive to July 1. The Commission has insisted that German steelmakers drop their practice of assigning production quotas for each firm, but it will permit them to split markets for major steel products through agreements among individual companies.

Airbus consortium chooses GE engine

MUNICH --Deutsche Airbus, speaking for Airbus Industries of Paris, the managers of the European airbus consortium, has announced the selection of General Electric Company's CF 6-50 jet engine, as the power plant for the A-300-B airbus. The Airbus group has given GE an order worth \$20 million for the engine. First deliveries of the CF 6-50 are expected for summer, 1972, and the first prototype flight of the airbus is to take place that September.

Property group seeks control of Cunard

LONDON -- Trafalgar House Investments, a British property firm, has made a surprise takeover bid for Cunard Steamship Company, the venerable UK shipping concern, that has been described by shipping industry experts as being "in search of a buyer." Indications are, however, that Trafalgar House is not the buyer that Cunard is looking for. It is known that Cunard is involved in acquisition talks, but company spokesmen insist that they are not with Trafalgar House.

Trafalgar House owns some 21.1% of Cunard's shares, is buying another block from Slater Walker Securities, and will bid for the rest. The price to be paid will be in a range of \$4.20 to \$5 per share. Cunard has recently been selling on the market at around \$4 per share.

Péchiney-Saint-Gobain shares shifted

PARIS -- Saint-Gobain-Pont-à-Mousson (SGPM) plans to transfer its 39.11% holding in Péchiney-Saint-Gobain to Rhône-Poulenc, the giant French pharmaceuticals concern, which holds 50.88% of Péchiney-Saint-Gobain. Subject to formal stockholder approval, the transfer will be made before the end of the year. In return, SGPM is to receive shares representing nearly 6% of the capital of Rhône-Poulenc, and Rhône-Poulenc's 50% stake in Société du Verre Textile, a company of which SGPM holds all of the other outstanding shares.

Swedish, French car makers cooperate on engine

PARIS--Sweden's Volvo plans to cooperate with France's Renault and Peugeot to study, develop, and produce automobile engines that would meet U.S. anti-pollution standards. The aim of the three auto makers seems to be not so much to produce new engines for sale in the U.S. but to produce engines that could be sold in Europe should anti-pollution legislation be introduced. The three firms intend to set up an equally-owned subsidiary in France that could produce 350,000 engines a year by 1980.

Hoesch's steel plant plans changed again

FRANKFURT -- Germany's Hoesch, which recently shifted the site of a large new steel plant from the Rotterdam area to Dortmund, largely because of pressure from environment protectionists, now has had to change its plans for Dortmund, too. Stricter clean air rules in Germany have forced Hoesch to drop three of four projected open-hearth furnaces. The project is the first undertaken by Hoesch in cooperation with Hoogovens, the Dutch steel producer that partially merged with Hoesch last year.

3M subsidiary to float Swiss loan

LONDON -- Minnesota Finance, a Curaçao-based subsidiary of Minnesota Mining and Manufacturing Co., plans to seek a loan of nearly \$25 million on the Swiss capital market. The firm will float a 15-year bond, carrying a 6.5% coupon. The issue is to be denominated in Swiss francs.

Euroclear-Cedel representatives meet

LONDON -- Spokesmen for the Association of International Bond Dealers said that a second meeting has been held by representatives of Euroclear and Cedel -- the two rival Eurobond clearing organizations -- in an effort to create a working arrangement between the two groups. Up until now, there has been little, if any, cooperation between the two, and dealers have been perplexed over how to move blocks of bonds from customers represented by one of the organizations to customers represented by the other. Euroclear, a subsidiary of Morgan Guaranty Trust Company, is the older and bigger clearing operation; Cedel, run by a group of Luxembourg banks, started operations last January. It is believed that orderly Eurobond transactions cannot be assured without some Euroclear-Cedel link.

Bourse report

LONDON -- Leader stocks quiet but firm. PARIS -- Well maintained under quiet trading conditions. FRANKFURT -- Spirited institutional and foreign buying push most issues higher. Even IOS gains. MILAN -- Lackluster, despite new investment measures announced by Government. BRUSSELS -- Quietly mixed. AMSTERDAM -- Shippings move marginally lower. Plantations, internationals, and local industrials closed week narrowly mixed.

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Common Market Reports

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UK Government opens campaign for Common Market entry

LONDON -- The Conservative Government has told Parliament and the British people that the UK's last and best hope for prosperity and security lies in joining the Common Market. In what signaled the start of a long campaign to win approval of entry, Prime Minister Heath presented a white paper containing details of the recent negotiations to Parliament, and urged that the terms obtained be ratified. He then asked Britons in a televised appearance to "recognize" the benefits that Community membership would bring to Britain. Opinion polls still show that a majority in the UK dislike the idea of joining the EEC, but the percentage of those opposed has diminished considerably in recent weeks. The decisive vote will not be taken in Parliament until fall. Until then, Mr. Heath seems likely to concentrate on the cost aspects of EEC membership, attempting to convince Britons that prices will not rise dramatically as a result of entry. He will also take great pains to assure them that the UK does not stand to lose many of its national institutions and much of its sovereignty.

According to the white paper, the cost of entry to Britain is most likely to be reflected in the balance of payments and in food prices. The UK will have to pay approximately \$280 million to the EEC budget in its first year of membership. This will rise to \$560 million by the end of the fifth year. The price of food is expected to go up by 15% over the five-year span.

Former Prime Minister Harold Wilson has announced that he is opposed to Britain's entry into the Common Market on the terms that were arranged in the Brussels negotiations. He has told a Labor Party Conference that he would lead the fight against Market entry.

EEC - Japan talks broken off

BRUSSELS -- Talks between the Six and Japan on increased trading relations have been broken off, and will not be resumed until late fall, with the outlook for agreement on the issues involved remaining dim. The Common Market is seeking increased commercial and financial access to the domestic Japanese market, which is protected by severe tariff and administrative barriers. Japan would like to divert some of its trade with the U.S. to Europe, since its exports to America are threatened by a protectionist trend, and because market saturation there may slow their growth. The main barrier to an agreement comes from Common Market insistence on special protection against a flood of Japanese imports. The EEC wants a "safeguard clause" written into any pact with Japan, which could be invoked if Japanese imports into the EEC rise above what the Commission feels

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are desired levels. The safeguard provisions would be applied on an overall, market-wide basis, and would be in line with the EEC's embryonic common commercial policy. The Six have offered to reduce or eliminate trade restrictions on 166 Japanese exports; however, such moves are more likely to be negotiated within a GATT (General Agreement on Tariffs and Trade), rather than a bilateral, framework.

France hints at wage controls

PARIS -- French Finance Minister Valery Giscard d'Estaing has called for a "policy of contracts" for wages, in a move seen by experts as revealing his reluctance to advocate compulsory restraints on all prices and wages. The reference seemed to imply that the Government, rather than adopt controls, would force industry to remain tough in dealing with worker demands for higher wages, and would assist industry in its task of convincing labor unions to respect their contracts. (In France, unions often accept a contract as a means of gaining higher wages for their members, and then simply refuse to adhere to the terms of the contract.) Giscard d'Estaing hopes to keep the growth of wages, which rose by 10.5% in 1970, to around 8% in 1971.

The Government is believed to be preparing a package of measures, which would be introduced in the autumn, aimed at restricting inflation. Rumors continue to persist that one move being considered is a revaluation of the franc against its present dollar parity. If the Government decides to revalue the franc, the move could be made in August, a month when stock market activity is traditionally slack.

Pound devaluation predicted

LONDON -- Lord Kearton, chairman of Courtaulds, one of Britain's biggest textile and chemicals corporations, has predicted another devaluation of the pound sterling, this one to take place within the next twelve months. Kearton feels that the UK's entry into the Common Market will dictate the move. He did concede, however, that the process might be politically too painful and that it may be realized through the revaluation of several European currencies against their pound parities. Sterling, which has maintained a very strong position on foreign exchanges in the past few months, recently began to ease, closing weaker on the dollar and in three-month forward transactions.

End to Italy's summer strikes

ROME -- A series of summer strikes in Italy seemed to be coming to a halt, as coal miners, civil servants, and hotel employees returned to work. Walk-outs scheduled by railway workers did not take place, because Italy's three major labor unions refused to support them. The most critical of the strikes was the one staged by Italian hotel workers, which threatened to seriously affect the income that Italy gains from tourism. The hotel employees seek a reduction in their working week, plus summer premium payments and safer job conditions. Their demands have not as yet been met, and leaders of local unions have called for more strikes. The calls are unlikely to be heeded, however, since many of the dates earmarked for action conflict with the hotel workers' own vacations.

European Parliament urges end to border controls

STRASBOURG -- The European Parliament has passed a resolution urging that controls on travelers within the Common Market countries be eliminated as soon as possible. The controls include identity, currency, vehicle insurance, and baggage searches.

EEC, Britain agree on capital movements

BRUSSELS -- Britain and the Six have reached formal agreement on a schedule for freeing movements of capital to the Continent during the first five years of UK membership in the Common Market. On the day that Britain becomes a member -- expected to be January 1, 1973 -- Britons are to be permitted to bring unlimited sums into the EEC countries, if the money is to be used for business purposes. Most direct investments will not be freed until two years after that. Personal investments will be limited to \$12,000 until 1975, and Britons will not be granted full control of the money they use for stock market transactions in the Community until 1977.

Representatives of the Six still have not agreed on what changes in the common fisheries policy to offer in order to protect coastal fishermen in the candidate countries. Norway and Ireland are the two candidates especially concerned. The Commission, supported by France and Belgium, has proposed a protected territorial limit of six miles for each EEC country. The protection would last for six years. Germany, Italy, The Netherlands, and Luxembourg are opposed to the plan, largely on the ground that it is too late to change the Community's fisheries policy. Agreement on the issue is not expected before fall.

CFP to set up Algerian subsidiary

PARIS -- Compagnie Française des Pétroles (CFP) is to set up a subsidiary, Société Total-Algérie, to handle its remaining assets and activities in Algeria. Last February, the Algerian Government nationalized 51% of all of the holdings of all French oil firms in Algeria. CFP's most important remaining interest there is a 49% participation in Alrep, which is now a Government-controlled organization. CFP officials say that the company will have access to about 7 million tons of Algerian crude oil per year.

KLM increases capital

THE HAGUE -- KLM (Royal Dutch Airlines) intends to issue 200 million guilders (some \$56 million at the current floating rate) of 5% nonprofit-sharing preferred stock to the Dutch Government, in an effort to increase its capital to 510.5 million guilders (about \$143 million). The shares will be convertible into common stock until 1992. Although the immediate effect of the move will be to increase the Government's participation in KLM to almost 70%, the Government has announced that it will reduce its holding to the current 50.5% as soon as possible.

German aerospace firms to cooperate on helicopter projects

BONN -- Under German Defense Department pressure, West Germany's three largest aerospace firms -- VFW-Fokker, Messerschmitt-Boelkow-Blohm, and Dornier -- have agreed to integrate their helicopter development programs. The three firms have not committed themselves to forming a common subsidiary to handle helicopter work, but they may yet do so. The Defense Department simply refused to advance further funds for helicopters--an estimated \$10.2

million -- until the three companies produced plans for cooperation. Government officials reportedly wanted Dornier, the smallest of the three, to merge with one of the other two companies. However, the Dornier family has refused to comply.

Renault reports huge profit drop. . .

PARIS -- Renault, France's largest company, has reported that its net profits dropped by a startling 96.3% in 1970, even though turnover was up by 25% during the year. Renault reported profits of only \$1 million in 1970, in comparison with the \$27.5 million it earned in 1969. Turnover rose to nearly \$1.9 billion, against some \$1.5 billion in 1969. The main reason for the fall in profits, say Renault officials, was a sharp increase in the costs of raw materials and supplies. These went up by nearly 39.4% during the course of 1970. Another factor was a 22.4% increase in wages and salaries, coupled with an 8.5% increase in the labor force itself. The selling price of the company's automobiles was not increased. Renault kept its strong hold on the domestic market, selling 33.1% of all cars sold in France last year, up from a 29.9% market share in 1969. The firm also was France's leading exporter.

... and so does Opel

FRANKFURT -- Although sales reached record levels, rising 5.6%, Adam Opel, General Motors' West German subsidiary, announced that its net profits fell by almost 42%. Opel spokesmen admit that the fall would have been limited to 25% had it transferred all available earnings to parent GM, as it has done in the past. In 1970, only half the earnings were transferred, which meant that taxes were higher. Most of the profit decline was caused by sharp rises in costs. Opel paid out 18.5% more in wages in 1970 than in 1969, and 13% more for materials and supplies. Chairman A. A. Cunningham has warned that the decline in profits could be even steeper this year, despite the fact that sales were likely to increase by some 5%. Cunningham said that Opel will raise list prices if costs continue to rise, and indicated that the firm would take a hard stance when wage negotiations with unions take place this fall.

Monsanto expands

BRUSSELS--Monsanto Company plans a \$50 million European expansion program, including the construction of three new synthetic resin plants at Lingen, West Germany, Seals Sands, Scotland, and Ghent, Belgium. Some \$38 million of the funds earmarked for the project will be a direct investment. The rest will come from the sale of 6.5% coupon bonds recently placed on the Swiss capital market by Monsanto Suisse S.A.

Bourse report

LONDON -- Leader stocks surge, on hopes for early Government adoption of a disinflation policy. Heavy institutional buying pushes gilts up. PARIS -- Indications of more credit restrictions depress market. FRANKFURT -- Very well maintained on strong foreign buying. MILAN -- Listless. Measures announced last week by Government to aid investments still produce no noticeable effect. BRUSSELS -- Well maintained, under moderate trading conditions. AMSTERDAM -- Plantations and shippings narrowly mixed. Local industrials show sluggish upward movement.

EUROMARKET NEWS

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Common Market Reports

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Britain boosts economy, cuts taxes

LONDON -- In a significant policy shift, Britain has decided to cut taxes by some \$564 million a year, boost investment incentives, and eliminate consumer credit controls in an effort to get its sagging economy moving again. The main feature of the package is a one-fifth cut in all excise taxes. Industry will be permitted tax deductions of up to 80% on first-year expenditures for capital equipment, and more liberal depreciation allowances for some investments in depressed areas. Controls on consumer credit are to be removed. The action seems to be prompted not only by Government worries over a drop in British production and investment since the beginning of this year but also by a recent rise in anti-Government public sentiment that could affect the UK's bid to enter the Common Market.

In return for the new policy, Chancellor of the Exchequer Anthony Barber has asked business and labor to observe what amounts to a voluntary price and incomes policy. In response to the measures, the Confederation of British Industry has pledged to hold price rises to 5% for the rest of this year and all of next year. (Prices in Britain are believed to be increasing at the rate of 10% per year.) The Trades Union Congress has welcomed the tax cuts, and its leaders have indicated that they will attempt to hold down coming wage demands.

Dollar flurries

FRANKFURT -- Some calm has returned to the money markets after flurries of trading sent the dollar to a new low in Frankfurt and weakened its position on other European bourses. The dollar fell to 3.4560 D-marks following a Bundesbank decision to change its dollar selling price from around 3.5 D-marks to 3.4975. Dealers were puzzled by the policy switch, but thought it was made in order to balance the heavy inflows of U.S. currency into Germany resulting from forward April contracts that are now being cleared. The dollar's new D-mark trading level is approximately that of the Bundesbank's, with daily fluctuations carrying it from 3.4720 D-marks to 3.4975.

In Paris, the dollar closed at its best level this month, after being quoted for a few days at one of its lowest levels. Bank of France support was removed because of the Bastille Day holiday. Although exchanges were closed in France, they remained open in Switzerland, and the dollar was immediately quoted lower against the French and Swiss francs in Zurich. The low quote was carried back into France when the market there reopened. Expectation of a franc revaluation (strongly denied by the authorities) has led speculators to seek French francs, with the result being a stronger dollar quote.

Eurodollar rates, especially for short-term maturities, have remained firm, suggesting that the Bank for International Settlements, and perhaps some central banks, are withdrawing funds from the Eurodollar market.

Sweden searches for EEC relationship

BRUSSELS -- In its bid to achieve some sort of relationship with the Common Market, Sweden has sent Ambassador Sverke Astrom on a tour of the capitals of the Community countries, and invited the foreign ministers of the Six to visit Stockholm to discuss the issues at stake. Sweden was once considered a possible candidate for Common Market membership, but the Swedes themselves refused to apply, fearing that their traditional neutrality would be compromised. Sweden is worried that the Commission's suggestions as to the future relations of a ten-member EEC with other European countries, if carried out, would not offer sufficient guaranties for their economy. The Swedes say they would like full customs union with the EEC, and to participate in the common agricultural policy and the Community's financial system. They would also like to have a say in how money is spent by the common farm fund. So far, the Commission has not been very receptive to Sweden's proposals, but some of the member Governments of the Community countries may not have ruled them out.

Prices rise in Germany

FRANKFURT -- Wholesale prices in West Germany crept up by 1.3% in June, making the total increase 4.6% during the past twelve months. The rise in the cost of industrial products sold on the domestic German market was less marked, being only 0.35% for the last month, although they have risen by 4.9% since June, 1970.

Swedish production down

STOCKHOLM -- The general trend in Sweden's economy has been downward since late last year. The latest indication of Sweden's problems comes from figures on industrial production. Production declined during the second quarter, and several Government economists have predicted that the slide will continue through the third quarter. Sweden's institute of economic research predicts that by winter unemployment will climb to the highest level since the depressed year of 1967. No official statement has yet been made by the Government on the problems, but a reduction in the country's value-added tax or discount rate is thought to be under consideration.

OECD says U.S. recovery to come in 1972

PARIS -- The OECD (Organization for Economic Cooperation and Development) has predicted continued slack for the U.S. economy until the end of this year, and a further deterioration in the balance of trade. In its semi-annual report on world economic prospects, the OECD said that economic recovery will not get under way in the U.S. until 1972, although an improvement in the employment and inflation situations can be expected this year. The American balance-of-payments deficit should remain at the current level, due to a continuing rise in income gained from investments of U.S. firms abroad.

Special commission suggests French Bourse changes

PARIS -- The Baumgartner commission, appointed by the Government to study conditions on the French Bourse and to make recommendations for expansion, has called for an easing of fiscal restrictions and foreign exchange controls for nonresident holders of French stocks. Nonresident shareholders

are currently paid only 75 cents of every dollar of dividends. The Baumgartner commission's view is that withholding taxes should be relaxed to allow full payment of dividends to nonresidents.

Also recommended was authorization to hold French shares abroad. These shares would be allowed to circulate freely outside of France, and to be sold against foreign currency.

Kloeckner to bid for Soviet engine project

FRANKFURT -- Kloeckner Werke is the latest Western firm to be mentioned in connection with Soviet automotive projects. The USSR reportedly has asked Kloeckner, a West German engineering and heavy vehicles firm, to bid on an engine-producing project. It is believed that the project would be entirely unrelated to the truck-building complex the Soviets hope to construct on the Kama River. According to Kloeckner spokesmen, the plant for which Kloeckner will tender is to produce six- and eight-cylinder air-cooled engines, supposedly for trucks having an axle weight of six to twelve tons. The USSR has asked the German firm to have its bid ready for submission by the end of this month.

Dutch firm predicts 13% rise in labor costs

THE HAGUE -- The management of Internatio-Muller, a Dutch trading, transport, and manufacturing group, has announced that it expects a record 13.5% rise in the firm's labor costs during 1971. This prospect falls closely into line with the projected labor costs of many West German firms. At the presentation of Internatio-Muller's annual report for 1970, officials of the firm sharply criticized the Dutch Government's wage and price policies.

La Telefonica to invest \$1.8 billion

MADRID--Spain's La Telefonica telephone company plans to invest some \$1.8 billion for new facilities, including automation of nearly all services, over the next five years. The firm also hopes to attract the small investor through an "Individual Investment Program," which would permit the purchase of its shares with a minimum down payment of \$7 monthly, dividends paid in proportion to payments, stockholders subscribing for new shares at par when the company announces capital increases, and redemption of the investment on 24 hours' notice.

AKZO moves dumping site

THE HAGUE-- Under pressure from both the Norwegian and Danish Governments, the Dutch chemical company AKZO has cancelled its plans to dump some 600 tons of chlorous chemical waste into the North Sea. The Norwegians and Danes feared the dumping could have had harmful effects on their fishing industries. AKZO spokesmen have indicated the firm will now dump the wastes into the Atlantic, 600 miles off the western coast of Ireland.

Grand Met wins control of brewery

LONDON -- Grand Metropolitan Hotels has apparently won its running battle with Watney Mann for control of Truman Hanbury Buxton and Co., the 300-year-old British brewery. Directors of the Truman board said they had decided to accept the latest Grand Met bid, reportedly for \$106.8 million. They had previously recommended acceptance of a Watney Mann bid, but then reopened negotiations when Grand Met presented another offer. Reportedly, Watney Mann advanced still another bid, but this one was refused. The board controls only about 15% of Truman's outstanding stock. Grand Met was

thought to have owned only 1.5% of the shares when it advanced its first bid. Now, however, it is thought to have bought another 10%, and won the backing of enough shareholders to control the company.

Hannover, IBM in dispute

HANNOVER--The City of Hannover is preparing to take International Business Machines (IBM) to court on charges of breach of contract, stemming from a change in IBM's plans to build there. IBM officials say the firm cancelled its plans for a Hannover factory, which was to have employed 6,000, because of a recent technological breakthrough that rendered the factory unnecessary. Hannover officials allege that IBM was given a choice site in a residential area, and the firm's decision not to build could cause major urban problems. IBM has since offered either to sell the land back to the city at the original price, with bonuses, or to sell back the land and repurchase one-fifth of it at a high price, for construction of a much smaller plant.

Bovril accepts Rowntree takeover offer

LONDON -- The board of directors of Bovril, Ltd., is to ask shareholders to accept a takeover offer from rival food processor Rowntree-Mackintosh. Rowntree, which, through a subsidiary, already owns 9.2% of Bovril's outstanding shares, is thought to have made a bid of \$25.8 million in stock. Cavenham Foods, another UK food firm, had also made a bid.

International combine to build Danish chemical plant

COPENHAGEN -- P echiney-Saint-Gobain of France, Lonza of Switzerland, and Demanord of Sweden, will cooperate to build Denmark's first plant for the production of polyvinyl chloride. Details of the project have yet to be released, but it is thought that the unit will come on-stream by April 1974.

MAN signs Hungarian contract

FRANKFURT -- MAN, the German engineering and heavy vehicle concern, has concluded a \$1.5 million license and cooperation agreement with two Hungarian firms: Mognert, an export company, and Raba, a heavy machine and truck manufacturing enterprise. The Hungarians are to supply MAN with parts for trucks with an axle weight of at least twelve tons.

Bourse report

LONDON -- Equities close week at best levels in three months. Gilts firm. PARIS -- Trend is firm, but trading very light due to holiday season. FRANKFURT -- Well maintained. Department stores especially active. MILAN -- Very irregular. BRUSSELS -- Gains predominate. Trading unusually active for summer season. AMSTERDAM -- Local industrials quietly mixed. Plantations gain; shippings lose ground.

EUROMARKET NEWS

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New monetary crisis brewing?

PARIS -- Many European officials are worried that a new monetary crisis is in the offing. A report by Morgan Guaranty Trust Company of New York, stating that the U.S. balance-of-payments deficit in the second quarter will be bigger than expected and, if carried out on an annual basis, will double that of 1970, has been widely quoted in the European press. Speculative pressures have pushed the price of gold on most European bourses up to the highest levels in the past two years. Franco-German disagreement over the floating D-mark has added to investor uncertainty, and rumors persist that the French franc will be revalued upward by 5% this month.

Lack of agreement on EEC farm price levels

BRUSSELS -- The latest meeting of the Agricultural Ministers of the Six ended without any agreement on future levels for Community farm product prices, indicating that relations within the Common Market are being strained by the continued flotation of the D-mark and the Dutch guilder. The French have served notice that they will not approve any price plan until the floating currencies are pegged. Even if the D-mark and guilder were fixed by fall, when the ministers are due to meet again, an agreement on prices may be hard to come by. France will insist on substantial increases in the current levels.

Brandt, Klasen indicate D-mark to be revalued

FRANKFURT -- Trading quickened on German foreign exchanges, with the dollar sinking lower and the D-mark under pressure, following declarations first from Bundesbank president Karl Klasen, and then from Chancellor Brandt, that the D-mark would probably be revalued eventually. The two officials did not say at what level Germany's currency would be pegged, or when. But the statements represented a shift in policy. Up to now, German officials have insisted that the D-mark would be returned to its old parity after the flotation period. The Bundesbank recently sold dollars below the 3.5 D-mark to the dollar price that many specialists had taken for an eventual revaluation figure.

Klasen announced that the Bundesbank hopes to sell a further ten billion D-marks' worth of dollars.

Six to speed up money discussions

BRUSSELS -- Observers expect monetary talks among the Six to be speeded up in an effort to reach a compromise on the flexibility of exchange rates in time for the International Monetary Fund Ministerial meeting scheduled for September 27 in Washington. The final touches are expected to be put to the EEC position on the questions involved when the Common Market Finance Ministers meet, about September 20.

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Italy's TVA legislation lagging

ROME -- Italy may once again fail to meet a Common Market deadline for the introduction of a TVA (value-added tax). The Government has included a provision in its general fiscal reform bill--now before the Chamber of Deputies--for replacement of Italy's present turnover tax by a TVA. However, the deputies may recess for the summer without approving the bill. If they do, observers think that Italy stands little chance of having a TVA before the Commission-set deadline of January 1, 1972. All of the Six were supposed to have a TVA by the beginning of 1971, but Italy received permission to delay its TVA until the beginning of 1972. If it fails to meet this deadline, the Commission may take punitive action.

France, USSR economic talks

PARIS -- France and the USSR seem to have reached an understanding that may tighten their on-again, off-again economic cooperation. The Soviets have long been worried by a tendency for French products to sell well in the USSR, while their own fare badly in France--a situation that created a deficit in the balance of trade between the two countries. The Soviets appear to have won a minor victory in getting the French to agree to step up their purchases of Soviet gas--to 2.5 billion cubic meters a year--and to use more Soviet machinery and materials at the huge steel complex now being built at Fos. Interestingly, no mention was made of the means to be used to transport the gas. Germany has been reluctant to allow passage across its territory without some sort of royalty. The French did not come away short-handed. They will get a bigger role in the planning and construction of the Soviet truck factory on the Kama River, even though they will have to put up much more of the necessary credits.

Increased interest in gold

ZURICH -- A survey of European monetary experts indicates a growing belief that interest in gold is on the upswing. Some brokers have predicted that the price of the metal may hit \$50 an ounce by the end of the year. Further pressure was felt as Switzerland's National Bank announced the purchase of another \$50 million worth of gold. Officials would not say, however, if the source of the purchase was the United States, where official holdings have been reported as dropping by some \$61 million in June. The report of the Swiss action was contained in a weekly statement by the National Bank, and was referred to almost as a matter of course. Some \$27.-29 billion is believed to be currently held by non-American central banks, and European central banks are thought to be counting on using the month-to-month increase as one way of pressuring the U.S. to check its balance-of-payments deficits.

Some EFTA countries to receive EEC concessions

BRUSSELS -- Several EFTA nations--specifically Switzerland, Sweden, and Austria--seem likely to win preferential trade treatment from an expanded Common Market. EEC ministers have decided that earlier Commission proposals for a two-year maintenance of the status quo with the EFTA countries that did not join the Community are not feasible. The Commission itself has backed down from the plan that it once suggested, and appears ready to go along with proposals that certain EFTA countries be granted what would

amount to free trading privileges with the EEC. An extension of the Community's free trade principles to the EFTA group would cover only industrial products. Despite Dutch and Italian urgings, the Common Market would not let the EFTA countries benefit from the common agricultural program.

TVA receipts up in France

PARIS -- The French Finance Ministry reports that revenues from the TVA (added-value tax) rose by 12% during the first four months of 1971, compared with the same period last year. Officials had feared that total receipts would drop because of reductions in certain rates. But an upswing in business activity has produced more tax revenue than expected. One important source for new receipts was new companies. More new companies were formed during the period than was predicted. Each of them must pay TVA to register. One immediate effect of the higher TVA receipts will be a reduction in France's planned budgetary deficit.

Merger of German tire firms rumored

FRANKFURT -- Deutsche Bank has announced the acquisition of over 25% of the shares of Continental Gummiwerke, which, with a turnover of some \$8.5 million per year, is Germany's largest tire producer. Deutsche Bank also holds nearly 25% of the outstanding shares of Phoenix Gummiwerke, another German tire firm, prompting speculation that a merger, or at least an alignment of interest, between the two tire firms is under consideration. The Deutsche Bank action is construed as a holding action, designed to keep foreign bidders out while the two German firms iron out the terms of their cooperation. Together, Continental and Phoenix would control 55% of the German tire market. Dunlop-Pirelli and Michelin currently hold 15% apiece.

Eurofima issue in demand

LONDON -- Dealers expect the Eurofima 50 million franc (\$9.09 million) Eurobond offering to go off oversubscribed. Reason: The French franc is generally expected to be revalued upward. Eurofima is a Basel-based firm which specializes in raising financing for railroad projects and products.

Ricard to sell holding

PARIS -- Paul Ricard, who holds a controlling 40% interest in the Ricard beverages firm, is rumored to be considering selling his interest. Pernod, another French beverage concern, is reported to be the most interested in buying. The two compete in producing anise-based drinks. The Ricard Company has, however, substantial champagne interests. Should Pernod decide not to buy, Ricard could decide to sell to either the U.S.'s Seagrams or Italy's Martini & Rossi.

Lufthansa suffers from D-mark situation

FRANKFURT -- One firm to be hurt by the floating D-mark is Lufthansa, Germany's national airline. Lufthansa was believed to be one of the few world carriers to be operating in the black. However, Herbert Cullmann, a spokesman for the board, has revealed that Lufthansa does not expect to make a profit, or declare a dividend, in 1971. Cullmann said the company's earnings would be reduced by 7.2 million D-marks (almost \$2.06 million) per year for each percentage point that the D-mark is floated up or is revalued. At current rates, Lufthansa's income would stand to decline by 30 million D-marks in a full year.

ENEL joins French, German state firms in nuclear project

ROME -- ENEL, Italy's state-run electricity concern, has announced its intention to participate with the Electricité de France and Germany's RWE electricity firm in a nuclear reactor project. The three firms plan to build two 1,000 mw sodium-cooled fast breeder reactors. One is to be located in Germany, the other in France. ENEL is to take a one-third stake in the two companies to be set up to direct the project.

Buyer for Krupp nuclear holding sought

FRANKFURT -- Negotiations are under way to find a buyer for the 50% stake Germany's Krupp holds in a nuclear engineering company which it formed in cooperation with Switzerland's Brown Boveri. Krupp let it be known earlier this month that it was willing to sell. The joint concern is called Brown Boveri/Krupp.

Dassault and Breguet to merge

PARIS -- Marcel Dassault, France's biggest producer of military aircraft and, up to now, a privately held company, is to go public, through merger with Breguet Aviation. The merger is almost a mere legal formality, since Dassault holds 62% of Breguet's stock. Breguet, however, is quoted on the Paris Bourse and now Dassault, through the combination, will also be. The listing will make it easier to raise capital, which is needed to launch a production series of Dassault's Mercure short-haul airliner. The new company is to be called Marcel Dassault-Breguet Aviation, and will employ 12,000 people. It will be France's biggest aircraft producer next to Aérospatiale, the state-run firm that is the joint builder of the Concorde.

Elf announces North Sea gas discovery

PARIS -- France's Elf-Erap has announced a major gas discovery in the North Sea, just off the Norwegian coast, in block 25/1. Officials at the firm say that preliminary tests showed an outflow of some 670,000 cubic meters of gas per hour from the well. However, further tests will be required to determine the exact size of the discovery. Through a subsidiary, Elf operates a North Sea concession for a consortium of French and Norwegian companies.

Sears Roebuck makes bid for Belgian firm

BRUSSELS -- Sears Roebuck and Company has offered some \$12.8 million for all the outstanding shares of Galeries Anspach, a Belgian department store group. Anspach's board plans to urge stockholders to accept the offer. Anspach operates eight department stores, and in 1970 reported sales of \$49 million.

Bourse report

LONDON--Most leader stocks firm despite overall investor hesitancy, largely brought on by Common Market debate. PARIS -- Firm, despite small volume due to summer vacation period. FRANKFURT -- Most issues well maintained, banks gain appreciably. MILAN -- Generally higher in very light trading. BRUSSELS -- Market quietly firm. AMSTERDAM -- Plantations very firm, largely on speculative buying. Shippings generally higher on local buying. Trading in local industrials lackluster.

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Gold in heavy demand

LONDON -- Foreign exchanges reacted nervously to news that French banks would no longer take in all dollars. The price of gold, which had risen to \$42 dollars an ounce when shortfalls in the U.S. balance of payments and balance of trade were disclosed, shot up to over \$43 an ounce. Speculators appeared to be expecting the revaluation of the French franc--a move that would leave the dollar looking weaker than ever before.

France has not stopped trading in dollars entirely, however. French banks have received a directive from the Banque de France to stop exchanging francs for dollars that are obviously speculative. France appears ready to create a two-tier market rather than revalue the franc.

In other developments, Germany continues to pursue its policy of selling off dollars at a price that the exchange market will bear, unloading \$700 million at 3.4610 D-marks to the dollar on July 29.

France denies revaluation rumors

PARIS -- Finance Minister Valéry Giscard d'Estaing has once again denied reports that France plans a revaluation of the franc, and has insisted that the French will continue to use technical means to counter flows of foreign capital into the country. He also indicated that France would begin to relax its exchange controls--a move which dealers thought would be made to ease the problems of getting unwanted funds out of the country. The Finance Ministry's intentions in easing exchange controls, however, seem to be in line with official plans to make Paris more of a European financial center than it has been in the past. France continues to press Germany to return the D-mark to a fixed parity, but at the same time it fears the dangers that a fixed D-mark poses for the franc. Money now held in Germany in anticipation of a return of the D-mark to parity may flow into France immediately after the D-mark is fixed, making the defense of the franc at its present dollar level difficult. Speculators appear to be turning more and more of their attention to the franc. In the week ended July 23, reserves of the Banque de France increased by \$367 million.

Swiss agree on hot money curb

BASEL -- Swiss officials and bankers have agreed on a measure to neutralize inflows of hot money into the country in the event of a new monetary crisis. Representatives of the Swiss Bankers Association, which includes nearly all of Switzerland's banks, said that if hot money begins to flow into Switzerland, up to 100% of the incoming funds would be deposited, without interest, with the Central Bank. The provisions making such a transaction possible are contained in an agreement which is expected to go into

effect on August 20. The agreement is voluntary, because the Central Bank itself does not have the authority to impose reserve requirements.

France to oppose new SDR's

PARIS -- France intends to oppose new distributions of Special Drawing Rights (SDR's--the paper gold used to supplement reserves in the international monetary system) and hopes to convince its Common Market partners to do likewise. French officials feel that U.S. balance-of-payments deficits have increased non-U.S. dollar holdings to the point where the creation of new liquidity is dangerous. They also say that the excessive dollar holdings of European central banks are undermining efforts to put the world monetary system on a more rational basis. The French views are coming to be more and more accepted by other European countries. France would also like the United States to begin financing its payments deficit through its credit lines with the International Monetary Fund, instead of asking European countries to hold more dollars.

OECD warning to Belgium on two-tier exchange market

BRUSSELS -- The OECD has warned Belgium that its two-tier exchange system may not be enough to protect the country from unwanted flows of capital. In its annual survey of the Belgium-Luxembourg Economic Union, the OECD observes that the effectiveness of the dual market may be diminished if differences between the rates quoted on the official exchange and those quoted on the free exchange grow too great. According to the OECD, Belgium's quick-paced economic expansion may be coming to an end, and inflation in the country is on the upswing.

German economy continues unsettled

BONN -- The Economics and Finance Ministry has reported that economic tensions in Germany have not eased despite an apparent return of some branches of industry to normal. Rising consumer demand is not taken seriously enough by manufacturers, and production is not being expanded. As a result, consumer prices are expanding rapidly, and costs are rising as well. Wage demands, however, are being kept within acceptable limits. Imports into Germany rose by nearly 9.5% during the months of April and May, while exports increased by 8.5% during the same period. The German balance of trade is in surplus by nearly \$700 million.

Profits to drop for German firms

DUSSELDORF -- Deutsche Bank, West Germany's largest bank, has predicted a sharp decline in profits for German firms in 1971 and 1972. In an economic report, the bank said that while sales at most firms would increase, profits would be 10% to 15% lower in 1971 than in 1970. Bank spokesmen revealed that some real worries could crop up in 1972. By that time, restrictions in the capital spending programs of most companies will have taken effect, and production will be lagging at a time when prices continue to rise. Franz Heinrich Ulrich, a Deutsche Bank spokesman, noted that floating of the D-mark virtually put a halt to the German economic boom. He said that the German economy is in a phase of stagnation at a high level of capacity utilization and employment. Deutsche Bank feels that floating of the D-mark and the expected revaluation will not prove to

be the proper instruments for stabilizing prices and wages. The inflow of foreign currencies that has been responsible for many of Germany's inflation problems could better have been stopped through exchange controls. The Deutsche Bank expects an eventual revaluation of the D-mark of 6%.

French prices show slight rise

PARIS -- Consumer prices rose by only 0.4% in France during the month of June, which is much less than had been predicted after the steep 0.7% gain of May. The June results also show that rises in consumer prices thus far in 1971 are roughly in line with those of last year. During the first six months of 1971, French consumer prices increased by 3.1%, compared with 3.2% for the same period of 1970.

Aluminum production trimmed in Norway

OSLO -- Aluminum production in Norway is expected to be cut by nearly 12% between now and the end of this year, because of difficult international market conditions and the big stocks accumulated by Norwegian producers over the past few months. Aardal and Sunndal, which operates Europe's largest aluminum plant, has announced staff and production cuts, and all other Norwegian aluminum firms are expected to follow. Norway is the world's second largest exporter of aluminum.

EEC steel makers ready to extend U.S. export agreement

BRUSSELS -- Steel producers in the Common Market are reportedly ready to renew an agreement to limit their exports to the U.S. to a growth of 5% a year, provided that the Japanese agree to restrict their exports of steel to the EEC. So far, the EEC Commission has not taken an interest in the arrangements, even though they appear to run counter to the rules of the European Coal and Steel Community. Recently, European steel producers have concentrated on exporting high-quality special steel to the U.S. In this way, the value of their exports is increased, while the basic agreement is respected. But the Europeans are worried that the Japanese may shift some of their export attention from the U.S. to Europe, thus destroying the careful balance of the market. The 1968 voluntary agreement between European producers and the U.S. is due to expire in September.

Meanwhile, Japanese steel officials are believed to be ready to limit their exports of steel to Europe under a general agreement with European steel producers. The plan under consideration calls for limits on exports of Japanese steel to Europe similar to those now being observed by Japanese firms on their shipments to the U.S.

Italian tobacco monopoly under fire

ROME -- The Italian Constitutional Court is expected to issue a judgment on the legality of the Italian State tobacco monopoly. Questions as to the legitimacy of the monopoly first arose when an Italian was charged in a Roman court with smuggling tobacco into Italy. He claimed that the tobacco monopoly was a breach of the Italian Constitution. Defense counsel for the monopoly based its arguments largely on a provision in the Constitution which says that activities of great general interest may be reserved for the State by law. Last year, the Court ruled that a law granting monopoly rights to a consortium of match makers was illegal.

Aid to CII extended

PARIS -- The French Government has agreed to extend its aid to France's national computer company, the Compagnie Internationale pour l'Informatique

(CII), for five more years. The Government support involves direct and indirect credits of nearly \$126 million, and approval of increased cooperation between CII and Multinational-Dataco, a Brussels-based firm set up by the U.S.'s Control Data, the UK's International Computers Ltd., and CII last year. Under the cooperation pact, the three companies were to integrate their marketing efforts to permit sales of the products of one company by any of the others. The French Government has taken an increasing interest in the affairs of CII since the sale by General Electric of its interests in Bull-General Electric to Honeywell. CII expects to show a profit this year for the first time, on sales of about \$130 million, up from about \$102 million in 1970.

Unions to fight Upper Clyde reorganization

LONDON -- Scottish union leaders have announced that they will fight a Government plan for the reorganization of shipbuilding operations and jobs on the Clyde River near Glasgow. Spokesmen for the unions involved threatened to "take over the whole management of the yards," rather than allow the Government's plan to be put into operation. Briefly, the Government intends to close two of the Clyde River's biggest yards in a vast reorganization of the bankrupt Upper Clyde Shipbuilders consortium. Employment would be cut from 8,300 to 2,500, and production would be standardized at two yards that would be kept open. The Government, which owns nearly 48% of the consortium's capital by reason of massive infusions of funds over the past five years, thinks that a viable operation can be put together if the unions will cooperate.

GM subsidiary to float large Eurobond offering

PARIS -- General Motors Overseas Financial Corporation plans to raise some \$70 million in a combined Eurobond issue late in August. The offering will be one of \$30 million in 5-year notes and \$40 million in 15-year bonds, making it the second largest this year. Morgan and Cie International will act as manager.

Rhône-Progil formed

PARIS -- Rhône-Poulenc, France's largest pharmaceutical producer and third largest firm, will reorganize its holdings in France's basic chemicals industry. Rhône-Progil, a new company, is to be formed from the sale to Rhône-Poulenc by Péchiney-St.-Gobain (which is 51%-owned by Rhône-Poulenc) of Progil, a chemical firm controlling nearly 20% of the French market for chlorine, which was taken over by Péchiney-St.-Gobain early last year. The deal also involves the sale to Rhône-Poulenc of St.-Gobain-Pont-à-Mousson's 39% interest in Progil. The only remaining Progil shares that will not be controlled directly by Rhône-Poulenc are those currently held by Péchiney, which holds 7% of Rhône-Poulenc's capital.

Bourse report

LONDON -- Lack of buyers is principal market feature. Most prices pushed slowly but steadily down. PARIS -- Gains outnumber losses in highly irregular trading. FRANKFURT -- Narrowly mixed. MILAN -- Irregularly lower in very quiet trading. BRUSSELS -- Firm. AMSTERDAM -- Most plantations and shippings easier. Local industrials narrowly mixed.

EUROMARKET NEWS

COMMERCE CLEARING HOUSE, INC.



Common Market Reports

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August 24, 1971

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Europeans react to dollar move

PARIS -- Confusion reigned on European bourses and in business circles all last week as Government officials and businessmen tried, as one banker put it, to decode the meaning of President's Nixon's decision to cut the dollar's link to gold. Common Market officials cut short their vacations and hustled back to Brussels to discuss the import of the U.S. move for the EEC. Top officials in the British, French, and German Governments met to assess the action and attempted to map a strategy for their currencies. Slowly, Governments in Europe began to realize that all was not over, and that the next move in what may prove to be a drama of many months' duration was up to them. However, the Common Market's Council of Ministers failed during the week to agree on a joint monetary policy that would be implemented by the Member States. European money markets, after remaining shut down all week, reopened August 23 with each of the trading nations taking its own position vis-à-vis the dollar.

During the hectic week following the American action, the Swiss clamped especially tight restrictions on currency exchanges. The EEC countries acted much more calmly, with the Germans and the Dutch welcoming the U.S. moves. The Common Market applauded President Nixon's call for an international monetary conference. Britain also seemed ready to support the Americans.

Most Europeans regard the 10% surcharge that the U.S. has placed on imports as simply a bargaining point, and expect the tax to be removed once the Japanese revalue. Nevertheless, some German firms will be hit hard by the move, and the duty is bound to add some fuel to the controversy over currency policies that has pitted German industry against the Government. The Belgians have protested the tariff vigorously. Once the crisis atmosphere has cleared, expectations are that the D-mark and the Dutch guilder will be revalued, the Swiss franc and French franc will remain at roughly their present dollar parities, and the pound, with one eye to a Common Market future, slightly devalued.

EEC angry over wine bottling proposal in U.S.

BRUSSELS -- The Common Market will make a formal protest to the United States if a proposal forbidding the import of wines not bottled according to standard U.S. sizes becomes law. The proposal has been put forward by the California Wine Institute, and the EEC, largely prompted by France, maintains that the move is merely an attempt to close the U.S. wine market to European imports. The French would be the hardest hit by such legislation. French wine is bottled in standard EEC 70-centiliter containers at the vineyard, and most of the vineyards are too small to bottle wine under two separate systems. Community wine exports to the U.S. totaled \$64.5 million in 1969, and of this French vintages accounted for \$44.3 million of the sales.

Spain charts new economic development plan

MADRID -- Spain's third economic development plan, which is to be approved by the Cortès sometime this fall, is characterized by an expectation of closer rapprochement with the EEC. The plan, covering 1972-1975, calls for a 6.7% to 8.3% expansion of the economy by 1975, a feat which can be accomplished only if Spanish exports grow by 15% per year during each year of the plan. A rise of 11% in agricultural exports is planned, as well as a steep increase in tourism. Spanish authorities have earmarked the EEC as the chief recipient for its goods as well as the main source of tourists. According to the plan, imports during the period covered will rise by 11%.

French, Italian gas groups hold discussions

PARIS -- Gaz de France and ENI, the French and Italian energy authorities, have opened discussions on a transfer of their purchases of Soviet and Dutch natural gas. Gaz de France, which recently agreed to purchase some 2.5 billion cubic meters of Soviet gas per year, is now worried that the cost of transport may negate price advantages that it hoped to gain. At the same time, it noted that Italy is better equipped to receive Soviet gas economically than France, but not as well equipped to receive Dutch gas. Italy buys some 6 billion cubic meters of gas from the Netherlands each year. Gaz de France hopes to persuade ENI to take over its Soviet gas commitment in exchange for partial assumption by Gaz de France of ENI's Dutch commitments.

British trade surplus continues to rise

LONDON -- Britain's trade surplus rose to \$103.2 million in July, on the strength of exports of \$1.8 million as against imports of about \$1.7 million. The trade surplus has increased by \$19.2 million a month since the beginning of this year.

Production in the UK in the second quarter expanded by 1.7% compared with the first quarter. The advance -- the first in almost nine months -- was accomplished despite rising unemployment and a real recession in steel. Machine tools progressed the most, up by 4.8%, followed by food processing, up by 2.9%. The recently announced mini budget, calling for tax cuts to aid industrial expansion, has not yet taken effect and is not expected to do so until near the end of 1971.

French exports strong in July

PARIS -- A strong rise in exports in July stimulated an increase to \$173.3 million in France's trade surplus. Exports covered imports by 110.4% during the month (they are considered balanced at 95%). Exports covered imports by 100.2% in June, and 103.6% in July, 1970.

Although output of steel and automobiles was curtailed slightly by strikes, glass, chemical, rubber, and textile firms operated at near capacity levels during July.

Rumania seeks GATT links

GENEVA -- Rumania will become the third Eastern European country, after Czechoslovakia and Poland, to join GATT (General Agreement on Tariffs and Trade). Rumanian and GATT officials have agreed on a protocol calling for

a gradual reduction of the discriminatory measures applied by GATT countries on Rumanian products. In return, Rumania will agree to buy more products produced by the member countries of the organization. Despite ordinary delays in approving new membership applications, the GATT Council expects Rumania to become a GATT member in time to participate in the organization's next general session in November.

French expert contests Mansholt Plan

BRUSSELS -- A new report, now under consideration by the Common Market Commission, argues that there is not enough land available for farming in the EEC, and that it may be dangerous to plan reductions in the amount now under cultivation. Prepared by Professor Mazoyer, head of the French agronomy institute, the report urges greater development of the Community's cattle-raising lands, and asks a halt to projects -- such as the Mansholt Plan -- for progressive reductions in EEC farm acreage.

Belgian economy holds steady

BRUSSELS -- The Belgian Finance Ministry reports that the rate of new capital formation in the country continues to remain at an acceptable level. Unemployment and consumer and industrial price increases are very moderate. The Finance Ministry's findings seem to conflict on several points with those of an OECD team which recently reported on the Belgian economy. The Finance Ministry made no mention of the OECD views in its report.

Peugeot's German sales continue to rise

FRANKFURT -- Recent statistics show that France's Peugeot has continued its phenomenal expansion in Germany. During the first six months of this year, Peugeot sold 30,000 cars in Germany, an increase of 54.4% over its sales during the first six months of 1970. In all, Peugeot expects to sell \$150 million worth of automobiles in Germany in 1971.

Nixdorf, A.E.G. Telefunken to form computer firm

FRANKFURT -- Talks are under way between Nixdorf A.G. and A.E.G. Telefunken on the formation of a joint subsidiary to produce giant computers. Nixdorf and Telefunken would each have a 50% stake in the new enterprise, with Nixdorf supplying most of the necessary capital and Telefunken the technological know-how. The agreement would require the approval of the German Government.

U.S. firm heads up new oil consortium

OSLO -- A new consortium, headed by Union Oil of California, is being formed with Norwegian and British cooperation to explore the North Sea for oil and gas. Several UK firms and two other American companies are also expected to be part of the group.

Shell expands in the Netherlands

AMSTERDAM -- Shell Chemie Nederland will build a diphenyl-propane plant capable of producing 5,000 tons of epoxy resins and polycarbonates per year at Pernis. The unit is expected to come on stream near the end of 1973.

Rolls to pay debenture holders in September

LONDON -- The preferred creditors of Rolls-Royce are to get half of their money back with interest in September, and maybe more by the end of the year. E. R. Nicholson, the firm's liquidator, said that a U.S. decision to

guarantee \$250 million in loans to Lockheed for continuing production of the TriStar airbus, and payments for Rolls-Royce's RB-211 jet engine, will permit repayment of 50% of Rolls's debenture capital and all the interest due on the sum. Nicholson also expects unsecured creditors to receive at least half of their money back after the sale of Rolls to its successor company.

Fiat gets Chilean contract

TURIN -- Italy's Fiat has been awarded a contract to set up truck and bus construction facilities in Chile. The contract calls for Fiat to utilize an existing Ford auto plant as the site. Chile is attempting to rationalize its automotive production, reducing the numbers of models produced for its markets. Fiat, which already produces cars in Chile, expects to operate the truck and bus plant on a 50-50 basis with the Chilean Government.

Gallaher launches bid for Saunders Valve

LONDON -- Gallaher Ltd., a subsidiary of American Brands Inc., has made a takeover bid for Saunders Valve. The Saunders board is expected to sell its holdings to Gallaher, and to advise stockholders to do likewise. Gallaher recently bought a large holding in Lines Brothers, a toy manufacturer.

Profit slide predicted for German chemical firms

FRANKFURT--Farbwerke Hoechst predicts a profit decline in the German chemical industry this year, largely on indications that costs will continue to rise. Spokesmen for the firm say that sales in the chemical industry have grown by 7% so far this year, but prices have risen by only 2.2%. Coming after wage increases, the slow price growth has put a crimp on profits. According to Hoechst, there has been little improvement in productivity. Overall, sales for the whole of German industry have risen by about 9% thus far in 1971, and the average price for industrial products has advanced by 4.9%.

Cavenham increases offer for Bovril

LONDON -- Cavenham Foods has boosted its offer for Bovril Ltd., and bought an additional 7% of Bovril stock on the London Stock Exchange. The Cavenham offer now stands at nine of its ordinary shares plus 19 of 10% unsecured partly convertible 1991-1996 bonds, and 4.80 of 11% unsecured 1976 bonds, for every four Bovril shares. Cavenham has also increased its Bovril holding to about 19%. As yet, the new Cavenham offer has not swayed the Bovril board, which approved and recommended shareholder acceptance of a bid by Rowntree Mackintosh.

Bourse report

LONDON -- Most buyers hesitant, awaiting further currency developments. Overall index drops sharply. PARIS -- Most local industrials slide; internationals, especially U.S. companies, gain. FRANKFURT -- Interest in U.S. company stocks; domestic issues suffer losses, with automobile firms especially hard hit. BRUSSELS -- Mainly lower, except for stocks of U.S. subsidiaries in Belgium. Extremely nervous reaction to developing monetary news. AMSTERDAM -- Plantations and shippings mixed. Local industrials weakened over a broad front.

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COMMERCE CLEARING HOUSE, INC.



Common Market Reports

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No common EEC policy on dollar float

PARIS-- The dollar eased only slightly when European foreign exchanges reopened following President Nixon's announcement of the U.S. dollar float. The majority of investors were staying out of the market, however, and awaiting trends. These were hard to foresee. Dealers were not certain how to rate the dollar, with some stating that the U.S.'s new 10% surcharge on imports could lead to an appreciation of the dollar against some European currencies.

In the absence of a Common Market policy responding to the floating dollar, the EEC member countries have acted on their own. France has adopted a two-tier money market, with separate rates for commercial and financial transactions. Trading on the French exchange is currently bogged down, as investors and dealers study the rules applying to trading in each of the two markets. Belgium, which formerly operated a two-tier system, is closely coordinating the rates on its "free" exchange with those on the commercial one. The Belgians are also moving toward a controlled float in cooperation with the Dutch. The German mark continues to float freely, as before. The Italians and EEC candidate Britain have adopted a controlled float, in which they will permit their currencies to fluctuate upward, but not downward, against the dollar.

For the moment, a rift between the French and the Germans over the course to be adopted kept the Common Market from formulating a policy to meet the present crisis. The French would like to see a two-tier market adopted by the Community, but the Germans want a controlled float of all of the EEC currencies against the dollar. Belgian and Dutch efforts to propose a compromise are hampered by the feeling of the French and the Germans that it is the other that must give in. Meanwhile, the Japanese have ended an almost two weeks' battle to retain the 360 to 1 parity of the yen to the dollar. The yen will now be allowed to float, its value to be determined by market forces.

Schiller says no trade war on horizon

BONN -- In an article published by the German newsweekly Der Spiegel, German Economics Minister Karl Schiller says that the floating of the dollar should help strengthen currencies and stabilize prices in Europe. Schiller believes that the International Monetary Fund (IMF) will eventually fix new currency parities, and that the move will be supported by the EEC countries despite their lack of agreement on the subject. Schiller says that the new U.S. import surcharge is definitely protectionist, but foresees no Common Market retaliation, at least for the short term.

Trade investigation launched by GATT

GENEVA -- A special committee of 24 major trading nations that are members of GATT, the General Agreement on Tariffs and Trade, is going to examine the new economic measures put into effect by the United States. The 10 percent surcharge imposed on foreign goods entering the United States is to be examined by the committee in terms of its impact on international trade. Other issues could also be put under scrutiny if the committee decides to "exchange views on other measures in the United States program of a non-monetary nature which would have a direct impact on international trade."

Finland's representative to GATT is chairman of the special committee, which is to start work on September 6 and report back to the GATT Council on September 20.

Germans plan pollution law

BONN -- Under the terms of a law soon to be proposed in the German parliament, the Government would be empowered to impose fines--and in some cases, prison sentences -- for air pollution and noise. If the law is approved, Germany will become the first European country to act on a demand from the Council of Europe for European pollution legislation. All industrial sources of air pollution and noise would have to be registered, and the law would permit the Government to set maximum noise levels.

Reserves up in France

PARIS -- French reserves rose by \$106 million, to nearly \$6 billion, during the week ended August 12, the Banque de France has revealed. The inflow was half that of the preceding week, and due mainly to the imposition of exchange controls. So far this year, French reserves have grown by some \$1.6 billion.

New Swiss-German tax treaty

BONN -- A new German-Swiss tax treaty will affect German firms which maintain Swiss headquarters that are merely mailing addresses. The chief purpose of the treaty is to stop flows of tax-exempt money from Germany into Switzerland, although another aim of the agreement is to avoid the double taxation of income and property. Once the treaty goes into effect on January 1, 1972, "mailbox" firms will become fully subject to German taxes unless they actually conduct business in Switzerland. This will virtually put a stop to the practices of some German firms that collect proceeds from foreign sales through subsidiaries in Switzerland. Also, Germans who move to Switzerland will have to pay German taxes for five years after their move, and those Germans who establish a second domicile in Switzerland will continue to be subject to German tax laws. The treaty does not infringe on Swiss bank secrecy, but the Swiss have pledged to disclose information to German authorities on a case-by-case basis without revealing actual bank deposits. Some German companies are expected to try to shift their Swiss funds into Liechtenstein to avoid the new regulations.

Western Europe places first Togliatti orders

FRANKFURT -- According to the Soviet news service Tass, European dealers have placed their first orders for cars produced by the Italian-designed

Togliatti auto plant in the USSR. Two thousand Zhiguli cars have been sold in Belgium, the Netherlands, Luxembourg, and Finland. Belgium seems to be the Soviet firm's main sales target, since Soviet models have previously found favor with Brussels cab companies. Togliatti, after many delays, finally began producing cars last fall. Most of the production goes to buyers in Eastern European countries.

Worker absenteeism plagues Fiat

ROME -- Fiat reports that some 28,000 workers are absent each day at its Italian plants. Current laws in Italy that permit workers to be absent three days in a row without excuse are plaguing the firm and curtailing production. However, Fiat and other big Italian concerns are not thought to be the hardest hit in this respect; Italy's small businesses seem to be paying the biggest price. The Italian Social Security agency thinks that absences are largely due to three causes: Desire to prolong weekends or vacations, moonlighting, and new-job hunting.

PTT announces some changes

PARIS -- The PTT, France's telecommunications and telephone authority, has revealed some of its plans for transforming the state-controlled enterprise into more of a commercial institution. New efforts will be made to attract financing for new projects from private instead of Government sources. For the moment, plans to change the structure of management and labor of the sprawling concern to resemble less those of a Government and more those of a commercial company have been shelved, largely because of workers' apprehensions.

Volkswagen raises new car prices

WOLFSBURG -- Price increases averaging 1.3% have been announced by Volkswagenwerk AG for all of its 1972 models. The firm's cheapest car, the 1200 Beetle, will now cost about \$1,500 in Germany. Volkswagen's two main German competitors, Ford and Opel, recently announced price increases of nearly 3% on their models.

Shell-Esso bids for oil and gas exploration

LONDON -- A Shell-Esso combine has bid nearly \$50.4 million for the rights to prospect for oil and gas in a North Sea sector just off the Shetland Islands. The bid was believed to be the highest received, not only for that sector, but also for all of the fifteen sites that Britain's Department of Trade and Industry had made available. No awards have yet been made, since the Government agency still must determine if the high bidders have complied with all regulations.

UK firm wins Soviet contract

FRANKFURT -- The UK firm John Brown has won a contract to build a pipeline that will stretch some 750 kilometers, linking the Nijnekamsk petrochemical complex with the industrial centers of Kazan and Ufa in the USSR. John Brown is to prepare the plans for the project, supervise construction, and guarantee shipment of some of the materials to be used. The contract is believed to be worth \$18.6 million.

Saint-Gobain-Pont-à-Mousson in German move

PARIS -- Talks are under way between Saint-Gobain-Pont-à-Mousson of France and Germany's Berliner Handelsgesellschaft Frankfurter Bank (BHF) on the reorganization of the management and operations of Gruenzweig and Hartmann,

a German fibers producer. Saint-Gobian-Pont-à-Mousson controls 57% of Gruenzweig and Hartmann, and would like to merge the concern with Glasfaser, another of its German holdings. BHF has a 25% stake in Gruenzweig.

Concorde to make South American flight

PARIS -- The builders of the Concorde, Aérospatiale of France, and British Aircraft Corporation, have revealed that prototype 001 of the supersonic aircraft will fly to South America in September. Concorde 001 is to leave Toulouse September 4 for Cayenne, French Guyana, and then continue on to Rio de Janeiro, arriving there on September 6, the eve of Brazil's independence day. The trip will not be entirely promotional; tests of the plane's present suitability for commercial travel will be conducted.

Palliser to become UK's EEC ambassador

BRUSSELS -- Michael Palliser, currently second in charge at the British Embassy in Paris, is expected to be named the UK's new ambassador to the Common Market. Observers in Brussels take the appointment to indicate growing Government confidence that Britain's EEC entry will be approved by Parliament in the fall. Palliser was once private secretary to former Prime Minister Harold Wilson, and is considered a top British diplomat. He is married to the daughter of Paul-Henri Spaak, one of the founders of the EEC.

Plans of Commercial Credit Company incorrectly reported

PARIS -- Control Data Corporation's subsidiary, Commercial Credit Company, has been in the process of forming two firms in each of the following countries: France, the UK, the Netherlands, West Germany, Italy, and Switzerland. One firm in each country is to be engaged in activities relating to leasing Control Data computers, while the other will be engaged in the leasing and financing of all types and manufactures of commercial and industrial equipment. A firm has also been formed in Israel, to carry out both of the above activities. Commercial Credit Company's French plans and activities were inaccurately reported in the May 18, 1971, edition of Euro-market News.

Bourse report

LONDON -- Leader stocks firm, in quiet and cautious trading. Gold issues recover some ground lost immediately after announcement of dollar measures. PARIS -- Highly irregular. Oils are strongest. FRANKFURT -- Firm, in very active trading. MILAN -- Leader shares register losses of 2% to 4% in first sessions following two-week holiday shutdown. BRUSSELS -- Most sectors recover from last week's losses. Trading quiet but firm. AMSTERDAM -- Gains outnumber losses among local industrials. Plantations firm. Ship-pings lose some ground.

EUROMARKET NEWS

COMMERCE, CLEARING, HOUSE, INC.



Common Market Reports

EUROMARKET NEWS

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September 8, 1971

Calm reaction to yen float; Eurodollars in demand

LONDON -- Most European money markets showed only casual reaction to the Japanese decision to float the yen. Observers were inclined to regard the move as necessary before order can be restored to the world monetary system. The biggest shock waves from the Japanese decision were felt in France, where the move is viewed as creating difficulties for the French effort to maintain a two-tier market and fixed exchange rates. Most European businessmen welcomed the yen flotation, despite the short-term problems it may cause. In their view, the U.S. surcharge is aimed mostly at the Japanese, and the thinking here is that the surcharge will be repealed more quickly if the U.S. settles its problems with the Japanese.

The most unsettled market was the Eurodollar market, where an artificial shortage of dollars pushed the overnight cost of borrowing to 175% at one point. Much of the shortage appeared to be due to heavy Eurodollar borrowing by Japanese banks hoping to profit from a yen revaluation. The shortage was helped along by the usual month-end scrambling by U.S. commercial banks for funds to satisfy their Federal Reserve requirements and a growing trend for European banks to invest their dollars in U.S. securities.

The dollar shortage was responsible for the remarkable stability that the dollar showed on some major markets. Its performance throughout Europe was mixed, however. In Frankfurt, the dollar traded at 3.389 D-marks, an effective revaluation of 7.99%. On the Paris free market, the range was one dollar for 5.30 to 5.34 francs; at the low point, a revaluation of 4.2%. Sterling lost some ground, declining to a level of \$2.46. In Switzerland, the dollar stood about 2.2% below the official parity, trading at 3.99 francs. The price of gold has continued to decline, to \$39.90 an ounce in Paris, to \$40.90 in London, and to \$40.70 in Zurich.

French reserves rise . . .

PARIS -- France reported a rise in its reserves of \$556 million during the week ended August 19, reflecting the extent to which speculators were counting on a revaluation of the franc. Bank of France spokesmen would not say whether inflows of foreign funds into France were still continuing at such a heady pace. However, the fact that large amounts of foreign funds could seep into the country so quickly was an indication that the exchange controls France introduced early in August have failed, at least in part. The measures included checks on the foreign exchange operations of commercial banks and a ban on interest payments on foreign-held deposits of less than 91 days, as well as an increase in minimum reserve requirements for banks. The August exchange measures were meant to supplement or replace some of the controls that had previously been in effect.

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. . . and so do Germany's

FRANKFURT -- West German reserves increased by nearly \$60 million during the week ended August 23. Spokesmen for the Bundesbank said that increases in convertible currency holdings were due to normal transactions. However, much of the rise could have been the result of dollar purchases on the foreign exchange on August 12-13. At that time, the Bundesbank was believed to have absorbed nearly \$43 million.

Norway to ask EEC for special terms

OSLO -- The Government of Norway plans to ask the Common Market for special entry terms in an effort to overcome the opposition of many Norwegian farmers and fishermen to Community membership. Norway is most concerned by the EEC's common fisheries policy, and the effect it could have on the country's many coastal fishermen. The conditions for Norway's admission into the Common Market have not been fixed, and won't be, until negotiations at the ministerial level begin in Brussels sometime in October. Up until now, it was thought that if Britain joins the EEC, Norway could not possibly stay out. Now, this is not so certain. The Norwegian Government has promised to hold a national referendum on Common Market entry before calling on Parliament. At the moment, public opinion is running against entry. The Norwegian Government feels that the EEC must grant Norway exceptions from the Community rules against continuing subsidies to farmers and permitting open access for EEC fishermen to all EEC coastal waters.

German trade surplus increases

FRANKFURT -- The West German trade surplus rose by nearly \$400 million during the month of July, to \$2.3 billion. Exports increased by 3% over those of June, but imports rose by only 1%. Germany's overall trade surplus so far this year is comparable to that of 1970.

Preliminary figures from the Bundesbank show that the country is running a slight deficit in its balance of payments. As of the end of July, it was estimated to be about \$14.5 million, compared with last year's first-half surplus of nearly \$300 million.

New strife in UK auto industry

LONDON -- More than 21,000 auto workers are idle as disputes have broken out once again at plants of Britain's troubled auto and auto components producers. Production at nine of Lucas' factories and three of British Leyland's is halted. A walkout of 26 engine dispatchers at Austin Morris' Longbridge plant, which led to layoffs of nearly 6,000 workers and losses of some 3,000 units, has been settled. However, a strike at Triumph is continuing. The Lucas and Leyland workers want increases in their vacation pay. If the stoppages at those plants continue, they could cause disruptions at the factories of other producers.

Lufthansa to continue opposition to Montreal fare plan

FRANKFURT -- Lufthansa, West Germany's national airline, is expected to continue its opposition to a new tariff structure worked out for international carriers at a meeting of the International Air Transport Association (IATA) in Montreal. The plan adopted at Montreal needed the unanimous approval of the world's scheduled airlines to be implemented. Lufthansa

was the sole opponent of the plan. The airline is not expected to drop its opposition, but instead is likely to announce a new tariff structure of its own, including rates for trans-Atlantic passages well below those currently in force, and even below those proposed at Montreal. Lufthansa's opposition to the Montreal arrangement stems from what it calls the unworkable structure of the tariffs. Lufthansa argues that, under the Montreal plan, there would be more than 69 assorted fares. Lufthansa says that its own tariff proposals will involve only nine rate categories. Lufthansa's action is expected to lead to a significant reduction of the trans-Atlantic fares charged by all scheduled airlines.

Italy plans to help exporters

ROME -- The Italian Government is examining ways to help Italian exporters overcome the barriers to imports introduced in the United States. One measure that may be adopted calls for the establishment of a credit agency along the lines of the U.S.'s Export-Import Bank. Other measures envisioned would provide more credit facilities for exporters, the reduction of red tape in export procedures, and for social charges on exporting concerns. Direct subsidies or rebates are not expected to be considered.

Italy's main exports to the U.S. are shoes, textiles, cars, fuel oil, electro-mechanical equipment, and specialized foodstuffs. The U. S. accounts for nearly 60% of Italy's exports of these goods, and they are among some of the products hardest hit by the new import restrictions. The Government will probably try to encourage Italian producers to seek new markets for these products as well. Overall, only 10% of Italian exports go to the U.S.

VW to increase foreign prices

FRANKFURT -- Volkswagen, which recently announced increases in the retail price of all of its models, said that it intends to apply the increases in export markets, including the United States. Interestingly, VW officials do not expect the U.S. import surcharge, which will raise its prices in the U.S. significantly, to greatly affect its U.S. sales. VW has explained its price increases as a necessary move in view of the profit margins of VW's foreign importing firms. Officials at the company are not sure when they will be able to apply the price rises in the U.S., however, since the price and wage freeze will be in effect until November 16.

Phillips nears decision on pipeline route

LONDON -- The Phillips oil exploration group in Norway is believed to be close to a decision on a route for a pipeline to carry oil from its Ekofisk oil production site. Teeside in Britain is said to be the most probable choice as a landing point. A route from Ekofisk to Norway would be impractical because of deep trenches in the seabed. If Teeside is chosen, the pipeline would stretch for some 200 miles. Experts place the cost of such a project at around \$200 million, and estimate that it could be completed by 1973 if work were started soon.

Prices rise again in France

PARIS -- Retail prices rose by 0.5% in France in July, bringing the total increase so far this year to 3.6%, and sparking new fears that France's inflation problems may not yet be solved. The Government had succeeded in holding the advance in retail prices to 0.4% in June, after steep rises in each of the four preceding months. The July figures are certain to bring

loud outcries from the labor unions. They are already incensed by announced increases in charges for gas and electricity and for public transport in Paris.

BP and Anic eye cooperation in Sardinia

ROME -- British Petroleum and Italy's Anic are investigating the possibility of building a plant in Sardinia to produce protein from paraffin, using a newly perfected BP process. The product would be used in animal feeds. Detailed studies of the project are being prepared by both firms. Anic is a subsidiary of ENI, Italy's state-controlled oil concern.

Trafalgar House wins takeover battle . . .

LONDON -- Trafalgar House Investments has acquired nearly 75% of the outstanding shares of the UK's Cunard Line, giving it control of the ailing steamship company. Trafalgar House had originally offered \$62.4 million for Cunard, but this was raised to \$65 million. It then fought a wide-open takeover battle, all under the pressure of dissident Cunard stockholders and rival bidding groups. Cunard lost nearly \$4.56 million last year. The firm owns about seventy ships, including the liner Queen Elizabeth II.

. . . and so does Maxwell Joseph

LONDON -- The takeover battle for Truman's, the London brewery, is finally over, with hotelman Maxwell Joseph gaining control of the firm. Joseph's final offer of \$120 million forced rival bidder Watney Mann, another British brewer, to withdraw. Watney's directors have decided to sell their estimated 45% Truman holding, to Grand Metropolitan Hotels, a hotel chain owned largely by Joseph. Joseph wanted control of Truman's as part of a diversification program for Grand Metropolitan.

German group wins Algerian contract

FRANKFURT -- DIAG, a Berlin-based engineering firm, is to be the leader of a German consortium that will build an electrical equipment factory in Algeria. The complex will be situated near Algiers, and will include facilities for constructing high-tension transformers, household electrical equipment, bulbs, and electrical parts for automobiles. German firms that will be selling licenses to the Algerians for the project include Siemens, Robert Bosch, AEG, Junkers, and Osram. The contract is believed to be worth some \$85 million.

Bourse report

LONDON -- Heavy selling of gilts on hopes of a bank rate change. Little interest in equities. PARIS -- Irregular. FRANKFURT -- Firm. MILAN -- Irregular; most buying interest centered on industrials. BRUSSELS -- Most leader stocks lose ground. AMSTERDAM -- Shippings and plantations narrowly mixed. Heavy selling of local industrials.

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Deputies divided at Group of Ten session

PARIS -- Deputy ministers of the Group of Ten, meeting in London, will try to agree on a solution to the world's monetary problems. Many experts believe that the London meeting will do no more than to underline disagreements rather than show a readiness to find solutions. Europeans feel that the U.S. has not clarified the kinds of revaluation that it is seeking for European currencies, or the conditions for removal of the import surcharge. The European countries would like to see the U. S. make at least a token devaluation of the dollar, as one step toward ending current monetary uncertainty. Most of the deputies at the recent Paris session left with the opinion that nothing was to be solved at large meetings, and that bilateral discussions between the U. S. and other members of the Group of Ten would have to be held. Apparently, the differences of opinion among Common Market countries, although provoking some disorder within the EEC, seem to have had little effect in destroying their harmony on the wider problem of a reform of the monetary system.

Meanwhile, the six Finance Ministers meeting as the Council of the European Communities have called on the U. S. to devalue the dollar as a necessary step in an overall realignment of currency parities by the major industrialized countries. The ministers would retain gold as the basis of the international monetary system, but would reduce the reserve role held by national currencies--chiefly the U. S. dollar--and rely on increasing use of Special Drawing Rights (SDR's), that are administered by the International Monetary Fund. The Council also called for an end of the U.S.'s 10 percent import surcharge and a return to fixed currency parities with broader controls over exchange rates to prevent monetary speculation.

Schiller says permanent free exchange rates a possibility

ROME -- German Economics and Finance Minister Karl Schiller, in Rome for talks with Italian leaders, told reporters that there was a possibility of world-wide adoption of a permanent system of free exchange rates. When pressed, Schiller stated that "a system of free exchange rates would have a longer expectation of life than a system of severe controls." He also said that German and Italian views at this stage of a move toward a realignment of world currencies were very close. Schiller cautioned against believing that any new results in a Common Market approach to the situation would come out of the current round of meetings of Community finance ministers.

British Labour Party moves toward anti-Common Market stance

LONDON -- With the return of many ministers from vacation, the British Government will resume its campaign to persuade the public that it is in the UK's interest to enter the Common Market. Pressures are mounting within the opposition Labour Party to thwart entry on the terms just negotiated. Labour Party leaders appear to be attempting to keep their party largely uncommitted, but thus far their efforts have produced mixed results. Labour's leader, former Prime Minister Harold Wilson, smarting from criticism leveled at him at a recent conference of European socialists, is anxious to prove that he is not against closer European cooperation, or even integration. But concern that his backing of EEC entry on Tory terms might create a dangerous split in his own party remains. Wilson also seems extremely conscious of the fact that a defeat for the Government on the entry issue could mean a return of Labour to power.

In October, Labour will convene for its annual convention. At that time, a clash between the party's pro-Market and anti-Market forces appears to be inevitable. The anti-Market faction, buoyed by recent successes within the party and believing that a clear majority stands against entry, will try to force acceptance of a motion that will commit Labour to withdrawing from the EEC if and when it once again comes to power. Wilson, although carefully remaining on the fence between the two elements, will try to kill the motion and substitute a much more moderate one. Prime Minister Heath still believes that he has the necessary parliamentary backing to win a vote on entry. But Labour, toughening its opposition, is unlikely to provide the aura of confidence which Britain will need to solve its Common Market entry problems.

New money controls in the Netherlands

AMSTERDAM-- Dutch authorities have announced new measures intended to halt capital inflows into the Netherlands, through the purchase of Dutch bonds and debentures, an anti-speculation move. Their aim is to keep the level of nonresident investment in the country constant. Nonresidents will now be obliged to purchase Dutch bonds with special "O" guilders, created from the surrender of the proceeds from other nonresident sales of bonds. The move caused a slight weakening of the guilder against the dollar on the foreign exchange.

French support money market

PARIS -- Heavy buying of the newly-created French commercial franc forced the Bank of France to absorb nearly \$50 million in support operations designed to maintain the parity of the commercial franc at 5.512 to the dollar. This is the second time that the Bank was forced to intervene since France's adoption of a two-tier market on August 23. The dollar recently strengthened against the floating financial franc, with 5.300 of these francs equaling one dollar.

In London, rumors that the Dutch might follow France's lead and create a two-tier money market sparked reports that Britain was also considering such a move. The net result was a drop in the price of both the guilder and sterling in relation to the dollar.

Erhard says France is drifting into monetary isolation

FRANKFURT -- Former German Chancellor Ludwig Erhard has said that France was drifting into world-wide isolation through its support of a fixed parity. Erhard fully approved the current monetary policies of the German Government. He said he believes that the world's trading countries will eventually accept spreads of 3% on either side of their currencies' parities, and doubts that members of the EEC will narrow their currency bands.

Volkswagen plans new car

FRANKFURT --Porsche engineers have designed an entirely new car for Volkswagen, which will use a water-cooled engine and serve as an intermediate model for a new series of cars which Volkswagen spokesmen term as revolutionary for their company. The new car, to be called the "266," will be a type of station wagon, with one door on each side and one at the rear. Volkswagen hopes to market the car for under \$2,000.

French firm gets nuclear contract

PARIS -- The French Government has named Merlin Gerin to make the studies and design the protective devices for Phenix, a 240 MW prototype nuclear reactor. The contract is expected to give a boost to Merlin Gerin in its efforts to become a top-ranking French electronics firm. Up to now, Merlin Gerin has been best known for its linear motors, and for its conception and design of Aerotrain, a futuristic monorail transport system, the rights to which have been bought by the U.S.'s Rohr Corporation.

Fiat reportedly interested in Abarth takeover

TURIN -- According to the Italian newspaper Il Giorno, Fiat, Italy's number one auto producer, plans to buy Abarth, one of Italy's leading auto parts producers. Reportedly, the takeover will be similar to Fiat's takeover of Lancia and Ferrari. Abarth, also located at Turin, has been suffering, like many respected but small Italian auto industry firms, from a lack of capital and a lack of size. Fiat is expected to plan several models so to make use of Abarth equipment exclusively after the takeover. Fiat's long-spelled-out aim is to become "the General Motors of Europe," with separate identifiable auto and auto parts subsidiary companies.

U.S. Navy to exhibit Boeing seacraft

BRUSSELS -- At the request of NATO, the U.S. Navy plans to exhibit a hovercraft ship designed by Boeing in Europe. The ship, the Tucumcari, is made of aluminum and measures some 70 feet long. The craft, which is already in use in the U. S. Navy, will be on display and will undergo demonstration tests in Denmark, Germany, Scotland, England and France, for about one month starting in October. The Tucumcari uses a system of propulsion by water, but has no propellers. NATO is reported to be convinced that the ship will solve several of its naval equipment problems, and is ready to order a significant number of the vessels.

Abolishment of Belgian export tax asked

BRUSSELS -- Belgium's Federation of Industries has asked the Government to repeal a tax levied on exports. The Federation maintains that the tax, which is applied at rates of between 0.75% to 1.5%, should be abolished because of a recent deterioration in Belgian export trade and the new American import measures. For the first six months of this year, according to

the Federation, Belgium had a \$192 million deficit in its balance of trade, compared to a \$192 million surplus a year ago. The Government has taken the request under consideration.

Eximbank funds to Paribas for tug purchase

PARIS --The U.S.'s Export-Import Bank has accorded France's Banque de Paris et des Pays Bas a \$920,000 loan to be used in the purchase of an ocean-going tug for its Union Navale subsidiary. The tug, which will be sold to Paribas for \$2.3 million, presently belongs to Southern Shipbuilding Company. The Export-Import Bank will also guarantee a loan for the same \$920,000, to be made to Paribas by the American Security and Trust Company of Washington. Paribas will begin repaying the loan in 16 semiannual installments starting in July, 1973.

Layoffs in British auto industry continue . . .

LONDON --Aveling Barford, a subsidiary of British Leyland, has announced plans to lay off 10% of its 2,300-man labor force now, and has warned that an even bigger cut in its personnel could follow shortly. British auto and auto equipment producers have recently been hard hit by the scarcity of orders. General Motors has also announced more layoffs, this time at its Newhouse (Lanarkshire) earth-moving equipment factory. In addition to the layoffs, GM's remaining workers will go on a four-day week schedule.

. . . while three German firms plan cutbacks

FRANKFURT -- According to German press sources, three big German firms, Mannesmann, Klockner-Werke, and Hanomag-Henschel Fahrzeugwerke, will reduce production and lay off workers. The size of the cuts is not known. Lack of orders is the reason given for the moves.

Française des Pétroles expands in Austria

VIENNA -- Compagnie Française des Pétroles (CFP), one of France's leading oil firms, has announced the purchase of 250 service stations in Austria by its subsidiary there. The stations were acquired from Pam Austria, a subsidiary of the Netherlands' Steenkolen Handelsvereniging. The purchase will double the number of CFP stations in Austria.

Cattle rustling in Britain?

LONDON -- Cattle rustling in Britain has become so commonplace that ranchers are considering drastic measures to protect their herds. One is to attach warning bells to one animal in twenty. Another is to invest in very savage watchdogs. There are no figures, but Britain's National Farmers' Union says that rustling is so common in Lancashire, Yorkshire, and Derbyshire that ranchers do not bother to report their losses to police.

Bourse report

LONDON -- Cut in bank rate, plus report on increase in UK reserves, help push most stocks up. PARIS -- Very well maintained under moderate trading conditions. FRANKFURT -- Mainly higher. MILAN -- Irregular trend. BRUSSELS -- Firm, at slightly lower levels. AMSTERDAM -- Most local industrials stage strong recoveries after losses of past two weeks.

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Group of Ten talks make no headway

LONDON --The end of the Group of Ten talks to try to revamp the world monetary system has not produced an agreement that is acceptable to the U.S., which has taken unprecedented steps to put its own economic house in order and end domestic inflation. A spokesman for U.S. Treasury Secretary John B. Connally indicated after the London meeting that the U.S. is seeking an entire package of reforms, not merely a return "to fixed exchange rates with as little change as possible as soon as possible." An International Monetary Fund conference begins in Washington on September 25.

EEC agrees on common approach to monetary crisis

BRUSSELS --The finance ministers of the Six have agreed on a Common Market approach to the current monetary crisis. While refusing to be pinned down on specifics, France has backed away from its opposition to an increase in the value of the franc, and has indicated that it is ready to participate in a general realignment of currencies. Germany, France's main opponent in the financial debates which have split the EEC over the past month, has long pressured for changes in the parities of the world's currencies. Essentially, the Six have agreed: To press for a realignment of parities among the leading Western countries; convince the United States to end its 10% surtax on imports (which the Six feel is "distorting" efforts to set new parities); create new methods to combat speculative flows of capital; affirm gold as a standard of convertibility for currencies, while moving toward increased reliance on Special Drawing Rights (SDR's), and moving away from dependence on the dollar and the pound as reserve currencies; convince all countries to pay close attention to and end their balance of payments problems; and strengthen the authority of the International Monetary Fund. The EEC finance ministers have not openly called for dollar devaluation, but unofficially they have not concealed their hope that dollar devaluation would take place as part of a general currency realignment. Most of the ministers tried to play down any references to the dollar, preferring to indicate, as Albert Coppé, an EEC Commission member did, that the dollar could be devalued as long as the Common Market did not demand its devaluation "too loudly." Dutch Finance Minister Roelof Nelissen said that the EEC still needed to determine if the U.S. would end its opposition to dollar devaluation, and that this factor would become an important topic of conversation between the EEC and the U.S. in coming weeks.

Dollar is a little firmer

LONDON --The dollar has held firm in recent trading against the French and Swiss francs and British pound. In Paris, the dollar has been fairly steady

at a 5.36 selling rate, up from a 5.26 rate. The new rate represents an effective revaluation of only 3.5% for the French franc. On the Zurich market, the dollar has firmed to 3.9985 Swiss francs, a devaluation of only 2% under the official parity of one dollar to 4.08 Swiss francs. In London, the pound has been quoted most recently at \$2.4603. Most experts feel that the pound's current strength is due to good UK trade figures. In Brussels, however, the dollar has slipped recently to 48.23 Belgian francs. In Frankfurt, it is down also, being quoted at 3.855 D-marks.

French and British apparently agree on approach to money crisis

PARIS--French Finance Minister Valéry Giscard d'Estaing said that the views of France were "widely similar" to those of Britain on cures for the present international monetary crisis. Giscard d'Estaing and Britain's Chancellor of the Exchequer Anthony Barber had met for an exchange of opinions on the subject. According to the French, one result of the meeting will be a "great parallelism" between French and British ideas at upcoming international monetary conferences. The two ministers reportedly agreed that an overhaul of the monetary system is preferable to new solutions for technical problems, which have arisen from recent U.S. moves. The French said that Britain, which expressed "serious concern" over the U.S. 10% surtax on imports, would most likely adhere to any joint EEC stand on the matter.

Negative interest rate sought in Switzerland

BERN -- The Swiss Government has asked the parliament for authority to defend the Swiss franc through imposition of a negative interest rate on funds deposited in Switzerland which are deemed to be speculative in nature. Government spokesmen indicated that the interest rate would apply to deposits established in Switzerland by non-residents after July 31. It is estimated that between that date and August 15, the date of President Nixon's economic policy speech, and the date that the Swiss national bank stopped supporting the dollar, nearly \$2 billion in hot funds moved into the country. The Government thinks that dangers of speculation in Swiss francs still exist and could increase if other countries introduce restrictive currency measures. Up to now, Switzerland has had no exchange control laws.

UK home loan record equalled

LONDON -- British building societies lent \$624 million to home buyers in August, equalling the record figure reached in July. Observers note that the demand is to continue in coming months. The Building Societies Association reports that because of inflows of funds they should have no trouble in satisfying loan requests.

OECD impressed by Austrian economy

PARIS -- The OECD (Organization for Economic Cooperation and Development) views prospects for sustained and balanced growth of the Austrian economy as excellent. The OECD was particularly impressed by the Austrians' ability to sustain an economic upswing which began in 1968, and to keep prices and costs relatively stable. However, the OECD warns that growth may slow slightly, and the maintenance of price and cost stability could become much more difficult. The OECD suggests that Austria adopt three policy priorities: continued efforts on the price and cost front, while maintaining full employment; a safeguarding of the country's competitive position and a balanced current payments account; and a steady rate of new investment.

EFTA trade

GENEVA -- Growth of both exports and imports slowed during the first half of 1971 (in comparison with growth in the first half of 1970) in EFTA, the European Free Trade Association, Europe's "other" trading bloc. Total exports of the EFTA countries reached \$23 billion during the first half of 1971, while imports amounted to \$27.7 billion. Exports to the U.S. showed the biggest rise, increasing by 13.2%.

ICI gets Government approval for acquisition plan

LONDON--Imperial Chemical Industries (ICI) has received Government approval for its plan to acquire four of its major yarn customers, a move that could radically alter the structure of the UK's textile market. ICI intends to pay some \$55.2 million for control of Qualitex and three Carrington Viyella subsidiaries. The four companies produce textured nylon and polyester synthetic yarns. ICI spokesmen maintain that the acquisitions will not hamper the operations of other independent yarn firms. The move is seen as effectively closing off the four firms to any sales efforts by Courtaulds, the other leading British textile concern.

Lotz retires as Volkswagen chief

FRANKFURT--Kurt Lotz has decided to retire as chairman of Volkswagen rather than face a meeting of the VW board of directors, called for September 24, at which his contract was expected to be terminated. His probable successor is Rudolf Leiding, currently head of VW's Audi branch, and a highly successful manager of foreign operations. Lotz was under heavy criticism for VW's falling profits, which many specialists say were attributable to VW's large and unintegrated product line. Sales at VW are higher than ever, but the fact that many of the firm's models compete directly with each other has taken a toll on profits. Personnel and political problems have also played a part in Lotz's departure. The VW board is dominated by Social Democrats; Lotz is a Christian Democrat.

Greek diesel engine plant

ATHENS -- Hellenic Shipyards and Grandi Motori Trieste, a Fiat subsidiary, have signed a preliminary agreement to cooperate in the building of a diesel engine factory near Athens. The complex is to be capable of producing engines of up to 200,000 horsepower. Spokesmen for Hellenic have revealed that the two firms have also agreed to build an iron foundry near the engine plant to supply material for it.

The engine plant is part of a \$200 million package deal recently signed between Hellenic's owner, Stavros Niarchos, and the Greek Government. Hellenic is also thought to be pressing the Government to support its bid to construct an aluminum plant in Greece in cooperation with the U.S.'s Kaiser Aluminum and Chemical Corporation.

DSM, VKF merger under preparation

THE HAGUE -- The nitrogen fixation division of Dutch State Mines (DSM) and VKF, a joint subsidiary of Shell, AKZO, and Hoogovens, are to merge to form one of the largest producers of fertilizers in the world, say usually reliable sources in The Hague. The details of the merger are still being worked out and are complicated. However, the majority partner in the venture will be DSM, a 100% state-owned company. DSM is to hold the largest stake in the new firm, and will name three of its managing directors and

four of the seven members of its supervisory board. The reason given for DSM's participation in the link-up is a decline in the profitability of nitrate fertilizer production. VKF specializes in producing compound fertilizers, the fastest-growing sector of the industry. DSM has a strong research organization; VKF possesses an effective marketing operation. According to recent EEC reports, nearly 70% of the Netherlands' fertilizer production is exported, most of it to third world countries.

Economics and Finance Ministry denies Ruhrkohle problems

BONN -- The German Economics and Finance Ministry has denied published reports of an impending liquidity crisis at Ruhrkohle, the concern that represents the majority of the Ruhr's coal mines. Last year, Ruhrkohle reported losses of nearly \$1 million, more than its entire share capital, and a considerable increase over the losses of previous years. Karl Schiller, Minister of Economics and Finance, is reported ready to step up Government support for the beleaguered firm in the form of direct subsidies and credit guarantees.

Short-time work schedule at Zanussi

MILAN -- Zanussi, Europe's largest producer of electrical appliances, has put 6,000 workers, nearly 20% of its work force, on a short-time work schedule. The decision follows cuts in production caused by a domestic recession and Zanussi's difficulties in export markets. The biggest cuts in the work force are in the firm's television manufacturing divisions, where 25-1/2 hour weeks will be observed until the end of October. Zanussi's problems here stem mainly from a delay in the Italian Government's decision over whether to introduce a color television system based on France's SECAM method, or Germany's PAL system. The company has announced no layoffs so far.

Lufthansa, Sabena change dollar payment policies

FRANKFURT -- As a result of continuing monetary uncertainties, two major European airlines are changing some aspects of their sales policies. Lufthansa, Germany's national airline, has announced that its dollar exchange rate for payment of international flight tickets has been lowered from 3.55 to 3.45 D-marks. D-mark paying passengers will thus have a 2.8% saving over the former cost of tickets. Lufthansa officials said that they had notified competing carriers of the change, and that the reduction should eliminate some discrepancies in the prices that airlines charge for tickets. Sabena, Belgium's national airline, has revealed that all of its ticket and freight bills will now have to be paid for in Belgian francs. No foreign currencies will be accepted at its ticket counters.

Bourse report

LONDON -- Interest turns to long-term gilts in very quiet trading. PARIS -- Mainly lower in moderate trading. FRANKFURT -- Lack of buying demand forces leading issues to drift lower. MILAN -- Selectively higher. BRUSSELS -- Generally lower in quiet trading. AMSTERDAM -- Losses outnumber gains among local industrials. Plantations and shippings lower.

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