Common Market Reports

EUROMARKET NEWS

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Italy Presents New Tax System... Italy finally has entered the 20th century in terms of taxation. Its tax reform act has done away with an outmoded system weighed down by some 70 taxes and awkward rules and has replaced it with a streamlined, 20-tax version. The act also applies new principles of taxation, practiced in all developed countries, and authorizes the government to impose taxes by decree (not common elsewhere).

Rome's timetable provides for the added-value tax to take effect on July 1 - after many delays that drew heavy criticism from Brussels. Direct taxes (individual, corporate, capital gain, gift and inheritance) are to become effective Jan. 1, 1973.

The changes, all significant, will be most important in regard to individual and corporate income taxes. In contrast to virtually all its European neighbors, Italy so far has lacked uniform taxes in this area. An individual's over-all income will be subject to progressive rates, starting at 10% for incomes of up to 2 million lire and a maximum of 74% for incomes above L500 million.

Resident corporations will be taxed on domestic and foreign profits, and entities incorporated abroad, on profits received from Italian sources. The rate will be 25%, no matter whether profits are retained or distributed. Depreciation and valuation rules (for inventory) still have to be adopted in future legislation. If the local business profits tax (the maximum permissible being 13%) and the local chamber of commerce charge (0.4 to 1.2%) are added, a company's profits would be subject to taxation to a maximum of 39.2%.

Corporate dividends will be taxed at the source. The withholding rate will be 10% if the recipient's domicile is Italy, and 30% if the domicile is abroad. Income from interest also would be taxed at the source at the rate of 30%, with lower rates applying to interest payments made by investment funds, banks and other credit institutions.

...While Germany Drags Its Feet: Despite many official statements to the contrary, the Bonn government's ambitious and extensive tax reform is not moving forward with the speed the Brandt administration originally hoped for. Jan. 1, 1974, is the target date for the reform to go into effect. But so far only two bills have been

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submitted: the draft of the new Fiscal Code and the bill dealing with taxation of German taxpayers who have moved to "tax-haven" countries. The second bill is not really part of the reform package anyway.
Industry and other parties have offered views on the first drafts of the net-worth tax, estate tax and real-estate tax. Corresponding bills are expected for the end of '72. Experts feel time is running short for parliament's tax committees to hold the types of hearings that are necessary.
Two significant bills (individual and corporate income taxes) are still in the drafting stage. Preliminary hearings on the income tax bill were held earlier this month, but industry did not consider two days enough to permit extensive comment. However, more hearings are to follow later this year. Because of the scope of the income tax bill and its complex nature, parliament may be facing serious time pressure if it wants to meet the 1974 deadline.

The corporate income tax bill seems to be even further away from the legislative junction. The intricate problem about this bill (which proposes to replace the present double taxation system by a credit system) is that nobody knows for sure its impact in terms of revenue. Finance Ministry experts are playing tax games by feeding computers with figures to ascertain how much Bonn would lose through the intended credit system.

France Requires Price Tags... French retailers and service companies have just this month to conform to the government's new price-labeling legislation - and finance ministry inspectors will be on the prowl to make sure they do. Retailers now must label all products whether displayed in the show windows or in the stores, although for certain "luxury" items like antiques or jewelry the labeling may be "discreet." Service establishments must show their prices outside the premises. In effect since Feb. 1, with a one-month transition period, the ruling aims at sharpening competition and reinforcing the country's flagging price control policies (*contrat de programme*).

...So Does Italy: Similar regulations have been imposed on Italian retail businesses. The price-labeling policy will be most strictly applied to all goods of widespread and general consumption. Exempt are fish, horse meat, fresh-baked goods, alcoholic beverages as well as semi-finished products, automobiles, motorcycles and other metal products. Moreover, women's apparel of the luxury type, antiques and jewelry also need not be price-tagged.

Miners' Resistance Faltering? The British miners' strike may have serious implications for the U.K. stock market but, to date, the market itself has not suffered unduly. London brokers tend to the opinion that miners' resistance is flagging and that the final settlement will be in line with the National Coal Board's initial offer - which the miners rejected. Should the strike continue, however, considerable industrial and economic damage will result. If the U.K. government concedes a settlement corresponding to the miners' demands, the price restraint policy volunteered by the Confederation of British Industry will be nullified and the government's policy of "de-escalation" in pay awards will be impaired. Labor is conscious that the government is not winning the battle against inflation. If the miners have the will and the financial reserves to hold out until the government accedes to their wishes, further industrial disputes and escalated wage demands will follow. The effect on the stock market will be considerable.

Cherchez les Américains: Encouraged by the French exporters' performance last year, the government has decided to prolong a test facility created in early '71 giving them an assist on the American market. *Operation de Prospection de l'Amérique du Nord (OPA)* - by coincidence, OPA also stands for "takeover bid" in French! - puts at the disposal of selected businessmen the services of French commercial officers in the USA and Canada. These officials may accompany and advise them on sales visits and are authorized to pick up a sizable portion of the cost of travel expenses. About 100 companies took advantage of this procedure last year - all of them doing less than 10% of their export business with North America. Only 2.3% of the United States' imports come from France, incidentally.

Metrication Accelerated: Britain's imminent entry into the EEC will result in a speeding up of the government's metrication program. The original target date was 1975 but, for many purposes, the metric system will be effective as of January 1973. The principal difficulties are anticipated in the food and beverage sector and in the building industry.
A government White Paper just released urged U.K. industry to start using the metric system as soon as possible to allow Britons to get used to it. At the same time, the government said that it would protect the consumer from being short-changed during the conversion. The White Paper made no estimate on the cost of the operation but declared the most expensive part of it to be the changing of road signs from miles to kilometers.

AROUND THE MARKETPLACE

Teutonic War Fair: Announcement by Hannover Fair authorities of their intention to split the world's largest industrial show into separate technical and consumer goods fairs has led to a bitter dispute with the fair organizations in Frankfurt and Cologne. Beginning with March 1974, Hannover for the first time plans an international consumer goods fair, obviously hoping to lure industries away from its German rivals.
Hannover claims that industry demand led to its decision. But Frankfurt and Cologne, with long-established major consumer fairs of their own, charge violation of an earlier tripartite agreement to seek a neutral analysis of the market and then cut up the pie jointly. Hannover apparently decided to jump the gun when the study, prepared by the Swiss economic researchers Prognos AG, made it plain that the city was only the "second-best location" for a consumer goods show.
Hannover feels it needs another leg to stand on since many capital goods industries are trimming their fair budgets or are beginning to favor specialty fairs. This trend will be apparent at this year's exhibit, April 20-28. Some 5,300 direct exhibitors and 981 represented companies will participate, a noticeable decline compared to 1971, when 5,768 and 1,000 exhibitors, respectively, were present. At least five major German chemical companies - BASF, Bayer, Hoechst, Hüls and Degussa - probably won't show up. Other industries have decided on the rhythm method, coming in on alternating years. Many American and international companies let their German subsidiaries represent them on a small scale. These losses cannot be compensated by some newcomers from abroad such as U.S. Steel, Rockwell, Cockerill, DAF and Kleber.
As competition among the fairs intensifies, industry is in a fine

position to pick and choose. Aside from battling among themselves, the Germans also must beware of their Continental antagonists. Up and coming and patterned after U.S. forerunners are "trade markets," offering a mixture of the traditional consumer goods fair and permanent sales displays. The first in Europe now are being built in Brussels and Utrecht.

<u>Aluminum's Future in Food Packaging:</u> The buyer will continue to call the tune in the aluminum industry in Europe this year, according to Alcoa International in Lausanne, Switzerland. But the situation of unlimited supply which is presently holding prices below what Alcoa calls "a realistic level" may be short-lived if Europe follows the predicted U.S. trend of increased aluminum consumption. <u>The big growth sector in Europe is food packaging</u>, where future demand for individually packed fruit and food portions looks promising. Last year saw sustained demand for aluminum food cans generally, with a big leap forward in the non-alcoholic beverage field, where easy-open can packing now accounts for over 80% of the U.K. market. In Italy, Germany and Spain, coffee is sold in such containers, and the market also is beginning to open up for aluminum-canned sardines, peanuts, meat and orange juice.

<u>Dutch Treat by Mail:</u> The market share of mail-order houses in Dutch retailing has more than doubled within the past 10 years, amounting to 310 million guilders ($95 million) in 1971, according to a representative consumer analysis. Textiles (mainly women's apparel) are best-sellers. Other goods favored by Dutch consumers include books, records, music cassettes, furnishings and furniture, flower bulbs, seeds and plants. Services such as travel tours and insurance also are coming on strong.
The leading Dutch mail-order house is Wehkamp of Zwolle, a subsidiary of the U.K.'s Great Universal Stores. With the acquisition of a smaller competitor, Bertels of Rotterdam (with ca. 30 branch stores), Wehkamp now has boosted its share of the Dutch mail-order business from 33 to 40% and annual sales to 125 million guilders. The takeover is seen as a move to stave off Germany's Neckermann, which moved into the Netherlands three years ago and rapidly has climbed to fifth place. No. 2 among Holland's mail-order companies is Ter Meulen Post, Rotterdam.
<u>The Dutch market still offers considerable potential for expansion, with only 27 guilders ($8.33) per capita spent on mail-order goods annually</u> (compared to an equivalent of 100 guilders spent by the Germans, for instance).

EURO COMPANY SCENE

<u>Montecatini Edison</u>, leading Italian chemical manufacturer, is said to have completed negotiations with major shareholders in <u>Snia Viscosa SpA</u> for acquisition of controlling interest in the country's No. 1 synthetic fiber group (over 40% of the market). A cooperation between Montedison and the Milan-based firm would then account for over 80% of the Italian market. Snia and Montedison previously have joined forces in sales (through Italviscosa) and in fiber pre-production in southern Italy, along with other companies. Montedison has been trying to revitalize its stagnating synthetic fiber business, in which it is represented by the Châtillon, Polymer and Rhodiatoce production companies, and thus would stand to benefit from Snia's reputedly superior sales organization.

The future of the bankrupt Upper Clyde Shipbuilders (UCS) may be settled late this month. Marathon Manufacturing, the Houston group, has reported that negotiations with local officials of the Confederation of Shipbuilding and Engineering Unions and with shop stewards have progressed favorably. Pending agreement on the terms of UCS liquidation and on the degree of government assistance, Marathon management feels that the present UCS labor force at the Clydebank yard could be utilized profitably. Marathon has a current backlog of orders amounting to over £200 million and has, to date, been unable to settle on an appropriate European facility. Local opinion is that a solution not involving the acquisition of UCS by an American company - the Scots are not avidly pro-American at the best of times - would have been preferable. No such solution has been found.

The 6,500 workers who have been on strike at the Chrysler car plant at Linwood, Renfrewshire (Scotland), have voted overwhelmingly to accept the company's latest pay offer. Production has been resumed. The strike had been in support of an £8-per-week pay claim. The workers now have accepted £5, to rise to £6 in October. The strike stopped Chrysler production throughout the U.K. and caused a production loss of approx. £10 million. The size of the pay hike was seen as a source of embarrassment to the government in its struggle against inflation, the main weapon of which was its incomes policy, notably the de-escalation of pay raises.

With the SWF-Spezialfabrik für Autozubehör Gustav Rau GmbH and its affiliated companies, International Telephone & Telegraph Corp. has acquired its second German automotive supply firm. ITT already owns Alfred Teves GmbH, manufacturers of brake linings and climate control systems. Takeover of the SWF group, which produces windshield wipers, signal switches and assemblies, tachometers and other auto parts, was effected by a cashless exchange of 2 million ITT shares, currently valued at almost $128 million, for shares in the four SWF companies: SWF GmbH, Heinrich Benzing, Wemdinger Industriewerke GmbH and Industriewerk Rau GmbH, all privately owned, until now, by Dr. Gustav Rau. Last year the SWF group, employing a work force of some 7,000 in 11 plants, attained sales ranging from an estimated $88-94 million. Company spokesmen stressed that ITT and SWF never have produced competing articles, a significant point for the American conglomerate, which recently lost an anti-trust round to the U.S. Justice Dept.

Belgium's Palmafina, a refiner of animal and vegetable oils and fats held entirely by the Petrofina group, and Oleochim, a producer of fatty acids and their derivatives owned jointly by Petrofina and Ashland Oil of the United States are merging forces. Combined sales of the new company, in which Petrofina and Ashland will participate equally, are expected to top 2 billion Belgian francs ($45 million) this year.

Goldberg-Emerman GmbH, Düsseldorf, German offshoot of Goldberg-Emerman Corp., Elk Grove Village, Ill. (Giddings & Lewis, Inc.), has rescued Collet & Engelhard Maschinenfabrik from liquidation proceedings, buying out the machine tools manufacturer's assets (except for plant and plant site) and know-how from Opel family heirs. To be renamed Collet & Engelhard Maschinenfabrik. Maschinenbau und Service GmbH, the Offenbach firm will employ some 400 of the original staff of 900 in servicing C&E machinery. Once new manufacturing facilities are made available, the company will resume manufacture of parts of its former production program, too.

Concerted efforts to save the former Voigtländer camera works in Braunschweig, Germany, from final shutdown have resulted in joint founding of the Optische Werke Voigtländer GmbH by Carl Zeiss, Rollei-Werke Franke & Heidecke and the Bank für Gemeinwirtschaft (BfG), each holding one-third of the DM 3-million (ca. $938,000) basic capital. The company is expected to begin operations early next month with a starting staff of 350, eventually to be boosted to some 600, according to Rollei, which has an option on BfG shares and will supervise personnel and operations. Carl Zeiss had been running the old Voigtländer plant as Zeiss Ikon Werk Voigtländer but now will contribute know-how, under license, for the new firm's production of high-quality photo lenses. Rollei is particularly interested in acquiring rights to the defunct Voigtländer trademark in hopes of building up another sales arm.

British Petroleum and the German oil combine Deminex have submitted joint proposals to the German Economics and Finance Ministry to secure Bonn's guarantee and participation in a British offshore oil concession off Abu Dhabi in the Persian Gulf. Germany has a reserve fund of some 600 million D-marks ($187.5 million) to finance oil prospecting. BP's stake in the Abu Dhabi concessions amounts to 15 million tons of crude oil per year. As a result of Deminex investment participation in BP (exact figures have not been released, but between 15 and 20% is expected), annual production could rise to nearly 300 million tons. An investment along these lines should require a German export credit guarantee. There have been rumors that the Japanese have been examining the possibility of investing heavily in the Abu Dhabi fields, and a West German decision thus is imminent.

Chances for Sandvik-Universal Tube GmbH (SUT) to become Germany's leader in the production of cannings for fuel elements of nuclear reactors look rosy after opening of the Swedish-American-French company's new DM 15-million ($4.6 million) production facilities near Frankfurt. With an initial yearly capacity of approx. 1.32 million feet of canning, almost sufficient to cover current estimated German needs of ca. 1.65 million feet, the joint subsidiary of Sandvikens Jernverks AB (40%), Universal Oil Products Co. (40) and Pechiney Ugine Kuhlmann (20) is guaranteed a starting turnover of DM 15-17 million. Sandvikens is No. 1 in Europe in production of cannings and world-wide second only to UOP, with its Wolverine Tube division, to which a newly acquired German subsidiary contributed sales of ca. DM 5 million last year. SUT shortly will begin production of integral TRUFIN fin tubes as well.

State-owned Electricité de France is placing a definite order for a second nuclear power plant at Fessenheim near the German frontier, involving a Westinghouse nuclear core manufactured under license by the Creusot-Loire group. The new plant will have an output of 980 megawatts.

American Air Filter Co., Inc., Louisville, Ky., has announced plans for a joint venture with Ramon Vizcaino S.A. of San Sebastian, Spain, to produce and sell a broad line of environmental control equipment and systems. The new company, in which AAF will have a majority interest, will be known as AAF-SA and will become operational as soon as the necessary approval is received from the Spanish government. Ramon has been the manufacturing licensee and sales representative for AAF in Spain for over ten years and during that time has developed the market for AAF air filtration and air pollution control products and systems.

According to Greek news sources, Austria's Steyr-Daimler-Puch AG of Vienna soon will conclude a contract for construction of a large automotive factory in Salonika. The plant, with 4,000-5,000 employees, would turn out some 3,000 trucks, 5,000 tractors and 1,500 heavy engines yearly. Several international concerns are said to have been competing for the project.

Production techniques eliminating smoke and dust pollution are being used at the new electrolytic zinc plant started up at Nordenham, Germany, by Preussag-Weser-Zinc GmbH, subsidiary of the German Preussag AG and France's Société Minière et Métallurgique de Penarroya. The plant, at the mouth of the Weser river, will have an annual production of 100,000 tons. Preussag and Penarroya together account for 40% of the EEC's total lead and zinc production.

Salzgitter Industriebau GmbH of Germany and the Soviet Union's foreign trade organization Techmaschimport have completed a $39.4-million agreement by which Salzgitter will deliver equipment for a polyethylene plant in Kazan on the Volga and the USSR will supply 200,000 tons of polyethylene produced there for sale in the Federal Republic. Construction of the plant was to have begun immediately.

Britain's Guest, Keen & Nettlefold and Manchester-based R. and S. Massey are submitting tenders for a huge truck plant to be built near Moscow. The two firms have joined forces to compete for the heavy drop-forging subcontract, valued at around $15 million. The plant, to turn out ca. 150,000 trucks yearly, has evoked great interest among Western companies. Renault already has secured the engineering know-how contract and most likely will be made over-all contractor; British Leyland and Ford also were in the running. U.S. firms have been "cleared" by President Nixon as potential subcontractors. It would seem, however, that British companies are front runners.

France's Poclain, world leader in the manufacture of hydraulic excavators, is to diversify into loaders and bulldozers, a field of U.S. and Japanese supremacy. With consolidated turnover of FF 800 million ($157 million) last year, the company first widened its interests three years ago by linking up with crane specialists Potain to form Poclain Potain Matériel (PPM), in which it has a 70% holding. PPM is now moving into mobile crane manufacture. The latest move centers on recently created Construction Mécanique de Carvin (CMC) in which Poclain has a 45% majority interest and which is specializing in loaders. The first new models were introduced in December.
Other French leaders in the construction equipment field have been taken over by U.S. interests: Yumbo by International Harvester and Richier by Ford.

Spokesmen for Siemens Bauunion GmbH, Berlin and Munich, have announced the company's projected merger with Dyckerhoff & Widmann AG, Munich, during the course of 1972. The new building giant, with business worth over $400 million, would occupy third place among German construction firms.

France's Schneider Radio-Têlêvision (1970-1 turnover FF 300 million or $59 million) has split off from its electronics division, which becomes a separate company with a capital of FF 3.5 million, Schneider Electronique. The majority holding lies in the hands of two development agencies: the public Institut de Dêveloppement Industriel (IDI) takes 45%, the private European Entreprises Development (EED), 25%. Schneider Electronique, specializing in numerical measuring and control equipment and electronic calculators, exports over 50% of its production. The United States is its leading export market.

Banca Commerciale Italiana (BCI) and the Los Angeles Carte Blanche Corp. have agreed to introduce the Carte Blanche credit card to Italy. Carte Blanche, an AVCO subsidiary, is one of the top three North American credit card organizations. Over the last two years Carte Blanche has increased its share of the market by an annual 30%.

The Italian International Bank will open in London on or around June 1 this year. The bank, with issued capital of £3 million, represents a link-up of four of Italy's oldest commercial banks Banco de Napoli, Banco de Sicilia, Istituto Bancario San Paolo Torino and Monte dei Paschia de Siena. The new bank will be active in the international financing sector, the Eurodollar market and in investment management, specializing in merger and takeover situations.

Keyser Ullmann, British merchant bankers, will receive a £7.5 million injection of capital from the Prudential Assurance Group. Prudential has indicated willingness to subscribe for 3 million new Keyser Ullmann Holdings shares at a price of 250 pence per share. This price is substantially above recent Keyser Ullmann quotations. The move, subject to approval by Keyser shareholders, represents a major step for Prudential in the investment sector.

Continental Illinois Bank of Chicago has opened an office in Athens, with imported starting capital of $7.5 million, exclusive of loans already granted, primarily to Greek construction firms.

National Westminster Bank of the U.K. has opened a German branch in Frankfurt under the name of its subsidiary, Westminster Foreign Bank. The move apparently is part of National Westminster's strong international expansion in view of Britain's entry into the EEC. The Frankfurt office, under Warren F. Stokes, will work primarily with British and multinational companies in Germany.

Doyle, Dane, Bernbach Inc. (DDB), New York, has acquired majority ownership in the Fahrenson & Fehse advertising agency of Munich. The purchase boosts annual sales of the German DDB group (DDB GmbH and its subsidiary, Promotion Plus) to over $28 million. The international agency's better known clients in the Federal Republic include Volkswagen, Volkswagen-Porsche, American Airlines, Gillette and Polaroid and now, through F&F, BASF, Pond's and Timex.

Common Market Reports

EUROMARKET NEWS

Issue No. 162 *February 22, 1972*

Getting in Line with EEC Law: Britain's most serious strike since the 1920s is not preventing the House of Commons from continuing debate on the European Communities Bill, which is designed to make the legislative changes necessary for compliance with the obligations entailed by membership in the Communities (economic, coal and steel, and Euratom). Its brevity (12 articles plus 4 schedules on 37 pages) is disproportionate to its significance, but the Heath government thinks that this bill could be restricted to what is now absolutely necessary to bring British law in line with Community law. Other important measures will follow (for example, the added-value tax system and rules assuring workers of the right to move freely throughout the Community).

The core of the bill is Article 2, which has widespread ramifications. Great Britain undertakes to transfer certain sovereign rights to the Community. Acts of the Community such as regulations would become directly applicable law. The Treasury would be authorized to make the necessary payments to the Community and the European Investment Bank. British courts would be required to recognize the rule that Community law (including the Court of Justice interpretation of Community rules) takes precedence over national law.

Not less significant is the part dealing with the adaptation of British law to Community law. Thirty statutes are to be repealed, and amendments are provided for 19 additional laws. This again is considered the absolute minimum at this time. Like any other member state, the U.K. would apply the Community's common customs tariff to products imported from third countries. Provision is made for an Intervention Board for Agricultural Produce, entrusted with the difficult task of implementing the EEC's common agricultural policy.

Joining the Communities entails a substantial financial burden. The government estimates that the U.K.'s annual contributions will increase from £100 million in 1973 to £200 million in 1977 (the end of the transitional period). In addition, Great Britain could be asked to provide credits of up to £250 million to help overcome balance of payments difficulties of a member state.

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Shoring Up the Land: Denmark's government has found a compromise for dealing with the prospect of foreigners (mostly Germans) buying up shoreline property and the future obligation under the Treaty of Rome not to discriminate against nationals from other Member States. Legislation now pending before Parliament would give the government preemption rights to buy up real estate property for sale in the country's top recreational areas. The *Folketing*, Denmark's parliament, has been asked to appropriate 100 million kroner (nearly $15 million) for this purpose.
Although Prime Minister Krag's government was pressured by strong national sentiment, discriminatory legislation would have been a serious obstacle to Common Market membership. No one would have expected the EEC Commission's approval of such a bill. But the Commission did not object to the proposed legislation, and Premier Krag can hope to get the additional public support he needs in this summer's referendum on Denmark's accession to the Community (s. also AROUND THE MARKETPLACE).

Opening the Books: Beginning this year a number of non-stock corporations in Germany are required by law to submit to public exposure by publishing annual reports or financial statements. The "Law on Financial Statements of Large Enterprises and Combin (*Gesetz über die Rechnungslegung von bestimmten Unternehmen und Konzernen*), dated Aug. 15, 1969, concerns companies which meet at least two of the following three criteria for three consecutive business years: a) a balance-sheet total of DM 125 million ($46.8 million), b) an annual turnover of DM 250 million, and c) an average work force of 5,000 employees. Other criteria are applicable to banks, insurance companies and some other enterprises.
A recent press report listed 50 industrial companies, 16 trade companies, 19 banks and five other enterprises which definitely will have to publish annual reports for the first time this year, in 1973 or '74. Among the multinational corporations named were the German subsidiaries of Coca Cola, IBM, ITT, Kraft, Nestlé, Rank Xerox, Chrysler, Occidental Oil, and Woolworth.

All French commercial companies also may have to publish regular financial statements in the near future, and groups may have to issue quarterly consolidated figures. Present law requires only companies with a turnover of FF10 million ($1.96 million) or more, or those quoted on the stock exchange, to publish annual statements. The new provisions, an extension to the 1966 Law on Company Statements, are contained in a bill shortly to be presented to the National Assembly. The bill provides that the public shall be privy to documents thus far reserved exclusively for shareholders, and that companies have the right to publish their annual reports before presenting them at the shareholders' meeting. Certain procedural simplifications of annual meetings also have been incorporated.

French Cite U.S. Profits: *Patronat Français*, the French employers' federation and the leading voice of business opinion, has addressed an open letter to American businessmen in reply to U.S. condemnation of alleged French and European ingratitude and a refusal to understand the economic problems of the United States.
Pointing out that Europe (the EEC) now has become a "closely cooperating partner" of the United States, the letter refers to the profits it says the United States has gained from European recovery since World War II:
- a fivefold increase in U.S. sales and investments in Europe be-

tween 1958 and 1970, and a constant trade surplus with Europe;
- a 25% increase in agricultural exports to Europe over the last six years as compared to a 20% increase to other world markets;
- repatriated profits of $1 billion in 1970, not counting the European profits of U.S. companies immediately reinvested in EEC countries, and
- European GATT tariffs averaging only 6.9% (as of this year) compared to average U.S. tariffs of 10.9%.

"For too long," the letter continues, "you (the Americans) seemed to be leaving it to us in Europe to manage somehow to deal with the ups and downs of the growing mass of Eurodollars." The Patronat said it understands President Nixon's economic measures of August 1971 but regrets his decision "apparently to present us with a rather rigid set of unilateral demands, rather than urge responsible but free give-and-take discussions and negotiations" between the allies.

The principal goals that Europe and the United States must work for together, the letter concluded, are "construction of a durable international monetary system acceptable to each and every one of us in the free world, and balanced expansion of international trade." The Patronat foresees a deterioration of relations with the United States if satisfactory solutions to these problems are not found.

Aiming for a Common Energy Policy: Two decisions adopted in principle by the Common Market Council of Ministers and now to be presented to Britain and the other prospective Common Market members indicate that a common European energy policy (covering coal, gas, electricity and nuclear power) is no longer a pipe dream. The first decision provides that each EEC country release to the Commission details of its investment plans for production, transport, storage and distribution of hydrocarbons or electrical power over the next three years. The second relates to similar information on imports of crude petroleum and natural gas already completed and anticipated over-all imports of these for the following year. Implementation, however, may be a problem. The Dutch, for example, object to the naming of companies (i.e., Shell) that import oil products. The French feel that the EEC may be asking for too rigid controls on oil imports. The Germans, among others, have suggested that there may be an infringement of the free interplay of market forces. In view of the rapidly changing aspects of the energy sector, however - with the switch from coal to oil and the increasing importance of natural gas - member countries agree that power needs within the EEC are a source of concern to the Community as a whole. This, in itself, may provide sufficient impetus toward a common European energy policy.

More Money for Environmental Control: The French government has allocated funds initially totaling FF144 million ($28.5 million) to be spent this year on specific anti-pollution projects. Measures announced include the formation of 37 five-man inspection teams to investigate and control sources of noise pollution, the funding of noise abatement studies for newly planned airports, the creation of air pollution control networks, and more public financing for R&D of electrically powered vehicles. Included also are funds for green belts and national parks as well as for water purification facilities at ski resorts and important tourist areas. More allocations are expected later in the year, and several decrees applying to noise control of motor vehicles and aircraft and providing for loans for soundproofing buildings will be published

shortly. France's Department of the Environment was set up only a year ago.
In related news: as of this month, ships may no longer discharge poisonous substances into Swedish lakes, streams and coastal waters. Denmark has extended a similar law to Danish vessels traveling in foreign waters or on the high seas. Norway is in the process of establishing a Ministry for Environmental Protection, to become operational on April 1.
In Germany, two directors of a major steel plant have been fined DM 10,000 each because the plant's dust emissions exceeded the maximum permissible level. The court action against the managers of Saarländische Stahlwerke Röchling-Burbach came in the wake of a citizens' petition signed by 18,000 people.

AROUND THE MARKETPLACE

Going Whole Hog: Danish farmers, who so far have felt victimized by EEC import restrictions and export subsidies, are impatiently anticipating the day when they stand to benefit from these very policies as Denmark becomes a member nation. The country's agricultural exports to the EEC are certain to grow with the step-by-step reduction of tariffs, profiting at the same time from the fact that EEC price levels are higher than those at home. On the other world markets, Danish products should become more competitive thanks to Brussels export subsidies.
Thus encouraged, Denmark's dairy industry is forming combines large and financially strong enough to pursue vigorous marketing policies. Four dairy companies joined recently to market their products under the "Dan-Mark" label. The Central Association of Danish Dairies, representing approximately 90% of the nations's milk production, has been reorganized to better prepare its members for competition abroad and to gain more influence on production and sales. Poultry farmers, too, are girding for the future - for the first time in years they took part in Berlin's "Green Week," Europe's largest agricultural fair. They hope to regain a fair share of the Continental market, which they lost almost completely when, in 1963, EEC import barriers took full effect. Last not least, three large groups are establishing themselves in the Danish meat processing industry. The most important, Tulip, processes 1.4 million hogs annually and has a turnover of about $156 million.

Soviets Want Fair Share: Moscow authorities have announced plans for newer and larger fairgrounds to be located centrally in the Krasnopressensk section of town, by the Moskva River. The area, which includes Drershinski Park, would provide 75,000 acres for direct exhibition purposes and better accessiblity to freight cars, trucks, and barges. Plans call for 198,000 square feet of covered display space by 1975 and twice that by 1980. As at the existing Sokolniki Park exhibit grounds, foreign countries will be invited to share in the investment by putting up national pavilions as permanent trade centers. The new grounds are to be inaugurated with a construction and road-building equipment exhibit. The Soviets also are reported to be considering the establishment of an annual or semiannual Moscow Trade Fair patterned after that of Leipzig, East Germany, now Eastern Europe's largest and most important.

EURO COMPANY SCENE

As a first result of preparatory discussions in Munich, Europe's aircraft-engine manufacturers have established working groups to lay the foundations for what might become a truly European engine industry. The original impetus for the talks came from Britain's Rolls-Royce (1971) Ltd., whose disastrous experiences with the Rolls RB 211 were a case in point for the need for supranational "burden-sharing" in modern engine R&D. The other European partners are France's Snecma, Italy's Fiat, Germany's MTU, and Sweden's Volvo. Rolls-Royce envisions a collaborative partnership in any future aircraft engine development, whereby both costs and expertise would be shared. However, the British plan is said to have aroused the suspicion of Snecma, which had designs on leading such a consortium. The U.S. manufacturers, General Electric and Pratt & Whitney, also would like to be part of the deal, and it was reported that they would be admitted as "subsidiary partners."

The crash of the first prototype of the small passenger jet, VFW-614, earlier this month near Bremen is only a temporary setback which should not affect the project as a whole, according to VFW-Fokker, the German-Dutch aircraft manufacturers. Pending results of the crash investigation, flight tests are to continue with the two remaining prototypes. Company executives still hope to meet their schedule, which provides for delivery of the first planes by early 1974. Last year progress of the VFW-614 project was held back when it was uncertain whether Rolls-Royce would be able to stand by its commitment to supply the engines. This problem appears to have been settled, following guarantee agreements by the German and British governments. Development of the short-range jet so far has cost DM 580 million ($181 million). Its makers still profess confidence in the plane's market potential, although the Soviet Union's YAK-40, a 27-passenger trijet, now is shaping up as a formidable challenger.

The British Aircraft Corp.'s Electronic and Space Systems Group has emerged as the prime contractor for a European Communications Satellite definition study contract relating to television communications between European countries and the transmission of services between the European Broadcast Union member agencies.

Germany, Italy and the United Kingdom have awarded a contract to develop and build the main computer for their European multi-role combat aircraft (MRCA) Panavia 200 to LITEF (Litton Technische Werke) in Freiburg, Germany. The Panavia consortium includes British Aircraft Corp., Messerschmitt-Bölkow-Blohm, and Fiat. LITEF's 16-BIT universal computer - "Spirit III" - will have a storage capacity of up to 32,000 words. The German company, a member of the international Litton group, has developed and produced electronic defense equipment for NATO for over 10 years. Smiths Ind. of Cheltenham, England, is subcontractor for the EDP project.

Badische Anilin- & Soda-Fabrik AG (BASF) of Germany and France's Pechiney Ugine Kuhlmann have stepped up their cooperation in polyurethane polymer production. BASF has taken a 50% holding in Pechiney's subsidiary Dékachimie SA as well as increasing its participation in Marles Kuhlmann Wyandotte from 45 to 50%; Pechiney holds the remainder. This year Dékachimie will expand its tolylene diisocyanate facilities in northern France to a capacity of 35,000 tons annually, while Marles Kuhlmann Wyandotte, which maintains operations in France and Belgium, plans to build a new 25,000-ton-p.a. manufacturing plant for another polyurethane base chemical in Antwerp. A third joint subsidiary of both companies, Dispersions Plastiques S.A., soon will complete construction of additional facilities for polystyrene production at its Villers-Saint Paul plant.

The depressed plastics market has caused France's newly-formed ATO (Aquitaine-Total) chemical group, jointly held by Total, Société National des Pétroles d'Aquitaine and Elf, to postpone construction of an extension to its steam-cracking plant at Feyzin, near Lyons. Indefinite suspension of the project - to have created a plant with an annual ethylene yield of 300,000 tons by next year - ends the government's Sixth Plan hopes for a national ethylene output of 2.3 million tons by 1975. Although general economic slowdown of the Rhône-Alpes region, one of the leading French chemical centers, has forced a major cutback in petrochemical orders, ATO, which recently opened another steam-cracking unit in Normandy, still will go ahead with an addition to its polyethylene plant northeast of Lyons. By the time Naphtachimie (Rhône-Poulenc and BP) opens its plant on the Mediterranean this summer, France should have an annual ethylene output of 1,720,000.

Mobil Oil plans to increase the capacity of its Frontignan (France) plant from four to six million tons a year. The expansion, requiring investments of FF 43 million ($8.6 million), is already under way. In 1971, Mobil Oil France produced a total crude output of 6.2 million tons as well as 6.5 million tons of petroleum by-products.

Reckitt & Colman Ltd., of London, has caught the German cosmetics industry off guard with its acquisition of the Olivin group, Wiesbaden, from C.H. Boehringer Sohn, major pharmaceutical producer. The British firm has taken on Olivin's complete sales and marketing apparatus and will operate it as an independent unit, supplied by Boehringer's Dr. Karl Thomae GmbH Chemisch-Pharmazeutische Fabrik. Reckitt & Colman has not yet established its own manufacturing facilities in Germany in this field. Last year the Olivin group - with products ranging from general deodorants through men's toiletries - attained international sales of about $25 million, including proceeds from license agreements. Reckitt & Colman is active in cosmetics, foods, household articles, pharmaceuticals, and industrial products and draws almost three quarters of its turnover from sales outside the United Kingdom. In Germany, the British firm was represented until now by Jensen's Fine Foods GmbH in the grocery sector and by Reckitt GmbH in consumer goods.

Joseph Lucas (Industries) Ltd. of the United Kingdom has agreed to buy 40% interest in Italy's Carello & Co., manufacturer of automotive lamps, filters, and windshield-wiper blades for Fiat, Alfa Romeo and other Italian car producers as well as for the spare-parts market. The purchase price was reportedly about £3 million ($7.8 million) cash. In addition, Lucas has an option to acquire another 20% of Carello's share capital within the next five years.

KHD-Pritchard, Cologne, joint subsidiary of J.F. Pritchard & Co., Kansas City, Mo., and Germany's Klöckner-Humboldt-Deutz, has been awarded a DM 12-million ($3.75 million) contract from the Soviet Union for construction of a plastics plant in the USSR. The facilities, to be completed by late 1973, will produce base materials used in the manufacture of glass for the automotive industry.

Selas Corp. of America, Dresher, Pa., has sold 60% of its interest in Selas of America (Nederland) N.V. of the Hague to General Kinetics B.V., a wholly employee-owned and closed corporation. The Dutch company, contractor for the chemical, petrochemical and petroleum industries, maintains subsidiaries and branch offices in Hamburg, Paris, Madrid, London, and Rome and has 40% interest in Selas India Ltd., New Delhi, a joint venture company. Selas (Nederland) specializes in process and design engineering, with emphasis on endothermic high-temperature processes.

Lovell and Christmas, a subsidiary of the Fitch Lovell food group, has announced the formation of a joint company with the American Standard Brands group, a leading producer of margarine in the United States and Canada, to market margarine in the United Kingdom.

Hopt Electronic GmbH of Germany, a holding of General Telephone & Electronics International, Inc., New York, since 1970, will shut down its main plant in Rottweil as well as English and French branch operations by June 30. The move involves laying off 620 employees in Germany alone, where GT&E already closed four other Hopt plants last year. At the time of its takeover, the German company employed 1,250 in production of mechanical components for television sets. Saba GmbH, Villingen, a major German manufacturer of TV sets and radios, also belongs to GT&E.

The United Kingdom's leading shipping group, Peninsular & Oriental Steam Navigation (P & O), indicated in mid-1971 that the general profit picture for the year would be bleak. It now has been disclosed that profits have dropped by 58% - from £12.6 million ($4.84 million) in 1969-70 to £5.2 million last year. The P & O group managed to pay a 12% dividend as promised but, to do so, the company for the first time since 1966/67 has had to dig into reserves to pay out the £6.97-million dividend. Official company reasons given for the sharp decline in profits were phenomenal increases in costs for crews, repairs, and fuel, allied to the expense of using U.K. ports.

World-wide publicity over the thalidomide tranquilizer that caused birth deformities has not seriously impaired the business viability of the drug's producer, Chemie Grünenthal GmbH, Stolberg near Aachen. According to recent German press reports, built-up cash reserves, bank credits, and tax write-offs will enable Grünenthal to meet restitutional payments without damage to its own substance. After a lengthy trial, the company last year agreed to pay DM 100 million ($31.3 million) to victims of the tragedy. In addition, it must cover $10-12.5 million in related damage claims, legal costs, therapeutical investments, etc. Grünenthal, a family-owned company with a basic capital of DM 4.3 million, reported sales of about DM 110 million for 1971.

Intercontinental Hotels Corp. has concluded an agreement with the Polish state tourist agency, Orbis, for construction of a 700-room medium-class hotel in Warsaw at estimated costs of almost $14 million. The hotel, to open in December 1973, will be managed by Orbis as part of the Intercontinental chain. The contractor will be Sweden's Skonska Cementuriet.

Holiday Inns, pushing forward with a hotel network in West Germany, is negotiating with East Germany through Hotel Tower Ltd. for the construction of hotels in East Berlin, Leipzig, and Dresden. A market study had shown the U.S. firm it could reckon with an occupancy rate of 70% and higher in these cities. The East German government has declared itself ready to build and operate the hotels, under license, with responsibility for maintaining the company's international standard. No agreement has been reached, however, on licensing fees. Holiday Inns also is planning five hotels in Poland and three in Hungary.

Germany's Siemens AG is building a DM 10-million ($3.1 million) management center on Lake Starnberg in Bavaria. Starting in 1974, the company plans to train some 20,000 of its employees there, mostly from middle and top management. Siemens has organized its own executive training seminars on a regular basis since 1956.

Germany's S. Fischer Verlag and Harcourt, Brace Jovanovich subsidiary Athenaeum Verlag are founding a joint publishing company, Athenaeum Fischer Taschenbuch Verlag, Frankfurt, to produce paperbacks for college and university students, starting this fall. Plans call for publication of at least 120 titles by the end of 1972, particularly in the fields of literature and linguistics, education, psychology, law, sociology and economics. Akademische Verlagsgesellschaft Athenaion, Joh. Ambrosius Barth and Franz Steiner Verlag are other Harcourt Brace publishing holdings in the Federal Republic.

Christian Dior, Paris, has taken the first step toward expansion on the German market with the opening of a Dior boutique in West Berlin. The haute-couture fashion house licenses production of hosiery, lingerie, shoes, ties, and other accessories and - after success with franchise-operated boutiques in Paris, London, Geneva, and Tokyo - it plans to open another 20 specialty shops around the world within the next three years. Munich, Hamburg, and Düsseldorf are next in Germany, with the Bavarian boutique to debut in time for the summer Olympics. Last year Dior's turnover, including perfume sales, totaled some $81 million. The recent addition of champagne producers Moet & Chandon and Mercier to its Hennessy cognac holding, suggests Dior may be quietly following the lead of rival couturier Pierre Cardin, who has moved into such far-flung fields as hi-fi systems, video cassettes, facial tissues, candy, and industrial design (auto interiors).

The German-American advertising agency group Team-BBDO (Batten, Barton, Durstine & Osborn), with German headquarters in Düsseldorf, is entering a cooperative partnership with one of the largest French agencies, Interplans Publications Paris (IPPA). Interplans in 1971 ranked third among France's agencies, with billings of FF180 million. IPPA is to acquire shares of Team France, which will continue to be managed as an independent agency. The turnover of the Team group reached DM 155 million last year, making it No. 4 in Germany.

Common Market Reports

EUROMARKET NEWS

Issue No. 166 *March 21, 1972*

Alternative to the "Avoir Fiscal": In the wake of the public scandal in connection with revelations about Prime Minister Jacques Chaban-Delmas' tax returns, a plausible middle-line alternative is being proposed to the French National Assembly. The bill's author is left-wing Gaullist Edgar Faure, who seeks abolition of this tax reduction for distributed dividends. The *avoir fiscal* measure was instituted in 1965 to stimulate private investment in industry, but the opposition parties cite it as being symbolic of an undemocratic tax system, since it eases the over-all tax burden for people with money to invest.

The Faure bill proposes a reduction from 50 to 25% of the tax on corporate profits, with the 25% thus gained to be redistributed on a 50:50 basis to shareholders and company employees. The proposal could find support among management, shareholders, and wage-earners, but the French treasury would lose some FF 8.5 billion ($1.7 billion) annually if it were to pass.

The avoir fiscal controversy has caused the French to scrutinize their tax system as a whole. Among the elements which the present government may be most inclined to revise are direct tax exemptions for certain professional categories and - more important - the consumer tax (TVA) structure, which is very complex and where rates are high (the standard rate is 23%). Recently published studies have shown that the TVA, in contrast to prevailing opinion, does nothing to reduce the income gap. TVA accounts for 48% of total tax receipts and takes a 12-15% bite out of the consumer's purse regardless of his income category. The so-called "luxury" rate of 33.3% and the reduced rate of 7.5% touch only a small range of goods.

It is direct taxation, however, over which the French traditionally groan - although, at 17.8% of total tax receipts, it is among the lowest rates in developed countries. About 45% of the Frenchmen

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pay no direct tax at all, since their income falls below the taxable minimum; the remainder may take advantage of special professional exemptions which, on the national average, reduce actual taxable income to 30% (based on 1969 figures). Even so, only 0.3% of the working population admits to a taxable income of FF 100,000 ($20,000) or more. Tax fraud, in fact, is acknowledged to be a popular game at the expense of the treasury. But the recent scandal has shifted somewhat the traditional target of complaint - between now and the parliamentary elections next spring, the political parties will make the tax system the spearhead of their campaigns.

Tax Reform - More Than Bonn Could Chew: No government is likely to admit openly that it failed to accomplish one of its announced objectives, and the West German government is no exception. But it is now clear that the government will not be able to meet the tax reform deadline of Jan. 1, 1974, it set for itself. Of the reform's three major packages, only two are before Parliament - the first in committees and the second just introduced. This summer the Bundesrat and the Bundestag should receive the third package, the individual and corporate income tax bills, constituting the core of the reform.
Tax people all along have not directed their criticism primarily at the major objectives of the reform. Ever since the Supreme Court declared that the present property valuation rules (assessments are based on 1935 values) hardly pass the test of constitutionality, the federal government has been under pressure to revamp the system. The second package, dealing with net worth tax, estate tax, and real estate taxes, contains rules under which real property would be appraised at 1.4 times the assessed value established in 1964. This new valuation system is expected to pass the constitutionality test.
Most experts have criticized the short time the government allowed itself to put the tax system (with many innovations) on its feet. In the field of corporate taxation, the tax credit system planned to replace the present split-rate double taxation system has confronted experts in the Finance Ministry with so many obstacles that they could not move faster. The French tax scandal has prompted Bonn to scrutinize the bill to avoid similar problems. Critics have some weight behind their argument, based on an old German maxim, *Gut Ding will Weile haben*, or a good piece of legislation takes time. Assuming the Brandt cabinet sends these individual and corporate income tax bills to Parliament in late summer, the general consensus is that there will not be enough time for a thorough discussion of the bills in tax committees or for the tax authorities to familiarize themselves with the new laws.

Industrial Relations Act (II): *(Trade union attitudes, the Chief Registrar's function, and strike action were discussed in last week's EUROMARKET NEWS report on the United Kingdom's new Industrial Relations Act.)* As far as the individual is concerned, the Act confers a number of new rights, foremost among these being the choice of whether to belong to a union or not. Again, the individual can bring action against a union or an employer for various forms of discrimination and also for what he considers unfair dismissal. It is interesting to note that if a person is not an authorized official of a registered trade union, he can now be deemed liable if he calls or threatens to call a strike; in other words, unofficial strike leaders can find themselves, as individuals, on dangerous ground.

<u>Important New Guide for American Firms Doing Business in Germany:</u> Just off the presses, here is a vital CCH reference that provides the facts you need to know about the landmark German Works Council Act 1972 in order to protect your German business interests. Designed to save you hours of laborious research in a foreign language, CCH's <u>German Works Council Act 1972</u> combines the full text of the law (original German law text plus English translation) with detailed, authoritative analysis. It tells you why this far-reaching law is expected to have such a dramatic effect on German business-labor relations. . .and what it means for you. In all, 144 pages, 6 1/4" x 9", perfect bound, heavy paper covers, with glossary and topical index. To obtain copies of the book, write Commerce Clearing House, Inc., 4020 W. Glenlake Avenue, Chicago, Illinois 60646 and ask for <u>German Works Council Act 1972</u> (5039) at just $12.50 a copy. Remittance with order saves postage, handling and billing charges. Include sales tax where required. (Subscribers to CCH Common Market Reports receive a copy of this title and should order only for extra copies.)

The Act contains two other provisions to which the Trade Union Council is vehemently opposed. If a person is held liable, fined, and fails to pay, the fine can be withheld from his earnings. If he fails to comply with a binding order from the National Industrial Relations Court, he is in contempt and can be imprisoned. The government has emphasized that the complex and somewhat obscure law (comprising two sections and nine schedules) is designed to improve industrial relations in the U.K. Those who, in theory, should be the subject of such legislation, i.e., those employed in industry, do not appear to share this optimism. The government also has claimed that the Act, *per se*, does not increase or reinforce the government's hold over trade unions, largely because the courts are "independent." The unions feel, however, that it was the government which decided, via Parliament, what the Act should say. And they disagree with its provisions.

<u>Wage Restraint Urged:</u> The Confederation of British Industry has appealed to its 11,500 members to stand firm on the question of wages. This is the first salvo in the battle to continue voluntary price restraint in the U.K. when the present initiative expires in July. The next step was to be a meeting later this month between the CBI and companies that endorsed the initiative last year. <u>Members have been exhorted to secure pay settlements at least twelve months apart from the previous settlement and to maintain the downward</u> trend of recent settlements. Failure to do so would frustrate the government's reflationary policies and would lead to even higher levels of unemployment. The CBI also claims pay settlements have been "encouraging" (in spite of the exception made in the case of the miners), and that the effects are beginning to be felt in price movement trends.

<u>Pulling in the Welcome Mat?</u> The Dutch government, worried about a possible invasion by British subjects once the U.K. joins the Common Market, is quietly looking into ways to protect Holland's labor market. Both government officials and labor unions have ex-

pressed fears that the country's generous social policies will attract an unmanageable number of workers from the Commonwealth (primarily from India) who are in the possession of British passports. The Dutch foreign ministry said no provisions have been made in Brussels taking this possibility into account. Union representatives in the Netherlands have recommended the imposition of immigration quotas for workers coming from non-EEC countries.

Slowed Foreign Investment in Germany: Foreign capital holdings in German enterprises increased at a faster rate in 1971 than in the two previous years, expanding by nearly DM 2 billion to a total of DM 23.5 billion ($7.34 billion). However, this development was directly related to a special transaction whereby one company (Ford Germany) raised its capital by some DM 600 million. Without this large transaction, the rate of foreign capital participation would have continued to recede as it has done since 1968, according to a Bundesbank survey. The report included the following tabulation of foreign capital involvement in the Federal Republic, covering the years 1964-70:

Year	Number of companies w. foreign holdings 1)	Nominal capital in DM millions	Foreign Share in DM millions		
			of nominal capital	of the reserves 2)	of total capital 2)
1964	4,042	16,123	11,643	-	-
1965	4,734	19,051	13,594	-	-
1966	4,945	21,533	15,193	-	-
1967	5,110	23,252	16,825	-	-
1968	6,988	26,538	18,972	5,540	24,512
1969	7,410	28,321	20,242	6,330	26,572
1970	7,761	30,263	21,627	7,420	29,047

1) without indirect holdings 2) partly estimated

The Bundesbank study emphasized one important point: the net increase of DM 2.7 billion in the years 1969 and '70 was exclusively due to the fact that the expansion-minded German companies involved raised their capital, with their foreign parents or part-owners taking over the new shares. Although foreign capital holdings also expanded through the establishment of new German subsidiaries and through first-time holdings, this activity was statistically cancelled out by an equal volume of disposed holdings.
The share of U.S. holdings in German companies, which had grown steadily until 1968 to reach a peak of 43.4% of all foreign holdings in Germany, decreased slightly to 42.7% by the end of 1970. In all, U.S. direct investment in Germany stood at DM 9.2 billion ($2.875 billion) at that time. During the two-year period 1968-70, new U.S. investments amounted to DM 1 billion. The proportion of American investment vis-à-vis that of the EEC countries is bound to shrink in the future, according to the report, as Great Britain joins the Common Market. The dollar devaluation and the D-mark revaluation also should contribute toward reducing Germany's attractiveness for U.S. investment capital.

Good News for EEC Travelers: In efforts to further ease travel between EEC member countries, the European Commission has proposed

substantial increases in duty-free allowances. These recommendations already have been discussed by the European Parliament (which, in fact, asked for even higher duty-free amounts) and have been submitted to the Council of Ministers for final approval, perhaps in time for the summer vacation season.
The proposals call for a raise in the general duty-free allowance from $75 to $150 for persons 15 years or older, and from $20 to $40 for those below that age. Allowances for tobacco products are to be doubled to 400 cigarettes or 200 cigarillos or 100 cigars or 500 grams of pipe tobacco. The liquor allowances are to be raised to 0.7-1 liter for hard liquors (the European Parliament wants two liters), or three liters of aperitif or sparkling wine (EP: four), and four liters of non-sparkling wine. Coffee allowances are to go up to 1,000 grams (EP: 2,000) for regular coffee, and to 500 grams for instant coffee (EP: 1,000).
The Commission recommends abolition of all volume restrictions on perfumes and toilet waters. In addition, travelers no longer will be obliged to declare imported goods upon arrival in any EEC country.

Frankfurt's Million-Dollar Folly? After seven years of round-the-clock construction and an investment of $310 million, Frankfurt has inaugurated Europe's largest airport complex - all that is needed now are the 30 million passengers for whom the cavernous terminal was designed. And this annual volume, German aviation experts predict, will never materialize. Their reasoning: runway and ramp capacity, already strained, cannot be expanded much further because of geographical and environmental limitations. Sooner or later, these critics say, the Frankfurt area will need a second airport if it wants to maintain its position as Germany's air traffic hub.
Last year Rhine-Main Airport handled 10.6 million passengers, making it Europe's third-busiest after London-Heathrow and Paris-Orly. In terms of flight arrivals and departures Frankfurt ranks No. 3 in the world, even ahead of New York's J.F. Kennedy.
The proportions of the concrete structure are staggering, indeed. The central terminal is more than 1,500 feet long and can accommodate up to 300 check-in points. The computerized baggage handling system - 18.6 miles of conveyor lines driven by 12,000 electric motors - can sort 13,000 pieces of baggage an hour. It alone cost more than $30 million, and insiders say frequent breakdowns are unavoidable because it is too complicated.
Despite many other conveniences, passengers will have to trudge long distances to reach their planes - 2,300 feet at worst. Moving sidewalks, installed as an afterthought, are expected to cure the problem at least in part. Two positive features: subterranean parking for 7,500 cars and a rail line connecting the terminal with the downtown railroad station via a 12-minute ride.

PUBLICATIONS

OECD Economic Surveys - France: Successful price and unemployment controls will be the key to France's economic well-being this year, according to the latest OECD report. The Paris government would be advised to take further stimulatory action if it is to achieve the 5.9% expansion rate (since revised to 5.2%) set for 1972 in its Sixth Plan covering 1970-75. If France falls short of its second-year target as it did of the first, the OECD says, success of the plan as a whole is questionable. Its economists,

in fact, see a straight 5% expansion rate as a good enough achievement for this year.
Although French export competitiveness survived the December parity changes unimpaired, the extent and timing of further export increases will depend on the success of reflationary measures taken by France's trading partners. A slight deceleration also is expected in the country's import growth, which reached 7% in 1971 (11.5% in terms of value). The OECD commends the path of action already taken by the government - primarily, boosting public-sector investment (especially home construction). Yet it feels the recent abolition of the TVA *butoir* will, by itself, be of little help in halting the slowdown in that sector and finds additional measures necessary. There is likely to be a moderate decrease in consumer spending (annual growth around 5%), while private savings will continue at a high rate. The importance of stimulating investment and growth with a view to holding unemployment in check could result in an over-all budget deficit this year, the report concludes.

DATEBOOK EUROPE

Changes involving both dates and location have been announced for the upcoming promotional conference "Invest in the USA" in Germany. The seminar, which is to stimulate German interest in direct industrial investment in the United States, is now definitely scheduled for May 16-17 at the Düsseldorf Hilton. Co-sponsors, along with the U.S. Dept. of Commerce, are Germany's top commercial and industrial associations. A similar conference with the same theme will follow on May 23-24 in Stockholm (Industri Huset) and will be co-sponsored by the Swedish Export Association.

A symposium on the Maritime Carriage of Nuclear Materials will be held in Stockholm from June 18 to 22. The symposium is to be organized by the European Nuclear Energy Agency and the International Atomic Energy Agency. It will be particularly concerned with technical and regulatory problems, as well as third-party liability and insurance problems in the field of nuclear materials transport.

EURO COMPANY SCENE

In view of its own "very real" growth prospects, Watney Mann Ltd., third-largest U.K. brewery group, has rejected a 353-million-pound takeover bid, one of the highest in British history, by Grand Metropolitan Hotels Ltd. Grand Met, proprietor of 39 hotels in England and on the Continent, also is active in industrial catering, restaurants, and the leisure time sector. It acquired one brewery, Truman's, in fierce competition with Watney Mann last summer.
Counter offers now are anticipated, particularly from other potential contenders such as British brewers Boss Charrington, Unilever, British-American Tobacco, and Imperial Tobacco.
Bagging Watney would enable Grand Met to double its net worth (current market value: 370 million pounds), giving it a national brewery with control of over 12,500 retail outlets, including over 6,000 pubs in the U.K., 5,000 on the Continent, 1,200 off-licenses, 31 hotels and motels, and 70 catering and entertainment establishments. Watney Mann, owner of International Distillers and Vintners (J&B Rare Scotch and Gilbey's gin), has become Belgium's second-largest brewing concern and is active in Germany, France, Spain, and Portugal.

Meanwhile, the U.K.'s Stock Exchange Council has ordered a full-scale inquiry into dealings in Watney Mann shares. Numerous pre-bid rumors had driven up the company's market price in advance of the offer. This plus Grand Met's claim to have the support of associates holding large share blocks may precipitate an investigation by the Takeover Panel, as well.

Montecatini Edison is reported to be negotiating with three major bidders for the sale of its subsidiary Magrini Fabbriche Riunite, producer of large electric switches and similar equipment. Candidates are said to be Westinghouse Electric Corp., Italy's state-owned Istituto per la Ricostruzione Industriale (IRI), and AEG-Telefunken of Germany. Magrini, which had sales of about $338 million last year, operates three plants in northern Italy and a subsidiary, Magrini Meridionale, in Naples. Montedison apparently wishes to divest itself of holdings outside its primary interest sectors: chemicals, synthetic fibers, foods, and retailing.

Germany's Volkswagenwerk and Yugoslav VW importer Unis (United Metal Industry) will set up a plant for automobile assembly and parts manufacture at Vogosca near Sarajevo. Unis will put up 51% of the share capital and Volkswagen, the rest. To employ some 1,000 workers upon completion, the factory will be managed by both companies on an equal footing. Components turned out at Vogosca will be exported to Volkswagen's home base at Wolfsburg. Last year VW sold 7,300 cars in Yugoslavia, but has far to go to match sales of top importers Fiat and British Leyland (Minis), both already represented in the country with assembly operations.

Both Daimler-Benz AG and Volkswagen have announced development of experimental "electro-transporters" at a Brussels symposium on electric road vehicles. Powered by new interchangeable battery systems, the small delivery trucks have a top speed of about 50 mph. Changing the battery is said to require little more time than filling the gas tank in conventional vehicles. Operating costs, however, are expected to run higher than those for internal combustion engines.

In related news, Daimler-Benz is reported to be considering a speed-up in integration of its Hanomag-Henschel truck division (acquired from Rheinstahl in 1969) into its Mercedes production and sales program. Rheinstahl, which still supplies engines to its former holding, now has decided to stop engine production for outside companies. Daimler-Benz also is stepping up its cooperation with Maschinenfabrik Augsburg-Nürnberg AG (MAN) in the exchange of engine parts for heavy trucks and other automotive components. In the same field, Klöckner-Humboldt-Deutz AG (KHD) will expand facilities of its Magirus Deutz truck division at Ulm, modernizing the present plant and building a new one for heavy-truck assembly at a total cost of over DM 100 million ($31.2 million).

Same and Lamborghini, Italy's second and third-largest tractor manufacturers, respectively, have merged with the help of state-owned financial backer GEPI, which funded 20% of the capital for the transaction. Same SpA put up the remainder. To operate as Lamborghini Trattori SpA, the new company will integrate and consolidate production of both groups - now totaling some 20,000 tractors annually for a 21% share of the Italian market - while distribution and sales will operate independently, for the time being. Last year Same's turnover ran to about 35 billion lire

($60 million), while Lamborghini sales reached 12-13 billion lire. The No.1 Italian tractor producer, Fiat, accounts for an estimated 50% of the market.

The 36-million-pound takeover bid made by Oliver Jessel, the London financier, for shipowners and oil distributors Wm Cory is only the latest in a long line of interesting takeovers since 1968. The offer for Cory, however, is the most spectacular, since it would virtually double the size of Jessel Securities. It is by no means certain that the Jessel bid, pitched as it is below the prevailing market value for Cory shares, will be successful. It is regarded as preliminary, however, and Jessel is said to be prepared to up the ante if the need arises.

British Steel Corp. expects a loss of over 120 million pounds at the end of the current business year (March 31), 30-40 million more than anticipated before the miners' strike. Even discounting the strike's effects, however, the size of the loss points up the need for a realignment of BSC's future investment program. Apart from other economic uncertainties, the health of the state-owned steelmaker is closely related to the fortunes of its major customers, the automobile, coal and shipbuilding industries, all of them wrestling with their own problems. Observers predict this much: BSC's investment program in the coming years should be based on a constructive manufacturing-for-export policy involving modernization of existing plants and the phasing out of obsolete ones. A second course of linking up with one or more Continental partners may be attractive but far from easy to implement because of foreign and domestic political considerations.

One of the world's leading hotel and catering groups, British Trust Houses-Forte (1970 gross turnover: $366.8 million), is to enter the Continental European market for quick-service restaurants and motels. First stop is France, where a restaurant should open in May, followed by 100 others, situated on main roads outside townships, within the next five years.
Trust Houses already owns three luxury hotels in Paris, one in Amsterdam, and three holiday villages in Sardinia. In the U.K., it runs some 300 restaurants and hotels, among them London's Grosvenor House and Waldorf.
France is one of the most underdeveloped West European countries for quick-service facilities. Trust Houses' main competition there will come from Jacques Borel International (60% W.R. Grace) and the Société PLM (Paris-Lyon-Marseille).

British Oxygen, leader in the U.K.'s gas and electrical welding equipment market, has formally acknowledged that it is holding discussions with Germany's Messer Griesheim, its counterpart in that country, with a view to wide-scale cooperation in the field of welding and cutting equipment. British Oxygen already has a foothold within the EEC: last year the company, together with the Dutch Smit Mijmegen group, formed Smit Weld in the Netherlands.

The French battery manufacturer, Le Pile Wonder, has set up a subsidiary, Wonder Corp. of America, at Darien, Conn., with a capital of $50,000 to market its products in the U.S. and Canada. Le Pile Wonder had a 1971 turnover of FF 211 million ($42.2 million) and exported 36% of its production.

Common Market Reports
EUROMARKET NEWS

Issue No. 167 No. 183, March 29, 1972

Returning Fire in Oslo: Until very recently, the Norwegian government was pretty well occupied with mending the defense lines it was forced to retreat to during and after the negotiations in Brussels. Now those opposing Norway's joining the Common Market have sustained some return fire - in printer's ink. A 676-page White Book the government presented to the Storting (parliament) examines all aspects and consequences of Norway's most crucial step in the country's modern history.

The government feels that only a thorough public debate can clear the way for victory in the Storting, so this report offers the views of both pro- and anti-Marketeers. Norwegian voters will go to the polls in September to express their views on the issue. Although this referendum will not be binding on the Storting, a resounding No would whittle down the still comfortable margin the Socialist minority government has on this issue due to support from the Liberals.

The White Book clearly states the choice before Norway - a free trade agreement vs. joining the EEC. The government's basic reason for choosing the latter has been the prospect of having a voice in the decision-making EEC institutions. A mere trade agreement would not amount to much in a world in which businesses are thinking increasingly in international terms and trying to overcome more than just barriers to trade.

Agriculture and fishing will remain topics in the debates, and even the government admits that the compromise found in Brussels is far from satisfactory. One argument seems to outweigh most drawbacks: the Norwegian market (population: four million) limits domestic industries if they wish to produce economically. Norway's industry, shipyards, and fish-processing enterprises need a larger market. Norwegian businessmen know too well that they do not have the

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plants and other facilities for producing mass consumer goods and marketing them in the Common Market. Specialized industries (such as the manufacture of electronic equipment for maritime navigation), however, stand an excellent chance in the larger market. A Norwegian government trade center established recently in Hamburg points up the direction Norwegian industry is heading.

"Ostpolitik" and Trade with the East: Many political arguments are put forth these days for and against West German Chancellor Willy Brandt's *Ostpolitik*, reflected in the treaties with Moscow and Warsaw. Both are purely political, yet Bonn observers believe that rejection of the *Ostverträge* not only would entail negative political results (Moscow would refuse to put the Four-Power Berlin settlement into effect) but also would have economic consequences that might go beyond West Germany's trade with the Soviet Union to affect other East European countries as well.

Managers of Soviet state enterprises, talking to West German management men at the Leipzig trade fair, painted the picture of future Russian-German trade in sharp contrasts. For some West German firms, the picture has been bright all along. Krupp, Demag, Mannesmann, just to mention three, have launched Soviet sales or building projects running into hundreds of millions of marks. Still, there are many small and medium-size German firms left stranded on the floes in the cold sea of East-West relations. They too would like to set up their stalls in the product-hungry Eastern markets, but they are fighting an inner battle between reluctance to support the Brandt government for any reason and the nagging awareness that these broadened markets hang on political hinges.

Bonn wants a new trade agreement with Moscow. No agreement, however, could extend beyond 1974. Starting in 1975, the Commission in Brussels will have sole negotiating powers for members of the EEC, a political and economic reality the Kremlin until now has refused to accept. Since all EEC member states will be prevented from concluding bilateral trade agreements with third countries after 1974, including all East Bloc countries, most observers agree that the Kremlin will eventually come around and face up to this reality, at least economically if not diplomaticallly.

Plan for Early Retirees: After months of discussion, France's trade unions and the leading employers' federations have agreed on the creation of a pre-retirement pension plan for employees out of work at the age of 60. The agreement, to be backed by legislation, provides a pension of about 70% of the average gross income during the last three months of employment for salaried workers who have paid into the state social security system for at least 15 years and have been registered unemployed for one year at the age of 60. This time lag between initial unemployment and pension eligibility decreases as an employee comes closer to the official retirement age of 65. The new plan, applying to all levels of salaried employees, will cost France's public pension funds about FF 100 million ($20 million) annually per 10,000 beneficiaries. Special clauses in the backup legislation are designed to deter companies from using the plan to fire old employees unjustifiably.

About 14% of the country's unemployed are over 60, according to recent figures of the National Employment Agency. UNIDIC, another official source, says 42% of unemployed executives in France are 60 years or older, although only 6% of them register with the national agency.

<u>"Poisonous Waste" Bill Introduced:</u> A govennment bill to control the dumping of poisonous waste has been formally introduced in the British House of Commons. Under the terms of the bill, dumping of waste which might lead to health risks or water pollution will be an offense carrying a maximum penalty of five years' imprisonment and an unlimited fine. Known as the Deposit of Poisonous Waste Bill, the measure is expected to be forced through quickly. One important provision is the stipulation that anyone charged with illegal dumping may claim in his own defense that he acted under an employer's instructions.

<u>U.K. Stock Exchanges to Merge:</u> An official date now has been set for the amalgamation of the U.K.'s six stock exchanges. The Federation of Stock Exchanges in Great Britain and Ireland has announced that final preparations for the introduction of a single organization will be completed before March 25, 1973. In London, the move was supported by 83% of the stockbrokers.
In practical terms, The Stock Exchange (as the new institution is to be known) will put brokers throughout the country on equal footing and will give them equal opportunity to deal with each other. Brokers in the provinces will have direct access to the London network. On the other hand, the increased competition certain to result from amalgamation definitely will force a number of smaller firms out of business and cause a spate of mergers. One interesting sidelight: women, at long last, will be allowed on the hallowed floor of the London stock exchange. There are about a dozen female members of exchanges outside London who will gain the right of access to the London trading area once the plan comes into effect.

<u>Milan's Proposal Scorned:</u> In Italy the situation still is confused after the country's largest stock exchange, Milan, proposed that at least six of the other domestic exchanges should be closed. Those referred to are at Florence, Bologna, Naples, Trieste, Venice, and Palermo. The plan put forward by the Milan Stockbrokers' Council clearly reveals that city's intention of becoming Italy's only "European" stock exchange. The council's statement that the smaller houses were inconveniencing Italy's stock market system had triggered violent reactions, notably from the Rome, Turin, and Genoa exchanges, which felt slighted by implication. The Rome Stockbrokers Council has threatened legal action for damages against the plan's sponsors.

<u>French Galled by PTT...</u> The news of the inauguration of an electronically controlled telephone exchange at Rabat, Morocco, has been greeted with understandable sarcasm in France, a country afflicted with a notoriously inadequate telephone system. The contractor for the Rabat exchange was the Compagnie Générale de Construction Téléphonique (CGCT), a French subsidiary of ITT. CGCT has developed sophisticated equipment that would be just what the doctor ordered to modernize France's antiquated telephone networks. The company, in fact, has already installed such equipment, but principally for private circuits. Serious exploitation of the potentially huge domestic market, however, has been frustrated by a lack of public funds. As far in the future as 1975 the French Post Office (PTT) intends to install the CGCT type of equipment for no more than 10% of domestic public needs.
Thus thwarted at home except for the private sector, CGCT and a sister company - Le Matériel Téléphonique, also ITT-owned - are concentrating on the export business. With the Rabat exchange installed, the companies are talking with other North African coun-

tries, and contracts with Norway and Mexico are under negotiation. Export orders for some 90,000 electronically controlled lines thus far received even include a public telephone exchange for Las Vegas, Nev.

Such successes abroad, and often in underdeveloped countries, must be particularly galling to the French victimized by a telephone system considered one of Europe's worst because of government failure to allocate sufficient funds since World War II. As a result, only 15% of the French households possess a telephone; one in five depends on operator service. New lines are expensive: private users must pay an installation fee of FF 600 ($120), and the PTT requires certain corporate users to put up an obligatory, no-interest loan of FF 8,000. Installation delays of a year or more are common. However, some improvement may be forthcoming with the recent establishment of a leasing company by the Caisse Nationale de Crédit Agricole, a public finance organization. The new company, Agritel, is to finance telephone installations in rural areas of the country. Agritel and two existing finance companies together will put up about 25% of the FF 6 billion ($1.2 billion) the PTT will spend this year to at least partially revamp the domestic telephone system.

Bundespost Loses Some Friends, Too: In a desperate effort to narrow its deficit of DM 2.18 billion ($681 million), the German Post Office (*Bundespost*) has announced further rate increases averaging 11.3% to take effect on July 1. Affecting both mail and telephone services virtually across the board, the boost will be the second in a nine-month period and is expected to bring in an additional DM 2 billion in revenues. This still won't be enough, however, to put the Bundespost in the black as costs continue to mount.

Terming the upcoming increases "unacceptable and unjustified," critics in business and industry have accused the Bundespost of inefficiency and of exploiting its monopoly position. Some of the Post Office's more important customers in fact are considering ways to fight back. The German Mail-Order Trade Association, for instance, has announced that some of its members intend to set up a private parcel distribution system which would take away from the Post Office some 20% of its present parcel volume. Donnelly & Gerardi, German associates of New York's Reuben H. Donnelly Corp., last fall successfully tested private distribution of direct-mail advertising. The test showed, the company said at the time, that it could undercut postal rates in 30 key cities when the new third-class (*Massendrucksache*) rates take effect and without violating postal regulations. Meanwhile, however, D&G said it is introducing U.S.-developed co-op and match code distribution programs which supposedly help reduce mailing costs for direct-mail advertisers despite the higher postal rates.

AROUND THE MARKETPLACE

EEC Alcohol Regulations: The European Commission has proposed common regulations for the EEC alcohol market. The proposal, which is pending approval by the Council of Ministers, distinguishes between alcohol of agricultural origin and synthetic alcohol. The former will be used for drinking, vinegar, and pharmaceutical applications, the latter, for laboratory work and fuel. It also is proposed that distillers sell their output to intervention agencies, set up by the member countries, which are obliged to purchase it at prices fixed according to type and quality. These prices will be established on an annual basis.

U.K. Foods for Europe's Snobs? Exports of U.K.-produced processed foods in 1971 were up 20% over the previous year, from 138 million to 166 million pounds sterling. Even allowing for the inflationary rise in prices throughout the world, the British Food Export Council has claimed this increase as a remarkable achievement. Front runners were chocolate and confectionery, followed by tea, cakes and biscuits, and dairy products. The Council is convinced that U.K. entry to the EEC will result in significant increases. These would come at an appropriate moment, since there are signs that exports to the United States, Canada, and Commonwealth countries have peaked. Research done by the Council and by independent agencies has revealed that the hottest lines are those which have snob appeal in Europe, notably expensive English-made sweets and specialty items such as blended teas.

British Claim Highest Advertising Skills: An optimistic and possibly chauvinistic view of Britain's role in European advertising has been advanced by the U.K. magazine "Marketing." According to the author of the report, the U.K. leads Europe in advertising expertise, probably because it can be considered the "gateway between the English-speaking world and the Continent." A number of leading agencies were asked to place European countries (Belgium, Denmark, France, Germany, Italy, Holland, Norway, and the U.K.) in order of merit as far as advertising skills were concerned. For the purposes of the questionnaire these were defined as creative originality, research, market planning, sales promotion, design, and media planning. Over-all, the U.K. emerged as number one, followed by Germany and then France. Interestingly enough, Germany scored well in the departments of research and planning, but fared relatively badly in respect of creativity.

EURO COMPANY SCENE

Italy's state-owned GEPI has masterminded the fusion of four companies in the distressed field of home entertainment electronics - Magnadyne, Lesa, Condor, and Dumont - into Società Esercizio Industrie Manifatture Radio e Televisione (Seimart) SpA. GEPA, which was founded to rescue foundering but structurally sound Italian firms, holds 64% of the new group's five billion-lire share capital, with the rest in the hands of Fiat, two banks, and a related electronics concern. With 4,300 employees at six plants, Seimart constitutes Italy's largest enterprise in the field (over $31 million in turnover) and will account for 80% of the production of components for home entertainment equipment as well as television sets, radios, tape recorders, record players, cassette recorders, and measuring devices. Reorganization and rationalization measures, supervised by GEPI, include shutting down two or three factories.

While Albert Heijn's takeover of its competitor in the Dutch foods industry, Simon de Wit, seemed a *fait accompli* a few weeks ago, some curious developments on the stock market have snagged otherwise routine acquisition proceedings. An unknown third party has been buying up de Wit shares, inflating prices and leading Albert Heijn - encouraged by its future partner - to make a second offer, pegged at 425%, for the outstanding de Wit capital nominally valued at 7.9 million guilders ($2.4 million). The original bid was for

385%. Market insiders variously have speculated on Holland's Steenkolen Handels Vereenigung (SHV), which recently took over De Gruyter foods, as the "great unknown," or suggested British and German interests at work. At this point, however, it is considered highly unlikely that any third party could succeed in acquiring a de Wit majority, especially in view of Heijn's new offer.

Austria finally is taking steps to concentrate its diffuse state holdings in the iron and steel industry. The four leaders in this sector, Vöest, Österreich-Alpine Montangesellschaft, Gebr. Böhler & Co. AG, and Schoeller-Beckmann Stahlwerke AG, are planning a fusion which should bring far-reaching administrative and structural changes in all areas of production. The largest, Vöest and Alpine Montan, probably will merge directly, with Böhler and Schoeller-Beckmann, both in high-grade steel manufacture, joining as subsidiaries. Allowance will be made for the eventual inclusion of other related companies - such as the state-owned Simmering-Graz-Pauker AG, builders of machinery, locomotives, and railway cars, or Waagner-Biro AG, which is owned by the state's Länderbank. The four principals, employing over 60,000 and with a combined turnover of $901 million (1970), produce both raw and finished iron and steel products.

Citroen, France's second-largest auto maker, which is owned by Italy's Fiat and the French Michelin group, is taking a holding in a Yugoslavian company to manufacture Citroen cars in that country. Citroen's Yugoslav partners are Tomos and Iskra, who together will hold 51% of the new company, called Cimos. It will have a capital of $12 million and a work force of 1,000. Initially Cimos is to assemble economy-class and medium-class cars in a new plant at Nova Gorica. The annual output is to rise from 18,000 units during the start-up phase to 35,000, with part of the production to be exported to the Near East. Other Cimos plants also will produce parts for export. At present, 8,600 Citroen cars annually are assembled in Yugoslavia through a licensing arrangement.

Pfizer Corp. of New York is to take over the surgical equipment company Howmedica, Inc., New York, in which France's chemicals and metals group Pechiney-Ugine-Kuhlmann now has a substantial holding. In return, PUK will take an interest in Pfizer, which will issue three million shares for this purpose. Each Howmedica share will be exchanged for 0.925 Pfizer shares (currently valued at about $40 each).

The French chemical group Pechiney-Ugine-Kuhlmann (PUK) is to buy out the interests held by the group Le Nickel-Penarroya-Mokta in their joint U.S. subsidiary, Intsel Corp., of New York. The American company, also established in Canada, was the joint subsidiary of Penarroya and Pechiney before their respective link-ups with other interests. Now, each will have an independent commercial operation in the United States, the Nickel group basing its activities on its subsidiary N.C. Trading Inc.

International Telephone & Telegraph Corp. (ITT) has taken a 70% participation in the French family firm, Etablissements Jeanrenaud manufacturers of low-voltage electronic components. Jeanrenaud employs 750 people and has a turnover of FF 25 million ($5 million). Takeover by ITT will enable the company to develop on a European level. It already has interests in Italy and Great Britain.

Germany's Wetzel KG Förder- und Hebe-Technik and Société Richier Internationale, Paris, over 50% in Ford control, have signed a distribution agreement. Wetzel will sell Richier's revolving tower cranes on the German market, while Demag AG, formerly sales representative for all Richier construction machinery in Germany, now will be restricted to handling Richier's civil engineering equipment in the Federal Republic.

The consolidation process in Spain's aluminum industry may get another boost from Aluminio de Galicia SA's projected takeover of Navarra del Aluminio, a medium-sized company founded 16 years ago by Reynolds. Such a move practically would divide the Spanish aluminum market between Aluminio de Galicia, which cooperates with France's Pechiney, and Empresa Nacional del Aluminio SA (Endasa), which works closely with Reynolds.

Comotor SA of Luxembourg, joint subsidiary of France's Citroen SA and Germany's Audi/NSU Auto-Union AG (Volkswagen), will begin producing Wankel rotary engines at a German plant in Altforweiler/Saar in January 1973. The engine maker plans to develop its Wankel program in three phases, beginning with a work force of 200 and a daily output of 25-75 units, increasing to 1,000 and a daily quota of 400 by 1974. The final goal is 6,000 employees, with 3,000 engines daily. Comotor was founded in 1967 with a basic capital of LF 220 million ($4.9 million).

By the end of 1972 Deutsche Goodyear GmbH will have completed a 112% expansion of its tire factory at Philippsburg, Germany. Representing part of the company's $22.8-million investment program, the enlarged facilities will create 350 new jobs, a 46% increase over present employment capacity. The plant, opened in 1967 at an original outlay of $14 million and designated by Goodyear as the most modern of its kind in Europe, will step up production of large grader tires, small tires for earth-moving equipment, and radial-ply truck tires.

Caterpillar Tractor Co. has announced plans to enlarge its facilities at Gosselies, Belgium, by almost 900,000 square feet. The plant produces construction equipment and machinery, including compressors, hydraulic systems, and forklifts.

Badger France, subsidiary of The Badger Co. Inc., has announced that the hydroquinone and pyrocatechol manufacturing plant it is building for Société des Usines Chimiques Rhône-Poulenc near Lyons will be completed by the end of this year and will take up commercial operations early in 1973. The unit will have a yearly capacity of 18,000 tons of diphenols. Badger France has handled engineering, procurement, and construction of the plant in conjunction with Rhône-Poulenc's own technical department.

The Institute of International Container Lessors is the name chosen by a new association of container leasing companies in Europe and the United States. Charter members are Container Transport International, Integrated Container Service, and Interpool, all of New York; SSI Container of San Francisco, Sea Containers of London and New York, and Contrans of Hamburg, Germany. The institute, established to represent the interests of the independent container leasing industry world-wide, is headquartered in London.

The French chemical company, Sociêté Chimique des Charbonnages - CdF - Chimie, will act as engineering advisor to the Greek company Motor Oil (Hellas) Lube Oil, for the construction of a petrochemical complex at Corinth, if, as is expected, the government gives the contract for its third large refinery to this Greek firm. The complex is likely to include plants for steam-cracking and the production of high-pressure polyethylene and polypropylene. A Franco-American banking consortium would finance the project.

Morgan Guaranty Trust Co. of New York, in a surprise announcement, said it is considering ways to broaden ownership of Euro-clear, its clearance system for international securities. This apparently is in reaction to "conflict of interest" charges leveled by competing institutions in the past. A strong possibility is the creation of a separate company in which Morgan Guaranty would have a minority interest and other leading international financial institutions, the remainder. Development of the plan and its implementation are expected to take some months, the bank reported. Founded in 1968, Euro-clear now is used by over 380 banks and other financial institutions to settle transactions in some 1,100 securities denominated in U.S., West German, and Dutch currency.

In related news, Morgan has increased its interest in the 70 million-guilder share capital of the Mees & Hope group, Netherlands, from 12.5% to 20%. The bank also has formally opened its third German branch office, in Munich; the others are in Frankfurt and Düsseldorf.

The Paris-based Banque Nordique de Commerce, currently owned by the Kansallis Osake Pankki (Finland), Københavns Handelsbank (Denmark), Den norske Creditbank (Norway), and Svenska Handelsbanken (Sweden) in equal proportions, is undertaking vast capital expansion from its present FF 26 million ($7.8 million) to 65 million. Manufacturers Hanover Trust Co. of New York will purchase the new shares, making its holdings 60% of the total, and the other four banks, 10% each. To be renamed Manufacturers Hanover Banque Nordique, the new bank will be the second-largest foreign bank in Paris after the Banque pour l'Europe du Nord and is to develop business in the U.S.-France-Scandinavia triangle.

Bankhaus Sal. Oppenheim Jr. & Cie., of Cologne and Frankfurt, has obtained a 6.36% stake in the 5.9 million-pound capital of Rothschild Intercontinental Bank Ltd. (RIB), London. Other shareholders are the "Five Arrows Group" (N.M. Rothschild & Sons Ltd., London; Banque Rothschild, Paris; Pierson Heldring & Pierson, Amsterdam; Banque Lambert, Brussels, and Banque Privée, Geneva), three U.S. banks (The National City Bank of Cleveland, First City National Bank of Houston, and Seattle First National Bank), and the Industrial Bank of Japan. With a 1971 balance sheet total of some $469 million, RIB concentrates on short-term transactions and medium-term multinational credits.

The Industrial Bank of Japan Ltd., primarily active in long-term financing, plans to establish a Frankfurt trading bank, possibly in conjunction with Germany's Deutsche Bank.

Hill Samuel, U.K. merchant bankers, indicated its interest in the insurance brokerage firm of L. Hammond some two months ago. Now it has announced offer terms, whereby Hammond shareholders would receive one Hill Samuel share plus 55 pence in 8% loan stock for every share they own. This amounts to a total bid of 7.5 million pounds or 106.5 [illegible]r share and has been accepted by the directors of Hammond. The acquisition will mark a further stage in Hill Samuel's development in insurance and reinsurance, notably in Canada.

Common Market Reports

EUROMARKET NEWS

Issue No. 168 *April 4, 1972*

The new U.K. Budget has been described as "bountiful" and, according to Chancellor Anthony Barber, represents a major step toward a revitalized British economy. Development areas are to be aided, unemployment reduced, and the country's economic growth rate doubled. The Budget also provides for a total reform of the U.K.'s taxation system. The principal provisions affecting business are the following:

Income tax: Standard rates remain unchanged but personal allowances are increased, thereby providing a pound-per-week increase in take-home pay for the U.K.'s 21 million taxpayers.
A revised PAYE system: A new tax credit system will come into force in April 1973 and invalidate some 450 pay-as-you-earn provisions. Under unified new tax rates, the first 5,000 pounds will be taxed at a basic rate of 30%. The rate between 5,000 and 6,000 pounds will be 40%. This rate will rise by 5% stages to a maximum of 75% at 20,000 pounds. A system of tax credits, replacing the present allowances system, will be set off against the tax payable.
Purchase tax: Top purchase tax rates have been cut from 45% and 30% to 25%. The principal sector involved is higher-priced consumer goods such as TV sets, automobiles, washing machines, etc. The purchase tax is to be replaced by the value-added tax as of April '73.
VAT: One uniform rate of 10% with general exemption for all businesses with taxable turnover of less than an annual 5,000 pounds. Exemption also for postal services, education and health services, and insurance. Food, newspapers and periodicals, books, domestic fuel and electricity, and new construction are zero-rated.

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Investment incentives: Initial allowance for new buildings at an increased rate of 40%. Free depreciation for investment in plant and machinery.
Regional aid incentives: In official assisted areas, cash grants of 20% (22% in special development areas). Grants may be used to protect existing employment and for further modernization of existing facilities. Easier sterling borrowing arrangements are now available for overseas companies making direct investment in the U.K.
Bank loans: These will attract tax relief on interest paid after the first 35 pounds each year.
Corporation tax: No change in the present 40% rate. However: reductions for companies whose profits do not exceed 15,000 pounds annually and some measure of relief for those in the 15,000-to-20,000-pound profit bracket.
National insurance: Employers' flat-rate contributions to rise by 10 pence weekly for male workers.

The Budget has been generally well received in the national press, although detractors have been quick to point out that last year's Budget, which claimed to have the same aims, did not live up to the wave of optimism it generated. Predictably, the Labour Opposition has voiced displeasure ("too little too late, some right things but for wrong reasons"), especially regarding the Budget's effectiveness in checking rising unemployment and the new VAT system. The trade unions also have expressed doubts along similar lines.

Golden Anniversary of an Economic Union: The model of an economic union between two countries and a forerunner of the larger Benelux union and later the EEC is celebrating a quiet anniversary. It is now 50 years since the Kingdom of Belgium and the Grand Duchy of Luxembourg entered into an economic union, one which has extended numerous advantages to both parties. As in any marriage, there have been ups and downs, but the disagreements never led to a separation. In fact, the treaty signed in 1922 and scheduled to expire in March was automatically extended for another 10 years because neither side felt there was any reason for invoking the termination clause.
Belgium (population 10 million) and Luxembourg (population 350,000) have adjusted to each other whenever differences have occurred. The last adjustment came in 1965, when a joint Belgian-Luxembourg Council of Ministers was established as the policy-making body of the union. Also, the former monetary union was converted into a looser monetary association (the Belgian franc is legal tender in Luxembourg in addition to the Luxembourg franc), giving the Luxembourgians a voice in Belgium's monetary policy.
Last month the legislatures of both countries ratified two agreements setting forth a new system of splitting up joint revenue derived from excise taxes. Since 1922 that system was based on population figures. But Luxembourg's rapid industrialization has changed the dimensions of the picture. Its steel industry is using more crude oil for heating steel furnaces. Luxembourg has a higher car density than Belgium; consequently, per-capita gasoline sales also are higher. The new agreement assures the Grand Duchy a greater share of excise tax revenue and more equity in the sixth decade of the union.

Sweden Gets Cold Shoulder: Foreign interest in direct investment in Sweden, at a low level anyway, is diminishing still further in direct proportion to increased Swedish industry involvement abroad. This is a conclusion reached by the Swedish Currency Office in its annual report about two-way direct investment. Last year, government-approved investments abroad rose by 162 million to 1.255 billion kronor ($261 million), while foreign investments in the Scandinavian country slipped by 168 million to about 611 million kronor. Economic observers noted that nearly half of current Swedish investment activity abroad is concentrated in Common Market countries if the prospective members (the U.K., Ireland, Denmark, and Norway) are included. Also noted was that most of Sweden's foreign investments are in the production sector, while no less than 52% of foreign investments in Sweden involve the distribution area.

Eliminating the "Innocent" Fraud: The French administration is looking into ways of simplifying the system of corporate tax declaration in order to reduce the number of unintentional frauds. The present system is so complicated that local tax agents are said to be loath to give advice to companies for fear of misinterpreting regulations and thereby exposing the inquirers to legal repercussions. Last year the Treasury conducted 45,000 follow-up investigations of corporate tax returns considered inaccurate and collected some FF 2 billion ($400 million) in back taxes and fines. The Treasury is aware of the shortcomings of the present procedure, of course, and is frequently lenient when dealing with cases of tax evasion it considers unintentional. Recent revelations of this policy brought on angry public reaction, which in turn is leading the government to clarify the official texts of regulations and forms. The result is hoped to eliminate up to 80% of the present volume of follow-up investigations.

Wary of New Price Control Policy: France's leading employer associations have adopted a wait-and-see attitude regarding the new price control policy operative from April 1. They say they want to know more before approving the increased freedom the government appears to give industry. This reaction of caution, not to say distrust, stems principally from the vagueness of the official texts concerning the negotiation procedure between the administration and industry which forms the basis of the new policy.
Industry is given two main options. The first is contractual in nature - industry will agree to limit product price increases to an annually fixed percentage based on the average national indicator. A company may distribute the increase among its different products as it wishes, as long as the aggregate does not exceed the percentage fixed. Alternatively, companies not choosing this form of contract may determine price increases on their own, provided they submit them to the government one month before intended implementation. This would give the authorities enough time for a veto.
Not subject to price control are independent craft activities, companies employing fewer than 20 people, and manufacturers of "luxury" products (phonographs, cameras, jewelry, perfumes, etc.), saddled with the maximum added-value tax of 33.3%. Also freed from price control restraints, after June 15, are companies in any sector which are major exporters or which operate against strong international competition.
Particularly in reference to the latter provision, critics argue that the vague language of the new regulations leaves business in doubt about when a company accedes to this category. They also question whether the authorities are really prepared to accept industry as an equal partner in negotiating contracts. It is generally felt that actual practice alone will determine the extent of industry's new freedom in pricing its products.

Questions on U.K. Price Restraint: The Confederation of British Industry's initiative on price restraint expires at the end of July. The U.K. government has made it plain that, if the private sector shows willingness to keep up price restraint, the government will put pressure on the nationalized industries to cooperate also. If the CBI comes out in favor of continuation, the heads of the public sector will be more or less obliged to follow. Indications at the moment, however, suggest that restraint will not be continued in its present form. It is known that a reasonable number of the 179 companies which signed the original pledge do not intend to renew their undertaking. Others are holding off to allow for a fuller assessment of the Budget's implications *(s. Page 1)*. The CBI definitely will consider other alternatives. Of these, the most likely are a) a higher ceiling than the present 5%; b) a shorter restraint period, possibly six months, and c) a complete suspension of the ceiling. Of these, solution b) offers most appeal, since it represents the way of compromise.

Britain's Kama Share Cut: Original forecasts of Britain's share in the huge 800 million-pound ($2.08 billion) Kama River truck project in the Soviet Union have been overstated. Instead of the 60 million pounds predicted, it now emerges that the U.K. will receive only a minor share of the orders, possibly as little as 20 million pounds. This was the figure hinted at by the East European Trade Council. The principal reason for the cutback is believed to be the U.K.'s 7% rate for export finance, which the Russians found unacceptable. This rate now has been cut to 6%, but it is significant that France's Renault, which has gone lower, is reported to have received orders in the range of 75 to 115 million pounds.
In related developments: the Italian government has granted a credit of 75 billion lire ($12.9 million) to the Soviets to finance the purchase of Italian machinery and equipment for the Kama complex. The purchase value actually will exceed the amount of the credit, according to an Italo-Soviet agreement.

AROUND THE MARKETPLACE

U.S. Computers for Russia? The Soviet Union should be interested in importing computer hardware and software made in USA provided Washington lifts its embargo for EDP equipment exports to that country. Indications that the Russians would welcome such a change in policy have come from the first deputy chairman of the State Committee for Science and Technology, Prof. Shimerin, according to reports from Moscow. Shimerin said that the Soviet Union, much more so than in the past, is ready to use electronic data processing in economic planning and coordination. Various ministries and organizations are said to be engaged in preparing and introducing automated management systems, of which 400 are already in operation. The new Five-Year Plan (1971-75) provides for a total of 2,400 such systems by the end of 1975. This would mean one for every five of the USSR's industrial complexes, the report said. In placing greater emphasis on EDP for economic planning and coordination and thereby improving the efficiency of industrial output and distribution, Soviet planners hope to save some 1.9 billion rubles within this five-year period.

Self-Imposed Cigarette Ad Cutbacks: The German Ministry of Economics and Finance has formally approved the tobacco industry's voluntary discontinuation of cigarette advertising on television, to become effective Jan. 1, 1973. Government clearance was necessary since this horizontal agreement among manufacturers normally would have violated competition clauses of the German Cartel Law. However, it was the government all along which, through the Ministry of Youth, Family and Health, pressured the tobacco industry to take this action. The self-imposed advertising restraint thus anticipates a possible legislative ban on TV cigarette advertising that had been considered part of the planned reform of Germany's food and drug laws.

Total advertising expenditures by the German cigarette industry in 1971 amounted to DM 150 million ($46.9 million), of which about 20% was spent on TV commercials. No substantial changes in these allocations are expected for the current year, according to the German Association of the Cigarette Industry.

Similar considerations apparently have led Austria's sole cigarette manufacturer, state-owned Austria Tabakwerke AG, to announce drastic advertising curtailments. The company, which anticipates sales of 5 billion schillings ($218 million) in 1972, said it would drop television and radio advertising as of July 1, 1973. Advertising in other media also will be reduced. Last year Austria Tabakwerke spent nearly 25 million schillings ($1.08 million) on advertising, with 7.5 million schillings of that total going for TV and radio commercials.

Machinery Tops Swiss Exports: Government figures released in Berne show that machinery remains Switzerland's major export item. Sales in this sector amount to SF 8.29 billion ($2.18 billion) out of a total of SF 23.6 billion in exports. The EEC countries absorbed 37.6% of all Swiss exports (up 0.2% from 1970), 22.1% (21.2) went to Switzerland's EFTA partners, and 8.5% (8.9) to the United States. Although the United States remained among the major single export markets, the 0.4% drop reflected what Swiss sources claimed to be Washington's "unreasonable" economic policy. The backlash of U.S. policy has been felt particularly in the machinery, instruments and apparatus sectors and, to some extent, in the chemical and pharmaceutical industry.

DATEBOOK EUROPE

"Systems Oriented Management" is the main theme of the third annual international symposium hosted by the ISC - International Management at St. Gallen, Switzerland, on May 15-17. Among the principal speakers at the prestigious affair are Edward De Bono of the University of Cambridge; Prof. Stafford Beer of the University of Manchester; François Dalle, president and director general of l'Oréal, Paris; Albert Greiner, managing director of Rank-Xerox Germany; Dr. David B. Hertz, director of McKinsey & Co., New York; Dr. Aurelio Peccei, president of the Court of Rome; Dr. Hugo Thiemann, director general of the Battelle Institute, Geneva; Dr. Joachim Zahn, board chairman of Daimler-Benz (Mercedes), and Prof. Dr. Z.J.F. Böttcher, president of the Science Council of the Netherlands, The Hague.

This year's East-West trade conference sponsored by the Management Centre Europe is scheduled for June 28-30 in Warsaw, Poland (the 1971 event was held in Budapest). Some 200-300 managers are expected at the conference, which is to examine practical aspects of East-West trade relations.

EURO COMPANY SCENE

Continental Can Co. is reported to be discussing proposals for settlement of the European Commission's antitrust case against its subsidiary Europemballage Corp. Last December the Commission invoked Article 86 of the Treaty of Rome, forbidding firms from taking unfair advantage of a dominant position in the EEC or a part of it, to rule against Europemballage's takeover of the Dutch packaging firm of Thomassen en Drijver-Verblifa. Europemballage is said to be considering divestiture of certain manufacturing facilities to offset sales gained through the Thomassen en Drijver purchase. Approval of such a settlement by the nine-member EEC Commission would enable Europemballage to withdraw the appeal it has filed with the European Court of Justice in Luxembourg. On the other hand, a hearing by the Court would hold great interest for the Commission and European legal experts, since the case raises constitutional issues yet to come before the high tribunal.

International Harvester Co., Chicago, and Van Doorne's Automobilfabrieken NV (DAF) of the Netherlands, holding company for one of Europe's smallest truck producers (8,300 units in 1971), have agreed to found a company for truck manufacturing and marketing. IH will hold 33% of the share capital in Van Doornes Bedrijfswagenfabriek DAF BV, which will produce trucks, bus chassis, trailers, military vehicles, and marine and industrial engines. Van Doornes Personenautofabriek DAF BV will continue to manufacture DAF passenger cars. The Dutch company hopes the cooperation with IH will enable it to stimulate lagging truck sales in Europe and take advantage of the U.S. company's marketing facilities in Africa, Asia, Australia, and North and South America. The agreement with IH will not affect current DAF collaboration with France's Saviem, Germany's Klöckner-Humboldt-Deutz, and Sweden's Volvo for development and testing of light and medium-weight trucks.

The three-year-long negotiations between Westinghouse and the French government for control of Jeumont-Schneider, the Franco-Belgian nuclear and electrical engineering company, may well be over. Since 1969, the authorities have been searching for a suitable "European solution" to avoid ceding the company to the U.S. firm. Now Belgian Baron Edouard-Jean Empain reportedly has agreed to sell his 61% interest in Jeumont-Schneider to France's Compagnie Electro-Mécanique, controlled by the Swiss Brown-Boveri group. Empain and the Schneider group together would hold a stake of 30% in the resulting Jeumont-Schneider-CEM combine. Jeumont-Schneider's turbo-alternator division would be ceded to Compagnie Générale d'Electricité (CGE)-Alsthom, France's leading electrical group and GE licensee.
Should these arrangements go through, Westinghouse probably will withdraw current license rights from the restructured Jeumont-Schneider concern. The U.S. company already has made a separate offer to another French licensee, Creusot-Loire (also held by the Empain-Schneider group), concerning the creation of a joint nuclear reactor subsidiary in which Westinghouse would take the majority. As part of the deal, Westinghouse would agree to transfer its European nuclear activity headquarters from Belgium to France.

Three European companies, Marston Radiators of the U.K., France's Usines Chausson, and Germany's Süddeutsche Kühlerfabrik Julius Fr. Behr, have entered into an agreement to swap know-how and licenses for aluminum radiator production for motor vehicles. Each of the three is dominant in its own country - Marston being by far the biggest in the U.K., Chausson (partly owned by Renault and Peugeot) with virtually 90% of the French market, and Behr leading in Germany with a market share of some 70%. The cooperation agreement resulted from parallel R&D programs relating to the development of a comparatively inexpensive, lightweight radiator for mass production.

The mystery surrounding Albert Heijn's projected takeover of Simon de Wit has been cleared up, with the revelation that the Netherlands' Edah NV, operators of a chain of self-service foodstores, has given up its attempt to outmaneuver Heijn by buying up de Wit shares on the Dutch stock market. As expected, Heijn's second offer - 425% for outstanding de Wit capital nominally valued at 7.9 million guilders - has effectively quashed Edah's chances.

Two of Britain's best-known cigarette and tobacco manufacturers, Carreras and Rothmans, have started talks with Dutch and German companies with a view to coordinating their interests following the expansion of the European Economic Community. Two companies known to be involved in these negotiations are Germany's Martin Brinkmann and the Dutch Turmac Tobacco. Possible merger activity cannot be ruled out.

The Hamilton Watch Co., Lancaster, Pa., reportedly plans to close its production plant in Biel, Switzerland. Efforts to promote the Hamilton brand on Swiss and international markets apparently have met with negligible success, despite takeover of the company's Swiss production program by the Société Suisse pour l'industrie horlogère last fall.

Five European jet engine manufacturers - Rolls-Royce, French SNECMA, German Motoren- und Turbinen-Union, Italian Fiat, and Swedish Volvo Flygmotor - have held the second of a series of meetings to discuss the possibilities of forming a European consortium capable of competing effectively with General Electric and Pratt & Whitney. This time the five discussed the possibilities of developing the N45H jet engine presently being researched by Rolls-Royce and SNECMA for the VFW 614 aircraft.
Talks are still at a very elementary stage, however. But it already appears that Rolls-Royce has dropped one idea it originally was keen on promoting - namely, the development of a European 10 ton-thrust engine. SNECMA is virtually committed to a cooperation agreement with GE for the manufacture of a similar engine, and one of the first objectives of a European consortium would be to forbid member companies signing conflicting cooperation contracts with companies outside the group. The third meeting is scheduled for May in Rome.

France and Germany are going ahead with their joint project of developing and constructing the "Alpha-Jet" training and "close air support" (CAS) plane. Costing $52.5 million, the first prototype should be ready to fly by late 1973. An additional $78.1 million has been earmarked for the next phase, beginning in 1974, which is to culminate in series production and delivery of the aircraft in mid-1976. The French air force has ordered 200 Alpha-Jets for training purposes, while the German air force will receive 200 of the CAS version for ground combat support. The planes will cost almost $1 million each, including engines and all basic equipment. Dornier AG, Friedrichshafen/Munich, and Dassault-Breuguet, of Paris, are sharing construction of fuselage and wings.

The German Ministry of Defense has awarded a $68.8-million contract to the U.K.'s Westland Helicopters Ltd., Yeovil, Somerset, for construction and delivery of 22 "Seaking MK 41" helicopters for the German navy. The dual-turbine helicopters will be used primarily for search and rescue operations in the North Sea and Baltic regions.

Germany's Klöckner-Werke has signed a five-year contract with Broken Hill Proprietary of Sydney, Australia, for delivery of 1 million tons of billet steel, including 270,000 tons to be supplied by the Australian company during the next 15 months. The agreement is worth some $65.6 million. Klöckner plans to shut down part of its own German steel production by the end of July.

Blandford Shipping, part of the Fred Olson group of companies, has sold its fleet to Marine Transport Lines of New York, part of the General American Transportation Corp. The deal, involving some 40 million pounds, provides for the release of five tankers of recent construction (between 1967 and 1970) and a further tanker presently nearing completion.

The first Soviet banking institution in West Germany, Ost-West Handelsbank AG, has opened for business in Frankfurt in a whirl of publicity. The DM 20-million capital of the new venture is held by the Soviet State Bank (55%), the Foreign Trade Bank (30%), and various foreign trade organizations of the USSR. The bank will engage in financing as well as transacting business between Eastern and Western Europe. It was reported that banking and trade organizations of East Germany, Czechoslovakia, Hungary, and Bulgaria will open foreign currency accounts with the Soviet bank. This means that some of West Germany's business dealings with East Bloc countries - which in the past were more or less discreetly financed through third countries - may now be transacted in Germany. It has been rumored that some of the other East European countries may soon follow the Russian lead and set up their own banks in West Germany.
Board chairman of the Ost-West Handelsbank AG is Andrej Doubunossov, at one time the manager of the Moscow Narodny Bank in London.

Members of European Banking International Co. have founded the Europäisch-Asiatische Bank AG in Hamburg for trading and financial transactions between Europe and Asia as well as between Asian countries. Participants in the joint venture, with a DM 10-million ($3.1 million) starting capital, are Amsterdam-Rotterdam Bank; Creditanstalt-Bankverein in Vienna; Germany's Deutsche Bank; Midland Bank, London; Sociêté Gênerale, Paris, and Belgium's Sociêté Gênerale de Banque, Brussels. The new Europäisch-Asiatische Bank is to cooperate closely with the Deutsch-Asiatische Bank, also of Hamburg, according to Deutsche Bank spokesmen.

CLOSING OFF

British Patent No. 1 259 920, registered by a certain Yee Lain Chew, should come as a godsend to all those who have struggled with fried rice and bean sprouts: Mr. Chew has designed a new "non-slip" chopstick with a bulbous drumstick tip and a serrated end for better grip.

Common Market Reports
EUROMARKET NEWS

Issue No. 169 *No. 184, April 11, 1972*

Berne Unwraps Legislative Plans: Two weeks ago the Swiss government (*Bundesrat*) presented Parliament (*Nationalrat* and *Ständerat*) with an outline of its legislative intentions for the current session, which runs until the end of 1975. This document, although not an actual government program, reveals an abundance of measures planned for the coming years in various fields.

Switzerland, unlike all other democracies, still practices direct democracy to a large extent, and so it is not surprising that there are presently pending 13 referendums pertaining to a great variety of issues. Important here are those dealing with the introduction of a universal pension plan, co-determination rights for workers (the German example is contagious!), and water pollution control.

Among the total of 84 measures (not counting the referendums) are two constitutional amendments, one to harmonize federal and cantonal direct taxes and the other to provide the necessary constitutional basis for the future value-added tax. Still in the field of taxation, the government plans to revamp completely the system of stamp duties in 1973. Another bill expected to become law in 1974 would bring further details on the federal income tax.

In partial response to the popular referendum on water pollution control, the government hopes to get approval from both houses for a comprehensive bill designed to protect the environment in general, not only the rivers and lakes. The Trademark Law is to be amended in 1973, but no details are available yet.

Labor and social security provisions will be the subject of as many as five legislative proposals. Health insurance and accident

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insurance provisions for wage earners and salaried employees would be broadened. Social security coverage, too, would be extended.

Germans Face Higher Food Prices: Much argument has ensued in Germany over the increase of the added-value tax for foodstuffs planned by the government. While the usual tax rate for sales is 11%, virtually all food items carry only a 5.5% rate, for the benefit of consumers in the lower income brackets. An increase to 6% would make up for the loss in subsidies German farmers stand to suffer under a recent agreement of the six EEC member states. German farmers are being compensated for losses they otherwise would have incurred following the government's decision to float the D-mark in May 1971. The revenue for these funds is derived from a border tax (equalization) system which raises imported (and cheaper because of the revaluation) foodstuffs to the domestic price level and grants drawbacks to German food exporters so that they can compete abroad.

Germany agreed at the recent Brussels negotiations to lower the present border tax rate from 4.61 to 2.76%. Naturally, cutting drawbacks and import tax will cost the government revenue, estimated at about DM 400 million ($125 million) a year. Since the government cannot stand such a loss for fiscal reasons and does not want to short-change farmers for political reasons, somebody has to pay the bill. Bonn does not want to tap other revenue sources to keep farmers' incomes at the present level, so the consumer will have to provide that revenue through higher food prices. Perhaps understandably, the Brandt administration is reluctant to admit this, although it can point to a long practice of farm subsidies.

Critics are charging that the government is not playing fair. The administration's motives, however, are obvious: the upcoming election in the state of Baden-Württemberg. The impending increase in consumer prices would add more fuel to the campaign fire kindled by the *Ostverträge*. Also, an increase could fan inflation, now down to approximately 5.4% per year as against the 5.9% average of 1971.

Investment Lures of Scotland: For potential investors it should be interesting to know that - apart from the Edinburgh, Leith, and Portobello areas - all of Scotland is officially designated a "development area" by the British government. With both the government and, specifically, the Dept. of Trade and Industry anxious to encourage new industry there, concessions made to companies moving into Scotland are attractive.

Incentives include financial aid in respect to plant construction and machinery, labor remuneration contributions, training facilities, and relocation allowances. Construction costs can be eased by means of building grants of up to 35% (or even 45% in the case of totally new projects). The percentage of grant given is partially based on the number of employment opportunities the project will create. If local labor is not immediately on hand, relocation grants, travel allowances, and housing allowances are made available for transferred workers. The Dept. of Employment also provides grants and arranges special training courses. In addition to refunds of Selective Employment Tax, a regional employment premium (1.50 pounds sterling per week for adult males) is currently offered. However, this is to be discontinued toward the end of 1974.

In Special Development Areas (SDA) - and there are nearly 50 of these - extra incentives include five years' rent-free occupation of a Dept. of Trade and Industry factory (when available) and special operating grants. It should be noted, however, that SDA incentives as a rule apply only to new manufacturing projects. Companies already operating in an SDA do not normally qualify for further incentive consideration. The grants allocated to companies in the first years of their operation within an SDA are calculated, according to DTI sources, on 30% of the eligible wage and salary costs of the project for its first three years of operation. There is a rider to the effect that the employment provided should justify a full grant.

In related developments: Aberdeen, in the Northeast of Scotland, is rapidly becoming a boom town. The phenomenal interest in that city is a direct result of offshore oil exploration. Over 70 companies have moved into the area, and the North East Scotland Development Council predicts that, by 1975, at least 5,000 persons will be directly employed in the region by exploration, and a further 5,000, by local companies servicing the offshore industry.

Funds for Rural Areas: Several French regions will benefit from special government aid for underdeveloped rural areas this year. Nearly FF 202 million ($40.4 million) will be spent in the Auvergne, Britanny, Limousin, and the Alp and Pyrenees mountain regions on the improvement of agricultural methods, business training for the staff of food processing cooperatives, modernization of food processing plants, and tourist promotion. The funds are part of a five-year finance program (until 1975) for regions that not only have difficulty attracting industry because of their unfavorable geographic locations, but that also suffer damage to their agricultural structure through the exodus of farm workers to industrial centers.

Government authorities hope to extend this regional development aid to more systematic industrialization programs later. Maximum premiums of up to 25% of installation costs and tax exemptions presently are being extended to new industry settling in these regions, but only within specifically designated industrial development zones.

Once More - Le Défi Américain: Fears of U.S. domination of French industry were once more voiced at last month's annual congress in Bordeaux of the Association France-USA, a private cultural organization, with Gaullist deputy Jean de Broglie charging that France is becoming a U.S. "subcontracting zone." The ex-minister said that 40% of the country's gasoline distribution, 50% of its rubber industry, 65% of the agricultural machinery sector, and 70% of French telecommunications are in American hands.

Broglie's remarks were only the most recent in a stream of similar arguments, to which American Ambassador Arthur K. Watson earlier last month offered a rebuttal. Watson cited embassy estimates according to which U.S. industry in 1970 accounted for only 10% of France's exports, contributed $360 million to its trade balance, employed 4% of its industrial workers, and paid 9% of total corporate taxes. Moreover, the ambassador said, nearly three quarters of the U.S. companies in France fall into the small and medium-sized bracket, and only 43 employ more than 1,000 people.

Even French sources, however, admit that the real danger to French industry is not posed by foreign "invaders" but by a loss of technological substance. A recently published survey by the Institut de Propriété Industrielle showed that, after two years of apparent stability, the country is facing a know-how deficit. In 1970, the

report said, French industry sold licenses worth FF 980 million (\$196 million) abroad but spent nearly as much, namely, FF 933 million, for foreign licenses. The electronics, mechanical engineering, and chemical sectors were the leading buyers of licenses acquired abroad. The most serious imbalance was reported for electronics, where know-how purchases - already five times higher than sales in 1969 - doubled in 1970 to FF 416 million.
The largest deficit is in the licensing trade with the United States, the institute reported: FF 193 million earned against nearly FF 1 billion spent, twice as much as in 1969. Britain and Germany also are becoming increasingly important sources of know-how for French industry, while France's best licensing clients are in Japan, Spain, and the developing countries, the survey said.

Rover Pact Leading the Way? A three-year agreement reached between management and production workers at the Rover plant in Solihull, outside Birmingham, is seen by most observers as the beginning of a healthy trend in the British motor industry. Under the terms of the agreement, the production workers move from a piece-work arrangement to a measured day work scheme. Wage increases will be made annually or, if certain criteria are fulfilled, at earlier intervals - with the result that the agreement may not run for a full three years. The criteria applied are the following: 1) that man-hours lost by internal disputes will not exceed hours lost in 1971, 2) that performance standard is maintained, 3) that absenteeism does not rise above 5%, 4) that quality standards are observed, and 5) that there is cooperation on mobility and redeployment of labor. These criteria will be monitored each month by a committee of 20 shop stewards. Management and workers also may renew negotiations in January 1974 if developments by then have resulted in any significant pressure on pay rates.

AROUND THE MARKETPLACE

EEC Trade Expands: Intra-community trade between the six Common Market countries accounted for 50% of the EEC's imports, 49.8% of the exports, and grew by 14.7% to \$49.1 billion last year, according to preliminary reports by the Statistical Office of the European Communities. EEC imports from the rest of the world increased by only 7.6% to \$49.1 billion, while exports rose by 12% to \$50.6 billion.
The trade performances of the individual EEC member countries differed considerably in 1971, as the following table shows:

Changes in % As Compared to 1970

	Imports		*Exports*	
	intra[1]	*extra*[2]	*intra*	*extra*
Germany	+ 22	+ 10	+ 14	+ 14
France	+ 14	+ 9	+ 16	+ 13
Italy	+ 9	+ 4	+ 18	+ 10
Netherlands	+ 7	+ 13	+ 18	+ 10
Belgium/Luxemb.	+ 16	- 3	+ 3	+ 3
EEC	+ 15	+ 8	+ 14	+ 12

[1]*intra = intra-community trade;* [2]*extra = with non-EEC countries.*

Following two years of trade deficits (1970 = $436 million), the EEC as a whole achieved a remarkable trade surplus of $1.513 billion last year. This resulted mainly from the expansion of Germany's surplus from $3.879 to $5.139 billion, accompanied by the further shrinkage of the French, Italian, and Belgian deficits. Only the Dutch deficit became larger, by $330 million to $1.768 billion.

Trade with the EFTA countries - some of which will become EEC members, the others free trading partners next year - grew by 8% (imports) and 12% (exports). Nearly one third of EEC exports to third countries went to the EFTA zone.

For the EEC's trade with the United States, Brussels statisticians reported an import reduction of 0.7% to $8.977 billion, while exports rose by 16% to $7.684 billion. This apparent discrepancy is explained by the revaluation of EEC currencies which helped to raise the dollar value of export prices. The EEC's deficit in its trade with the United States now stands at $1.282 billion, a little more than half of the 1970 deficit ($2.41 billion).

Exports from Scandinavia to the United States grew by over 15% in 1971. Norway led the other Nordic countries with a 26% increase ($178 million total), Iceland's exports to America went up by 25% ($55 million), Sweden's by 18% ($482 million), Finland's by 4.5% ($113 million), and Denmark's by 3.6% ($273 million).

U.K. Machine Tools in a Bind: The news that Alfred Herbert Ltd., the U.K.'s and Europe's largest machine tool manufacturer, registered a loss of more than four million pounds ($10.4 million) for the last business year ended last October, points up the serious recession in which the British machine tool industry now finds itself. As for its own future, the company has expressed hopes that the new U.K. Budget will provide impetus in this sector and will boost sales. But its chairman has gone on record as saying that cost-cutting measures taken to date such as layoffs, closures, management reorganizations, etc., will serve only to limit the loss until business picks up.

The question is when it will. The Machine Tool Trades' Association has indicated that it expects no improvement in the market until next year - if at all. Total new orders placed by machine tool customers were down by one third last year, and domestic markets fell off by 37%. The British government has said that public sector organizations will place orders valued at about 10 million pounds over the next six months. Welcome as these may be, state-sponsored contracts will provide only temporary relief but not a cure for the general malaise. On the brink of EEC entry the industry must make a radical decision: whether to concentrate future activity on the manufacture of low-cost, high-turnover standard equipment or to shift emphasis toward sophisticated machines such as numerically controlled milling installations. Indications are that Herbert, for one, has decided to aim at the advanced machine market, using the revenue from the sale of simpler machines currently in its catalogs to finance the necessary R&D. This is a decision other firms are certain to emulate.

EURO COMPANY SCENE

Borg-Warner Corp., Chicago, and Germany's Zahnradfabrik Friedrichshafen AG have decided to end their two-year-old planning cooperation that was to lead to the joint manufacture of automatic automobile transmissions. The German company will take over Borg-Warner's shares in their jointly established ZF-Borg-Warner GmbH at Saarbrücken and use the new plant being completed there for production of auto parts and other aggregates. Alleged reasons for the split-up were altered market and cost conditions. The trend now is for auto manufacturers to produce their own automatic transmissions, rather than order them from independent suppliers.

Hercules Europe SA, Paris, wholly owned subsidiary of Hercules Inc., Wilmington, Del., has decided to join with its French representative, Ravaud & Mouscadet, in establishing Hercules France SA. Last year the chemicals manufacturer's French sales totaled $11 million; European sales in 1970 reached $130 million, including $89 million from production in Europe. Other Hercules branches are located in the Netherlands, Germany, Sweden, Denmark, the U.K., and Italy. The company is building new facilities for the manufacture of paper chemicals near Grenoble. Hercules products range from synthetic resins, agricultural chemicals, and materials for polyester fiber and film production through water purification chemicals, packaging materials, and products for the aerospace industry.

Two French packaging specialists, St. Gobain S.A. and Carnaud Basse Indre SA, have merged their plastic packaging interests with a view to international expansion. The new subsidiary, St. Gobain-Carnaud-Interplastic (of which St. Gobain holds 51%), hopes to sell licenses for its know-how in liquids packaging, a sector where it is world leader. The European market is the initial target.

Farbwerke Hoechst AG, a leading European producer of synthetic fibers, has acquired one of Germany's most successful textile companies, Ernst Michalke KG, for an undisclosed price (part cash, part in Hoechst shares). The takeover follows long collaboration between the two companies - Michalke was instrumental in the development of Hoechst's "Trevira 2000" fibers. Last year Michalke's sales reached DM 270 million ($84.4 million), attributable in large part to texturization of Hoechst fibers. The company employs 2,250 at its plants near Augsburg, with an annual production capacity of 36,000 tons (on a 150-denier basis). This represents a good 20% of the German market and an estimated 15% in the EEC, placing Michalke among the European leaders in the field.
Hoechst has been anxious to acquire technical know-how in texturization, especially with a view to its U.S. fiber production.

Marles-Kuhlmann-Wyandotte, jointly held by the French Pechiney Ugine Kuhlmann group and Germany's BASF, has announced a major expansion of its existing propylene oxide and polyethers facility at Rieme, Belgium. Badger (Belgium) NV, builder of the present plant, has been awarded the contract for designing, engineering, and constructing the expansion and an additional polyethers plant. The building work is scheduled for completion this summer.

Two lawsuits in Sardinia over the manufacture of high-pressure polyethylene, involving U.S. plaintiffs Dart Industries and El Paso Products Co. and Italian defendants Società Italiana Resine (SIR), Rumianca, and Stiral, have been settled. Dart and El Paso reportedly have concluded that neither SIR nor Stiral has appropriated any of their proprietary technology. A dispute over Rumianca's royalty obligations was resolved with the parties' recognition of their mutual rights and obligations.

French Shell-Chimie, subsidiary of Royal Dutch Shell, is postponing all investment plans in order to help limit the present production surplus of organic chemical products and plastics in Europe. Projects immediately affected by the decision include extensions to the vast complex at Berre near Marseilles, involving a new steam-cracking facility with an annual 325,000-ton output. Earlier this year, ATO Chimie (Elf Aquitaine and Total Chimie) also postponed indefinitely extensions to steam-cracking facilities at Feyzin, near Lyons. Caught between rising labor and service costs and stagnant prices, Shell-Chimie said it will review its present decision only when sales prices show signs of moving up. Last year the company invested FF 80 million ($16 million) in new projects.

Del Monte Corp., San Francisco, reportedly intends to take over operations of Euro-Vend, European vending and food service concern, in Belgium, England, France, and West Germany.

Billiton International Metals, member of the Royal Dutch Shell group, and Germany's Denkhaus group have founded Billiton-Denkhaus GmbH in Mülheim/Ruhr to handle Denkhaus sales activities. Billiton will control a majority of the shares. The Denkhaus group is involved chiefly in the warehousing and wholesale trade of semifinished steel and non-ferrous metal products.

Following the lead of other German camera manufacturers who set up plants in low-labor-cost areas abroad, the Robert Bosch group will begin producing inexpensive movie cameras in Malaysia starting in 1973. For this purpose the company has founded the Robert Bosch (Malaysia) SDM BHD in Penang with a basic capital of $1 million and this month will begin construction of a plant to employ 350 upon completion. A year ago Bosch and Japan's Sun Optical Co. Ltd. founded the Bauer and Sun Optical Co. Ltd. in Taiwan for the manufacture of optical parts for small film cameras.

The restructuring of the French champagne industry continues with the takeover of Monopole Heidsieck by G.H. Mumm & Co., France's second biggest champagne producer, which is majority-owned by the Canadian Distillers Corp. Seagrams. This means an increase in Mumm's output from around 6.5 to 8.5 million bottles annually. The leader by far and away remains Moet & Chandon, which produces some 15 million bottles and extended its activities a year ago into cognac (Hennessy) and perfumes (Parfums Dior). Both Heidsieck and Mumm export about two-thirds of their production.

The announcement that the Wedgwood group was planning to allow its Australian subsidiary, Johnson Bros., to manufacture Wedgwood pottery sent a shiver of alarm down connoisseurs' spines. (Wedgwood traditionally never has permitted manufacture outside the U.K.). The fears were premature. Not only has the Australian subsidiary "proved itself" in terms of quality, but the production involved does not include prestige lines such as Jasperware and other collectors' items. Johnson will be producing ovenware and tableware in the medium-price range. The decision was prompted, at least in part, by the Australian government's policy of "local content" in many production sectors.

The managing director of Chrysler United Kingdom, Gilbert Hunt, has asserted that what the U.K. manufacturing industry needs in order to be competitive on world markets is not more but fewer industrial workers. Noting that Britain would be better advised to press more people into service industries, he said he was surprised that the industrial shake-up designed to improve efficiency had not resulted in 3 million unemployed. The current figure of unemployed in British industry is around 1 million.

The allocation of an industrial development certificate to the U.K.'s Jaguar could well bring the speedy equalization of supply and demand for the automaker's various models. The granting of an IDC to build new facilities and/or extend existing ones in the Coventry area will lead to stepped-up manufacture of the popular XJ-6 and of the XJ-12, which soon goes into production. Jaguar currently turns out some 30,000 units per year, considerably less than its major rivals in this range. Mercedes-Benz manufactured no fewer than 240,000 units in 1971.

CNA Financial Corp., Chicago, insurance-based conglomerate, has announced plans to expand its activities in Europe and elsewhere outside the U.S. The company, with a gross annual income of $1.6 billion, was established four years ago by Continental Casualty Co., tenth-largest American insurance firm in property-liability and accident-health premiums, and Continental Assurance Co., seventh-largest U.S. life insurance company. Current European ties include ownership by Switzerland's Accident and Casualty Co. (Winterthur) a 3.4% stake in CNA, as well as Continental's 2.1% holding in the Swiss company, and various interlocking personnel relationships. Winterthur and CNA's holding company together control 85% of Stronghold Insurance in London, while Winterthur and Canadian Premier Life Insurance Co., a CNA subsidiary, maintain an equity interest in Stenhouse Holdings, Glasgow, insurance brokers for the U.K. and Australia. CNA's plans for Europe may include collaboration with Winterthur in financial services; housing construction, through its Larwin division, and entry into the precision instruments field. Also possible are overseas investments by the company's insurance investment department.

The world's largest investment banking and brokerage company and one of the oldest merchant banks in London are in the process of establishing a joint venture in that city. Next fall Merrill, Lynch, Pierce, Fenner & Smith and Brown Shipley Holdings Ltd. will open a bank for general financial transactions with an initial paid-up capital of some 2 million pounds (over $5 million).

Six major European banks are entering a cooperation to improve their competitive positions on financial markets within and outside the EEC. The institutions involved are Belgium's Kredietbank, Brussels; Crédit Commercial de France, Paris; Germany's Berliner Handelsgesellschaft - Frankfurter Bank, Frankfurt; Italy's Banco Ambrosiano, Milan; the Nederlandsche Middenstandsbank of Amsterdam, and the U.K.'s Williams and Glyn's Bank in London. The group will operate on a purely informal basis.

Braniff Airlines International, Inc., of Dallas, Tex., has announced its intention to keep on buying British. The airline - which actually made a post-tax profit of $9 million last year - regularly has flown Viscounts and BAC 1-11s rather than U.S.-manufactured planes. Braniff plans to use three Concordes for service between the United States and South America in 1975-76.

Warsaw news sources have reported that Esso will build a chain of motels in Poland over the next 12 months. With an average capacity of 250 guests, the inns are to be located in such major cities as Warsaw, Poznan, Breslau, Danzig, and Stettin.

Common Market Reports
EUROMARKET NEWS

Issue No. 170 *April 18, 1972*

Italy Again Wins VAT Extension: The Italian government apparently is going to get what it has asked for: another extension for putting the common value-added system into effect. Assuming the EEC Council's consent, the new date will be Jan. 1, 1973. In return and to pacify the other member state governments, Italy will cut drawbacks on exports and taxes on imports by 10 to 15%.

Italy grants to its exporters drawbacks of up to 6.5% of the value of merchandise sold abroad. Products from other EEC (and third) countries are subject to an import tax designed to compensate for the difference in the turnover tax burden between the common added-value systems (applied at different rates) of the other EEC states and Italy's own turnover tax system.

Since the cumulative system still applied in Italy does not permit an exact calculation of the turnover tax burden carried by a particular product, the percentages of export drawbacks and import taxes are flat-rate estimates. This system naturally distorts international competition, a disadvantage the common added-value system does not have because it allows a precise computation of a product's turnover tax burden and thus also an exact figuring of border equalization rates.

It is understood that without Rome's meager offer, the Commission would not have relented, though the alternative - bringing Italy before the European Court of Justice - would not have helped much either. Italy's offer to reduce drawbacks would mean, for example, that the present 6.5% rate to auto makers on car exports would be reduced to 5.85%. Exporting industries would feel the cut in

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drawbacks to the tune of several billion lire a year. Reduction of import tax rates will cause the government to lose many billion lire in revenue but, more important, will remove some of the distortion of competition foreign manufacturers have experienced on the Italian market.
If, as some critics charge, there seems to be an imbalance in the bargain - with the EEC losing more than Italy is giving in return - the compromise must be seen against the background of a strike-torn, ailing economy.

U.K. Industry Expects Higher Profits: The Financial Times Business Opinion Survey, which boasts an above-average prediction record, has conducted a special post-Budget survey to determine industry's reaction to the U.K. Chancellor's proposals. Simplifying drastically, the following points emerge:

- Corporate prospects as a whole and turnover expectations have improved. Over 70% of the companies queried believe that earnings will improve over the next 12 months, and this figure is even higher in the building and construction sectors, the food and tobacco industry, and in textiles. Reasons given for this optimism are the Budget's boost for consumer spending, investment incentives, and the reformed tax system.
- The companies in the survey feel, on the whole, that the Budget's implications for inflation and the country's balance of payments problem are less favorable. In recent months both prices and wages have been on the increase.
- Many U.K. companies express only guarded optimism about increased export potential.
- The chances of combating unemployment have not significantly improved, and manpower requirement forecasts have not altered significantly. Of the companies queried, 54% say that the number of employees during the next 12 months would remain the same, and 19% expect a decrease.

On the whole, it can be said that U.K. industry does expect increased profitability as a result of the Budget measures, but cost and price trends remain disturbing. Hourly wage rates are expected to rise between 5 and 9% by 68% of the companies, while some 20% are prepared for an increase between 10 and 14%. At the same time, some 60% of the surveyed companies expect total unit costs to rise by between 5 and 9% next year.
Finally, the companies also were asked to list factors currently affecting turnover. Shortage of domestic orders (54%) and export orders (47%) head the list, followed by other "shortage" factors: executive staff (2%), skilled staff (14%), manual labor (2%), components (2%), raw materials (8%), plant and production capacity (8%), and financing facilities (2%). An interesting note: only 5% of the companies feel that labor disputes are affecting turnover at the present.

Patent Infringers to Be Identified: The U.S. drug company, Smith, Kline and French Laboratories, has done the U.K. pharmaceutical companies an invaluable service by establishing via an important High Court decision that the identity of an "admitted infringer" of patents can be obtained from the Commissioners of Customs and Excise. The illegal importer of pharmaceutical supplies is to be identified by name and address and the quantities and dates of import shipments revealed. The suit was brought by Smith, Kline and French in connection with "Neftin," a veterinary chemical furazolidone. The Customs and Excise Dept. has said that it will appeal the ruling.

Infringement of pharmaceutical patents in Britain has been rife. Certain operators have been able to exploit the virtual lack of patent legislation in Italy, for example, and in various East Bloc countries and have been able to enter markets which, under British law, are protected by patents. Unpatented, unbranded and low-cost pharmaceutical products have simply "appeared" on the market, while the U.K. patent holder has had little or no recourse to law. The Customs and Excise Dept. has to date zealously protected the confidentiality of import documentation, and some importers have hidden behind this confidentiality. Undesirable competition has resulted. The High Court decision, if it is upheld, will leave illicit importers open to action by patentees.
Part of the confusion stems from the fact that patent legislation in the U.K. does not offer full protection. Certain sections of the 1949 Patents Act appear to conflict with the interests of U.K. patentees. One section, for instance, empowers the Dept. of Health to obtain pharmaceutical supplies - albeit in exceptional circumstances - from sources other than the patentee. Another section provides that compulsory licenses can be granted to potential competitors of a patent holder.

More U.S. Investments for Holland: A tendency of U.S. companies in Europe to shift their investments to low-inflation countries appeared to have spared Holland last year, according to a report by the American Chamber of Commerce in the Netherlands. Despite its "high degree" of inflation, the country again attracted $247 million in U.S. investments, bringing the total to more than $1.5 billion. This increase follows the steady pattern of the last years, according to the Chamber - $147 million in 1968, $203 million in '69, and $228 million in '70. For the current year the Chamber expects yet another boost to an estimated $247 million.
At the same time, the organization reported a further expansion of Dutch-American trade last year - Dutch exports to the United States rose by 12% to $560 million, while American exports to the Netherlands increased by 15.9% to $1.53 billion.

Curbing Advertising in Sweden: Sweden will be the first country to have a universal tax on all forms of advertising, if the Socialist minority government can get the Communists in Parliament to go along with its proposal. The 10% tax would become effective in late 1972. The object of the measure is to curb the growing volume of advertising. Four-fifths of the revenue will go back to newspapers, and the balance will be used to bolster funds of the political parties.
An advertising tax would not be something entirely new in Sweden. Last year Parliament passed legislation requiring newspapers and magazines to pay the government 6% of the revenue received from advertising. Newspaper and magazine publishers have been charging discrimination ever since. The ad tax was passed on to advertisers through higher prices. All of the ad tax revenue (estimated at 48 million kronor annually) went back to the press, particularly small newspapers, in the form of direct subsidies and government-paid advertising. The interesting fact here is that while more than three-quarters of the newspapers and magazines that are paying the ad tax are owned or controlled by Liberals and Conservatives, whose parties are in the opposition, almost three-quarters of the publications receiving the subsidies are Socialist-owned. Even so, the 10-month-old ad tax has not really helped those small newspapers that need it most.
There is another aspect, perhaps the most significant: printing in Sweden is already more expensive than elsewhere because printers'

wages are on the average 30% higher than in neighboring countries. Since the proposed tax would apply, among others, to promotion pamphlets and other printed matter carrying ads, advertisers might be compelled to have their material printed abroad.

Finnish Talks With EEC: After the first round of negotiations between Helsinki and the European Community, it appears that Finland stands a good chance of receiving better treatment in the paper sector than originally offered by the EEC. The Finns felt that, under prevailing conditions, the original EEC trade offer was clearly inferior, proportionately, than those made to Sweden, Austria, and Switzerland. Under those terms, the bulk of the exports of these three countries would have been granted free access to the EEC markets after a five-year period, while only one-quarter of Finland's exports would have been admitted. The Helsinki government argues that its wood and pulp and paper industry, which has been badly ailing for two years, is much more vital to the country's economy than, say, Sweden's. The EEC Commission, according to Finnish sources, appears to have been impressed by these arguments.

AROUND THE MARKETPLACE

A French Future for Shopping Centers: Last month's opening at a west Paris suburb of the "Vélizy 2" shopping center - Europe's largest, with 885,000 sq. ft. of sales area and parking for more than 4,000 cars - confirms the attractive future of this form of retailing in a country slow to adopt modern retailing methods.

In Germany, Belgium, and the U.K. the concept of self-service stores became established in the 1950s; in France, supermarkets began making their appearance in 1960. But the French are catching up - there now are more than 2,000 supermarkets with a minimum area each of 4,300 sq.ft. and another 143 "hypermarkets" with at least 112,000 sq.ft. of sales area, according to CECOD, a market research organization. Moreover, French self-service stores on the average are larger in floor area than the 3,000 supermarkets in Germany and the 4,400 in the U.K. This penchant for large-sized operations should make France a propitious place for U.S.-style shopping centers, CECOD says.

The first of these, Parly 2, was opened in 1970 by the French Balkany group outside Paris, at Versailles, backed by American capital and expertise. At the time the 600,000-sq.ft. sales area, with more than 100 individual stores, seemed immense. But experience is proving the motto "the bigger the better" - as in the United States, where the average shopping center requires a "neighborhood" population of 300,000 to make it pay, according to CECOD. Thus Vélizy 2 already is 50% larger than Parly 2, while another projected center to be opened in 1976 at La Défense, also a Paris suburb, will boast 1.8 million sq.ft. in sales area.

This French "commercial revolution" happens to coincide with the government's new housing and decentralization policy. Such notions as suburbia and commuting are still relatively new to France, except around Paris itself, where over 7 million people live in a 30-mile radius of the city boundary. In this suburban belt are the only three existing "regional" shopping centers - as operations with at least 487,000 sq.ft. are classified - and they are all located in areas with extensive housing programs.

Other such regional shopping centers are planned between now and 1985 for five new towns in the Paris region and another eight for heavily populated provincial townships. Of the smaller types of shopping centers (160,000 to about 500,000 sq.ft.) some 20 are in operation and another 65 planned or under construction throughout France.

Brighter Times for German Machine Tools? While describing the present situation as "fairly unfavorable," a Dresdner Bank report says German machine tool manufacturers may face the intermediate future with optimism. Such news should be welcomed after a year which brought 7% fewer orders for Germany's top industry and 18% fewer for the four-month period from October '71 to January, alone. The bank survey said the machine tool industry presently is represented by 6,600 manufacturers with 1.1 million employees (or 13% of the country's total industrial work force). As Europe's leader in its sector, the bank said, the German *Maschinenbau* industry bases its strength on the ability to provide domestic and foreign customers with sophisticated, made-to-order machinery. By the same token, it has to contend with labor-intensive production methods, as reflected in a labor-cost quotient of 32%. Despite a general trend toward more rationalization and serial production, small and medium-sized companies will continue to be the mainstay of the industry, the survey concluded.

Swedes Exhibit in Red China: A trade exhibit, featuring products ranging from heavy machinery to light consumer goods, will be opened by 127 Swedish manufacturers in Peking this month. To date, this is the most ambitious Swedish sales effort aimed at the potential Chinese market.

EURO COMPANY SCENE

The German Federal Cartel Office has imposed record fines totaling DM 49 million ($15.3 million) against nine manufacturers of synthetic fibers for illegal price-fixing agreements during 1968-70. The antitrust authorities accused the group - Glanzstoff AG (Akzo), Deutsche Rhodiaceta AG (Rhone-Poulenc), Bayer, Hoechst, Phrix-Werke AG (now defunct, the former joint subsidiary of BASF and Dow Chemical), Süddeutsche Chemiefaser (Hoechst), Lonzona GmbH, Enka-Glanzstoff GmbH, and Deutsche Zellwolle GmbH - of collusion in the pricing of unprocessed cellulose, polyamide (nylon), rayon, and acetate fibers on German, European, and international markets. The firms allegedly contracted with Japanese manufacturers to keep their fibers off the European market, agreed on national "spheres of interest" eliminating competition on home markets, drew up territorial and pricing guidelines for non-European markets, and - within each country - formed pricing, sales rebate, and distribution cartels that resulted in "creating virtually competition-free areas on the domestic markets." The Cartel Office also claimed that in order to compensate the domestic textile industry, hard hit by artificially high fiber prices, chemical producers granted "export promotion subsidies" to companies buying raw materials for their export goods.
The accused collaborators have energetically refuted Cartel Office assertions and are appealing the decision. In the meantime, as they have been quick to point out, disastrous market conditions have befallen the industry. Increased competition, overcapacities, and declining prices have led to massive layoffs and, in some cases, shutdowns. Exempt from the antitrust proceedings so far are U.S. producers - notably Monsanto and Du Pont, most British manufacturers (specifically, ICI) and their European subsidiaries.

Enka-Glanzstoff NV, subsidiary of Holland's Akzo NV and one of the world's leading manufacturers of chemical fibers, has announced vast reorganization measures. Plans include shutting down 25% of the group's synthetic fiber production over the next 18 months. Some 5,700 employees will be laid off at five plants in Holland, Germany, Switzerland, and Belgium. The company cited overcapacities in the European synthetic fiber industry (about 230,000 tons yearly, or over one-fourth of total capacity) and resulting lower prices and drastically reduced earnings as chief reasons for its decision. In addition, the currency revaluations have cut heavily into the company's export business, practically eliminating the U.S. market. Last year Enka-Glanzstoff suffered a 23% drop in profits to 184.4 million guilders ($56.7 million) in spite of an 11% gain in consolidated sales (8.056 billion guilders). The firm's directors have proposed a 10% cut in the annual dividend to 3.60 guilders/share. Another blow, of course, has been the German Federal Cartel Office's decision against Glanzstoff and Enka-Glanzstoff, carrying fines of DM 21.14 million and 85,000, respectively.

Montedison-Fibre SpA is the name of the Italian synthetic fiber company formed by the fusion of Montecatini Edison's Châtillon, Rhodiatoce, and Polymer Industrie Chimiche holdings. Montedison controls 83.5% of the new combine's share capital of about 70 billion lire ($120.3 million). Accounting for 45% of Italian fiber production , Montedison-Fibre will cooperate closely with Montedison's other man-made fiber interest, Snia Viscosa, although a merger is not in the offing.

Dow Chemical has opened its second naphtha-cracking plant in Terneuzen, Holland. The new facility, with a yearly production of 400,000 tons, doubles the company's present ethylene capacity and makes the Terneuzen complex one of the world's largest of its kind.

Hercules, Inc., Wilmington, Del., and its German representative, Otto Aldag, importer, exporter, and dealer in chemicals, fats, and oils, have founded the Hercules-Aldag GmbH in Hamburg. The joint subsidiary will take over administration of Hercules Papierchemie GmbH and will handle Hercules' sales and technical advisory activities in Germany. Last year the U.S. company's German turnover totaled DM 75 million ($23.4 million).

Richardson-Merrell, Inc., of New York, is simplifying the structure of its French operations by the cession of its subsidiary Laboratoires Coirre, acquired in 1969, to another subsidiary, Merrell Toraude SA. Merrell Toraude will thus have a capital of FF 23.395 million ($4.679 million) and move up from 20th to around 15th on the French pharmaceuticals table. Other French subsidiaries of the U.S. corporation are Vick International SA and Laboratoires Lachartre.

United Aircraft Corp. and Sweden's ASEA, electrical engineering, have agreed to cooperate in developing industrial gas turbines. ASEA also has licensed the American company to manufacture and sell its turbo-generators in the United States and Canada. Last year sales of the Swedish firm reached some $825 million. The collaboration with UAC primarily concerns generators in the 20-100 megawatt class.

The Norden Division of United Aircraft Corp. is to build and sell in the U.S. British Aircraft Corp.'s Rapier ultra-low-level air defense system. The U.S. Defense Dept. decision to purchase Rapier was based partly on the understanding that production would be in the United States. BAC spokesmen have emphasized this in the face of some criticism in the U.K.

An agreement signed this month in London will provide a further 26 million-pound loan ($66.1 million) from the U.K. to back purchase by Eastern Airlines of 37 L-1011 Lockheed TriStar airliners. The TriStar is powered by Rolls-Royce RB-211 engines. A financing agreement concluded twelve months ago, before Rolls-Royce got into difficulties, provided for 37 million pounds. The price of the RR engines has since been hiked. Lazard Bros. & Co. Ltd. are to be responsible for the latest loan, bringing the total value of financing arrangements concluded by them for RB-211 engines to 120 million pounds. In effect, the loan is being provided by a consortium of British clearing banks - Barclays, Lloyds, Midland, National Westminster, Royal Bank of Scotland, and Williams and Glyn's. This latest agreement relates specifically to the financing of engines, spare engines, and spare parts.

After more than doubling its annual loss to DM 19.9 million ($6.2 million) from 1970 to 1971, and with expectations of the same for the current year, Germany's Zeiss Ikon AG, Stuttgart, plans to terminate all production of cameras and photographic equipment, except for movie projectors. The company will concentrate on manufacturing safety locks and lighting equipment at its Berlin and Kiel facilities. Last year Zeiss-Ikon practically closed the Voigtländer plant in Braunschweig, maintaining only minor production and service facilities. The soft market at home and abroad which is forcing the company to sell out its camera stock at rock-bottom "discount" prices, the need to shut down facilities as rapidly as possible, and costly employee compensation agreements have pushed the company farther into the red than originally anticipated. Carl Zeiss, the major shareholder (93%), is assuming the entire loss, while minority stockholders will receive their guaranteed 10% dividend. The company anticipates sales of DM 110 million for 1971-72.

A German banking consortium, led by Germany's Big Three (Deutsche, Dresdner and Commerz) as well as Westdeutsche Landesbank, is negotiating about a DM 1.2-billion ($375 million) credit to the Soviets' Foreign Trade Bank for the extension of an agreement involving German delivery of steel pipe to the Soviet Union and importation of Russian natural gas to Germany. The group underwrote a credit for the same amount in the initial deal in 1970.

The Finnish OVAKO group of steel plants will deliver 25 million Finnmarks ($6.3 million) worth of steel to West Germany and Belgium. The group has agreed on these deliveries with Klöckner of Germany and Laminoirs & Usines du Ruau of Belgium.

Acrow, the U.K. construction and civil engineering combine, has announced a 26.5 million-pound ($67.3 million) takeover bid for Britain's largest mobile cranes concern, the Sunderland-based Steel Group. Both sides are reported to have agreed on a shares and convertible loan deal. The Steel Group, following the bid by Acrow, has called off talks with Critall-Hope Engineering.

A license agreement between France's Regie Renault and a state-owned Indian auto company for the manufacture of the Renault-6 model in

India is expected to be signed soon. This constitutes an important breakthrough for Renault, whose exports to the Indian continent are negligible. Other contenders for the contract were Fiat, which already manufactures in India, Japan's Datsun, and Ford. The estimated initial output is 50,000 units annually.

Merrill Lynch, Pierce, Fenner & Smith, Inc. is the first stockbroking firm to have its shares quoted on the London Stock Exchange and also becomes the first American broker to be quoted on an exchange outside the U.S. Although current stock exchange rules prevent foreign firms from membership, the Merrill Lynch move to acquire a London quotation has obviously been made in anticipation of a change in the ruling and an extension of membership to international firms. The Stock Exchange Council recently decided to abolish the rule which prevented a quoted company from being a stock or share broker. That decision was, in part at least, prompted by Merrill Lynch's application. It is rumored that the firm also is applying for membership of the Amsterdam Exchange.

The chairman of Gallaher, the U.K. tobacco manufacturer controlled by American Brands, has warned that prices for cigarettes, cigars and tobacco are subject to imminent increase. Gallaher, which has some 25% of the British market, has not yet announced formal increases. It is significant, however, that both Imperial Tobacco (market share 67%) and the Carreras group have noted that costs have risen considerably since the last tobacco price hike over a year ago.

Dawson Brothers Shipping of London has introduced a weekly transatlantic consolidation service for books and periodicals to consignees in Manhattan. Shipments of up to 66 pounds in weight will be delivered to any New York 100 zip code address. Cost will be at the rate of 4.7p per pound. The first deliveries will be made later this month.

The U.K.'s Silcock and Colling group, the country's largest car-delivery organization, is expanding onto the Continent. It has set up a company in Brussels and has acquired a controlling interest in Express Auto, France's second-largest road delivery business. The acquisition of Express is, according to the company, only the first in a planned series of takeovers that will take Silcock and Colling into all Europe's major car manufacturing countries before 1977. The next acquisition probably will be in West Germany. Silcock and Colling was taken over by Hertz Corp. in 1969 and currently handles more than 600,000 cars a year. The company plans to increase this figure to one million by the end of 1972.

Western Litho Plate and Supply Co., St. Louis, Mo., a leading manufacturer of copy machines, plates, and chemicals for offset printing, has established a Swiss subsidiary, Western Litho S.A., in Romont. The new company is to oversee manufacture and sales of Western Litho offset copy equipment for the European market. Through its Dutch licensee, Tetterode in Amsterdam, Western Litho also is offering wipe-on plates and the necessary chemicals and will import offset plates and other chemicals from its Canadian subsidiary.

Common Market Reports

EUROMARKET NEWS

ue No. 171 Report No. 185, April 27, 1972

Rescuing the Rhine: The European Commission, in its antipollution program proposed to the EEC member state governments, recommends that the International Commission for the Protection of the Rhine draw up immediate control standards and that a new agency for the Rhine basin be established to organize emergency measures.
Action is indeed needed soon. Those hundreds of thousands of tourists drawn each year to the romance of the Rhine will not be told about the more vital, less than romantic aspects: Europe's busiest commercial artery is polluted close to the point of extinguishing any form of aquatic life, and it is a water supplier for approximately 20 million people, mostly German and Dutch. The Dutch, living along the last leg of the river, have been suffering most.

In recent years, German authorities have started cracking down on the big offenders. Stiff penalties have been imposed in some instances, and even stiffer penalties are provided in legislation pending before Parliament. A large number of offenders still seem to get away with it: the communities that discharge into the river untreated or insufficiently treated waste, including that of publicly operated slaughterhouses.
There is one area where no progress has been made at all. The Alsatian potassium mines continue to flavor the Rhine and its tributaries with potassium tailings amounting to about 10 million tons per year. The International Commission for the Protection of the Rhine has tried for decades to get the French government to act and so has the European Commission in Brussels. The Dutch government has threatened to sue France before the International Court at The Hague on grounds of violating international law.
The French so far have vetoed an international agreement requiring national nuclear power plants to build cooling towers rather than using Rhine water, and the effects of this are seriously detrimental to the ecological system (animal life cannot exist above certain temperatures). The French government feels that it cannot burden its power plants along the Rhine with the additional cost.

This issue is in two parts, consisting of 64 pages. This is Part I.

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It is no wonder, then, that German industry, which under government pressure agreed to build the towers, is charging distortion of competition. Nobody knows whether and when France will give in, and with the unanimity rule the still-prevailing decision-making principle in the EEC Council, it seems unlikely that Paris could ever be forced to relent on the Community level.

Budget Battle in Bonn: The current budget debate in the German parliament has immediately shaped up as a noisy verbal battle between the Brandt Administration and opposition forces. There is plenty of ammunition:
- a budget of DM 109.5 billion ($34.65 billion), with lots of figure acrobatics,
- an increase of 11.4% over the 1971 budget that is well above what the Administration considers to be prudent for the business cycle,
- a deficit of DM 7.4 billion rather than the 4.7 billion the Administration figured on.

This increased deficit, discovered by the Bundestag's budget committee, alone is sparking plenty of fireworks, and Economics and Finance Minister Karl Schiller has hurried back from a U.N. trade conference in Chile to absorb some of the punishment and to put up a defense.
The main problem for the government is going to be how to borrow the money to cover the deficit without putting inflation into higher gear. State and local governments, among others, will be taking up credits on top of what the federal government is seeking from the credit market.
Nonpartisan financial observers in Bonn criticize the Administration's reluctance to face up to realities. These realities, unveiled by the members of the budget committee, are manifold. Federal employees are up for a raise this year, so the budget committee allowed for DM 585 million for this increase; the Administration did not. The financially weak states had been promised an additional DM 500 million in aid. Local and state governments need DM 700 million more if they want to continue the projects they started and, because of rapidly rising construction costs, would otherwise not be able to pay for without help. Another of the realities is the deteriorating financial situation of the Bundesbahn, the federal railways, which maintains excellent service despite the increasing role of the automobile. If service is to be kept at the present high level, more money will be needed.

Holland Considers Industry Controls: The Dutch economics ministry has proposed that for an effective industrial development policy the Netherlands should be divided into three priority zones, namely
1) a limited number of areas where new industry would be officially encouraged and assisted (mainly the industrial development area at the mouth of the Ems River),
2) a "neutral" zone (including the area on either side of the Westerschelde), and
3) the industrial districts around the three major cities in the west, and mainly Rotterdam's Rhine estuary.

In this latter zone the ministry would like to discourage the influx of new industry by all means and, if indicated, even "evict" existing industry. For the time being, the ministry would expect some relief through the planned introduction of a partial investment tax which - coupled with a system whereby industrial companies require official approval before being allowed to operate - might favor the industrialization of Zones 1 and 2.
Opposing these plans, the country's employer associations believe

that such obstacles to new industrial settlements in the west will offer no solutions to existing labor, environmental, and regional development problems. These measures, they argue, at the same time would stymie Holland's industrial growth as indicated in their study of the possible effects of the partial investment tax. In fact, such a tax might turn into a boomerang by acting as a brake on production rationalization, leading to an even greater demand for labor, the associations say. It is felt that Dutch industry has sufficient arguments to convince the government in The Hague of the disadvantages of an investment tax.

Wage Agreement for Norway: Norway, which has enjoyed a relatively trouble-free labor situation in the post-war period, has again averted a major strike. Both the central organizations of labor and of employers signed two-year agreements on wages and work conditions. The agreements, however, are expected to result in price increases of at least 7%, while the median wage increase will be 5.6% for the two-year period. The contracts also call for a cost-of-living index adjustment in the wage package. The new general agreement is of considerable concern to smaller manufacturers who are afraid they will not be able to stay in competition.

Social Security Treaty Okayed: The 17 member governments of the Council of Europe have adopted a new draft treaty assuring the social security rights of their citizens traveling or residing in each other's territories. The treaty guarantees the maintenance of rights previously acquired, and the transfer of benefits between countries. It holds for tourists as well as for itinerant and immigrant workers and covers all aspects of social security, including health and maternity care, disability and old-age pensions, workmen's compensation, etc.

There are already numerous bilateral agreements on this subject in Europe as well as special provisions within the EEC. But of the countries supplying the bulk of itinerant workers, only Italy - as an EEC member - has benefited from multilateral arrangements so far. Other countries with large emigrant populations such as Turkey, Spain, Portugal, Greece, Yugoslavia, and Algeria are now put on a similar status.

The Convention is to be submitted for official signing by the member countries in December and is expected to come into force early next year when non-members also will be able to accede to it.

French Employers Face "the Law": Stiffer penalties for employers coming into conflict with the labor laws are to be considered in the current session of the French Assembly. For violations of safety regulations, penalties are to be increased from the present FF 360 maximum fine to a maximum of FF 20,000 and imprisonment ranging from two months to a year, according to the proposals. Illegal employment of immigrants, currently treated as a minor offense, may draw imprisonment of up to two years and fines of up to FF 20,000 (for recurrent offenses) as compared to the present penalties of three months' imprisonment and FF 3,000, respectively. Similar penalty increases are proposed for tampering with the effective operation of personnel-management committees and the performance of government labor inspectors.

These modifications form part of a longer-term project to revise the French Labor Code, so as to simplify texts, clarify over-all objectives and, most important, limit somewhat the law's scope, extending broader application to collective labor-management agreements.

Foreign Investment in Portugal: With official information about the extent and kind of foreign investment activity scarce and still hard to come by, a report just published by the German-Portuguese Chamber of Commerce should be of wide interest. The report, covering the last three years, is based to a large degree on a representative survey and indicates that 1971, with a total of 2.267 billion escudos ($59.62 million), was a record year for foreign investments in Portugal. In 1969 and 1970 such investments came to 1.708 and 1.979 billion escudos, respectively. Over the three-year period, these were the leading foreign investors, not necessarily in order:

Source	*Total Investments in Million Escudos*[1]		
	1969	*1970*	*1971*
United States	268	301	415
Great Britain	137	306	136
Germany	158	215	274
France	54	38	246
South Africa	106	687	85
Denmark	-	0.3	241
Belgium	798	108	78
Multinational sources	-	-	375

[1] *includes domestic funds used in capital expansion of existing foreign companies in Portugal.*

All other countries cited in the complete tabulation (but not included in the schedule above) invested less than 100 million escudos each in any of the three years. A breakdown showed, however, that EEC member nations in 1971 again contributed the largest share of foreign investments in Portugal (31.9%), followed by the EFTA countries (23.3%), and the United States (18.3%).

The report said that foreign investment activity should be further stimulated in the future, since the Lisbon government now views it as a positive factor in the country's economic development. Also, Portugal's domestic business and industry is looking for closer ties to, and improved integration with, the rest of Europe.

Its relative economic stability, a growing domestic market envigorated by a steady rise in per-capita income and purchasing power, untapped labor reserves, and improving transport facilities should enhance Portugal's attractiveness to foreign investors, especially as a production base for third-market distribution, the report noted. It pointed out that this situation should be helped by equal, non-discriminatory treatment of domestic and foreign capital, with some exceptions applying only when in the "national interest." But while corporate capital transfers across the borders are subject to official controls and approval, the report said, these controls do not effectively obstruct the movement of capital, either in or out of the country, as long as legal and tax obligations are met.

In related news, it was reported from London that the recent formation of the Anglo-Portuguese Industrial Cooperation Committee will bring even closer technological and industrial link-ups between the United Kingdom and the Iberian country. As Portugal's most important trading partner of long standing, the U.K. is particularly interested in participating in the major harbor and industrial development project in Sines, just south of Lisbon, and in extensive Portuguese road construction ventures.

New U.K. Development Areas: The U.K. Dept. of Employment has designated the North-West of England, Yorkshire, Humberside and Wales as intermediate development areas. Employers in those areas may count on governmental training assistance and on other benefits. Principal among these are financial aid for training of workers in basic skills, grants for the rental of temporary accommodation prior to setting up a permanent plant, free instruction courses and training of workers in semi-skilled engineering, and grants to retain workers who would otherwise become redundant.

Bitter Wine of Harmonization: German wine drinkers are distressed by the prospect of having to pay not only value-added tax on wine in restaurants and over the counter but also an excise tax. Italians, who take to the grape even more, are facing the same prospect as the European Commission continues in its drive for harmonization of the member states' excise taxes, including that on wine. What the Commission's proposal means in effect is that Germany and Italy would be compelled to introduce legislation providing for an excise tax on wine. This move is a strong possibility, since the other member states are not likely to repeal their wine taxes. The government of France, a wine-consuming country par excellence, does not wish to forego the revenue it derives from wine excise taxes for budgetary reasons. The other member states also levy excise taxes on wine. The largest EEC candidate, the United Kingdom, also collects substantial wine excise tax revenue London does not want to give up.
It was essentially this realistic assessment that made the Commission suggest harmonization of excise taxes on wine rather than abolishment. True, in the end the effect would have been the same - no distortion in competition when wines from various wine-growing member states are sold within the Community that no longer has obstacles to trade created by taxes on imports and drawbacks on exports. This is the goal of the Community's development. Since this ultimate objective in the wine sector can be achieved only by harmonizing these excise taxes through lowering or raising (or even introducing) rates in addition to harmonizing the scope, basis, and collection of those taxes, German and Italian wine drinkers might eventually be facing the reality of *in vino tributum* as well as *veritas*.

AROUND THE MARKETPLACE

Champagne Exports Lose Sparkle: Americans are drinking less of France's bubbly stuff, and French producers are worried. Figures just published show that the United States over the last two years has slipped from second to fourth place among the leading export customers (behind the U.K., Italy, and Belgium), importing only 3.7 million bottles in 1971 as against 4.5 million the year before. The Comité Interprofessionnel du Vin de Champagne has commissioned an investigation to find out whether the slowdown is due to the general economic situation or to more specific factors such as unauthorized use of the "champagne" label by non-French producers of cheaper sparkling wine. French champagne output is limited to the legally demarcated area (51,000 acres) in the Champagne province, where the genuine article originates. But world demand for the "real" champagne is five times greater than production capacity, and French vintners fear damage to the reputation of their product through its confusion with cheaper imitations.

Number of Supermarkets at a Peak: With 190,000 units at the beginning of this year the number of self-service food stores and supermarkets in Europe's major industrial countries has reached a ceiling, according to a study of the International Self-Service Organization published by the Ifo Institute of Economic Research, Munich. Of the total, about 86,500 units or 46% are located in Germany, 29,000 in the U.K., and 22,000 in France. With 712 inhabitants for each unit, Germany also is the leader in that department, followed by Norway (924), Sweden (946), Denmark (949), and Switzerland (1,199). Of 14 European countries surveyed, the study established that Italy has the lowest density of self-service groceries and supermarkets, with 36,550 inhabitants per unit.

EURO COMPANY SCENE

One of France's leading food groups, Gênerale Alimentaire SA (1970 turnover FF 404 million, or $80 million), is to form the base for a vast Franco-British food combine. This news follows acquisition of majority control in the company by its leading shareholder, Compagnie du Nord, and the British Cavenham Ltd.
Compagnie du Nord plans to use Gênerale Alimentaire, which specializes in sauces, desserts, confectionary and luxury foods, as "a French nucleus around which the food processing industry can restructure." The company will move into new fields of food manufacture and make a special export drive. This explains the link-up with Cavenham (controlled by the French holding, Gênerale Occidentale), which will put at Gênerale Alimentaire's disposal the British firm's technical know-how and the chain of 3,000 British outlets belonging to Cavenham subsidiary Allied Suppliers.
At a later date Gênerale Alimentaire will join forces with Cavenham's other French subsidiary, Financière & Industrielle des Petroles & de Pharmacie (FIPP), which took over the leading French animal food company Sanders earlier this year. In the U.K., Cavenham has an annual turnover of 450 million pounds ($9.3 billion), with manufacturing activities in confectionary, distilling, biscuits and tobacco besides its retail interests.

Industry experts are pondering remedies for Belgium's ailing Glaverbel SA, one of Europe's leading manufacturers of plate glass (1971 consolidated turnover BF 7 billion, or $159.6 million). The company's U.S. exports, constituting 10% of total output, have seriously fallen off in recent months. In addition, Glaverbel has underinvested in production facilities for float-glass.
Three solutions are under discussion: a financial boost through a long-term loan or Belgian government aid; assistance from the major French glass producer Boussois-Souchon-Neuvesel (BSN), which already has a 25% interest in Glaverbel, or merger with another shareholder (17%), Belgian glass manufacturer Les Glaceries de Saint-Roch, one-third owned by France's St. Gobain-Pont-à-Mousson (SGPM). Although its BF 3.5-billion turnover is smaller than Glaverbel's, St. Roch has extensive float-glass production facilities. Neither St. Roch nor the St. Gobain group exports much plate glass to the United States. However, St. Gobain manufactures glass fibers there through its subsidiary Certain Teed Products.

Germany's Siemens AG and Japan's Hitachi have been discussing the possibility of collaborating in the computer sector, perhaps within the framework of a recently announced Siemens-CII-Philips cooperation. The German company also has been negotiating with Hitachi's Japanese partner, Fujitsu.

The plastics machinery division of NRM Corp., Akron/Ohio, part of the Condec Corp. group, has acquired a major production and distribution license for twin-screw extruders from Maschinenfabrik Hans Weber KG, a leading German company in this particular sector. The six-year agreement covers the North American and Mexican markets. The twin-screw extruder process is used in the manufacture of precast plastic products such as piping, frames, etc.

Spokesmen for the Dutch Akzo chemicals group have protested to the EEC Commission over the Italian government's support of Montedison's synthetic fiber production. Independent European fiber manufacturers are suffering from Italian subsidization of the state-controlled concern, whose prices are undercutting those of the competition. According to Akzo, the Commission has not yet found a solution to the problem, since it cannot directly force Montedison to raise its prices.

first wholly Japanese-owned factory in Britain is now in production. YKK's new unit at Runcorn, New Town, will be used for the production of zip fasteners. YKK has been supplying the U.K. market from Holland. The move to the U.K. is seen as an attempt to step up competition with its major rival, Lightning Fasteners, a subsidiary of Imperial Chemical Industries. Initial output will be two million zips per month.

While Canada's International Nickel Co. (INCO) awaits French government approval for its nickel mining project in New Caledonia, France's Société Nationale des Petroles d'Aquitaine (SNPA) has decided to launch its own nickel extraction venture. It will create a joint subsidiary (51% SNPA) with Freeport Minerals Co. of the United States in a New Caledonian project involving investments of up to $100 million over the next eight to 10 years. Freeport Minerals will provide technical know-how in the form of a chemical extraction technique used at its former Cuban plant. The output of SNPA-Freeport will initially be 22,500 tons annually.
The SNPA move could well be inspired by French government fear of foreign domination in the laterite nickel producing region of New Caledonia. A projected cooperation between INCO and French Cofimpac broke down a few months ago.

France's Compagnie Electro-Mécanique has obtained a contract from the Yugoslav company Termoelektrana Obrenovac to build a FF 100-million ($20 million), 305-megawatt extension to a major electrical power station near Belgrade. The existing 210 Mw installation utilizes Soviet equipment. It is the first time that a French company has been given the opportunity to construct a large-scale power station in Yugoslavia.

Badalex, of the U.K.'s Sale Tilney group, and Germany's Willy Günther KG have signed an agreement with the Soviet Technopromimport agency to set up a plant for the manufacture of reed switches in the SSR. Worth about $2 million, the contract involves the combined technology of Badalex, specialists in automatic machinery, and Günther, builders of the switches, which are used mainly in electronic telephone equipment and control processes. The plant is to have an annual output of 7.5 million units. Delivery of the installations will be made over the next two years.

Shell is expected to announce plans for a U.K. demonstration plant to produce edible protein from natural gas. The company's research program in Kent is heavily slanted toward development of a process for the continuous cultivation of bacterial protein by fermentation of methane. Should Shell decide to go ahead with large-scale manufacture, a production facility of several thousand tons annually is anticipated. ICI, British Petroleum, and Ranks Hovis McDougall have already commissioned plants for large-scale manufacture of protein by fermentation.

The French optical specialist Essilor SA is strengthening its position on the U.S. market by creating, through its New York sales arm Silor Inc., a joint subsidiary with the American precision engineering firm Milton Roy. The new company, Milroy-Silor, will manufacture a special type of plastic lens under license from the French company. Silor Inc. will be responsible for marketing the product. Essilor is also concluding a similar manufacturing agreement with Hoya Glass of Japan.

The Générale Occidentale group has announced two link-ups in the banking sector. Its subsidiary, Anglo-Continental Investment & Finance Co. Ltd. is taking over 51% of the capital of the Swiss bankers Ralli Brothers (Bankers) SA of Lausanne, for 4.08 million pounds ($10.6 million). Ralli Bros., which has a London branch, owns the Societe Ralli de Banque & de Placements in Geneva and controls France's Discount Bank in Paris. The consolidated assets of the group exceed FF 650 million ($130 million).
The other link-up concerns Hambro's Bank, London merchant bankers, which has taken a holding of a little over 10% in Générale Occidentale with a view to cementing an agreement between the two organizations to cooperate on a European level.

The U.K.'s Commercial Union Assurance has paid some 27.7 million pounds ($70.3 million) in CU shares to National Westminster Bank in order to acquire the latter's interest in Mercantile Credit, a major British installment credit finance group. CU has indicated that it has no intention of taking Mercantile over completely. The deal has given CU a 24% share in Mercantile Credit's equity.

A London bank syndicate, headed by Wm. Brandt's Sons and Co., has signed a $10-million agreement with the Banco Industrial de Venezuela. The agreement applies to a loan to finance low-cost housing by the Venezuelan government. The syndicate members are Brandt's Bankers Trust International, Bankers Trust Co. Nassau, First Pennsylvania Banking and Trust Co., Wells Fargo Bank NA, Northern Trust Co., and the Bank of Montreal.

Germany's Dresdner Bank is planning to open a branch in New York by the end of September. A three-member management team will head the administrative staff of 35. The bank also plans to open a group representative office in Panama, where its holding, Deutsch-Südamerikanische Bank AG (98%), already maintains a Central American branch office.

Common Market Reports

EUROMARKET NEWS

Issue No. 172 *May 2, 1972*

No Quick Cure for Italy: No matter how Italian voters cast their ballots in the national election this weekend (May 7), the results are not likely to offer a quick cure to the country's stagnating economy, its business climate, financial system, and tax structure. Italy's GNP for 1971 grew by only 1.4%, the lowest rate since the end of World War II, and this increase is due primarily to increased public spending. Over-all industrial production last year was actually 2.7% below that of 1970.

There are many reasons why the Italian economy did so badly in 1971 and is still doing poorly this year. Last year's monetary crisis added its share. Another factor was a 1971 housing law that sharply cut into the construction boom, reducing building activity by 12%. Also, there is the archaic tax structure that eventually will be put on 20th-century footing but that still treats Italian stockholders differently than do virtually all other West European (especially Common Market) countries. As a result, Italian capital is finding a better reception abroad, and the economy is being deprived of the funds needed for expansion and modernization of plant facilities.

Some of Italy's industries have done well in international competition and continue to do so, but others have failed to adapt their ways to international markets. The technological gap too has widened. Many Italian corporations still are patterned after models used at the turn of the century.

Economists agree that the near-permanent labor-management crisis is the most aggravating cause of the economy's troubles. Union wage demands have been excessive, ignoring all sensible business principles, and so there is little hope for a quick recovery.

Ulster's Problems Hurt Irish Republic: The impact of the troubles in the North of Ireland on the Republic of Ireland's economic growth has been severe, according to the annual survey of the Organization for Economic Cooperation and Development. Above all, the effect on tourism has been dramatic, and the OECD anticipates that tourist spending this year may drop to 25% of the level four years ago. This recession is being felt throughout the economy,

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notably in the service industries, where projected growth has been virtually halved. The political upheaval in the North also has had an adverse effect on industrial exports and the inflow of new industry capital. The number of new industry projects has fallen by 26% in the 1969-71 period compared with the previous three years. The Republic also has its domestic troubles to aggravate the situation. Wages and salaries climbed an estimated 13.75% in the 1969-71 period, and unit wage costs in the manufacturing industry have risen by over 11.5%, some 4% more than in the EEC countries as a whole. Unemployment last year rose to 7.2% and, by January of this year, had exceeded 8%.

Against this background and pursuant to the demands of both industry and trade unions, the Minister for Finance now has produced a budget designed to get the economy moving. The 35 million-pound deficit budget has three principal features - increased social welfare payments, higher personal and children's income-tax allowances, and a reduction in the level of company taxation:

Social welfare - Rates of all classes of social insurance and benefits are to be increased. The personal rate of contributory old age pension goes up by 70p to 6.20 pounds per week. In the case of married couples it is raised by one to 10.35 pounds per week. Contributory pensions for widows are increased by 60p to 5.60 pounds.

Income tax - Personal allowances for single people go up by 50 to 299 pounds; for widowed persons by 50 to 324 pounds, and for married persons by 70 to 494 pounds. Child allowances are increased by 20 pounds.

Company taxation - The tax on company profits is reduced to 50%, as a result of pressure from the Confederation of Irish Industry, which felt that this would alleviate the unemployment problem most acute in the building and construction industry.

The Confederation's most recent quarterly report is more optimistic than its OECD counterpart. It is felt that tourist earnings will improve following the U.K. government's initiatives in Northern Ireland. In addition, the expansionary U.K. budget should help promote Irish exports to Britain. The report also noted that a decision in favor of EEC entry - to be made shortly - would promote business investment. A nationwide agreement would help keep wages to a moderate growth level. The Confederation emphasized that increased state investment would be needed to stimulate growth. The budget is a step in this direction.

Parity Sought by Textile Trade: The U.K. textile trade will espouse a protectionist cause in negotiations designed to bring Britain's textile policy into line with that of its prospective Common Market partners. The British Textile Employers' Association has expressed the view, widely held within the industry, that the ultimate goal should be parity with the EEC countries. Parity is emphasized since it is feared that the British negotiators might allow U.K. quotas to stay above Common Market levels because of Commonwealth commitments. Parity would result in a distinct drop in textile imports from the present 53% share of domestic consumption to around the 20-25% prevalent in EEC countries. The Association also has urged that cotton yarn be included in EEC quota arrangements, arguing that this is vital to the survival of the U.K. spinning trade. The Dept. of Trade and Industry feels that this point will "not be easily negotiable."

Aiding France's Little Guy: The French National Assembly is poring over a considerable amount of government-proposed legislation designed to support small businesses, mostly retailers and craftsmen. If the proposals get through, the small businessman would pay less income tax and could be exempted from the local business tax. He also could obtain cheaper credit and could count on social security benefits equal to those extended to retired wage earners and salaried employees. Craftsmen and retailers nearing retirement age could expect to receive a lump sum premium if forced to give up their businesses, whatever the reason.

This manifold program with its various types of aid also is designed to mute complaints from the owners of small businesses who feel they are the stepchildren of economic growth. Perhaps their sales do not weigh so much on the GNP scale, but their votes matter a great deal, and national elections are up next year. The government feels that it no longer can ignore their demands for aid.

The tax rates on income declared by craftsmen and retailers would be reduced by 3%. This tax cut alone would cost the government FF 1.2 billion in revenue. The maximum rate of gift and estate taxes applicable to transfers between spouses and to descendants (exceeding FF 100,000) would be lowered from the present 20 to 16.6%. Craftsmen not already exempt from the local business tax would be exempt under a proposed law, provided they have no employees.

Some of the costs of the aid program would be borne by the government, some by the beneficiaries themselves (with respect to the social security contributions), and some will be supported through special levies imposed on industry and trade. For example, the deficit the government would incur in paying social security pensions to craftsmen and retailers would be matched by government funds and a levy payable by corporations. The lump-sum premiums for elderly small businessmen forced to give up their stores or trade would be derived from revenue created by a special five-year levy on trading businesses. The levy base would be the total number of square meters a business occupies; the normal rate would be three francs per square meter, but large businesses such as supermarkets would pay FF 15 per square meter.

Pro-EEC Forces Gaining in Norway: At an extraordinary congress of the Norwegian Labor Party, three-fourths of the 300 delegates voted to line up behind Prime Minister Trygve Bratteli's EEC policy. This was considered an important meeting in that a good portion of the opposition encountered by Bratelli has originated in the left wing of his own Labor Party. It now appears that he has won over a majority of Norwegian workers after restating the reasons for the absolute necessity of Norway's joining the Market and promising government "cooperation" - presumably aid - with agriculture and fishing industries, which may suffer from membership. The PM also stressed that Norway can continue to develop in the future its own political and social course, implying that fears of a possible loss of Norwegian sovereignty in the EEC are highly exaggerated. On the contrary, Bratelli said, as an EEC member Norway will have a greater voice in the future of Europe.

Meanwhile, a 250-page "memorandum from the opposition," compiled by leading Norwegians of various political persuasions, was published during the week of the Labor congress. The memo is said to be the clearest and most emphatic argument to date against membership.

The extent to which Bratelli can maintain party discipline and convince the non-Labor opponents will be seen in September when the electorate goes to the polls to vote in a consultative referendum on the EEC.

Strike Threats in Finland: Helsinki again is awaiting its almost traditional wave of spring strikes. This year the prospects for extensive labor unrest seem more serious than in the last few years. Strikes are expected to start at any time by unions representing dock workers, printers, airline employees, food packers, liquor store clerks, commercial ships' officers, bus and truck drivers, plumbers, and others. Tension is especially great in the paper industry despite a tentative settlement in early April. But as a result of layoffs and other problems, wildcat strikes have broken out, and further trouble is anticipated.

ASE Companies Given a Break: The London Stock Exchange has announced that it will offer certain exemptions from normal recognition requirements to U.S. incorporated firms quoted on the American Stock Exchange. The principal concessions relate to the preemption of issues of equity capital and to accounting procedures. One proviso is that NYSE and SEC requirements are met. In addition, the Stock Exchange Council also will waive the usual advertising requirements, providing that information is available from the statistical services.

More Management Jobs: The number of available management positions generally was on the rise in most European countries during the first three months of this year, though on a depressed level in comparison to previous years, according to the latest quarterly Executive Job Index issued by PA Management Consultants. The major exception was Germany, where demand for executive talent was exceedingly low. The index is based on the evaluation of job offers advertised in the leading daily newspapers of the following countries:

	Production		*Sales & Marketing*		*Finance & Admin.*		*EDP*		*Technical Sector*		*Personnel*		*General Management*	
	1Q 72	*4Q 71*	*1Q 72*	*4Q 71*	*1Q 72*	*4Q 71*	*1Q 72*	*4Q 71*	*1Q 72*	*4Q 71*	*1Q 72*	*4Q 71*	*1Q 72*	*4Q 71*
Germany	39	75	58	88	40	64	53	67	71	117	55	56	52	65
France	70	53	128	101	102	83	57	56	86	114	74	79	104	112
U.K.	94	57	101	79	79	60	52	36	57	47	84	47	90	59
Italy	53	40	76	63	60	59	104	106	108	45	91	64	109	77
Belgium	110	105	127	84	62	48	42	24	83	81	155	95	21	20
Holland	79	95	63	58	46	43	44	43	43	52	41	56	68	51
Spain	252	516	188	215	154	139	850	1400	126	129	234	89	550	492
Switzerland	77	290	100	85	67	38	29	14	48	93	47	30	97	56

Index = 100 based on 4th Quarter 1970 *Source: PA Management Consultants*

Brighter Outlook for U.K. Engineering: The British Mechanical Engineering Federation believes that the recession in the U.K. engineering industry is a thing of the past. Expansion plans by a number of companies - notably Honeywell, Hoover, and Reliant Motors - would seem to indicate that confidence is returning, in spite of the redundancy problems and pay claim battles still being fought. The BMEF's optimism is thought surprising because it is based on a survey conducted between October and February, excluding from the reckoning the boost to the industry implicit in the recent U.K. budget. In essence, the Federation based its assumption on the "pattern of the economic cycle which has repeated itself with remarkable similarity throughout the post-war period." There was no reason to suppose that the trend would deviate markedly from the norm on this occasion, it said.

Printing Costs Moving Up: Rising costs and wage offers currently under review will result in the cost of printing in the U.K. going up by something over 10%, according to the British Federation of Master Printers. Higher wages, longer vacations, and the pending (this autumn) increase in social security contributions will account for 8% of this increase. The Federation fears that this rise in prices will lead to many printing contracts going abroad.

U.S. Investment in France: The U.S. share of foreign investments and credits in France fell from 33 to 25% in the five-year period between 1966 and 1970, although in actual terms it rose from $200 million in 1966 to $358.6 million in 1970. A French Finance Ministry report said that over the same period French investments by other EEC countries rose from 25% (1966 = $169.2 million) to 50% (1970 = $742.2 million). Total foreign investment in France in 1970 amounted to FF 7.5 billion ($1.5 billion), the ministry report said.

Start for Europe's University: A Convention for the Establishment of the European University has been signed by the six EEC member nations at a ceremony in Florence's Vecchio Palace. The new university, with initially four departments (economic sciences, history and culture, law, and political and social sciences), is to take up its activities by the end of this year. The campus is located in the park of the Villa Tolomei, atop a hill near Florence. As a post-graduate institution, the university will bestow the "European Ph.D." degree on its graduates.
The idea of the European University goes back to the year 1958, when the Council of Ministers accepted a proposal by the Italian government to establish such an institution at Florence. The convention still has to be ratified by the parliaments of the six countries.

EURO COMPANY SCENE

Hoechst Holland NV, Amsterdam, wholly owned subsidiary of Germany's Farbwerke Hoechst AG, is taking over the Dutch Wagemakers' Lakfabrieken NV, one of the world's leading producers of pulverized paint. With 250 employees, the company last year had sales totaling 15 million guilders ($4.6 million). Wagemakers' also produces exterior, automotive, and industrial paints.

Monroe Auto Equipment Co., Monroe, Mich., which bills itself the world's largest independent manufacturer of shock absorbers, is planning to build a second European plant in Hjorring, Denmark, through its European subsidiary, Monroe Auto Equipment International SA, Brussels. The company will invest some $12 million in the new factory, to employ 850. About 95% of production will be exported to the enlarged Common Market and Scandinavia, where the Swedish auto industry is one of Monroe's prime customers. The company opened its first European plant in 1964 in Belgium.

Hewitt-Robins Europa, Paris, has been awarded a contract for the design, supply, and erection of two bed blending systems and related materials handling equipment by Solmer, a member of France's Wendel-Sidelor group. The installations are to be part of a new steel mill under construction at the Fos-sur-Mer industrial center near Marseilles. Hewitt-Robins is a division of International Handling NV, jointly owned by Litton Industries and the Netherlands' VMF/Stork Werkspoor. The company already has carried out or is completing similar projects for Usinor Denain in France and for other firms in Belgium, Holland, Germany, Italy, Finland, Iran, and Venezuela.

Another French company, Pechiney Ugine Kuhlmann, is to engage in nickel mining in New Caledonia. PUK has signed an agreement with COFREMMI, French subsidiary of Canada's Patino Mining, for joint development and construction of a mining and extraction facility with an annual output of 36,000 tons. The plant will require investments of FF 1.7 billion ($340 million). A previous New Caledonia joint venture agreement between COFREMMI and Société Le Nickel has been postponed.

Germany's Klöckner-Humboldt-Deutz AG has announced development of a "cleaner" diesel engine conforming to the latest U.S. standards for pollution reduction. Utilizing a two-stage process rather than the usual direct fuel injection method, the engines are said to achieve almost complete combustion. They will be incorporated in company-built buses primarily for use in urban transit.

The U.K.'s Automobile Association, partnered by the Midland Bank and Trust Houses Forte, has emerged as one of the six bidders for the state-owned travel agency of Thos. Cook and Sons. The auction closed last month, and the ultimate winner will not be known until the end of June or even July. The identity of those in the running has not been officially disclosed; the offers were described as "strictly confidential" by bankers J. Henry Schroder Wagg. However, one of the front runners is known to be the Barclay Bank International group, made up of Barclays (45%), Grand Metropolitan Hotels (25%), BOAC, BEA, and W.H. Smith (10% each). National Westminster Bank is also reported to have made an independent bid.

Keyser Ullmann Holdings, the 56 million-pound U.K. merchant bank, will merge with Central and District Properties, one of Britain's leading property and investment development companies. The motive behind the 77 million-pound merger is to create a more powerful financial group and to utilize more fully the expertise of both companies.

Austria's automotive group Steyr-Daimler-Puch AG (Creditanstalt-Bankverein) has now definitively contracted with the Greek government to build a manufacturing plant in Thessalonike, northern Greece. The Austrian company will invest some $34 million in this project over the next five years. With a work force of 4,000, the factory is expected to attain an annual output of 5,000 tractors, 3,000 trucks (5-14 tons), 30,000 motorcycles, 80,000 bicycles, and 1,500 stationary engines. Steyr-Daimler-Puch will handle the technical direction. A considerable portion of production - worth not less than $4.5 million annually - will be exported, primarily to the Near East and Africa.

Monsanto (Deutschland) GmbH, Düsseldorf, is building a new German plant for the reprocessing of fiber waste products. The factory, to go on stream early next year, will employ 50-60 people during the initial phase of production. Low-grade fiber waste from the company's two plants at Echternach, Luxembourg, and Lingen, Germany will be processed there as base materials for blanket, carpet, and related synthetic textile products.

Japan's Toyo Bearing Manufacturing Co. Ltd. (NTN) will begin production of ball bearings in a plant near Düsseldorf, Germany, next October. The factory is NTN's second foreign manufacturing venture (a similar plant opened near Chicago last summer). The DM 18-million ($5.6-million) German facilities represent the first such Japanese investment in the European machine construction sector. The newly founded NTN Wälzlager (Deutschland) GmbH, sister subsidiary of NTN Wälzlager (Europa) GmbH, the company's sales arm in Düsseldorf, will operate the plant. The almost fully automated facilities require a work force of only 40 for an annual production of 12 million ball bearings.

Further French interests are being drawn into the U.S. development of a tracked air-cushion vehicle for urban and inter-urban passenger transport. Le Moteur Linéaire, subsidiary of Merlin Gérin SA, has won a $880,000 contract from Rohr Industries, Inc., the American project leader, to manufacture a power plant and on-board electrical systems for the prototype vehicle. Le Moteur Linéaire was one of the pioneers of the linear motor principle.

France's Creusot-Loire, licensee manufacturer of Westinghouse pres- surized water nuclear reactor systems, has dispatched a second Westinghouse PWR reactor vessel to the Northern State Power Co. of Minnesota. The whole journey is being made by water from central France down the Saône and Rhône rivers, across the Atlantic, and up the Mississippi. Five similar reactor vessels are to be delivered in Europe shortly. Six others are already installed. Since the collapse of its hopes to take over French Jeumont-Schneider, Westinghouse is negotiating a substantial holding in Creusot-Loire. The outcome of the deal will not be known for several weeks.

The U.K. government will back an expansion program for the Belfast shipyard firm of Harland and Wolff to the tune of some 15 million pounds. Original negotiations had been entered into prior to the Stormont government in Northern Ireland being prorogued at the end of March. The total expansion program will cost 20 million pounds, with Harland and Wolff contributing about 25%. The aid plan is part of London's economic aid program promised in the March 30 initiative.

Norsk Hydro, one of the largest companies in Norway and the biggest chemical group in Scandinavia, has been granted a quotation on the London Stock Exchange. It is part of one of the most successful North Sea oil and gas exploration syndicates. The London quote will allow the company to raise money in the U.K. to finance future development plans.

The European Court of Justice has rejected a request by Continental Can Co. (Europemballage) for postponement of the six-month grace period ending June 30 set by the European Commission for divestiture of CCC's Dutch holding, Thomassen en Drijver-Verblifa. The company had sought a delay until the Court renders its decision on Europemballage's appeal against the Commission's antitrust suit.

Fisons, the U.K. chemical group, is to face antitrust charges in Illinois. The U.S. government alleges that agreements between Fisons and its three American licensees illegally restrained trade in iron dextran, a mineral supplement for human and animal consumption. Fisons had already challenged - in vain- the original U.S. District Court ruling. The appeals court has ruled that the existing contracts have allowed Fisons to exert "significant influence" over business activities in Illinois.

Seatrain Lines Container Division had added the Portuguese cities of Oporto and Lisbon to its growing container service network. Containers to and from these ports will be deliverable throughout the U.S. East Coast and through Houston, Texas, and California ports via the company's new Euro-Gulf service, according to Seatrain spokesmen. The shipping line's Euro Class container vessels, jet-propelled, can carry more than 900 40-foot containers per voyage.

ITT Sheraton International Inc., Boston, is pressing ahead with plans for expansion on the European hotel scene. The company just opened a new luxury inn in Munich and will complete two others in Lisbon and Madeira by the end of the year. Two more houses are scheduled to open in 1973 in London and Istanbul, and Paris will be the site of the chain's largest European hotel (1,000 beds), to be operational in March 1974. Sheraton estimates an investment cost of about $30,000 per room, amortizable in seven to eight years. For 1972 the company anticipates world turnover of $450 million, with $20-22 million to be generated in Europe.

Scotch whiskey is to become more expensive. Distillers Company, which produces approximately 60% of whiskey sold world-wide, including brands such as VAT 69, White Horse, Haig, Johnnie Walker, and Black and White, has announced that net prices per bottle will be raised by 10p as of May 2. Teacher, Bells, and Grants, Distillers' principal rivals in the domestic market, have indicated that they will follow suit "within the near future." These increases will put between 10 and 15p per bottle on the retail price and bring the industry an additional 10 million pounds in profits annually. The net gain will be considerably less, however, since the increases came after two years of sharply rising costs. Since the last hike in August 1970, wages within the industry have risen by some 30% and other costs have spiraled. Spokesmen for the industry have indicated that the increases will help maintain a profit base in the domestic market - the real money will come from exports. It is only a matter of time, however, before the export prices also will be raised.

An interesting exchange operation has been made between gasoline distributors Amoco and Burmah in the U.K. In an effort to rationalize their distribution, the two companies have agreed to switch a total of 28 service station sites. Amoco has released 18 sites in the North and East of England in exchange for 10 sites in the South and West. Some of the impetus for the deal must have come from the fact that Amoco is opening a refinery in the South West - at Milford Haven - next fall. It will have an annual capacity of 4 million tons.

France's biggest advertising group, the state-controlled Agence Havas, is to separate its PR and advertising activities by ceding its PR company, Havas Conseil Relations Publiques, to private interests. The buyer may be a group of employees of the company, which is France's leading PR firm with a 1971 turnover of FF 20 million ($5 million). The move is said to be influenced by allegations that Havas Conseil is involved in "black-market" advertising on national television - subject of a public inquiry. The company has been accused of havin[g] placed advertising in programs outside the 39-minute period allocate[d] daily for commercials on France's two TV networks.

Common Market Reports

EUROMARKET NEWS

ue No. 173 Report No. 186, May 9, 1972

Higher Social Security Taxes in Austria: Business associations and union organizations in Austria so far have raised little objection in public to the government-drafted social security measure calling for an increase in health insurance and old-age pension contributions. Both still have several weeks to prepare comments before the measure goes to Parliament. The objectives sought with the bill offer little substance for criticism despite the additional financial burden for both employers and employees.
Austrian wage earners presently pay health insurance contributions on income up to 4,800 schillings a month. The rate is 7.3% and is shared equally by employee and employer; for salaried employees it is 4.8%, also shared equally. Under the proposed law, the ceiling on income subject to the health insurance system would be 5,700 schillings beginning next year, to be raised in steps until 1977 (dynamic income ceiling). In 1974 the rates for wage earners and salaried employees would be increased to 7.5% and 5%, respectively.

Instead of the patchwork legislation of the past - essentially stopgap budgetary measures - the proposed law would provide the health insurance system with more funds and at the same time relieve the Vienna government from granting ballooning subsidies every year. It is expected that the hike would bring 270 million schillings in additional revenue the first year and even more thereafter. Beginning in 1974, 2% of the health insurance contributions would be earmarked to cover costs of free medical checkups for employees, a factor that is in the interest of the employers, too.

German Socialists and Their Crystal Ball: The most recent political tremors in Bonn overshadowed a significant document that may well contain some signposts of Germany's future. A policy-making caucus of West Germany's Social Democratic party (SPD) has prepared a long-range paper on what it feels should be done by 1985 in terms of ditional and improved social services and where the money should

This issue is in two parts, consisting of 56 pages. This is Part I.

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come from to pay for it. The paper, consisting of 250 major points, is to be discussed at the party convention in late November. It is expected to be made the SPD's official program for the next 12 years.
Both domestic and foreign observers have noticed with relief that whatever would be done should the party continue in power after the 1973 national elections, the free enterprise system won't be touched. Nor is nationalization considered a vehicle of government policy to advance social progress. This is an important admission, particularly in light of the drift to the far left of the party's youth organization, which has continually demanded nationalization of major sectors of the economy. The alternative offered in the paper is increased government spending.
The paper is based on the assumption that until 1985, the gross national product will increase on the average of 4.5% per year, not taking into account annual inflation. Public spending, accounting at present for nearly 30% of the GNP, would be increased to 34%, and the revenue for increased public expenditures would be derived primarily from higher direct and indirect taxes. Citizens would be asked to pay for using particular services, such as recreational facilities. The costs incurred by local governments in treating sewage discharged by business would be borne by business.
The planners have given education top priority in calling for a 9.2 annual increase in spending. An 8.9% increase per year is visualized for new roads and autobahns and to improve public transportation. Aid to underdeveloped countries also would be increased by 8.9%. Other expenditures would be for housing and urban renewal (6.5%), health services (5.4%), defense (4.8%), and social security (4.7%).

Naturally, the planners' figures depend on many factors that cannot be planned or are difficult to predict: the business cycle, employment and working hours, private investments, wages, and increases in productivity. Anybody else would face the same variables. This time the Socialists are telling the voters well in advance what they will have to pay for more and better services.

U.K. Opens to EEC Bidders: As of July 1, 1973, U.K. public works contracts will be open for competition to EEC building and civil engineering companies. This date has been officially accepted by the British government as the deadline for observance of the EEC directive designed to guarantee fair competition in major public construction scheme tenders. The other EEC countries have agreed to end national discrimination in this sector as of July 1 of this year; Britain has been granted an extension to allow public authorities to clarify current tenders and make administrative provisions. Under the new directive public authorities must advertise their plans and invite either "open" or "restricted" bids via the EEC Commission's journal. In the case of "open" bids, any interested contractor may apply. The "restricted" category means that contractors may express interest and, if certain conditions are met, may be invited to bid. An immediate result of the directive will be that national companies are not ipso facto favorites in their domestic markets. The U.K. government has expressed confidence that British contractors and civil engineers will stand to gain more than they lose, in spite of the right of establishment now guaranteed to Common Market competitors to establish operations in Britain and move in a commensurate labor force. The stiffest competition is expected from Italy, followed by Germany and, to a lesser extent, France.

BLMC As a Pied Piper? British Leyland's announcement that it would raise its prices by 3% constitutes a violation of an earlier pledge to the Confederation of British Industry that prices would not be hiked by more than 5% in the 12-month period ending July 31. The company raised its prices in January of this year by 3%. The CBI has agreed to this 6%-plus price hike on the grounds that BLMC suffered a loss of production as a result of the power cuts during the coal miners' strike.
Two points emerge from British Leyland's move: Firstly, other major manufacturers in the U.K. automobile industry will follow suit. Secondly, the move - coming before the end of the price restraint period - will encourage other industries presently in the throes of wage settlements and new wage claims to raise prices also and will certainly thwart a further CBI initiative after expiration of the restraint agreement on July 31.
In related news: The U.K.'s truckers have informed the CBI that they are unable to hold prices at present levels due to a considerable recession in trade as a whole and to rising costs within the industry (which averaged 12.5% last year). The Road Haulage Association has recommended an increase of 5% - in line with CBI price restraint limits. But an independent survey has revealed that some truckers need to increase revenue by as much as 34% in order to meet rising costs. Long-distance truckers would require another 14% in revenue, in spite of the fact that rates were revised as recently as 1970.

Germany's War on Pollution: Over the past three years German industry has invested more than DM 3.1 billion ($1 billion-plus) for air pollution control, according to the first nationwide survey ever, conducted by the DIHT, the German federation of chambers of commerce. This total was about twice as much as for the years 1966-69, the DIHT said, and doubles the previous estimates of governmental and other authorities. The findings of the survey show that it will cost DM 8.6 billion ($2.68 billion) over the next five years to "keep the German skies blue" - twice as much as Bonn has projected in its environmental program.
The costs of Germany's total environmental control efforts until 1977, the DIHT warned, should be closer to DM 140 billion rather than the 70 billion previously calculated. This would amount to 4% of the gross national product and constitute "an absurd imposition on the country's economy," the DIHT said.
The federation's survey covered investments in, and costs of, air pollution control for 80% of all German companies with more than 100 employees. Sixty-one percent of the total involved investments, 35% was spent on maintenance, and 4% on research and development.

A separate study of the same subject, prepared by the Duisburg Chamber of Commerce and covering the State of North Rhine-Westphalia, indicated that German industry is already doing more to combat air pollution than other industrial countries. In relative terms, U.S. industry is spending about 50% less and British industry about 45% less than the Germans, the study's authors noted.

Fins Buy Soviet Gas: Finland will begin to import natural gas from the Soviet Union in 1974. A pipeline will be drawn from Leningrad, across the Baltic Sea, to the industrial areas of southern Finland. The Swedish National Power Administration also has begun negotiations for a possible hook-up to the Soviet-Finnish pipeline. Although long negotiations remain, the Swedes are reasonably certain that importation of Soviet gas may begin by 1978. Finland already is heavily dependent on the Soviet Union for fuel supplies, receiving over 85% of its petroleum from the eastern neighbor. Distribution, however, is largely in the hands of western companies such as Shell, Esso and British Petroleum.

Truth in German Advertising: Prosecution of businesses and individuals making misleading statements in advertising could be eased under a proposed amendment to Germany's Law Against Unfair Competition (UWG). The maximum jail sentence (one year) and the amount of possible fines as provided under present law would not change.

States' attorneys have been complaining that Section 4 UWG has proven a dull weapon in prosecuting persons accused of misleading advertising. Their complaints are based on official records of recent years. In 1968, for example, the German government lost 42% of the cases involving misleading advertising as against 9.5% in ordinary criminal cases. The federal government believes that efforts to protect consumers should be honored by a higher percentage of convictions.

According to the present version of Section 4 UWG, a state's attorney may prosecute a case against anyone who, in advertising a product or service, knowingly makes untrue statements that are apt to mislead the public, all the while intending to give the impression of a particularly favorable offer. If the state cannot prove that the accused meant to give the public the impression of a good buy, he cannot be convicted, even if his remarks are untrue and misleading. If the bill is passed, prosecution would be possible even if the advertiser made a misleading statement and yet lacked the intent to give the impression of a bargain.

Another innovation would be that an entrepreneur could be fined if he intentionally or negligently failed to take necessary measures to prevent an employee or agent from making a misleading statement about a product or service. Although the bill represents an improvement from the standpoint of protecting consumers as well as making it easier for prosecutors to obtain convictions, it still may leave judicial practice with an obstacle to overcome - the disagreement, even among the learned at times, over what is misleading and what is not.

Reforms Due for French Bourse: Closer financial cooperation among the countries of Europe more than ever lends urgency to a major reform of the Paris Bourse, stresses France's stock exchange commission, the COB, in its annual report. Such a reform is now in the pipeline - many of the recommendations made last year by the Baumgartner Commission (named after the former finance minister) have now been given the green light by the government.

Among the most important steps will be the establishment of a new category of dealers or "jobbers" to function as market makers and to operate alongside the established *agents de change* (stock brokers) and *remisiers* (intermediary brokers), neither of whom have the right to buy on their own account. To ensure the necessary financial base, the dealer firms will be allowed to operate as limited-liability companies. The brokers will be permitted to raise their fees in order to make their business more lucrative.

The Baumgartner Report covers all facets of the investment business but places particular emphasis on the need for more vigorous participation on the French stock market by both foreign and domestic investors. The paper also proposes improved standards of accounting and financial disclosure, increased block trading, and a more flexible and pragmatic approach to certain financial aspects of French corporate law. Many of these recommendations are inspired by Anglo-Saxon practice.

The future attraction of the French market to corporate and individual investors from abroad will depend largely on its attractiveness to the French themselves, who traditionally have preferred gold and real property to stocks and bonds. Here, the Baumgartner Report advocates more aggressive marketing to stimulate interest - a task banks and brokers haven't been up to in the past. About 40% of France's 1.5 million shareholders are of retirement age, and most new issues are acquired by investors already in the market. The need to simplify procedures in the listing of new issues also is obvious - last year only 14 companies made their debut on the Bourse, resulting in just FF 120 million ($24 million) in newly raised capital.

There's hope for the future, however: investment activity is bound to be stimulated by the growing popularity of investors' clubs among younger people, the institution of employee-participation investment programs (1969), and stock option plans for employees (1971).

UND THE MARKETPLACE

Aerospace Industries Aim for One Show: Europe's major aerospace companies are unwilling to put up forever with the problems created by having to attend four competing European aerospace exhibitions (Paris, Hannover, Farnborough, and Turin). They would just as soon concentrate on a European air show, preferably staged in Paris because of the central location and in intervals of two or three years. A definite decision for Paris would depend, however, on the willingness of the French Federation of Aerospace Industries (USIAS) to grant the other national industry groups a voice in administering this show. An alternative would be to make the European Federation the host of the show. At Germany's Hannover Air Show last month, most industry representatives sharply rejected a proposal to keep supporting all existing national air shows. At the present, none of the four locations has wholly adequate facilities.

Meanwhile, the German Federation of Aerospace Industries (BDLI) has reluctantly consented to continue as host of the Hannover Air Show at least until 1980, enabling the City of Hannover to invest in new exhibition facilities at the Hannover Airport. Should it be possible to reach an agreement with USIAS, the German aerospace federation has indicated it would be willing to make a compensatory payment to Hannover in order to be released from the contract.

Campaign for U.K. Machine Tools: The crisis in the British machine tool industry has not abated, but there are definite signs that the industry is not going to give in without a fight. The Machine Tool Trades Association has announced a major campaign to persuade British industry to invest in machine tools and, more important, to buy continuously rather than in batches. Batch-buying has been the root cause of cyclical recessions not only in the U.K. but also in the United States, Italy, and Germany. The British government has promised to help out by guaranteeing contracts from the public sector, but private sector orders are vital. One such order, possibly the largest single export order for more than a year in the machine tool ctor, has just been won by Kearney and Trecker - a one million-pound ntract to supply special-purpose machine tools for the Hungarian

Railway Carriage and Machine Works. The equipment will be used in the manufacture of rear axle and differential housings for commercial vehicles. Discussions had been going on since November 1971 and tenders were invited from machine tool manufacturers in Germany, Italy, North America, and Japan. This order may mark the beginning of the industry's concentration on outlets other than the major - and depressed - markets.

EURO COMPANY SCENE

Feasibility studies for a quiet, short take-off and landing aircraft (QSTOL) are to have top priority at Europlane, the new company formed in the U.K. by British Aircraft Corp., West Germany's Messerschmitt-Bölkow-Blohm and Sweden's Saab-Scania. The three companies had already carried out independent project work on aircraft powered by turbo-fan engines, and these studies form the basis for the Europlane project, itself a move toward an international aerospace industry in Europe. One significant aspect of the Europlane project is the concentration on integration into existing or planned ground control and other infrastructure requirements, thereby eliminating to some degree heavy capital outlay on new support facilities. Europlane is not without competitors: Boeing heads up one American-European group interested in developing STOL planes, and the U. K.'s Hawker-Siddeley, together with West Germany's Dornier, also is exploring STOL aircraft. It would appear, however, that Europlane has a head start, and it has been suggested that the consortium may expand. Holland's Fokker and France's Aêrospatiale have been named as possible participants in the venture.

A joint subsidiary called European Truck Design B.V. has been formed by four European truck manufacturers - Dutch DAF, German KHD-Magirus, French Saviem, and Swedish Volvo. The company, with a capital of 1.6 million Dutch florins ($501,440) and headquarters in Einhoven (Holland), will develop a range of medium-ton industrial vehicles. The four parent companies first signed a cooperation agreement last November, with a view to strengthening their position in the European truck market.

Germany's Robert Bosch GmbH has taken over the Italian subsidiary of Philco Ford Corp., Philadelphia. Philco Ford Italiana, Bergamo, employs 2,000 in the manufacture of household appliances, mostly washing machines and refrigerators. Bosch reportedly intends to maintain the Italian company's present production program in large part, including equipment marketed under the Philco, Bendix, and Crosley labels. The firm's 1970 turnover amounted to 32 billion lire ($55.03 million).

Europe's leading crane manufacturer, Potain SA, has extended its activities to Italy through a new sales subsidiary, Potain Italia, and by taking a holding in the leading Italian manufacturer, Simma SpA (turnover $4 million). The French company already has a Spanish production subsidiary supplying 30% of the domestic market. It has over 50% of the French market, a quarter of the German market and accounts for 35% of Europe's crane output. Potain plans to invest some FF 100 million ($20 million) in the next three years, largely in foreign expansion.

An agreement about the takeover of the Clydebank yard of Scotland's Upper Clyde Shipbuilders by Marathon Manufacturing Corp. has been reached between the Houston, Texas, company and the British government and the trade unions. The deal assures the continued operation of all four divisions of UCS and will save the jobs of about 6,300 of the original 8,400 employees. The final acquisition, coming after tough negotiations, marks the resolution of the immediate crisis on the Upper Clyde which began last June when the UCS group was liquidated. Marathon will be operating out of its new Clydebank base as of July 24 through a new subsidiary, Marathon Shipbuilding Co. (U.K.).

Continental Oil Co. has announced plans to convert a gasworks in Scotland for the production of coal gas with a quality similar to that of natural gas. The redesigned plant will be at Westfield, in Fifeshire, and production is scheduled to start next summer. The process, to be supervised by Conoco's subsidiary, Conoco Methanation, will result in a capacity of 3.5 million cubic feet per day when fully operational. Methane is produced by combining carbon monoxide, an unwanted by-product of coal gasification, with hydrogen. U.K. participation in the project will be for research purposes only. The main goal of the Conoco scheme is to test the viability of the process before applying it in the United States, which is facing a growing shortage of synthetic natural gas.

A group of Irish investors have subscribed 2.154 million pounds to purchase 350,000 shares in the Tara Exploration and Development Co. The consortium which has made this share issue, one of the largest ever made in Ireland, will be known as Fitzwilliam Resources. The purpose of the issue is to broaden the Irish financial, managerial, and technical base of the group.

The Soviet Union's Techmashimport agency has assigned planning and construction of a manufacturing plant for dimethylterephthalate (DMT), a polyester base chemical, to Germany's Krupp Chemieanlagenbau, Essen. The facilities, the third to be set up by Krupp for the USSR, will go on stream in mid-1975 with an annual capacity of 54,000 tons. The contract is valued at over DM 60 million ($18.75 million).
Soviet trade experts also are negotiating with the Salzgitter group for construction of a second polyethylene plant - perhaps to be followed by two or three others - in the USSR. A few months ago the German company's subsidiary, Salzgitter Industriebau GmbH, completed an agreement to set up a $39.4-million plant in Kazan. The new plant would be of similar size (120,000 tons annually). Still under discusssion are the price of the installations and credit terms. Since 1958 Salzgitter has obtained and carried out almost DM 1 billion in Soviet contract orders. In return, the German firm anticipates increased ore deliveries from the USSR and possible access to natural gas supplies there.

Transeuropa Naturgaspipeline GmbH (Tenp) has awarded Mannesmann Röhrenwerke AG of Düsseldorf the contract for the German section of the new high-pressure natural gas pipeline running from the Netherlands to Italy. Mannesmann's 120,000-ton giant pipeline will cover a distance of over 325 miles, between Aachen and Rheinfelden.

Germany's Daimler-Benz and Volkswagenwerk reportedly are discussing a possible collaboration in the manufacture of small commercial vehicles for the domestic market. Both companies already cooperate in automotive ventures in Spain and Indonesia and have co-founded a research subsidiary, Deutsche Automobil AG, in Hannover, for the development of electric engine prototypes.

Siemens AG, the German electronics and electrical engineering group (consolidated turnover $ 4.7 billion), has inaugurated its first manufacturing plant in France, at Haguenau in Alsace, and is planning a second French installation at Bordeaux. The Haguenau plant, 23 miles from the German frontier, will employ 300 people by the end of the year and take over Siemens' world production of recording equipment. The Bordeaux plant will manufacture electronic components. Siemens last year had French sales worth FF 300 million ($ 60 million).

The London Stock Exchange has taken steps to prevent Overseas Development Bank from assuming custodianship of the cash assets of International Investment Trust, the multimillion-pound offshore fund run by Investors Overseas Services. The ODB is an ex-IOS subsidiary and, despite subsequent dissociation, the Stock Exchange believes that a very serious conflict of interest could still prevail. The Exchange has written to all member firms stating its concern regarding ODB's custodianship application, and members of the unofficial committee of London brokers who have handled IIT up to now have undertaken not to deal for the fund until the "uncertainty" is resolved. The Exchange has also requested the Luxembourg Exchange not to confer custodianship on ODB and has warned that it will suspend dealings in IIT if custodianship is granted. The Stock Exchange has not yet issued an 85A notice: Rule 85A prohibits members from dealing on behalf of specified persons.

The U.K.'s Barclay Securities has secured control of the British film production company British Lion, which owns the large Shepperton Studios and Pearl & Dean, the cinema advertising group. Barclays' chairman, commenting on the 5.45 million-pound deal, emphasized that the company is not interested in producing motion pictures at a loss. (The film industry's declining fortunes have hit the studios badly, since location filming is infinitely cheaper). There was no immediate plan to suspend film production, however, although Barclays' viewed the acquisition as "an extension to the media side of Barclay Securities," which has large commercial radio and advertising interests.

The First Pennsylvania Bank, of Philadelphia, has opened a representative office in Frankfurt under the management of Bent S. Hoyrup, assistant vice president. Last year the U.S. bank reported a balance volume of $3.72 billion, placing it about nineteenth among American banks. The office later may be converted into a branch operation similar to the present London facilities. First Pennsylvania is particularly interested in cooperation with German credit institutions and hopes to develop new business ties with Eastern and Western Europe.

Another U.S. financial institution, the National Bank of Detroit, has announced plans to open a branch in Frankfurt next fall.

Barclays Bank International of the U.K. and Banca Castellini, Milan, have agreed to establish a joint Italian banking institute, Banca Barclays Castellini SpA, in which Barclays would hold 51% of the capital. The agreement is still subject to approval by the Italian and British banking authorities. The Barclays group already is represented in France, Germany, and Switzerland, and plans to open branches in Amsterdam and Brussels.

Common Market Reports

EUROMARKET NEWS

sue No. 174 May 16, 1972

Irish Vote to Join Common Market: The people of Ireland have voted to enter the Common Market by a majority of more than 4 to 1. Over 70% of the registered voters participated in the referendum, which is the first to be held by the candidate members. Of those who voted, 83% approved the country's entry into the Common Market and 17% voted against entry. A referendum will be held in Norway on September 24 and 25, 1972, and in Denmark on October 2. No referendum is expected to be held in Great Britain.

Stockholm Cautious in Reducing Income Tax: The Swedish government has asked Parliament to approve its proposal reducing individual income tax for taxpayers in the lower income brackets and calling for an increase of the sales tax. The measure, to become effective Jan. 1, 1973, must be considered a cautious interim step toward a comprehensive tax reform which will take several years to prepare. Two years ago the Conservative majority in Parliament demanded that the Socialist minority government take action in tax reform.

What the government is bound to lose in revenue from individual income tax reductions would be compensated for by increasing the sales tax rate from the present 17.65 to 20%. Excise taxes on alcohol, cigarettes and gasoline also would be raised in an attempt to fill the budget hole. Government officials do not deny claims that more than half of the tax savings a family would gain from the individual income tax reduction will be eaten up by higher food prices caused by the sales tax increase. But there is considerable disagreement whether the government will succeed in its long-range objective of curbing the annually increasing fiscal burden on public budgets of state and local governments. Out of Sweden's 1971 GNP of 179 billion kronor, more than half were public

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funds spent by all levels of government for a great variety of purposes. This is the highest proportional public spending of any Western country.

Water Pollution East of the Border: Anyone traveling through East Bloc countries knows that in almost every field there is a considerable gap between what Communist governments claim and what is reality. Take, for example, water pollution in East Germany. Government and health officials there continually express their concern for the health of human beings. They point out that their state was the first in the world to introduce legislation requiring enterprises to pay for every cubic meter of polluted water discharged into rivers and public sewage systems.

Yet, according to experts, East German rivers are far more polluted than the waterways in capitalistic West Germany. In East Germany the state enterprises (accounting for 92% of industrial production) discharging polluted water simply pay the fees. They do not have to worry about price calculations; prices are set by the particular ministry.

It is going to be quite different for West German companies once Bonn's legislative intentions are put to statutory work. Interior Ministry officials are still laboring over a solution to the problem. Competition is the major aspect. The purpose of making companies pay a fee is to compensate for the financial advantage they have over competitors (public and private) who have gone to the expense of treating polluted water before discharging it into waterways and sewage systems. Putting water polluters on equal competitive footing does not produce clean rivers and lakes, but it is the first sound step toward that goal.

Cheaper Credit for U.K.'s State Industries: Nationalized industries in the United Kingdom are being encouraged by the Treasury to negotiate for the cheapest financing possible, following a relaxation in the rules which to date have governed their borrowing powers. Up to now, financing has been negotiated from the clearing banks, which have charged between 0.5 and 1% over the syndicated base rate of 4.5%, while the industries have insisted that cheaper short-term financing was available. The Treasury now has undertaken to guarantee any non-clearing bank loans and to allow the nationalized industries a modicum of freedom for short-term borrowing via credit acceptances and trade bills (not subject to Treasury guarantee). The government will watch closely to ensure that the "modest" temporary increases in borrowing limits thus granted do not reflect an element of long-term debt. The Treasury's motives are twofold: cheaper finance as a whole and the possibility of bridge financing in particular will, obviously, provide for greater flexibility and should enable the nationalized industries to overcome the current financial problems they face as a result of price restraint and high wage settlements. The Treasury decision, however, also is tied in with the Conservative government's traditional commitment to involve an increasing amount of private capital in the nationalized industries.

Modifications in Swiss Capital Exports: In an effort to promote a faster decline in its dollar reserves and to curb the growth of foreign Swiss franc holdings, the Swiss National Bank has introduced modified regulations concerning capital exports. Foreigners raising money in Switzerland now are obliged to convert 40% of the proceeds from Swiss franc loans at the rate of 3.88 francs to the dollar. The previous rate was 25% at 3.9256. This means, in effect, that a larger proportion of francs will be converted - at a more attractive rate.

The Swiss have expressed concern recently at the quantity of francs held outside Switzerland: these now amount to more than the Swiss official reserves.

Swiss to Slow Real Estate "Sellout": The Swiss government is preparing a bill - to be submitted to Parliament in the fall - designed to tighten up the federal law regulating the sale of real property to foreigners. Last year the number of approved real estate purchases by foreigners went up to a record 4,858 compared to 3,848 the year before, bringing on widespread protests over the "sellout of the fatherland." The planned modifications in the law (*Bundesgesetz über den Grundstückskauf durch Ausländer*) would give the government the right to object even to those purchases initially approved by cantonal authorities, which normally have full jurisdiction in real estate transactions.

Deepwater Oil Port for Le Havre Area... Construction has started on Europe's biggest oil tanker terminal at Cap Antifer, 10 miles up the coast from the French port of Le Havre. The terminal, to require investments of FF 700 million ($140 million), will accommodate tankers of up to 500,000 tons in 1974. It will be extended later into a whole oil port complex to cater to an even larger class of tankers, either on the coast itself or on an artificial island constructed for the purpose.
Le Havre is Europe's third oil port in terms of tonnage after Rotterdam and Marseilles, but the No. 1 supplier of French national needs, with imports of 44 million tons of crude (in 1970). Its main traffic with the United States is in containers, where American lines account for 85% of the business.

...Port of London to Follow Suit: The U.K. government has approved construction of a deepwater oil port at Maplin in Essex. The £35 million port, to be constructed by the Port of London Authority, will adjoin the site of London's proposed third airport at Foulness. The government has made provision for financial assistance to expand British ports, but capital costs of the Maplin development mainly will be met from private sources, especially major oil companies. The new terminal's *raison d'être* derives from the projected increase in oil traffic and in the size of tankers. Because of draught limitations, large tankers have to be partly unloaded before moving up the Thames Estuary to the Port of London proper. The new deepwater channel will be able to handle 250,000 tons deadweight fully laden when the first stage is completed. The present limitation of draught (48 feet) will be extended to 65 feet. It is believed that dredging will begin next year. The entire operation should be ready by 1976, assuming that the pending government decision on the airport site - which will of necessity be integrated with the Maplin project - is not delayed. The Port of London now handles between 14 and 15 million tons of crude oil. By 1976, when the Maplin project is completed, tonnage will be somewhere between 25 and 30 million.

Greater Autonomy for French Regions: Legislation already approved by the National Assembly and certain to pass the Senate will give the French provinces increased autonomy by conferring more budget control to the regional level. The move, considered long overdue, will bring more vigorous economic expansion to the provinces.
In the past, the largest regional unit permitted to spend its budget allocations and local tax income as it wished was the *département*, of which there are 95 in France, with an average area of 3,000 square miles. All budgetary decisions involving the largest administrative

unit, the *région*, of which there are 22, had to be referred to Paris. The new system provides for the establishment of 22 regional elected boards, each backed by an advisory committee and authorized to allot public funds for "regional" projects such as roads, schools, etc. Board membership may vary from 30 to 120 people, depending on the region's population. An important innovation: for the first time local board members will be able to participate in the administration of regional matters alongside their governmental representatives (deputies and senators).
Creation of these boards is seen by many as only the first step to even greater regional autonomy. "Regionalization" and "decentralization" have long been subjects of controversial discussion in France, where concentration of the most important economic, political, and cultural activity in Paris for over nearly two centuries has given the provinces the stigma of *le désert français*.

More London Support for Lockheed? The U.K. government's recent decision to allow the British Overseas Airways Corp. and British European Airways to purchase new aircraft from any source they deem appropriate has bewildered some observers in the U.K. and infuriated others. The main thrust of disapproval comes from those who believe that the misfortunes of the Lockheed Aircraft Corp. are due in no small measure to the collapse of Rolls-Royce and to the British government's initial vacillation before deciding that the engine supply contract it had so eagerly pursued must, after all, be honored.
Several lead articles in the U.K. national press have emphasized that, although BOAC and BEA may indeed opt for Lockheed's L-1011 in preference to the McDonnell Douglas DC-10 or the European A-300, the government should actively support the Lockheed cause. As the London Times pointed out, the U.K. has a tremendous stake in the success of the L-1011, since airlines that buy it also buy Rolls-Royce RB-211 engines.
Observers also feel that the government is dragging its feet on the question of allowing Rolls-Royce to produce engines with 45,000 pounds thrust as opposed to the 42,000 pound-thrust engines used in the basic trijet. The more powerful engines are required for a longer-range version which would increase Lockheed's competitiveness. Lockheed's chairman has predicted sales of 150 longer-range models and will give the go-ahead if a minimum of 45 orders can be secured. BOAC is an obvious potential customer. Without BOAC and British government support Lockheed will continue to face severe if not crippling problems. Rolls-Royce's stake in Lockheed's success is considerable. As one observer has it, "the demarcation line between the government and private enterprise in international contracts of this magnitude is fuzzy at best." Disapproval of the government's attitude comes from those who feel that support for Lockheed represents, at best, a "decent" gesture and, at worst, good old-fashioned enlightened self-interest.

AROUND THE MARKETPLACE

Franco-Soviet Trade Picking Up: Contracts worth a total of FF 611 million ($122 million) have been signed in Moscow for the supply by French petroleum engineering firms of taps and valves for Russian pipelines, and for the construction of a gas purifying plant by the French company COCEI. In return France will be buying Russian natural gas. The Soviets also ordered mining equipment worth $2 million designed initially for the Lorraine coal mines, where the vertical formation of some coal seams is similar to that at Kouzbass in the western Siberian coal belt.

The exchanges form part of a five-year commercial agreement signed in 1969 and backed up last October by a second 10-year pact broadening economic, technical, and scientific cooperation between the two countries. Past trade volume has not been quite up to expectations, however. The 1969 agreement provided for a doubling of trade over the five-year period, which would have meant an 18 to 20% boost last year, when only an 8% increase was achieved. French exports to the USSR in 1971 amounted to FF 1.4 billion ($283.9 million) out of a two-way total of FF 2.86 billion.
In related news: The fact that East Germany is not officially recognized by France has not prevented the signing of a two-year trade, technical, and scientific cooperation agreement by Paris and East Berlin. The French partner is the employers' federation Patronat Français, which since 1970 maintains a trade bureau in East Berlin - the only one from a Western country. That year, two corresponding trade committees also were established.
This month French Finance Minister Valery Giscard d'Estaing paid an official visit to the East German stand at the annual Paris Trade Fair. The East Germans had the largest foreign pavilion at the fair, while 400 French companies exhibited at East Germany's recent Leipzig Fair. Trade between the two countries increased from $62 million in 1968 to $167 million last year, of which $110 million were in French exports.

EURO COMPANY SCENE

British Overseas Airways Corp. has joined forces with IBM, Leasco, and Eastern Airlines in a series of agreements to market world-wide BOAC's Boadicea range of computer software. This link-up promises to net the British airline upward of £100 million over the next five years, if optimistic figures quoted can be believed. IBM, until now in competition with BOAC, will sell the Boadicea system instead of developing and marketing its own airline fare and ticketing package. The tie-up with Leasco means that BOAC will be able to offer a deal employing used or leased computers, thereby catering to smaller airlines. Eastern's part in the agreement will be to sell Boadicea in the United States; BOAC in turn will sell Eastern-developed software in the rest of the world. The advantage for BOAC in both IBM's and Eastern's participation lies in the extra sales inevitably to be generated when both companies' sales teams are recruited on behalf of Boadicea and, moreover, in the elimination of two competitors. Two other companies are involved in this unprecedented bid for the computer service and software market: Raytheon and Incoterm, manufacturers of remote display terminals. BOAC and ICL also are working in close cooperation on an ICL System 4/72 contract bid for Aeroflot, the Soviet airline.

British Leyland Corp. has bought Innocenti Autoveìcolo of Milan for a reported £3 million. The Innocenti plant has been assembling BLMC's famed "Mini" cars for sales in Italy for the past 11 years. But British Leyland is now planning to expand the Milan facilities into a European center for more luxurious and sportier versions of the company's smaller family car range. Production is being stepped up from an annual output of 60,000 to 75,000 units. Later, production will be further increased to 100,000 a year following a £250,000 investment on a new paint shop. The main sales target will be the markets of Switzerland and southern France. The chic Innocenti Minis have been a huge success in Italy (5% of the Italian market), outselling all other imports.

The charge of taking unfair advantage of their near world monopoly on the raw material of a widely used anti-tuberculosis drug has been levied against the Commercial Solvents Corp., New York, and its Italian holding, Istituto Chemioterapico Italiano, by the EEC Commission. The complaint, which invokes Article 86 of the Treaty of Rome, is based on last year's accusation by a Milan pharmaceutical producer, Giorgio Zoja, that Istituto Chemioterapico refused to sell the raw material, aminobutanol or nitropropane, although it is the only supplier and although Zoja had been a customer of long standing. It is now up to the defendants to reply to these charges before the EEC Commission makes a formal decision, which might lead to a fine.

Although passing through an extremely critical phase at present, Germany's largest company, Volkswagenwerk AG, is "sound in marrow and bone" and will be fully recovered by 1974. This was the confident forecast of management in submitting the results for 1971, one of the toughest years yet. While production, sales, and turnover were the highest in Volkswagen history, earnings were at their lowest - dropping to a dismal DM 12.1 million (about $3.8 million) from DM 190 million the year before. Actually, it was only the performance of VW's top overseas subsidiaries - in the United States, Brazil, and Mexico - which kept the company from slipping into the red. Although it delivered fewer cars to U.S. customers, 523,000 or 8.3% less than in 1970, Volkswagen of America, Inc., raised its turnover by 13.9% to DM 4.93 billion - largely through price increases, which totaled 25% over the past two years.
The road to recovery during the next two years, said board chairman Rudolf Leiding, will depend on production rationalization and development of new models. A successor to the famed "beetle," however, is not yet in sight.

British Rollmakers Corp., the roll manufacturing and machine tool company, has canceled plans to acquire a large interest in the Belgian Marichal-Ketin group, a rollmaking concern which operates out of two foundries in Belgium and one in northeast France. BRC felt that the proposed tie-up showed promise of long-term advantages for both groups within the enlarged EEC framework and this view was shared by Marichal-Ketin, whose principal shareholder was prepared to sell. That the deal fell through was due to what the latter described as pressures exerted by the French iron and steel industry and the public authorities in France, including the ministry concerned, which had "continued to increase up to the point of taking a threatening tone." Rollmakers also had been "directly advised" that the French companies Usinor and Creusot-Loire would cancel all orders and that no further orders would be forthcoming if the deal went through.

The Eaton Corp., Cleveland, Ohio, has taken over Germany's W. Holzer & Co. KG, a leading European manufacturer of control equipment for household appliances, with a market share of 27% (on a unit basis). With four plants in Germany and three in Italy, the Holzer group had a 1971 turnover of about $25 million. It employs 3,000 people. In Germany, Eaton has been active for more than half a century; its two established subsidiaries are manufacturers of fork lifts, hoisting equipment, wheel bearings and transmissions, locks and door checks.

The Soviet Union and Henkel & Cie. of Germany have agreed on details of a deal whereby Henkel will contribute licenses, know-how, and technical advice for the construction of four Russian plants to produce detergents, both solid and liquid, as well as adhesives. Construction of the first plant for laundry detergents will commence this year; plans call for an output of 200,000 tons beginning in 1975. In return, Henkel will benefit from long-term delivery contracts at stable prices, to be partially paid out of the licensing royalties. Henkel already imports raw materials worth DM 10 million a year from the USSR.

Germany's Friedrich Uhde GmbH has been awarded a DM 30-million contract ($9.43 million) to construct a polyester fiber plant for Yugoslavia's Incel Industrija. Using a process developed by Farbwerke Hoechst AG, the plant will have a capacity of 5,000 tons and will begin operations in the spring of 1974.

Once the expanded Common Market is a fact, Germany's electrical group Robert Bosch GmbH and the United Kingdom's Joseph Lucas (Industries) Ltd. might form a cooperative venture supplying electrical systems to the entire European aerospace industry and possibly becoming a major competitor to the U.S. electrical industry. This proposal has come from the U.K. company, already involved with Bosch in various cross-licensing agreements which could provide the basis for expanded cooperation.

The Belgian chemical group Solvay & Co. Cie. and the British No. 1 food group Rank Hovis McDougall (RHM) are strengthening their position on the French household salt market by forming a joint venture operation with the French Société Industrielle et Salines de Bayonne (SISB), itself part of Solvay. The three participating companies - Solvay, SISB, and Rank Hovis' subsidiary, Salines Cérébos - will exploit SISB's existing salt extraction unit in southwest France, using the Cerebos trademark. Solvay's French salt activities so far concern mainly the industrial salt sector, while Cerebos' stronghold is the table salt market. The new venture will concentrate on cooking salt, which constitutes about 60% of the French household salt market.

France's No. 1 sugar manufacturer, Société F. Bêghin (turnover FF 1.2 billion - $240 million), has made a takeover bid for the Sucrerie de Cambrai (turnover FF 69 million). Bêghin is offering FF 150 for each Cambrai share, with the blessing of the Cambrai board. With an annual output of 300,000 tons, Bêghin is one of Europe's biggest producers.

France's fourth-largest food and non-alcoholic beverage group, Perrier (turnover FF 1.7 billion, or $340 million), has taken a 35% holding in the leading Italian soft drink group, San Pellegrino. The move will most certainly herald the introduction of Perriers' mineral waters on the Italian market, reputedly the second most important in the world after France. Perrier also is hoping to sign a cooperation agreement with Unilever in Germany with a view to boosting its mineral water sales in that country, too.

After Carrefour, a second French retail group is to set up shop in Great Britain. An agreement will be signed between the British supermarket group Pricerite and the French Euromarché group with a view to setting up five "hypermarkets" (floor area over 26,000 sq. ft.) in the London region by 1975 through a joint subsidiary, Eurorite. Pricerite has 110 supermarkets and superettes in the U.K.; Euromarché, representing six distributors, has seven major supermarkets in France, varying in size up to 107,000 sq. ft.

The U.K.'s determination to revive the flagging economy of Northern Ireland has been underlined by the announcement that the government has approved a massive £35-million expansion scheme for the Belfast shipbuilders, Harland and Wolff. The government earlier was reported as having earmarked some £15 million for this project. The shock announcement by the Secretary of State for Northern Ireland said that this major project would put H&W on a par with other major world shipyards for the construction of very large tankers and would provide a further 4,000 jobs. Harland and Wolff would contribute an unspecified but "very substantial proportion" of the £35 million required for expansion.

The British Ocean Steamship Co. has ordered a £15-million tanker from Mitsui Shipbuilding and Engineering. The 267,000-ton deadweight tanker is the sixth to be ordered by the company from Mitsui in the course of the last two years and is the largest to date. Ocean has another 212,000-ton carrier on order from Nippon Kokan. Apart from pointing up the competitiveness of Japanese shipyards (in spite of last year's yen revaluation), these two major orders reflect the scarcity of large shipbuilding facilities in the U.K. Ocean volunteered the information that the Japanese yard had offered the most competitive price and the promptest delivery.

The Danish charter airline Sterling has placed an order for three A300B airbuses to carry passengers non-stop between Scandinavia and the Mediterranean. West Germany and France are the principal partners in the A300B project, with Britain, Holland, and Spain assuming a secondary role.

In a transaction designed to rationalize certain "illogical patterns of ownership and operations," the state-owned British Steel Corp. and Thomas Firth and John Brown have exchanged production interests in the U.K.'s Sheffield area. In addition to a balancing payment of £2.5 million to Firth/Brown, the deal involves the acquisition by Firth/Brown of BSC's drop-stamping and special melted products works and BSC's 50% share in Firth-Vickers Stainless Steels' trade in stainless steel bars, billets, and forgings. In exchange, BSC will acquire Firth-Vickers' fixed assets and stocks in stainless steel flat products business and two-thirds of the capital of Shepcote Lane Rolling Mills. BSC already owns the other third of Shepcote's issued capital. The illogical patterns of ownership refer to what the U.K. government feels to be non-productive overlapping of public and private steel sectors.

The U.K. steel industry also has announced its concurrence in a pact to restrict steel exports to the United States. The agreement, concluded voluntarily by EEC steel makers following American pressure on both European and Japanese steel manufacturers, calls for a limitation of shipments to the United States. 7.27 million tons will be exported this year, and this figure will be increased by a maximum of 2.5% next year and in 1974.

Cannon Street Investments, the U.K. banking and investment group, has gained a footing in Europe with the acquisition of the Lapeg group, a private company which has finance, investment, and property interests in the Netherlands. Cannon has paid £2.36 million for an 88% stake in Lapeg and has an option to purchase the remaining 12% by 1977.

Common Market Reports

EUROMARKET NEWS

Issue No. 175 *Report No. 187, May 24, 1972*

EEC, Bonn Disagree on Lead in Gas: Bonn is not taking lightly the European Commission's continued criticism that West German legislation aimed at reducing the lead content in gasoline for autos was and still is harmful to the Community's interest. A 1971 German law requires oil companies to reduce gradually the lead content from the present 0.40 grams per liter to 0.15 grams per liter by 1976. The Commission argues that the measure represents not only an obstacle to trade within the meaning of Treaty Article 30 but also hampers its efforts toward a Community-wide policy on environmental protection.

In support of its *démarche* to the Bonn government, the Commission has produced opinions of experts from other member states. These maintain that the objective pursued by the German law could be achieved by attaching a low-cost device to the engine, and intra-Community trade would not suffer a bit. Compliance with the German statute, on the other hand, would require expensive modifications in engine design to avoid reduction in performance or would make it necessary to add aromatic hydrocarbons to gasoline, which would make automotive exhaust even more toxic.

Bonn officials do not share the Commission's view that the measure constitutes a barrier to intra-EEC trade, i.e. car imports to Germany. No foreign car maker would be required to change engine design, although foreign oil companies exporting gasoline to Germany must go to the expense of lowering the lead content. However, since most of the fuel sold in Germany is produced from imported crude processed in German refineries, this obstacle does not amount to much.

There is still one more side to the picture. The Commission's alternative program on environmental protection, well-intended as it is, will take many years, perhaps even decades, until it is given life through Council regulations and/or directives. Under the

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present institutional rules, the Council's progress is controlled (accelerated or hindered) by the time it takes any one of the member states to consent to a Council measure. Administration officials in Bonn feel, however, that preserving the environment is one of today's most pressing issues and that "the speed of the Community environmental convoy should not be controlled by the speed of the slowest ship." Not without pride Germany points to an impressive record in environmental protection, and it feels there is good reason for the others to catch up.

Price Freeze and the Colonels: Political life may be inhibited under the colonels' regime in Athens, but until recently economic life still seemed to display most of the liberties of a free-enterprise system. This is no longer true since the military government introduced price controls in an attempt to dampen the price wave heightened by the mid-1971 world monetary crisis. Hopes of the Greek business community for removal of the controls this spring have faded - in fact, they are now enforced more strictly. But worse, requests for price increases submitted by businesses are not answered or even processed for months, even if such increases are sought merely to reflect a change in the parity of drachmas to other currencies.

This has not been without its impact on the investment climate. What is the use of still-impressive investment incentives or generous financial support the government offers, observers wonder, if the future investor has to leap many bureaucratic hurdles and endure long waiting periods before being given the go-ahead to increase the prices of his products? Businessmen emphasize that there is little room for price speculation in the first place. The variety of products offered and the competition existing on Greek and foreign markets call for strict pricing and do not leave much leeway for markups.

Total foreign investment in Greece from 1953 until the end of 1970 amounted to $1.5 billion. In the past, Americans were first among foreign investors and the French, second. Companies from both countries invested heavily in petrochemicals and in the steel, aluminum, and fertilizer industries, all sectors that are export-oriented and enjoy special government benefits.

In another area, the EEC-Greece Association Treaty, which extends far-reaching benefits to both parties but even more so to Athens, has not progressed to the stages provided for in the treaty. In fact, it remains frozen because the regime does not live up to its many promises to reestablish one of the cornerstones of association - democracy.

French Exchange Controls Eased: A satisfactory balance of payments and the general stabilization of exchange rates has encouraged the French government to ease France's two-tier foreign exchange system set up last August. The "commercial" franc, so far reserved exclusively for import-export payments and associated service charges at a more favorable rate, now applies also to service transactions (transport, insurance, etc.) not directly connected with international trade as well as to royalty payments (licenses, etc.). The floating "financial" franc, however, continues to apply to tourism, property deals, bank note transactions, and the transfer abroad of the salaries of foreigners working in France.

Moreover, French companies get increased freedom to invest abroad. They may now spend up to FF 1 million ($200,000) annually on the acquisition of foreign holdings without the prior approval of government authorities, provided these do not exceed 20% of the capital of

the foreign operations involved. Previously, all direct investments abroad had to be approved. However, direct investments used in the establishment of wholly-owned foreign subsidiaries still require such approval.
As an immediate result of the new measures, the "financial" exchange rate of the dollar went up from FF 4.86 to FF 4.95. The "commercial" rate varied between FF 5.0005 and 5.2310. The difference in value between the commercial and financial franc was at its widest point last fall, at 4.5%. Finance Minister Valéry Giscard d'Estaing reaffirmed, however, that the dual exchange system will be maintained as long as a solution to the international parity problems is not found.

Nine U.S. Banks in Germany: At the end of March, 30 foreign banks maintained a total of 57 branches in West Germany, according to a detailed Bundesbank survey just released. Reflecting the size of its investment stake in Germany, the United States heads the list of countries of origin - nine of the 30 banks are American and they maintain 25 of the total of 57 branches. In addition, the Bundesbank report said, five U.K., three French, and three Japanese banks are represented by a total of 20 branches. Predictably, U.S. bank branches in Germany also head the list when it comes to business volume - more than two-thirds of that of all foreign bank branches there. The over-all volume - DM 6.8 billion ($2.138 billion, at today's exchange rates) at the end of 1968 - had risen to DM 15.4 billion at the end of last year, or 1.7% of that of all domestic banks.
Despite this considerable growth of their business volume, the Bundesbank says, the foreign banks continue to play a specialized role in the German banking system. Their principal function - and the only one in which they are in serious competition with the domestic banks - is in large-scale lending and in credit transactions with foreign-owned enterprises in Germany, while they have only a token share of the deposit business.

Switzerland Checks Foreign Invasion: The Swiss government's professed policy for a stabilization of the country's foreign population apparently is showing results. Last year, the percentage of foreigners in the total Swiss population rose from 15.9% in 1970 to only 16.1%. The number of foreign residents (not including seasonal workers and functionaries of international organizations) increased by 1.7% to 999,309, of which 565,000 held annually renewable visas *(Jahresaufenthalter)*, while 434,010 were permanent residents *(Niedergelassene)*. Classified by countries of origin, most foreign residents came from Italy (526,570), Germany (115,564), and Spain (102,341).
An interesting sidelight: despite the general increase of the foreign residential population in Switzerland, the number of foreigners working for a living went down from 599,000 at the end of 1970 to 587,000 last year. It had reached its peak in 1969, with 603,000.

More Industrial Safety in Germany: German factory workers will benefit from new safety rules if a government bill now in committee becomes law. It provides for the employment of company physicians and work safety specialists to give medical and technical advice to management. Although these appointments would be compulsory, it would be pretty much up to management whether to make them on a contractual basis or through permanent employment. Thus the company might engage a free-practicing physician or contract the services of a medical center specializing in job-related medicine. (Germany's existing shortage of medical doctors makes the latter seem more

likely). An important provision of the bill is, however, that the doctor must have enough time to fulfill the advisory duties expected of him. The same applies to work safety and accident prevention specialists - although it can be assumed that most companies would hire them as permanent employees.
Despite the financial burden, Germany employers, too, stand to gain from the law in the long run: past experience has shown that it costs less to invest in accident prevention than to meet the continuing payroll of injured employees, workmen's compensation, the cost of hiring replacements, and repair of damage caused by accidents. In 1970 the total costs incurred by German business and industry through work-related accidents and occupational diseases was around DM 10 billion ($3.14 million). About 2.7 million accidents were reported for the same year, and the actual figure may well be higher. Instead of boosting the manpower of the agencies now entrusted with industrial safety enforcement and control, the Bonn government through the new bill is opting for improved procedures at the company level. It is felt that maximum work safety can be achieved only through specialists and physicians who are familiar with the latest technological developments in work safety and who are qualified to apply them to the companies' particular needs.

AROUND THE MARKETPLACE

What To Do About Japan: Frustration over the mounting avalanche of Japanese products into Continental Europe and the United Kingdom is giving way to open anger. The EEC, for one, has now grimly reacted by presenting Tokyo with a virtual ultimatum setting forth the conditions under which "normal trading relations" would be continued:

1) Agreement by Japan on reciprocal abolition of quantitative trade restrictions and non-tariff barriers,
2) show of willingness on Japan's part to set up "a mixed ministerial committee,"
3) agreement by Japan to apply emergency counter-measures to check the flood of Japanese products to European markets, and
4) signing of a formal agreement to include some form of safeguard clause against future dumping by Japan.

Threatened with an EEC trade cutoff if these conditions are not met, the Japanese have asked for more time to study the situation. They feel that a safeguard clause would contravene GATT's Article 19, and they propose that trade problems could be settled individually with each EEC member country on a case-for-case basis.
With the Common Market now showing its teeth, member-to-be Great Britain seems to adopt a wait-and-see attitude, although the situation is no less critical. Last year British imports from Japan increased by 49%, and a 63% boost was registered in January and February as against the same two-month period in 1971. It is the rise in individual import sectors, however, which the British find most alarming:

- Imports of Japanese cars are running at 4,000 per month as opposed to 4,000 per year in 1970;
- the Japanese steel industry reported an 87% increase in exports to Britain in January and February;
- electrical machinery exports have risen by 118% in the same period, and the Japanese now have secured a dominant position in the TV, radio receiver and desk-top calculator market, and
- certain sectors of the U.K. markets now depend largely on Japanese components, especially ball bearings. *(Statistics quoted from Anglo-Japanese Economic Institute sources.)*

It is widely felt in the U.K. that the recent reflationary Budget and the resultant increase in consumer demand has aggravated the situation and that the Japanese have launched a sales assault on the U.K. and Europe with prices that merit the epithet "unrealistic." The safeguard clause built into the Anglo-Japanese Commercial Treaty (1962) provides that Britain may, after due consultation with Japan, impose unilaterally a curb on imports injurious to U.K. industry. To invoke the clause would, however, be tantamount to resorting to a policy of protectionism unprecedented in U.K.-Japanese trade dealings. Possible Japanese retaliation could also damage domestic U.K. industries dependent on Japan-made components and could, eventually, lead to a trade war involving the U.K.'s EEC partners and the United States as well. For the present, London seems to hold still, apparently in the hope that Japan's industrialists and politicians will (a) impose voluntary restraints, (b) restore some measure of equilibrium by increasing imports to Japan, and (c) implement a reflationary policy to boost domestic consumer demand and blunt the export drive.
Even before the EEC "ultimatum," the Japanese intimated that they may seek to align themselves with the Common Market against what they feel to be increasingly protectionist attitudes in the Nixon Administration and the U.S.'s recent decision for a broader application of the Anti-Dumping Act. By coming to terms with the EEC the Japanese feel they may be able to achieve a double goal: to protect the level of their exports to the U.S. as well as to allay European fears. The fact that the EEC countries are now taking a tougher stance should lend urgency to the Japanese cause.

Finns Woo U.S. Newsprint Market: Representatives of the Finnish paper industry have returned from the United States with optimistic predictions for their newsprint export business. They visualize increased sales of 50,000 tons of paper over last year's total 270,000 tons to the American newspaper market. Growth in circulation and advertising lineage are held as reasons for potential expansion of the U.S. newsprint market. The first quarter of this year already saw a 6.9% total increase in newsprint consumption over the same period last year, and the Finns expect to get their share of this growing market.

U.K. Attracts U.S. Security Specialists: American security, private guard and detective services are now slipping unobtrusively, but not unnoticed, into the United Kingdom. The movement into new markets such as Britain may well have been prompted by the current U.S. Justice Dept. investigation into the activities of the 290,000 private guard organizations throughout the United States. The inevitable tightening-up process may force some of these to look for new markets. Britain offers such a market. Burns International already has set up operations via its acquisition of a security service in the U.K. known as Uni-Met. Brink has joined forces with MAT Transport, which operates an armored car delivery service fleet. It is rumored that Pinkerton may be interested in setting up shop in Britain. The frontrunner in Britain is still Securicor, with a £20-million stake in the total £55-million market. But the crime prevention sector is increasing in importance in the U.K., and a full-scale American challenge seems inevitable.

EURO COMPANY SCENE

A last-minute change of mind by Belgium's Baron Empain, controlling shareholder (61%) in the French electrical engineering firm Jeumont-

Schneider, has resulted in the collapse of the expected takeover by Compagnie Electro-Mécanique (CEM), part of the Swiss Brown-Boveri group, and the French Compagnie Générale d'Electricité (CGE). Instead, there will be a link-up, so far unspecified, between Jeumont-Schneider (turnover FF 925 million - $185 million) and another French company, Merlin-Gérin (consolidated turnover FF 650 million - $130 million), in which Jeumont-Schneider already holds an interest of about 12%.
This unexpected turn of events does not at first sight appear to solve the original objective of the French authorities, that of restructuring France's heavy electrical engineering sector into two big groups: CEM-Jeumont-Schneider and CGE-Alsthom. The idea was to make the industry more competitive internationally, and it was in this context that Westinghouse's takeover offers for Jeumont-Schneider were turned down in 1969 and again this year. Merlin-Gérin, on the other hand, which specializes in medium and light electrical equipment, does not compete with Jeumont-Schneider at all.
Both Jeumont-Schneider and Creusot-Loire, also part of the Empain-Schneider group, are licensees of the Westinghouse PWR nuclear reactor system. Since the failure of its bid, Westinghouse has been negotiating to take a holding (probably around 45%) in Framatone SA, the Creusot-Loire subsidiary exploiting the PWR license.

Pilkington Brothers, the U.K. glass manufacturers, have linked with Società Italiano Vetro in a licensing agreement which calls for SIV to build a float glassmaking plant at Vasto on the Adriatic coast. An agreement with a smaller Italian manufacturer, Vetreria de Vernante, will lead to the construction of another plant at Cuneo-Spinetta in North Italy. Part of the deal with SIV is the granting of an option to Pilkington for a "substantial" equity holding in the Italian state-owned glassmaker. Such a shareholding would strengthen considerably Pilkington's interests in the EEC where, to date, the company has only one shareholding, 3.5% in the French BSN company. The Pilkington/SIV agreement is only the latest in a series of Anglo-Italian tie-ups, the most important of which are Dunlop-Pirelli and the recent BLMC-Innocenti deal.

Chausson SA, 24% of which is controlled by auto manufacturers Renault and Peugeot, becomes France's only manufacturer of car bodies, following the decision of Renault, Peugeot, and Alsthom to divide up between them the company Brissonneau & Lotz, in which they together hold 50%. The car body manufacturing facilities of Brissonneau and Lotz (turnover FF 333 million - $66.6 million) go to Chausson, and the rolling stock activities to Alsthom, France's leading manufacturer of electric and diesel locomotives. Brissonneau shareholders are being offered three Alsthom and five Chausson shares against ten of their own.

France's state-owned Regie Renault, Peugeot, and Sweden's Volvo are stepping up cooperation in the manufacture of automobile engines and transmissions. Renault and Peugeot have established in northern France the Société de Transmissions Automatiques, in which Renault holds 75%, to produce automatic transmissions, and - on a parity basis - another subsidiary, the Société Française de Mécanique, which operates an engine factory in Douvrin, not far from the transmission plant. Also located in Douvrin is the Société Franco-Suédoise de Moteurs, in which the two French companies and Volvo hold equal interests. The French-Swedish undertaking is to develop and assemble non-polluting engines in close cooperation with the Peugeot-Renault engine factory. The three companies are expected to invest a total of FF 1.5 billion ($300 million) in their combined projects by the end of 1976, depending in part on the French government's contribution through Renault.

As of this month, General Motors will be building diesel engines at the "initial" rate of 100 a month at Wellingborough, Northamptonshire (U.K.). This is the first time that GM has built such engines outside the United States. They will be produced especially for the U.K. and Western Europe - in response to what Detroit feels to be "a growing demand for higher horsepower on the European highway."

The Philips group of the Netherlands is bidding to acquire full control of Italy's second largest household appliance concern, Ignis, now held jointly (50:50) by the Dutch firm and Ignis founder Giovanni Borghi. Philips and Borghi together set up Italy's IRE almost three years ago as production company for Ignis. Since then, differences of opinion between the partners have led to the resignation of IRE's general manager and long-time Borghi associate, Vittorio Ponti, and Philips' offer of 8.5 billion lire ($14.6 million) to Borghi for takeover of the remaining share capital. Italian opposition to foreign control of IRE may thwart Philips' plans, however. The country's banks are said to be ready to finance a solution which would keep Ignis in domestic hands. IRE employs 11,000 and accounts for 10% of the European refrigerator market.

Elkem and Christiania Spigerverk have joined to form one of Norway's largest industrial combines, Elkem-Spigerverk, with a basic capital of 195 million kroner ($29.4 million) and consolidated turnover of 1.3 billion kroner. Elkem (1970 sales: 640 million kroner) specializes in aluminum, ferroalloys, and the construction of electric smelting furnaces. Its two aluminum foundries in Norway are half-owned by Alcoa of the United States, while Elkem in turn holds 25% interests in Alcoa's British and Dutch aluminum finishing plants. The company maintains 13 Norwegian factories and employs over 3,800. Spigerverk concentrates on the production of iron and steel, as well as packaging and the manufacture of synthetics and glass fibers. The company is planning to build a steel plant in the U.K. with an annual capacity of 150,000 tons. Both Elkem and Spigerverk hold interests in firms conducting oil drillings on the Norwegian continental shelf.

TRW Inc., of Cleveland, Ohio, is taking over a majority interest in Germany's Pleuger Unterwasserpumpen GmbH from Halberger Hütte GmbH, member of the French Saint-Gobain-Pont-à-Mousson group. Pleuger produces underwater pumps and also specializes in marine technology. The company reportedly hopes to profit by TRW's broader market base and technical resources. TRW already is represented in Germany by three subsidiaries: Teves-Thompson GmbH, A. Ehrenreich, and Bayerische Leichtmetallwerke KG, major suppliers of machine parts for the European automobile industry.

Advanced Metals Research, Inc., Burlington, Mass., has signed an agreement with Germany's Ernst Leitz GmbH, optical equipment specialists, for manufacture and distribution of electron screen microscopes in Europe and other parts of the world. Leitz will handle production, while both companies will set up a joint sales subsidiary, Leitz AMR GmbH, in Wetzlar. The initial model will be the AMR 1000, an electron screen microscope with 20-100,000x magnification. It was first displayed at a symposium on electron screen microscopes held in Chicago last month.

IBM Deutschland GmbH has begun work on a new $12.5-million plant in West Berlin. The facilities, to accommodate an additional 1,000 employees, should be completed by fall 1973. With the opening of this plant, IBM plans to concentrate its entire text processing activities in Berlin, expanding its current office machinery program there to include production of Selectric typewriters and duplicating equipment.

The chairman of the Anglo-Dutch Unilever group has gone on record as refuting the familiar allegation that multinational companies can juggle their tax statements by manipulating service fees and transfer prices. In a hard-hitting speech in London, Dr. Ernest Woodroofe said that Unilever, at least, did not have a power which puts it above governments, nor a capacity to avoid tax, arrange transfer prices, indulge in currency speculation or shift production at will. Noting that European unity would lessen the multinational's disadvantages thanks to the abolition of non-tariff barriers and a certain harmonization of international company tax law, he predicted for Europe the "same, big home market as American companies have in the United States." The multinational company's real power, Woodroofe claimed, was the power not to invest, not to start new ventures, or gradually to run down old ones. This, he added, was a power that every local industrialist had.

Loews Corp., New York, has announced plans to add seven new hotels in Europe by 1975, giving it a total of about 6,500 rooms in England and on the Continent, all in the luxury and first-class categories. The company, which operates The Churchill in London, currently is completing its 570-room Loews Hamburg Plaza in Germany, set to open in spring 1973, and soon will break ground for a 650-room Monte Carlo hotel and convention complex. Other hotels are projected for Frankfurt, Paris, London (at 2,000 rooms the city's largest), Istanbul, and Athens. Spokesmen termed Loews "obviously optimistic about the outlook for hotel-convention business in Europe," especially in view of the growing trend toward "mass movement" in travel. The company also will be associated with Air France in its two Meridien hotel properties to be constructed in Martinique and Guadeloupe.

The chain of Esso Motor Hotels in Europe, including 50 motels now either in operation or under construction, takes in Switzerland and France as well as Germany and England. Two new Esso Hotels will open in Frankfurt and in Bremen this year, with five being completed in the U.K., where there reportedly is great demand for first-class accommodations.

Five European airlines - British Overseas Airways Corp., British European Airways, Lufthansa, Swissair, and Alitalia - and five European banks (Banca Commerciale Italiana, Banque de Paris et des Pays Bas, Deutsche Bank, Union Bank of Switzerland, and S.G. Warburg & Co.) have established the European Hotel Corp. The joint undertaking will build 5,000 hotel rooms in leading European cities before the end of 1975, according to Alitalia. The first hotel is scheduled to open in London next March. Others will follow in Paris and Munich in November.

Overseas Inns SA of Luxembourg, Holiday Inns licensee, has founded a subsidiary in Luxembourg, Hotel Supply SA. The new company aims its services at the entire European hotel industry, not just at members of the Holiday Inn chain.

Common Market Reports

EUROMARKET NEWS

Issue No. 176 *May 31, 1972*

Consumers Benefit From Competition Policy: The European Commission has presented its first special report on the Community's competition policy of the past ten years. Upon its insistence, the parties to several hundred sole distributorship agreements were forced to reform their contracts to comply with EEC competition rules. Also, the Commission said it outlawed export prohibitions in some 120 distribution systems which, had they been allowed to continue, would have hurt consumers.

The report reveals some of the guidelines the Commission has used and will continue to use in the future: Enterprises engaging in restraints of competition and thus hurting consumer interests must expect heavy penalties. But small and medium-size businesses that cooperate can count on support either through regulatory exemption from the prohibition of Treaty Article 85 or through individual Commission decision. Brussels feels that only in this manner would these businesses stand a chance against industrial giants.

The Commission regrets that it was unable to make a comparative analysis of the condition, development, motives, and effects of international mergers and other forms of economic power concentration. But it is quite explicit on how it feels about the scope of Treaty Article 86, which it would like to apply also to mergers constituting an abuse at the expense of the consumer. The Continental Can action would be a handy test of such a policy. However, should the company decide to settle out of court, the Commission would be deprived of the clarification by the European Court of Justice it would like to have.

London to Back Ailing Companies: In the course of debate on the U.K.'s Industry Bill it has emerged that the government will implement a new policy approach as regards industrial growth in assisted areas. The traditional U.K. approach has been to import industries from the Southeast and the Midlands and, especially, from Europe and the U.S., to bolster grey areas such as the Northeast and Northwest of England. The U.K.'s unemployment picture as a whole and

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the falling demand in certain industrial sectors in particular have created a situation where industries in depressed areas of the country are no longer capable of survival, irrespective of new capital injection and development concessions from London. The Dept. of Trade and Industry, which has considerable latitude in the administration of grants and selective assistance, has announced that it will concentrate much of its attention on the expansion and regeneration of indigenous firms, helping them to modernize and diversify. This new policy will be to back local management which is fully committed to the region. The first step in the program will be to combat the ignorance of official aid possibilities and the apathy towards them which, as recent regional development association studies have confirmed, has characterized and exacerbated the situation in the worst-hit areas.

More Diversification for the Lorraine: A recent European Commission estimate that crude steel output in eastern France's Lorraine region will grow by no more than 2% annually compared to the EEC average of 6% coincides with the news that 86 Lorraine companies have applied for aid from the IDI, the public industrial finance agency, to help them modernize and diversify.
The Lorraine - traditionally one of the richest and most industrialized regions of Europe - is receiving priority treatment in the IDI's new provincial aid program. Decline in coal demand, gradual depletion of ore deposits, and the fast expansion of coastal steel plants processing imported iron ores are speeding the closure of Lorraine facilities in these sectors, which traditionally employ large numbers of people. The steel company Wendel Sidelor late last year announced plans to cut its Lorraine work force by 10,000 by 1975 and to shift its major investments to a new plant at Fos, on the Mediterranean coast *(see also EURO COMPANY SCENE)*. According to the regional development authorities, the over-all number of coal miners in the Lorraine will be reduced to 10,000 by 1985 (from 41,000 in 1962), employment in iron ore mining will drop from 24,000 to 5,000, and the number of steel workers will shrink from 95,000 to 50,000.
The Commission recommends that Lorraine steel production be concentrated on a few high-performance plants and that special efforts be made to attract new industry. Sharing this view, the French government has been offering special credit plans, maximum incentives, and tax exemptions for companies settling in the region. In the five-year period until 1975, it is hoped to create 30,000 new jobs in the administrative and services sector, and 35,000 in industry - primarily in chemicals, metallurgy, and mechanical and electrical engineering. This drive has shown some success so far - companies with major investments in the Lorraine include Worthington and Corn Products of the United States, ICI and Girling of Britain, Grundig and Continental of Germany, and Michelin, Citroën, and Kléber-Colombes of France.
However, a persistent source of irritation to Lorraine authorities is the growing number of people who daily cross the frontiers to work in Germany and Luxembourg, where wages and salaries often are 50% higher than at home. With increased industrial diversification and "Europeanization" of the region, experts say, this labor drain is bound to recede.

Paris in Quest of Raw Materials: The French government has outlined long-term policies designed to make France less dependent on the international market for its supply of non-ferrous metals and other raw materials. The proposal is for more metal stockpiling -

to be financed by producers and consumers in a manner not yet determined - as well as for mineral prospecting on a broader geographical scale, which Paris will underwrite to the tune of FF 300 million ($60 million) over the next five years. Australia, Canada, Brazil, Indonesia, and Zaire will be among the prime prospecting areas.

The plan also calls for the establishment of a domestic copper producer capable of supplying one-quarter to one-third of France's national needs. Domestic production of wood and paper pulp also is to be boosted through the restructuring of the forestry industry. Regarding its nickel policy, the government says it will reserve judgment until plans for various projects in New Caledonia have been clarified.

German Know-How Trade in the Red: Germany's "balance of technology" deficit mounted in 1971 when industry spent DM 1.483 billion ($432 million) for foreign royalties, patents, and licenses and received only DM 546 million in return. These figures are contained in a Bundesbank survey covering 204 German companies which either spent or took in at least DM 1 million ($312,500) in their international know-how transactions. Together, these companies accounted for 80% of the country's patent and licensing purchases abroad and for 92% of the royalties paid by foreign industry for German know-how.

The Bundesbank pointed out, however, that its figures fall short of tracing accurately Germany's exports and imports of technology. Most multinational corporations, for instance, permit their subsidiaries to exploit parent patents or licenses either without charge or on an exchange basis (this goes in particular for U.S.-based corporations and their German offshoots). In other cases, companies often transfer their commercial patent rights to sister companies abroad - say, in Switzerland - in order to benefit from tax advantages.

Of the 204 companies included in the survey, no less than 98 are fully, or to a considerable degree, foreign-owned. These alone accounted for 56% of German licensing expenditures abroad but for only 5% of the incoming revenue. Strictly speaking, the Bundesbank said, they cannot be considered "active" in international know-how exchange. The 106 "purely German" companies, on the other hand, together shared in 87% of the total licensing income from abroad (DM 451 million) and accounted for 24% of German know-how expenditures abroad, accruing a surplus of DM 135 million. With insignificant exceptions, the Bundesbank said, all major German companies earned a surplus in their international licensing transactions.

In commenting on the over-all deficit, the Bundesbank said that a large volume of foreign know-how purchases by highly industrialized countries such as Germany often indicates cost or production advantages rather than a general technology gap vis-à-vis other countries. The following table reflects the West German performance in the licensing trade with the three most important partners in that sector (figures in million DM):

	know-how income	*know-how expenditures*	*deficit*
United States	82.8	641.9	559.1
Switzerland	25.5	327.1	301.6
Netherlands	10.1	156.2	146.1

Germany enjoyed a surplus in its know-how trade primarily with Japan (+ DM 84.3 million), Brazil (71.1), Italy (33.1), Spain (25.7), Argentina (14.0), and Yugoslavia (11.7.). The leading industries involved in international technology exchanges are the electrotechnical, chemical, and metalworking industries.

Watchdog Agency in Britain? The U.K. government is presently studying the possibilities of establishing an Office of Business Practices that would function as a watchdog body. A bill already has been drafted but not yet officially released. The new office would have powers to examine business practices, restrictive trading agreements, and what are known as "areas of imperfect competition." These activities would be carried out by a semi-independent agency assuming the functions of the present Registrar of Restrictive Trade Practices. One immediate benefit of such a body would be the delineation of investigatory as opposed to judicial functions of the Monopolies Commission.

Low Scores for U.K. Company Performances: The U.K.'s National Economic Development Office has released figures for the mechanical engineering sector which indicate that, in terms of exports, profitability, and growth, British companies are outclassed by foreign competitors. Comprehensive figures on some 380 companies reveal that the foreign-owned company sells 32% of its output overseas as opposed to 18% sales for the home-owned company. The former also attains better profit margins, an average 8.7% of sales compared with 5.9% for all the companies in the sample, and achieves a 14.2% return on capital compared with 12% for the home-grown company. In terms of growth, the foreign-owned company expands at 12% per year, thereby outdistancing its U.K. rival, which expands at an average of 7% per year.
The survey gives details of 157 companies quoted on a U.K. stock exchange and of 226 others with employed capital of over £1 million. The total turnover involved is around £4.6 billion (i.e., nearly 80% of the U.K. mechanical engineering industry). Copies of the report may be had free of charge from NEDO.

U.K. Accounting Proposals Under Fire: The Accountants Steering Committee, currently attempting to simplify accounting procedures in Britain by issuing proposals for a series of standard accounting practices, already has run into trouble. Although agreement has been reached on the need for revision per se, the actual draft exposures released have met with hefty opposition. The draft on merger treatment has been returned for revision. The latest draft report, No. 6, is on the valuation of stocks and work in progress. It, too, has been bitterly criticized by finance directors. Variations in valuation have considerable effect on the profits a company shows in any one year, and recent shock write-offs in the U.K., notably at Pergamon Press, have demonstrated how valuation accounting can be misleading.
The two basic proposals in the draft are
(a) that stock should be stated at the lower of cost and net realizable value of the separate items or groups of similar items, and
(b) that work in progress on long-term contracts should be stated at cost plus attributable profit less losses.
Opposition, above all to proposal (a), is coming from the more conservative companies, which take no profits until contracts, including long-term ones, are completed. If they accept this change they will be showing profits on work done during the term of a contract and will lose on previous tax deferment. More important, they feel,

is the basic objection that work in progress, especially where a new line is concerned, cannot be accurately valuated and is, more often than not, overvalued due to the enthusiasm generated by the new product. Guessing profits also is felt to add a greater decision-making burden to the board and to involve what one leading finance executive called "a greater test of morality." Supporters of the proposal argue that managers by definition should make regular estimates of contract profitability.

USA Lures German Investors: While it is much too early to estimate the investment harvest to be reaped from the promotional seeds planted at this month's "Invest in the USA" symposium in Düsseldorf, the sponsoring U.S. Dept. of Commerce and state development agencies are hoping for a bumper crop. The 100-odd German businessmen taking part, many of them from medium-size companies, heard some convincing arguments for direct investment in the United States - either through joint ventures or by establishing wholly-owned subsidiaries.

Potential German investors are, of course, less concerned about Washington's interest in improving the U.S. balance of payments and reducing unemployment than in exploiting the world's largest market. Following the D-mark/dollar parity changes and considering the uncertainties of transatlantic shipment (dock strikes), the German manufacturer may not always find it economical to export his products to the States. So, an American production base may well be the answer.

At the two-day Düsseldorf conference, U.S. government officials and development experts put forth a number of appealing arguments: ease of entry, a high rate of return, reasonable labor costs (considering the high cost of indirect social benefits a company has to bear in Germany), low-interest credits, financial incentives and manpower training offered by most states and cities, an abundance of plant sites. The promoters also cited the advantage of acquiring U.S. management techniques and marketing skills and putting them to good use at home. Last not least, German investors even get a boost from their own government - Bonn will finance up to 50% of many projects as part of the German-American offset agreement, which has a total funding of $600 million.

The major drawbacks to a wholehearted plunge into the American market, as most German businessmen see them: the complexities of U.S. antitrust law and the tough reputation of the American labor unions.

AROUND THE MARKETPLACE

German Machine Tools for USSR: Ratification of the *Ostverträge* in Bonn has come just in time for Germany's machine tool manufacturers, who are convinced that failure to pass the agreements would have been a near-fatal blow to their East Bloc business. The industry now is mounting a major export offensive in the Soviet Union and has opened a DM 53-million ($16.5 million) exhibit in Moscow, the largest foreign machine tool show ever staged there. The 139 companies taking part represent about 65% of the West German machine tool industry, and they are displaying some 300 large machines, many of them brought in at Soviet request.

The Germans are eager to stabilize their machine tool exports to the USSR at a high level in the face of tougher international competition, particularly from the U.S., Japan, France, and Italy. Last year German machine tool exports to the Soviet Union came to DM 169.5 million ($53 million), or 12-15% of German-Soviet trade. Machine tool shipments to the "European" East Bloc (including the

USSR but not Yugoslavia) in 1971 had a value of DM 295.2 million.

German equipment exports to Russia reached their peak at DM 300 million during the construction of the Togliatti automobile plant at the Volga River in the 1960s. The current Kama truck plant project has gained them fewer contract awards, mainly because foreign manufacturers are able to offer the Soviets lower prices and more attractive credit terms.

EURO COMPANY SCENE

Additional partners may become involved in the FF 6 billion ($1.2 billion) Fos steel plant of French Wendel Sidelor. Escalating costs, a deficit last year, and poor results expected this year have created a new shortage of finance which could jeopardize the project, due to become operative in 1974. Studies are being carried out to see where costs can be cut, but it is generally felt that there can be no going back for Wendel Sidelor. Too much is at stake in the realization of present plans, which also include a new FF 2 billion ($400 million) plant in Lorraine. The French government maintains that it has put enough money into the Fos project, so Wendel may have to consider a link-up with another company to get the finance it needs. France's other big steel group, Usinor, reportedly is not interested, but talks have also been held with the German Thyssen group as well as Italian and Belgian steel interests. The project already leans heavily on international finance. The U.S. Ex-Im Bank has put forward a FF 500-million loan; the European Investment Bank, FF 140 million; the European Coal and Steel Community, FF 85 million, while various long-term and medium-term loans on the international market exceed FF 2 billion.

The U.K.'s Equity and Law Life Assurance Society, which last month made a bid for the Belgian insurance company Union des Propriétaires Belges, has now appealed to the British government to intercede on its behalf. This follows the Belgian government's decision to block the Equity and Law move on the grounds that such an acquisition would result in a substantial portion of Belgium's insurance industry coming under British control. The Belgian move came as a surprise inasmuch as the Equity and Law bid had been approved by UPB's management and sanctioned by the Commission Bancaire in Belgium. Although the Belgian government has yet to give official reasons for this move, Equity and Law has made it clear that an issue of principle is involved and that they consider the Belgian move to be discriminatory, especially in light of Britain's imminent EEC entry. The Belgian Code of Commerce empowers the Belgian government to block bids from foreign companies under certain conditions. Had the British bid come after EEC membership, it is felt that opposition would not have been so great, since Community law provides for the greater mobility of capital. Three British companies have taken over Belgian insurance concerns in the last three months or so, and a spokesman for Equity and Law stated that "three seems to be all right but four is too many."

The U.K.'s Watney Mann Ltd. has rejected a new £394-million ($884 million) takeover bid by Maxwell Joseph's Grand Metropolitan Hotels group. Representing an increase of £41 million over the previous offering, the bid comprised a package of shares and loan stocks plus a warrant to buy Grand Met shares in the future at a low price. Although the Grand Met group expects a major gain in profits this year to £27 million from last year's £20.8 million and reportedly plans to raise dividends by 25%, Watney's board termed the new offer "unacceptable and against the interests of the Watney shareholders" and immediately turned it down.

The first British takeover bid for a French company ever attempted on the Paris Bourse has been made by British textile group Selincourt for French Tricosa SA (1971 turnover FF 49.2 million - $9.84 million), manufacturer of women's knits. Selincourt, which already has a 15% holding in Tricosa, is offering £1.56 million ($4 million) for the remaining 85%, with the approval of the French Finance Ministry. Tricosa exports 56% of its output and has a U.S. subsidiary called Tricosa of Paris. Selincourt last reported a consolidated turnover of £19 million ($49.4 million).

The board of directors of Belgian glass manufacturer Glaverbel SA (consolidated turnover BF 7 billion - $159.6 million) has opted for takeover by the French group Boussois-Souchon-Neuvesel (BSN) as a solution to the company's present financial problems. The company had a choice between BSN (which already has a 25% holding in Glaverbel), French St. Gobain (which has a 17% holding), and aid from the Belgian government. If the link-up goes through, Glaverbel will join the BSN group through BSN's Belgian subsidiary, Mécaniver. However, the EEC Commission may object to the merger as contravening EEC competition law (Article 86 of the Rome Treaty). Should BSN acquire Glaverbel, it would control an estimated 60-70% of the EEC window glass market, which could constitute "abuse of a dominant position."

The Di Giorgio Corp. of San Francisco has taken an 80% holding in French chocolate and candy manufacturer Chocolaterie Cémoi, of Grenoble, which last year had sales of FF 30 million ($6 million).

The participation of the Dutch Bank Mees & Hope N.V. in the French private merchant bank Neuflize, Schlumberger, Mallet SA (NSM), announced in February, has been fixed at 28% of the NSM holding company. This leaves 65% in the hands of the French family and 6.2% with the private German bank Delbrück & Co. The Dutch participation brings some FF 30 million ($6 million) into the French bank to help put it on its feet after its financial difficulties of last year. Later, NSM is expected to take a holding in Mees & Hope.

France's biggest insurance group, the state-owned Union des Assurances de Paris (UAP), and Britain's Commercial Union group have signed a technical cooperation agreement, the first of its kind between big European groups. The two companies will give each other an introduction on their respective home markets, principally in the industrial insurance field. They also will exchange technical know-how, and Commercial Union will take UAP trainees in its British branches. UAP's premium income last year came to FF 5 billion ($1 million). Commercial Union, Britain's biggest fire and accident insurance group, had a 1971 premium income of £467.8 million ($1.2 billion), of which about 10% came from Continental Europe.

Germany's Dresdner Bank has announced plans to convert its representative office in London into a regular branch bank in the immediate future. Dresdner, which had a London branch prior to World War I, thus will become the first West German bank to maintain a full branch in the U.K. capital. Bank officials cited Britain's approaching membership in the Common Market as a prime motive for the expansion.

The Cooperative Union, the U.K.'s central link for all retail and wholesale cooperatives, is planning a trading, manufacturing, and bulk-buying link-up with the EEC member countries. If current talks between the CU and Euro Co-op, the Community's coordinating organization, are successful, the British co-ops will combine with their European counterparts to form a vast organization with interests not only in manufacturing but also in insurance and banking.

Westons, the second largest pharmacy chain in the United Kingdom, has purchased the pharmaceutical wholesaling business of Barclay Securities in a share deal involving £7.5 million. Barclay's reason for divesting itself of the drugs wholesaling activities is understood to be to raise cash to invest in other ventures.

French pipe and canalization manufacturer Pont-à-Mousson SA is strengthening its position in the plastics sector through the acquisition of Rhein-Plastic-Rohr GmbH, a subsidiary of Germany's August Thyssen-Hütte AG and Wasag-Chemie AG. The German company produces pipes of various plastic materials for gas, water, and the construction industry and had a turnover of $6 million in 1971.

LogEtronics Inc., Springfield, Va., has formed a wholly owned subsidiary, LogEtronics GmbH, in Frankfurt, Germany, to service and market its graphic arts film processing machines and exposure control instrumentation. The U.S. company markets, designs, and manufactures LogEflo film processing machines for the graphic arts industry. It also has affiliates or licensees in Switzerland, the Netherlands, and Japan for the manufacture and sales of LogEtronics products in those areas.

Rank Xerox, with international headquarters in London, has established a Greek subsidiary, Rank Xerox (Greece), in Athens. The manufacturer of office copying equipment now is represented on all major Continental markets. An estimated 75% of Rank Xerox turnover is generated by foreign sales.

Italy's petrochemical and refining company ANIC, member of the ENI group, and Belding Hemingway Co. Inc., a leading U.S. manufacturer of sewing thread, have agreed to found a joint subsidiary in southern Italy for the production and sales of sewing thread.

Bio-Cal Instrument Co., Richmond, Calif., has concluded an agreement with Sweden's LKB Produkter AB, scientific instruments, for distribution and servicing of Bio-Cal products in Europe. LKB also has been granted an option to acquire Bio-Cal sales and manufacturing subsidiaries in Munich, Germany, and St. Albans, U.K. Bio-Cal produces amino acid analyzers and other laboratory equipment. LKB is active in the biochemical, biomedical, and biological fields. The Swedish company already is represented in the U.K. by its sales arm, LKB Instruments.

CLOSING OFF

No Yolking Matter: Common Market-produced eggs will be stamped in red instead of the present black, according to the planned modification of EEC egg norms. Brussels insists that the change in color is not politically or ideologically motivated, but simply in conformity with global practice.

Common Market Reports
EUROMARKET NEWS

ue No. 177 Report No. 188, June 6, 1972

U.N. Environment Parley in Stockholm: Government delegates and environment experts from over one hundred countries now are meeting in Sweden to discuss a broad global action program prepared by leading experts on behalf of the United Nations. The conference, to end on June 16, offers the first opportunity of tackling environmental problems on a world-wide basis through internationally coordinated and financed measures. While most of the action must come at national levels, there is a special need for international action to deal with that 70% of the earth's biosphere outside the jurisdiction of any nation - the oceans and the atmosphere above them.

The experts recommend more than a hundred global actions to improve the earth's ecosystems. Sixty additional steps are addressed to individual countries, mostly industrialized nations, with the request to incorporate them into their national programs.

Here are some of the most important proposals under consideration:

- an agreement to regulate ocean dumping of toxic wastes and a comprehensive plan for the preservation of marine environment;
- an agreement establishing a world-wide monitoring system on environmental pollution (similar to the weather service created by the United Nations years ago). This network, to be made up of 10 large and 100 smaller observation stations, would monitor long-range trends and developments in the earth's biosphere;
- a global environment assessment system involving a cooperative approach to research and dissemination of knowledge;
- establishment of international programs to preserve plant species threatened with extinction through man's activities and yet vital to his welfare.

An important and perhaps even explosive part of the discussions will concern financing. On the agenda is a proposal calling for an environmental fund financed primarily from contributions of the industrialized nations. Substantial amounts would be used to support the environmental observation network. But money also would go to less industrialized and developing countries to help them avoid the mistakes that brought on most of the ecological problems the industrialized nations are facing today.

This issue is in two parts, consisting of 40 pages. This is Part I.

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Rocky Road for "European Truck": Although Common Market Transport Ministers now have agreed, after 10 years' negotiation, on common specifications for heavy trucks throughout the EEC, the agreement reached is essentially one of principle. There is no doubt in the United Kingdom or in Germany, for example, that implementation of a common policy is still some way off. The proposal announced by the ministers provides for an 11-ton axle weight limit, an over-all weight not exceeding 40 tons, and a maximum length of 12 meters for single trucks and 18 meters for truck-trailer combinations. Even ignoring the fact that there has not yet been agreement on the limit of horsepower per ton and on the maximum length for tractor-semi-trailers, the "agreement" reached on axle weight limits already has produced a violent reaction from the U.K. and Germany, both of which feel that the 11-ton limit on load per axle is untenable. Italy and the Netherlands, as well as Denmark and Ireland, also apply a 10-ton limit; the 11-ton figure is a compromise with the prevalent French, Belgian, and Luxembourg standard of 13 tons. The 11-ton compromise will necessitate the reinforcement of some 100,000 bridges in the U.K., West Germany, and Italy, and the cost to the U.K. alone has been estimated at £200 million. Sources in Germany have indicated that it would in effect be cheaper and more rational to compensate the French by buying out their major truck manufacturer Berliet than to accede to the 11-ton limit. On the other hand, the fact that common regulations are not to come into force until Jan. 1, 1980, for intra-Community traffic and until Jan. 1, 1985, for national traffic allows for a certain latitude and reduces to some extent the urgency of the U.K.'s current objections. Should the British government decide to take a firm stand on this issue, however, it will be the first major confrontation between the U.K. and the Six since the signing of the Treaty of Accession.

The High Cost of the "New Society": French employers and management representatives have given cautious approval to the French government's latest social and economic policy package. The program covers a wide field and includes such diverse measures as equal pay for women, a 10% rise in the minimum social security pensions to FF 4,000 annually, transitional aid for job-seeking school graduates and ex-apprentices, and public funds for freeway construction, expanded telecommunications, and accelerated renovation of social housing. Business and industry took particular note of the following proposals sparingly outlined by Prime Minister Jacques Chaban-Delmas:

- a more generous volume of low-interest financing offered through Crédit National, the national credit organization, to stimulate corporate investment and thereby assure full employment;
- further encouragement of employee profit-sharing programs via better tax treatment of share allotments and stock options;
- a company law revision stipulating that two employee representatives be elected to the board of directors or supervisory board. So far, a member of the employees' council has had the right to attend board meetings but only as an observer. This specific proposal is seen as a first, though very small step toward a labor-management co-determination system such as that now practiced in Germany. Chaban-Delmas, in fact, urged French corporations to adopt more readily the German two-tier corporate management concept involving both a board of directors and a supervisory board.

The prime minister presented his package, which is expected to burden the French budget by FF 3-4 billion , as a further step in the evolution of his *Nouvelle Société* - a slogan he coined in 1969 on first coming into office. Critics are wondering, though, when and how some of the ambitious proposals might be realized. Warning that the government is choosing the path of "inflationary growth," they predict that the new French Budget for the coming election year will run a deficit of about FF 5 billion. Yet others feel that the announced measures are restrained compared to what is to come this fall when the government needs a bait for the voters in time for next spring's parliamentary elections.

"Non-Executives" in U.K. Companies: The U.K. Companies Bill has passed the Commons standing committee stage and now is scheduled for Commons debate. The bill provides that companies with assets of more than £5 million or with over 1,500 employees appoint at least three non-executive directors who would make an annual report to shareholders. An amendment is possible to the effect that the non-executive directors would be required explicitly "to endorse, or otherwise," the directors' report. Opposition to the bill has come in the form of doubts as to whether non-executive directors would share with the other directors the ultimate responsibility for the over-all direction of the company. If they are to take part in decision-making, so the argument goes, how can they report independently on the company's management?

Lifting the Shroud of Bank Secrecy: A revision of a Swiss-American tax treaty, now in final debate in the Berne parliament, will help U.S. officials to penetrate the cloak of secrecy shrouding bank transactions in Switzerland when they have reason to believe that U.S. citizens have evaded taxes at home. This means that the U.S. government must furnish Swiss authorities merely with information about such cases, without having to provide legal proof.

Last year Switzerland's Supreme Court held that Swiss authorities must cooperate with the U.S. Internal Revenue Service and supply its agents with information pertaining to dealings of U.S. citizens suspected of having violated U.S. law. The court said that Swiss authorities, on such evidence, could demand from Swiss banks relevant information even if this involved breaking the banks' statutory obligations to secrecy. Swiss officials, in turn, were required to pass on the information to the IRS. On account of this ruling many Swiss banks have cooperated with IRS agents to a variable degree; the revised treaty extends this cooperation between U.S. and Swiss authorities even further.

In the past, U.S. prosecutors have had a hard time preparing evasion cases against persons, often figuring prominently in organized crime, who stashed away their cash in Switzerland. Evidence would be compiled meticulously except for the last link - the money, safely and untraceably deposited in a numbered Swiss account. Prosecution will now be easier; the IRS can also go after gambling money flowing from the United States into Swiss accounts before being transferred back to the U.S. in the form of bank credits.

No Progress for Common Drug Market: The European Commission's drive to bring about a common market for pharmaceuticals and thus guarantee free movement of any nationally registered drug throughout the Community is still at a standstill. The effort began on an optimistic note in 1965 when the Council of Ministers adopted a Commission-drafted directive requiring member states to approximate their legislative, regulatory, and administrative provisions on branded pharmaceuticals. The Commission then proposed seven more directives representing a logical sequence toward a genuine common market for drugs, but the Council could not agree and thus did not pass them. →

At present, observers feel, there is not only no progress but even retreat from the ambitious goal. Only Belgium so far has complied and amended its rules to bring them in line with the first Council directive. The other five member states have balked and are facing proceedings under Treaty Article 169. The reasons for their resistance basically boil down to three: lack of mutual trust, lack of confidence in the quality of governmental control over the pharmaceutical market, and dislike of accepting restrictions placed on national sovereignty by Community acts. The member states were split, with Germany and France leading the opposing factions. Although Germany had given its consent to the first directive, it did not comply because Bonn experts soon discovered gaps in it which they felt should be closed by a second directive setting forth rules governing registration and testing by the manufacturer and inspection of plants by government agents. Bonn made adoption of this second directive subject to passage of yet another directive dealing with mutual recognition of government-registered drugs. On these points Germany, Europe's largest exporter of pharmaceuticals, was supported by the Commission.

France said it was not prepared to let any foreign-registered drug into the country unchecked. It pointed to several drug scandals in Germany and their consequences. It also referred to Treaty Articl 36, which allows restrictions on imports for reasons of protecting health and lives.

At this point the Commission offered a compromise. A national producer who has registered his drug with his government and who wants to export it to another member state must submit the relevant registration documents to a commission comprised of experts from the Six. If that commission concludes that the drug conforms to EEC standards, it would recommend that the importing state give clearance. But this recommendation would not be binding. And it is here that the deadlock remains. However, the Commission is continuing to draft directives to reconcile differences responsible for the standstill.

AROUND THE MARKETPLACE

U.K. Lobbyists Seek Yarn Quotas: Cotton yarn manufacturers in Lancashire, the U.K.'s center of the industry, have made representations to the British government in an effort to have it oppose adoption of Common Market regulations on cotton yarn imports when Britain becomes a full EEC member next year. Cotton yarn imports are presently quota-restricted in the U.K. but are, in theory at least, quota-free in Common Market countries. The disparity between U.K. and EEC attitudes on textile imports as a whole is considerable. The EEC regards cotton yarn, for example, as a raw material and provides for it under the "common liberalization policy." In practice, however, EEC countries have ways of curbing imports of cotton yarn. France successfully prevented any imports at all last year from Hong Kong, South Korea, and India and admitted only a meager eight tons from Pakistan. The Belgian interpretation of free entry also seems to run counter to the EEC theory: all cotton yarn imports are reviewed by a special committee and, if the price is over 10% below current levels, no import certificate is issued. The Lancashire pressure group is hoping that the government will be able to convince the EEC that certain quotas should be maintained, at least for a limited period after entry, and that the general restrictions on textile imports into the United Kingdom should be given careful consideration.

The U.K. fears the impact of an open market on labor conditions in the industry, assuming that the flood of imports of cotton yarn from

Asia will cripple the market. Although statistics for 1971 clearly show that the Asian invasion of the market has been exaggerated (£160 million out of a total £500 million imports), the precarious balance will be upset if quota restrictions are dropped completely. The U.K. is not without support from EEC members: both Belgium and Holland have already expressed fears that their domestic markets will suffer from a sudden influx of Asian textiles into the U.K. and their subsequent re-export to other countries as "U.K. origin textile" products. The EEC currently is negotiating new agreements with Asian textile exporters (the present agreements expire at the end of next year) and, unless the new agreements provide for what the Lancashire lobbyists term a more even distribution of the Asian threat throughout the Common Market, the future of the U.K. cotton yarn industry is in jeopardy.

EURO COMPANY SCENE

Thos. Cook, the U.K. state-owned travel business, has been sold for £22.5 million to a consortium headed by the Midland Bank, together with the Trust Houses Forte Hotel group and the Automobile Association (78.3:15:6.7%). The sale prompted protests from the U.K.'s Opposition party, which has consistently opposed the present government's policy of disposing of parts of the country's nationalized industries. The U.K. Transport Industries Minister, in making the announcement, pointed out that the Midland consortium bid had satisfied the government's main criteria for the deal - reputation, financial standing, experience in banking, travel and related fields - and, more important perhaps, had "substantially" outbid its principal rival for Cook's, the Barclays Bank group, which included BOAC, BEA, and Grand Metropolitan Hotels. Labour Party opposition to the deal was crystallized in a question in the House of Commons from a Labour MP, who asked whether the buyers had been warned that a future Labour government might take Cook's back without compensation.
The sale is the largest to date of a nationalized industry.

American Express has purchased a large share in the U.K. holiday-tour operator Clarksons. The initial investment by Amexco will be £3.5 million but, if all the options which make up the deal are taken up, the final price for a total 49% interest would amount to some £6.5 million. The first phase of the deal calls for a 19% equity share for £1.58 million and convertible unsecured loan stock for £1.92 million. Clarksons has been losing money lately (£2.7 million last year), but a company spokesman said that the link-up would have occurred even if the firm had been making a profit.

Shortly before U.K. Aerospace Minister Michael Heseltine and French Transport Minister Jean Chamant were to meet in France for a strategy conference on the Concorde supersonic airliner, BOAC announced its decision to order five of the Anglo-French aircraft, at an estimated 1974 price of £115 million ($299 million). Amounting to a vote of confidence, the British order is expected to be followed by a similar one from Air France. The planes are to be delivered in early 1975. Concorde has cost the U.K. and France £640 million so far and is expected to absorb at least another £330 million in development costs before certification in 1974 and the start of passenger service. A British-assembled prototype, 002, currently is on a demonstration tour of the Middle and Far East and Australasia. After BOAC, 15 other airlines have options on 66 Concordes, including seven U.S. carriers (Pan Am, TWA, American, Braniff, Continental, Eastern, and United).

The new company to be created by the merger of French Jeumont-Schneider and light electrical engineering firm Merlin-Gérin SA, will be called Merlin-Gérin-Schneider (MGS). The Empain-Schneider group will hold 49% of the capital and the president will be Merlin-Gérin chief Paul Merlin. MGS will have a turnover of about FF 2 billion ($400 million), 30% of which will come from export. Discussions may be picked up again with the Compagnie Générale d'Electricité about its possible takeover of Jeumont-Nord, the turbo-alternator division of Jeumont-Schneider, as was proposed in the original deal between Jeumont-Schneider and the French Brown-Boveri subsidiary, Compagnie Electro-Mécanique.

Alcan Aluminium (Europe), based in Geneva, has concluded dealings to acquire minority ownership of Italy's Alcan Angeletti & Ciucani Alluminio SpA, which operates a rolling mill, lacquering and varnishing lines, and an extrusion press plant in the Milan vicinity. Alcan already had obtained a 26% interest in Angeletti & Ciucani in 1963 and began to invest substantially in the company in 1969-71. A gradual integration of the firm in Alcan's European business activities is under way.

Wintershall AG, fuel and fertilizer subsidiary of Germany's BASF, is taking a majority interest in the distressed Salzdetfurth AG, producer of salt and potash. Wintershall hopes to save the company, in which it currently holds a 43% stake, from ruinous losses of some DM 80 million ($25 million), incurred through an unsuccessful U.S. venture. Salzdetfurth had co-founded Great Salt Lake Minerals and Chemicals Corp. in Utah in partnership with Gulf Resources and Chemical Corp. Investments for the project came to $40 million between 1967-70. A few months ago the Salt Lake company ran into technical and administrative difficulties, and Gulf, for its part, was not willing to continue subsidies.
After Wintershall increases its participation in Salzdetfurth to 70%, the latter will merge with its own subsidiary, Kali und Salz GmbH (jointly held with Wintershall), and will be renamed Kali und Salz.

Farbwerke Hoechst of Germany reportedly is negotiating the purchase of a majority holding in Dr. Kurt Herberts and Co., Wuppertal, a major producer of paints. Hoechst, which recently took over the Dutch Wagemakers' Lakfabrieken NV, already owns one paint subsidiary in Germany, Flamuco, and maintains an interest in another, Spies, Hecker and Co. Herberts' 1971 turnover totaled DM 306 million ($95.6 million), 22.5% in exports.

General Motors of the U.S. and Rijn-Schilde-Verolme Maschinenfabrieken en Scheepswerven and Verenigde Bedrijven Bredero, both of the Netherlands, have announced plans to form a work group to supply Holland and other West European countries with nuclear energy centers. Bredero also is cooperating with Germany's union-owned Neue Heimat group on new housing construction projects in the Netherlands. The two already have collaborated on renewal projects in Frankfurt.

Germany's Deutsche Texaco AG is negotiating with the Bavarian economics ministry for construction of a petroleum refinery with an annual throughput capacity of 5-6 million tons. The plant would represent an investment of some DM 500 million ($156 million). Although a site has not yet been approved, the area around Ingolstadt seems most likely, because of its hook-up to the international pipeline network. The refinery - which would be Bavaria's seventh - probably would go on stream in 1978. Last year Texaco's German turnover totaled DM 3 billion, 14.7% over 1970 sales.

Zahnradfabrik Friedrichshafen AG of Germany has concluded licensing and cooperation agreements with three Yugoslav automotive companies: Soko Mostar and Prva Petoletka Trstenik, producers of mechanical and hydraulic steering assemblies, and Fap Famos, manufacturer of medium-weight and heavy trucks. The contracts with Fap Famos provide for shipments to the German company and are to be expanded to include a non-competition agreement; Fap Famos will consent to keep its exports off Zahnradfabrik's third markets. Zahnradfabrik also is holding license talks with another Yugoslav truck manufacturer, Tam.

The U.K.'s International Computers Ltd. has announced it will establish a new company with the Northern Ireland Ministry of Commerce as a major shareholder. The new firm, as yet unnamed, will have an issued capital of £4 million, £2.5 million of which will be injected by the ministry. The balance will be ICL's plant assets at the Castlereagh site in Northern Ireland. The plant employs 1,700 in the production of electromechanical data preparation and peripheral equipment. ICL had found that, in a changing market structure, demand for these units had lessened and it was necessary to streamline operations, i.e., reduce the work force. In order to avert the threat of heavy redundancy in the area, the government has thus de facto nationalized the Irish plant. To protests of "lame duck," the government pointed out that "a controlling interest in an Ulster concern was in line with powers taken last year." The Commons Select Committee on Science and Technology last November earmarked some £50 million a year for the British computer industry. On a pro rata basis this would mean that ICL would receive upward of £30 million for product development.

Germany's AEG-Telefunken is breaking with previous licensing practices by extending rights to Matsushita of Japan for production of small-screen color TV sets according to the PAL color system. A current exchange agreement between AEG-Telefunken and Hitachi for PAL know-how and patent licenses probably will be expanded along similar lines. Matsushita will begin exporting small models (with screen sizes of up to about 18"), in limited quantities, to PAL markets. Formerly, PAL production licenses were granted only to manufacturers in the 21 countries using the PAL system.

The Aluminium Co. of America (Alcoa) has bought the U.S. license rights to French Pechiney Ugine Kuhlmann's Magnetherm process for the electrothermal production of magnesium. Related technical assistance will be supplied by the PUK subsidiary, Métaux Spéciaux SA, which exploits the Magnetherm process in France.

Schwartauer Werke GmbH & Co. has concluded a cooperation agreement with Scotland's W.A. Baxter & Sons for German license production of Baxter jams and marmalades. Manufacture, according to the original Scottish recipes, has already begun. Schwartau's own "Schwartau Extra" brand preserves are top sellers on the German market.

Zimmer AG, German member of the multinational Davy-Ashmore group, has been awarded a contract by the Soviet Techmashimport agency for construction of a nylon tire cord plant in the Ukraine. The facilities, with an annual capacity of 3,700 tons, are to be completed by early 1974. Zimmer also handled know-how, engineering, and procurement assignments for a similar Russian plant in 1963.

The Wham-O Corp. of San Gabriel, Calif., has granted Germany's newly founded SSF GmbH & Co. Vertriebs KG, Munich, exclusive rights for production and sales of "Frisbee" flying saucers in Europe. Up to now Wham-O has sold some 50 million of the plastic play disks in the United States, 10 million during 1971 alone. The license agreement extends for five years.

Rank Organization's counter-bid of £429 million for the U.K. brewers Watney Mann was greeted with skepticism and uncertainty on Wall Street. The reaction in London was similar. Some 52% of Rank's non-voting equity is held in the U.S. and the reaction was predictable on account of breweries' investment reputation there and because the American brewery organization totally differs from that of the U.K., where brewers own vast chains of restaurants and public houses. Shares in London and New York dropped off to a point where, according to reports, the Rank offer was actually less than the £421 million offered for Watneys by the Grand Metropolitan Hotels group.
Rank's statement that the new Watney's, reinforced in February by the acquisition of International Distillers and Vintners, offered colossal potential in the leisure market exploitation sector, seemed to puzzle the London market: it quickly pointed to the fact that Rank's earnings before tax last year stood at £29 million but that, of this, £27 million came from Xerox photocopier business. Leisure market earnings, from movie theaters, dance halls, catering, etc., actually dipped compared with 1970, and earnings from Rank hotels slumped from £218,000 to £29,000. Watney Mann has issued a determined rejection to both bidding parties.

Morgan Guaranty Trust of New York has plans to transfer ownership of its wholly-owned Euroclear, one of the largest clearing houses for international securities, to a U.K. company registered under British law. Morgan Guaranty International Finance Corp. will hold an important minority stake in the new company, which will have a large number of shareholders. However, Morgan Guaranty will continue to operate the Euroclear service on behalf of the new company, which is to be known as Euroclear Ltd. and will have non-resident status under English law - thereby being exempt from U.K. exchange controls and taxes. Seat of management will be in Switzerland.

Financial reasons and Berlin's changing role in world commerce have led Air France to cancel its three-year-old agreement with British European Airways for joint domestic Berlin flights to and from Frankfurt and Munich. After suffering losses of FF 73.4 million ($14.7 million) on these routes from 1961-69, Air France teamed up with BEA and in fact did reduce its deficit by half, although last year's losses still came to over FF 1 million. As of next November, the French airline will maintain only a Paris-Berlin connection, with two daily flights, one including a stopover in Cologne. Easing of travel restrictions as a result of the four-power Berlin agreements and West Germany's ratification of the *Ostverträge* also are said to have figured in Air France's decision, since overland traffic through East Germany is expected to increase and depress the Berlin air trade even further. After pulling out of German domestic traffic, Air France reportedly wishes to feature Berlin more prominently in its international flight program.

CCH® Common Market Reports

EUROMARKET NEWS

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EEC Clamps Down on National Aid: The European Commission has ordered Belgium to reform its state aid system and has issued detailed instructions on how to do it. The Commission's objections are nothing new. In fact, it made Belgium discontinue aid systems twice in the past. The Commission also intervened when the German government submitted its proposal for reorganizing and subsidizing the ailing coal mines in the Ruhr area. New in the Commission's decision (*Official Journal of the European Communities, No. L 105, May 4, 1972, page 13*) is the massive extent of its intervention. It is the first time the Commission has gone into such detail in telling a member state government what to do, stating exactly which regions may be aided and which may not, how aid should be given, and what the criteria should be.

State aid is not something entirely contrary to the principles of the EEC Treaty. Aid may be given, for example, to promote economic development of regions with an abnormally low living standard or serious underemployment (*Treaty Article 92 (3)*). The Community itself on occasion has supported regional programs or individual projects through grants. But what the Belgian law of Dec. 30, 1970, and subsequent decrees in effect did was to aid industries virtually throughout the country. The Treaty prohibits this because it would distort international competition, one of the cornerstones of the Common Market.

The Commission soon objected to the Belgian measures, particularly when it became known that 41 of the country's 43 districts were to benefit from the national aid program. Here was the danger: using a lawful tool (regional policy) and converting it into an unlawful instrument (national economic policy). Dutch enterprises were the first to feel the impact of the aid system. Their complaints accelerated the Commission's action.

According to the Commission's decision, in future the Belgian government may aid only 28 districts and parts of four others. It has two years to draft new legislation, and it must give the Commission ample opportunity and time to comment on the proposed meas-

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ures. The Commission reemphasized one more thing: aid should never be given under uniform criteria but according to need.

Foreign Investment in Belgium: Over the 1959-71 period foreign companies have invested a total of BF 132 billion or about $3.07 billion in Belgium, for an annual average of more than BF 10 billion ($232 million), according to a report just published by the Belgian economics ministry. Based on the projections contained in the original applications for the individual projects, these investments were supposed to have provided about 75,000 new jobs. Last year, foreign investments in Belgium maintained the level of previous activity, at BF 10.3 billion. From 1959 until 1968, the U.S. share of all foreign investments amounted to 65%; however, in 1971 it dropped to 27%. Yet Belgian authorities are confident that the country's attractiveness to American investors remains undiminished. Of the BF 10.3 billion invested last year from abroad, the United States contributed BF 3.6 billion, the Netherlands, BF 2 billion; France, BF 1.8 billion; Germany, BF 1.3 billion, and Great Britain, BF 0.9 billion.
In respect of Belgian regional policy, the ministry has noted that foreign investment activity seems to be shifting geographically. Whereas in previous years most of it was concentrated in Antwerp Province (primarily Antwerp's port area), more new projects now are going to the Walloon regions of southern and southeastern Belgium, which in 1971 attracted more foreign capital than did Antwerp. The ministry report relates merely statistics pertaining to new foreign investments; not contained are figures about the expansion of established foreign companies, which has not been inconsiderable.

In related developments: Other Belgian sources express some irritation at the growing foreign influence on the country's industries. Recently, the Kredietbank reported on this domination as apparent in metals processing, Belgium's main industry, which employs one-fifth of the industrial labor force and accounts for 29% of the exports of Belgium and Luxembourg. The bank said that foreign participation in this industry rose from about 25% in the early 1950s to about 59% in 1970, and should reach 75% by 1980. The American share of foreign investment in the metals processing industry now stands at 40%, while other EEC countries - notably Germany and Holland - contribute about 35%, Kredietbank said. Within the sector, foreign domination is particularly obvious in electrical engineering (ACEC, Philips, Bell Telephone), in the automotive industry (GM, Ford, Citroën, Renault, Volvo, and VW), in agricultural machinery, and civil engineering equipment.

Irish Industry Wants Safeguards: The Confederation of Irish Industry has expressed concern at the government's apparent unwillingness to enter into proper consultation with industry at the early stages of legislative planning. This anxiety stems from the ambivalent attitude of Irish industry toward the expanded Common Market. The legislative machinery to control mergers and takeover deals is such that domestic manufacturers feel threatened by the possibility of foreign domination of the market. The CII, while encouraging foreign investment in Ireland and conceding the need for foreign industry, is calling for safeguards, notably in the form of joint ventures with local participation. The CII points out, however, that - in spite of a recent supermarket takeover which did not meet with the Minister for Industry and Commerce's unqualified approval - the government has made no approach to industry regarding the proposed monopolies legislation.

VAT - No Price Hikes in Austria: The Austrian government is not going to allow the planned changeover to the value-added system to be seized upon as an opportunity to increase prices. Existing price controls would be tightened and new controls are set forth in a rider to the value-added tax bill. This will be done in an attempt to prevent what a government spokesman called an avalanche of price increases hurtling toward consumers in the months ahead.

Price controls would go into effect very shortly and would remain in force for nine months after the effective date of the changeover (Jan. 1, 1973). The controls would apply to manufacturers, importers, and all services. Retailers would not come under the price control umbrella, but the government is counting on merchants to cooperate voluntarily to keep prices down.

Government tax experts say there is no real reason (unexpected factors aside) for manufacturers to raise prices of merchandise in stock the day VAT becomes applicable or for merchandise to be produced from raw materials previously purchased. Yet experience has shown that businesses tend to take advantage of the change and raise their prices. It is interesting to note that the introduction of the value-added tax in the Netherlands and Belgium (roughly equal in size and economic structure) led to different price developments. Prices increased considerably in Holland following the introduction of VAT at the beginning of 1969. In Belgium, where the new system took effect on Jan. 1, 1971, rigid price controls and supplementary measures kept prices from increasing.

With this experience in mind and under pressure from the unions, the Austrian government is determined to apply the brakes on prices for a limited period of time. Chancellor Kreisky hopes to get the Conservatives to back the measures, convinced that they have no alternative to offer.

Rome Frees Investments from Turnover Tax: Italy's caretaker government has adopted several measures that are significant in terms of the country's ailing economy as well as its standing as a member of the European Communities. In an attempt to get the economy back on its feet, all investments and inventories of merchandise have been automatically exempted from turnover tax. The measure, which took effect on May 24, represents a turnabout from former practice, under which businesses were entitled to (but often had to wait for) a refund of the turnover tax paid on assets and inventories. The change anticipates in a way the procedure provided under the future value-added system. New is that sole proprietorships, limited liability companies and stock corporations will not be treated differently with respect to exemption of investments from turnover tax.

Important for its standing as a member of the Common Market was the government's decision making Jan. 1, 1973, the effective date for the value-added turnover tax system, which replaces not only the existing cumulative turnover tax but various other indirect taxes as well, among them local consumer taxes. Jan. 1, 1973, also is slated as the day the tax reform goes into effect, so that businesses and individuals as well as the tax authorities will be facing a modern system of direct and indirect taxation.

Observers in Rome doubt, however, that the investment incentives inherent in the turnover tax exemption will be strong enough to pull the economy from stagnation into the stream of moving prosperity. Latest figures on the balance of payments indicate that capital is leaving the country in greater amounts than ever, seeking more profit and stability elsewhere. The outflow tripled in April. And it also has been pointed out that the government's tax measures do not remove the most serious cause for the exodus of capital: Italy's prevailing political instability.

France Decentralizes Banking Sector: As part of its new decentralization program for tertiary-sector activities, the French government aims to make France's third-largest city, Lyons, the No. 2 financial center after Paris. Extension of provincial banking services, with emphasis on Lyons, is to be encouraged in order to enable companies with major regional operations to conduct their national and international banking business on the scene, bypassing Paris. The government views this service sector decentralization as an essential back-up to its industrial decentralization program already in progress.
To upgrade the provincial banking system, regional financial institutions are urged to improve business procedures and to build up senior staff capable of handling more complex transactions. Setting the pace will be the Banque de France, various rediscount agencies, and the export credit organization COFACE, whose Lyons operations will be considerably expanded. In the private banking sector, several banks already have shifted some of their weight to the provinces. The country's third-largest, Crédit Lyonnais, has just opened a computerized administrative center at Rillieux, near Lyons. Earlier, similar administrative operations were set up by the Crédit Commercial de France in Rheims and by the merchant bank Banque Hervet, in Bourges. About 45 banks are now operating in Lyons. Ten of them are foreign, among them Chase Manhattan and the Bank of America, both of them relative newcomers.

AROUND THE MARKETPLACE

Mail-Order Retailing in the EEC: Concentration moves within Europe's mail-order trade over the past three years have been largely confined to the acquisition of smaller specialty companies and the establishment of distribution subsidiaries by major mail-order houses, the European Commission has concluded on the basis of trade publication reports. While the industry is expanding all over Europe, its best growth potentials are seen in Italy and France, where in 1970 mail-order volume stood at 52 billion lire (0.5% of the total retail market) and at FF 3.5 billion (1.2%), respectively. Sales and market shares for other EEC countries in 1970 amounted to DM 10 billion (5%) for Germany, BF 3 billion (1%) for Belgium, and 400 million guilders (1%) for Holland. For future EEC-member Great Britain the figures are £565 million and 4-5%.
The Commission so far has detected no evidence of conglomeration within the mail-order industry, or of sales methods possibly injurious to consumers. Depending on the country, the market share of mail-order houses varies from one-tenth to one-third of total department store sales; in some cases department stores are owned by mail-order companies. In its report, the Commission identifies the following companies as the EEC's largest mail-order houses in terms of turnover:

Quelle (Germany)	DM 3.57 billion (1970); subsidiaries in France, Italy, Luxembourg, Belgium, Switzerland, and Austria. Cooperative agreement with V&D in Holland.
Neckermann (Germany)	DM 1.671 billion (1970); subsidiaries in Holland and France.
Otto-Versand (Germany)	DM 1.14 billion (1970); subsidiary in France.

La Redoute (France)	FF 990 million (1970); subsidiaries in Belgium and France.
Baur (Germany)	DM 450 million (1968).
Schwab (Germany)	DM 450 million (1968); subsidiary in France and a holding in Italy. Controlled by the Singer Co.
Les 3 Suisses (France)	FF 520 million (1970).
Wehkamp (Holland)	130 million guilders (1970). Controlled by the U.K.'s Great Universal Stores.
Coop (France)	FF 170 million (1970).
Vestro (Italy)	12 billion lire (-).

Only two British mail-order houses would be major competitors to the foregoing in the expanded Common Market. They are

Great Universal Stores	£150 million; subsidiaries in Holland, Sweden, and Austria.
Grattan Warehouses	To be ranked somewhere between Neckermann and La Redoute.

At present, the Commission notes, a certain "cross-penetration" of the EEC markets is under way, with some mail-order retailers establishing export companies at home and/or distribution branches abroad. The influence of the diverging national postal systems on international mail-order distribution "is hard to assess," the Commission says, adding, however, that the formalities involved in importing products via postal parcel "form an obstacle to the transnational development of the mail-order trade that must be taken seriously."

Priority to French Food Industry: The total turnover of the French food industry last year was around FF 77 billion ($15.4 billion), according to an estimate by the CACEPA, a promotional organization for the industry. This makes foods the second most important industrial sector in France (behind construction and public works). On a European level, however, it trails the food processing industries of both Germany and the U.K., although France is the Continent's leading agricultural producer. Among the reasons for this lag, according to CACEPA, is the fact that only 50% of the food produced in France also is processed domestically - although 70% could be if the industry were structured along more efficient lines.
The food processing sector accordingly has been made a priority area in the country's Sixth Plan, and this streamlining is now under way, though somewhat haltingly, by the industry's own admission. Though the number of companies in this sector has fallen by 22% since 1962, it must decrease further to keep the industry competitive and to exploit France's agricultural potential more fully in the future. Over three-quarters of the country's 4,900 food processors with more than five employees have an annual turnover of less than FF 10 million. Only 46 companies ring up more than FF 200 million in sales; 20 exceed FF 500 million, and only 11 do better than FF 1 billion. Foreign interests contribute 10-13% in new investments annually; these investments totaled FF 720 million in the last four years. Although the United States and Switzerland remain the single most active investors from abroad, EEC countries are moving in fast, accounting for three-fifths of all foreign investments in French food processing during 1969-70, according to CACEPA.

Steep Rise in EEC Imports from Japan: The Common Market Commission has released further figures on Japanese imports to the EEC. These show that, for the first two months of the year, imports from Japan were up by 29% for the Community as a whole as compared with January and February 1971. Italy registered an increase of 40%, Belgium and Luxembourg 34%, France 30%, the Netherlands 28%, and Germany 26%. In the course of one year the trade deficit between Japan and the EEC has more than doubled to $605 million in Japan's favor. The EEC now has indicated that it is willing to cooperate with Japan in an effort to persuade Washington to relax import restrictions. Failing a change in Washington's alleged protectionist attitude, which the EEC and Japan claim to be an infringement of the principles of free trade in general and of the GATT Code in particular, Japan and the EEC would be obliged to apply "countermeasures."

EURO COMPANY SCENE

Slater Walker Securities, the £190-million U.K. group, has signaled its intention to enter Europe "within the next three months" and the United States "by the end of the year." Executives have been appointed in Paris, Brussels, Frankfurt, and Amsterdam and possible European ventures "are being sifted at the rate of one a week." The types of business under review are predominantly financial - property, investment banking, and credit finance.

The German Federal Government has announced stabilization measures for Ruhrkohle AG, the giant coal-mining concern threatened with nationalization because of its continuing losses. The new steps toward Ruhrkohle's long-term consolidation include interest-free capital infusions of DM 300 million ($93.8 million) annually through 1975 by company shareholders and a guarantee of DM 1 billion by the Federal government (two-thirds) and the state of North Rhine-Westphalia. Subject to parliamentary approval, the guarantee is regarded as the core of the rescue measures and would enable the company to make investments necessary for rationalization. Ruhrkohle, which employs 180,000 and operates virtually all the mines in the Ruhr district, also will be required to reduce coal extraction to some 79-80 million tons annually by 1975, confining output to actual market demand. The German coal industry reportedly hopes EEC officials will allow it to sell to steelmakers at the competitive rates offered by U.S. coal exporters.

Giovanni Borghi, half owner of Italy's Industrie Riunite Elettrodomestici (IRE) - Ignis appliance group, finally has agreed to a takeover by partner Philips, of the Netherlands. The Dutch company will have controlling interest in IRE and its domestic sales arm, Ignis SpA, still held by the Borghi family. Philips reportedly will not cut back on labor or production, as the Italian government and unions at first feared, but will undertake reorganization and expansion in all areas of manufacture. In 1971 IRE had losses totaling $2.3 million; a higher deficit is expected for the current business year. Some 50% of company turnover is generated by exports, as in the case of chief competitor Zanussi, Italy's leading household appliance manufacturer, which is now similarly undergoing reorganization.

Berlin-Consult GmbH, in which the city of West Berlin holds a majority stake, has been awarded a DM 165-million ($51.6-million) contract by Polish state agency Polimex for planning and construction of two meat processing plants in Poland within the next year and a half. Each plant is to have a yearly capacity of 60,000 tons. The contract is the largest ever to be awarded by Poland to a West German firm.

International Telephone & Telegraph Corp. (ITT), New York, is acquiring family-owned Koni NV, of the Netherlands, manufacturer of shock absorbers.

Owens-Illinois, Inc., has increased its holding in the U.K.'s United Glass to 50% following an agreement reached with the U.K.'s Distillers Co. Distillers previously owned 75% of United Glass. Owens acquired a 10% holding in 1966 and, by 1969, when UG was taken over by Distillers, had increased this share to 16.66%. The American company was granted equal representation on the United Glass board (much of UG's technical know-how depended on Owens) and had an option to acquire a maximum of 50% of United Glass by 1975. It is understood that Owens exercised the option because United Glass profits doubled last year. Distillers receives £7.2 million in cash on the deal.

American Home Products Corp., New York, has concluded an agreement to take over Germany's Prof. Dr. med. Much AG, pharmaceuticals. The U.S. company will offer 393,651 shares in exchange for Much's DM 3-million ($940,000) stock capital, now privately held by the Baginski family. In 1971 the German firm had turnover of DM 38 million. It employs about 330. Main reasons for the sale, according to Much spokesmen, were increasing demands in the research sector, problems likely to crop up as a result of coming EEC drug standardization laws, and the need for a stronger capital base for continued sales expansion. Last year American Home sales totaled some $1.5 billion, over half for prescription and non-prescription drugs, and the rest for foods, confections, and household appliances and other home products.

The takeover of the U.K.'s Concept Pharmaceuticals by France's Institut de Dévelopement Industriel on behalf of Laboratoires Pierre Fabre has been hailed as a first, albeit small, success for IDI's recently formed offshoot, Multinational Management Group, designed to promote French business interests abroad, notably by advising on market opportunities. MMG spokesmen in London reported virtually unprecedented interest on both sides of the Channel for cross-border tie-ups. Many of France's large corporations are anxious to gain access to the fund-raising potential of the London financial markets. One stumbling block has been the need to meet the London Stock Exchange's stringent requirements for quotation, in particular, that to revamp accounting procedures. Access can be gained more readily, however, by taking over a publicly-quoted U.K. company.
In Paris, MMG partner Claude Gros said that the company will be coordinating at least two or three new French projects in the United States this year. The problem so far, Gros said, has been a lack of confidence by French companies to move into the vast American market. Another factor has been the fear of "too much success" - the chance that the U.S. subsidiary might become larger than the French parent.

After the failure of its three-year-long courtship of French electrical and nuclear engineering firm Jeumont-Schneider, Westinghouse now may succeed in a new joint project with Creusot-Loire SA. This company, which already manufactures the Westinghouse pressurized water nuclear reactor under license, is awaiting government approval to create a new joint subsidiary with Westinghouse around Framatone SA, the Creusot nuclear subsidiary. Westinghouse would have a 45% holding only, following official stipulations that Creusot-Loire must maintain a controlling position.
This time the French authorities are not expected to veto the total

project. However, they might block one of its aspects, the ambition of the new company to produce nuclear fuel as well as reactors. France's Atomic Energy Authority (CEA) and state-owned Electricitê de France, the only French customer for nuclear reactors, are at loggerheads about the number of nuclear fuel processing operations there ought to be in France. If the CEA had its way, there would be only one, and in the national interest, it would be all-French.

The German state of Lower Saxony and the city of Wilhelmshaven have approved a DM 700-million ($219-million) refinery project by Mobil Oil AG. The refinery, to be located on reclaimed land along Jade Bay, north of Wilhelmshaven, will have an annual throughput of 8 million tons and will employ 400-500 workers. After the refinery goes on stream in 1975, Lower Saxony will place additional land at the company's disposal. The state also will invest DM 19 million in the Wilhelmshaven infrastructure but will not directly subsidize the project in any other way. Mobil Oil's present refinery in Bremen will be converted to major transshipment facilities.

A two-year French import ban on Pitney-Bowes postal franking machines will come to an end on Jan. 1, 1973, when Britain officially joins the EEC. Since September 1970, the British subsidiary of Pitney-Bowes, Inc., Stamford, Conn., has been repeatedly refused the right to import these machines into France, although they are British-made, because of American ownership of the company. Postal franking machines must have an official license before they can be sold in France, but withholding market access from companies of EEC member countries is contrary to the Treaty of Rome. Pitney-Bowes has its own French subsidiary, but it only markets addressing and mail processing machines in France.

The U.K. commodity group Ralli International has joined forces with Merrill, Lynch, Pierce, Fenner and Smith of New York to acquire Metal Traders Inc., the U.S. metal-broking subsidiary of Metal Traders, which was liquidated recently. Ralli and Merrill Lynch already have one joint venture, Ralli Merrill Lynch International. Merrill Lynch described the move as a step toward diversifying the firm's activities. Ralli is a leader in "actuals" whereas Merrill Lynch has been active exclusively in future commodity dealing for more than 30 years. The new company, to be known as Ralli America Inc. thus will offer Merrill Lynch the chance of returning to actual commodity dealing.

Mercury Insurance Holdings and Matthews Wrightson Holdings, the insurance broking and shipbroking group, are planning to set up a new company which would emerge as the third largest insurance broking group in the London market, valued at roughly £40 million ($104 million). The two companies feel that their activities are complementary. Matthews Wrightson is a leader in the U.K. insurance market and in shipbroking, Mercury in aviation. Mercury is also strong on the U.S. market.

Carl Gabler Werbegesellschaft mbH of Munich, Germany, and Benton and Bowles International advertising, of New York, have agreed to terminate their cooperation dating from November 1969. Benton and Bowles, which holds 20% of the German agency, and Gabler will retransfer their mutually exchanged stock shares. The U.S. company reportedly is looking for a new German partner.

Common Market Reports

EUROMARKET NEWS

Issue No. 179 *Report No. 189, June 20, 1972*

Legal Labors of Joining the EEC: The four candidates for Common Market membership - the United Kingdom, Ireland, Denmark, and Norway - are working feverishly to bring their national rules in line with Community law, which will govern most fields of law after Jan. 1, 1973, their day of accession.

There are differences in the approach chosen by the four candidate nations to comply with the obligations entailed by membership in the Communities, and there are also differences in how much national legislation must be amended to bring it to Community level. It is not an easy task - national statutory and administrative rules on some 30,000 subjects must be amended. This figure reflects the actual progress the Common Market has made since its founding in 1958. EEC regulations bringing uniform rules to each member state and national legislative steps taken by the present members by reason of Council directives and decisions as well as national implementing rules could well fill a sizable library. The topics range from a definition of "mayonnaise" to working hours for truck drivers - not to mention the mass of agricultural regulations adopted by the EEC.

The U.K. offers a good example of what might be involved. The European Communities Bill, still before Commons, contains detailed legislation to implement Community obligations (*Part II, Schedules 3 and 4*). Much more legislation will follow once the government receives the statutory powers sought by the bill and hence is able to make additional changes by decree. Clause 9 of the bill brings company law in Great Britain into conformity with Community requirements. It would remove the limitations of a company's liability based on the *ultra vires* doctrine, a peculiarity of common-law countries but unknown to countries with codified law. The changes in U.K. company law are designed to protect a person dealing in good faith with a company whose directors have overstepped either the scope of the company's purpose, as defined in the articles of incorporation or bylaws, or their own powers, for example by incurring debts over a certain limit. English law has been moving in this direction, but

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the bill goes much further. It would make it impossible for a company to disclaim responsibility for such actions of its directors and would relieve the other contracting party of the need to inquire about the company's purpose and the powers of directors before concluding a contract with them.

Toward a European Trade Union: A draft constitution for a European trade union organization which would accommodate the central union federations of the enlarged EEC member countries plus those with special arrangements with the Community has been drawn up in Geneva. In essence, the constitution will strive for active worker participation up to board level. In the light of these developments, the "world" congress of the International Confederation of Free Trade Unions to be held next month in London loses much of its impact. The principal item on that agenda will be the now traditional debate on how to counterbalance the power of the multinationals. However, since the powerful U.S. unions are ex-members of the ICFTU - and George Meany's AFL-CIO has shown no inclination to rejoin - the conference's conclusions will scarcely have global importance.
The draft constitution, on the other hand, marks a more realistic appraisal of what the unions can expect to accomplish in Europe. U.K. unions, like their American counterparts, have long tended to rely on increasing their strength via collective bargaining, and current efforts to persuade European automobile manufacturing unions to use this approach to the management of Ford are, characteristically, being spearheaded by the U.K.'s Transport and General Workers' Union. The Europeans have decided that such an approach is limited: it may prove effective in the case of a multinational - like Ford - which is active in one sector, but it is less so in the case of a highly diversified multinational conglomerate. The European approach, by contrast, is to extend union participation in control of the companies and to try to check the companies' powers from within. The ultimate control of the multinationals is generally in the United States, however, and the success of the new European movement will be in direct proportion to the cooperation offered by American union leaders.

In related news: The first "Euro strike," organized by an Anglo-Italian trade union coordinating committee to protest layoffs following the recent fusion of Dunlop and Pirelli, has met with mixed response. At the two main Dunlop factories in the U.K. the strike was ignored, and two of the largest British unions at Dunlop actually opposed it. Reaction in Italy was more widespread as employees at Pirelli headquarters in Milan joined in two-hour stoppages. Pirelli confirmed participation in these at 80% as opposed to British participation of a mere 15%. Dunlop spokesmen claimed that the effect of the strike was little more than a "pin prick." They also denied categorically that the 8,500 layoffs were a direct result of the link-up. Trade union spokesmen termed the action a success, stressing that it was the first of its kind.

Works Council Elections in Germany: Last month's elections of works councils in German enterprises did not produce any surprises; the national trade union organization and its affiliates made the expected showing, polling between 80 and 95% of the votes. Union representatives feel that the improved showing was due to the unions' expanded right to enter plants, as provided in the 1972 Works Council Act.
But figures alone do not tell the whole story. To the more than two million foreign workers, the results must be disappointing. Although

the 1972 Act put them on the same footing as their German colleagues, alien workers will not be represented on works councils as their numbers would allow. One example: at the Ford plant in Cologne, 6,000 of the 18,000 workers are aliens, and though the works council consists of 37 members, only one alien, a Turk, was elected, although Turks account for over 90% of the foreigners employed at the plant.

Not everything went smoothly in the elections. In many instances executives (who may neither vote nor run for office) asked labor courts that their names be removed from the voting lists prepared by election boards usually dominated by organized labor. Union representatives obtained injunctions in several cases against management, which had informed the executives about their status under the act. These issues will not be resolved until the Supreme Labor Court gets a chance to rule on them. And that high court will be confronted soon with other issues as well: How far does the unions' right of access to plants go? What do the works council's co-determination rights amount to in personnel matters? To what extent must a works council member receive compensation for works council activities performed outside the enterprise but within regular working hours?

British Troubled by VAT: The U.K. House of Commons Standing Committee currently studying the government's Finance Bill has run afoul of certain anomalies in the new value-added tax system. The VAT system is seductively simple in principle, but application and, more particularly, non-application in the form of exemptions, will be infinitely more difficult than was at first supposed. Pressure is daily being exerted on the government as industry and the professions study the implications the new tax will have for them. Some of the problems would appear, at first sight, trivial - such as the question of zero-rating for children's shoes and the rebate paid to employers on VAT charges on protective clothing for their workers. On the other hand, certain VAT provisions will have serious implications for businessmen as a whole. A case in point is that of bad debts. Under the new system, traders will be liable for VAT incurred by bad debtors even if creditors have no way of regaining the money. Previously, under the purchase tax system, the U.K. Customs and Excise office was prepared to waive tax owed by bad debtors although there was no statutory ruling on this. Under the VAT system, the businessman collects the tax on behalf of Customs and Excise and reclaims from the Treasury the tax he himself has paid. The reason behind this is that the Treasury could conceivably lose two ways, the debtor having neglected to pay his bill but not having forgotten to collect his rebate. The implications of this procedure are serious for those sectors of industry where bad debts are endemic, such as the garment industry.

Architects and lawyers also have registered protest. Both are to become liable for VAT. The architects claim that, since the industry they serve is zero-rated, they too should be non-liable. The lawyers contend that their profession is akin to the zero-rated medical profession. In the art world, it has been pointed out that foreign buyers are being given, in effect, a 10% discount.
A serious problem also faces the rental and leasing business, notably involving cars, computers, television, and office equipment, inasmuch as it is not easy to separate in each case the tax paid on goods from the tax to be paid on the service. There is a distinct possibility that VAT will be levied on articles on which purchase tax originally had been paid. This form of double taxation will be prevalent unless the Committee can establish precise guidelines.
Certain "loopholes" already have been found. In the case of research and development services and management consultants, the domestic pur-

veyor will be liable for VAT whereas imported services are exempt. British consultants, however, will pass the tax on and the businessman/customer will be able to claim full rebate.

Paris Chamber Attacks Tax Policy: A report by the influential Paris Chamber of Commerce has attacked the government's tax policy as being "parasitic," "regressive," "arbitrary," and "discriminating." Not only is the government making little effort to carry out the tax reforms it promised in September 1970, the Chamber says, but it even has introduced a series of "parafiscal" levies based on such unacceptable criteria as geographic location, corporate form, type of business, and number of employees, and as such contradictory to the government's stated aim of achieving tax neutrality and simplification.
The report specifically refers to such recent, selectively imposed levies as

- a transport tax on companies in the Paris region with more than nine employees (1.7% of salary expenditures up to an annual maximum salary limit of FF 19,800 per employee);
- a vocational training tax (a basic 0.5% of all salary costs plus an extra 0.8 to 2% by 1976 for all companies with 10 employees or more);
- special taxes imposed on certain businesses, such as a levy on banks which was to have been lifted this year but is being extended;
- a proposed tax on retail organizations toward a pension fund for retailers and tradesmen, which is still in the legislative stage, and
- a commercial company tax based on turnover - up to a maximum of FF 600,000 ($120,000) for a turnover of FF 3 billion - toward a pension fund for self-employed persons in the commercial sector.

National fiscal needs should be financed only through universal taxes, says the Chamber, which defines a modern tax structure as one that imposes a minimum of moderate-rate taxes on maximum categories of taxpayers. The Chamber warns that the complexity of the French system will be to the country's disadvantage when the EEC tax systems finally are harmonized. It points to the irony of France's having been the first EEC country to adopt the added-value tax system, but one far more complicated than those employed elsewhere in the Common Market.

The Chamber charges that the government already is behind in its commitment to modify other, excessively complicated taxes - the personal income tax and the *patente* business license tax. As to the former, the government has postponed until next year the proposed extension to self-employed persons of the 5% tax credit now enjoyed by salaried employees. Even then, self-employed persons still will not benefit from the tax-exempt 20% of personal income now granted salaried employees. As regards the business license tax: small businesses already get a 15% reduction on the taxable value, but the Chamber warns the government against shelving the over-all reform of the *patente* despite the complications such a move would entail.
Finally, the Chamber report makes a special plea for the elimination of fiscal obstacles to the restructuring of the French corporate system lest French companies lose their competitiveness on the international level.

EURO COMPANY SCENE

A regrouping of French, and apparently European, tire interests seems to be pending following the sale of a 17.2% holding in France's second-largest rubber manufacturer, Kléber-Colombes, from Compagnie Générale d'Electricité (CGE) to Switzerland's Crédit Suisse. The sizable transaction - involving FF 85 million and putting Crédit Suisse in control of now more than 32% of Klêber - was acknowledged to have been made on behalf of France's Michelin, which itself owns a 24% share of Klêber. There has been speculation, though unconfirmed, that the move may actually serve to hide a takeover that could lead to the formation of a single French rubber group, with a virtual market monopoly. At the same time, there have been reports that Germany's two major tire makers, Phoenix and Continental, are talking with the two French companies about the possibility of forming a European group of a size similar to Dunlop-Pirelli. In fact, the German companies have suspended their own merger talks and also have postponed their annual meetings to gain time.

The U.K. group GKN Distributors has purchased the Dutch concern Pimentel-Granaat, one of Holland's largest nuts and bolts manufacturers. The acquisition is in line with GKN policy on metrification: company spokesmen believe that, although British EEC entry will possibly accelerate conversion to metric standards, the predominance of old plants in the U.K. will rule out an overnight switch from the old imperial standard. On the other hand, there will be a demand for metric fasteners of the type manufactured by the Dutch concern. Since it would be uneconomical to provide manufacturing facilities for these in the U.K. in view of the quantities involved, the GKN acquisition will allow the company to accommodate the transition until U.K. demand has stabilized and becomes quantifiable. GKN has just opened an office in Düsseldorf, Germany.

U.S. Steel Corp., Pittsburgh, Pa., has acquired an unspecified interest in Germany's FHS Stahlverformung GmbH, producer of high-tensile steel screws, cold extrusion parts, and gearshift levers for the automotive industry. Purpose of the American participation is a major expansion in this sector, according to FHS. K.H. Schulte, former owner of the German company, remains partner and manager following the U.S. Steel acquisition.

Following the news that Rank Organisation, as predicted, had dropped out of the running for the U.K.'s Watney Mann, the City Takeover Panel now has ruled that Grand Metropolitan Hotels, Rank's rival in the bid for the British brewery group, may extend its offer until July 4. This extension, said the panel, was justified on account of the "disruption of Grand Metropolitan's bid tactics by Rank's intervention," but the ruling would not be allowed to set a precedent. Stock market sources in London express displeasure at Rank's "undemocratic capital structure" and the company's "lack of authority." They also have pointed out that Grand Met could scarcely afford to up the ante, since that would give present Watney shareholders a majority holding in the enlarged group.

Herbert-Ingersoll, the U.K. specialist machine-tool maker, has gone into receivership, following an unsuccessful attempt to secure U.K. government aid. Herbert-Ingersoll was a joint venture by Alfred Herbert (44%) and Ingersoll Milling Machine Co., Rockford, Ill. (43%), set up in 1968 to provide a British source of advanced special-purpose machine tools. A capital injection of £1 million from the Industrial Reorganisation Corp. two years ago gave the state a 13% holding in the company. Reasons given for the shutdown were that British business had been consistently disappointing and that the total work load had been insufficient to enable the company to trade at a profit. The shares of the company have been offered to Ingersoll for a nominal sum but it is not prepared to invest further. Spokesmen for Alfred Herbert blamed the company's failure on the reticence of British industry to resume capital investment but went on to say that the company's collapse would leave Alfred Herbert's main business unaffected. Ingersoll will now supply the U.K. directly from the United States and West Germany.

Germany's Volkswagenwerk AG anticipates a 6,500-man reduction in its work force by the end of September, including some 600-1,100 white-collar employees. The company hopes to avoid mass layoffs by encouraging older workers to retire early and by normal attrition (e.g., foreign laborers failing to return from summer vacations). A VW spokesman blamed current difficulties on poor model planning in the past and the blow delivered to exports by the DM revaluation. The company reportedly plans to introduce some model changes late this summer, but the first totally new types will not be on the market before 1974.
In the meantime, state government officials fear that Volkswagen's plans to curtail production and the resulting labor cutback may endanger an additional 4-6,000 jobs in the automotive supply industry. Some 3,000 employees of Rheinstahl-Hanomag AG, which was to deliver parts for a model now scrapped by VW, demonstrated in Hannover against the threatened dismissal of 1,000 co-workers. The company plans to shut down its foundry, forge, and engine building facilities by next spring.

The St. Gobain-Pont-à-Mousson (SGPM) group is moving to realign its insulating glass activities in Germany and France, and so eliminate the overlapping which resulted from the merger of St. Gobain and Pont-à-Mousson in 1970. In Germany the merger has just been completed of two subsidiaries, Grünzweig & Hartmann AG, Europe's largest producer of glass insulation materials, and Glasfaser GmbH, manufacturer of insulating fiberglass. In France, SPGM president Roger Martin has indicated that the group is thinking of linking Roclaine SA, in which the U.S. group Johns-Manville until very recently held 36% (now ceded to SGPM), and the Isover division of St. Gobain. SGPM is in a delicate position as regards such mergers because of its virtually dominant position on the European insulating glass fiber market. It holds 70% of the French market, 85% in Germany, 80% in Spain, 70% in Benelux, 60% in Italy, and 55% in Switzerland.

Germany's Ernst Leitz GmbH ("Leica" cameras) and Minolta Camera Co., Ltd., of Japan have agreed to cooperate in the technical sector by exchanging patents, know-how, preliminary technical information, and technicians. In addition, they will expand production programs and reportedly hope to announce the first material results of their collaboration by 1973. Leitz also is one of the world's leading producers of microscopes. It had a turnover of DM 173.4 million ($54.2 million) last year. Minolta, involved in optical instruments and office machinery, as well, had sales totaling some $71 million in 1970.

Carl Zeiss of Germany and Asahi-Optical Co. Ltd., Tokyo, have founded a joint subsidiary (50:50) in Japan for sales of eyeglass lenses produced by both companies. Asahi, which up to now has concentrated on cameras, photo lenses, and optical equipment, intends to build up its lens production with Zeiss know-how. It will market the lenses under the Zeiss trademark. Japan reportedly imports some 2.1 million eyeglass lenses annually. U.S. manufacturers account for about 60% of this total and Zeiss, for 20%.

The German Braun AG (Gillette), Philips of Holland, and various Japanese electronics firms are said to be negotiating with Germany's family-owned Uher Werke GmbH & Co. KG for possible takeover of the producer of quality tape recording equipment. Last year Uher, with sales of about DM 100 million ($31.3 million) just managed to equal its 1970 turnover and reportedly took a major loss. Insufficient capital resources have kept the company from the expansion required to maintain independent operation; experts reckon that investments of DM 10-12 million could stabilize Uher's shaky financial situation. The company employs over 1,500 in three manufacturing plants.

D.H. Overmyer GmbH in Frankfurt, German subsidiary of the D.H. Overmyer Co., New York, is planning to invest $125-130 million during the next five years to build warehouses in all major European business centers. These depots are designed for lease as production, storage, and administrative facilities or serve as distribution centers in Overmyer's "total distribution" wholesaling chain. The first depot has opened in the Frankfurt area in Germany, where Overmyer is said to see the most receptive market for its type of service. Other warehouses soon will be established in Munich, Nürnberg, Düsseldorf, the Ruhr district, Hamburg, again in Frankfurt, and in two Swiss cities, Zurich and Basel. Overmyer predicts a turnover of $35 million by the end of the first phase of expansion. Eventually it plans to establish a network of some 350 warehouses throughout Europe.

Beckman Instruments, Inc., Fullerton, Calif., has established a new subsidiary, Beckman Instruments Process SA, in Switzerland. The company will produce Beckman process engineering equipment at a plant now being completed in Geneva.

Sweden's Stal-Laval Turbin AB and Bremer Vulkan Schiffbau und Maschinenfabrik, of Germany, have signed an agreement strengthening their cooperation in the construction of marine master turbine installations. Bremer Vulkan has been granted rights to sell Stal-Laval advanced propulsion turbines to other German shipbuilders. The Swedish company, the world's leading manufacturer and licensor in this field, has agreements with other licensees in France, Sweden, Norway, England, Italy, and Japan.

International Nickel Co. of Canada (INCO) has been given the French government go-ahead, in principle, to mine nickel laterite deposits in French New Caledonia. Initial annual production will be 10,000 tons, and INCO will have majority control over the local operating company.

France's second and third largest cities, Marseilles and Lyons, are to have a subway. The Lyons project, to cost approximately FF 566 million ($113,1 million) for a single line with 15 stations, will be the first to get under way. Contractors will include the Compagnie Génèrale d'Electricite, Alsthom, and Borie. The tunnel will take four or five years to complete.

EDP Resources Deutschland AG has extended its marketing activities to Denmark, Norway, Sweden, and Finland. The computer firm's takeover of Cybernetics International AB, Stockholm, last month completed acquisition of the entire Cybernetics group - including the German Cybernetics International GmbH - from Bankers Trust. The Swedish company, specializing in technical software, has about 30 employees and sales of over $625,000. EDP Resources Deutschland expects turnover in excess of DM 25 million for 1972-73.

The French telecommunications and mechanical engineering company CIT-

Alcatel has established a new U.S. marketing subsidiary, Alcatel Vacuum Products, which will operate as a division of CIT-Alcatel's main U.S. subsidiary, CITCOM-Systems.

The U.K.'s Air Cushion Equipment of Southampton is to join with Global Marine of Los Angeles, Raymond International of New York, and Dominion Bridge of Montreal to form a new Canadian company to market hover trailers and hover platforms for industrial and transportation applications. The hovercraft, which can handle loads of up to 100 tons, already have been introduced in the U.K. and on the Continent.

Pan American World Airways and France's Avions Marcel Dassault-Bréguet Aviation have agreed to form a joint subsidiary, Falcon Jet Corp., to market Dassault Falcon business jets in the Western Hemisphere. The 50:50 joint venture, with $5.6 million contributed by each partner, will supersede a previous arrangement which dated from 1963 and had resulted in losses over the past two years. It required Pan Am, the exclusive Falcon distributor, to purchase a certain number of the jets annually. As part of the new deal, Dassault-Bréguet has the option to buy a 10% equity in Pan Am.

Belgium's Banque de Bruxelles, Holland's Algemene Bank Nederland, and two German banks, Bayerische Hypotheken- und Wechsel-Bank and Dresdner Bank, have founded the ABD Securities Corp. in New York, each with a 25% participation. The new company, heralded last March, will carry on activities of Algemene's former ABN Corp., New York, on an expanded international basis and will operate both in securities and investment banking.

Twenty-six percent of the shares in France's second largest merchant bank, Banque de l'Indochine (1970-71 assets FF 4.8 billion - $960 million), has switched hands abruptly, giving the controlling minority interest (33%) to the French insurance holding, La Paternelle. The move was inspired by a power struggle within France's No. 2 insurance group, Assurance du Groupe de Paris (AGP) as a result of which La Paternelle itself almost fell under the control of the Banque de Suez & L'Union Financière & Minière.
Of the 26%, 15% was acquired by a transfer from certain Paternelle subsidiaries directly part of AGP to other Paternelle subsidiaries outside the affair, and 11%, from the Belgian Baron Empain, who thus ceded all interest in the Banque de l'Indochine.
Informed opinion reckons that Suez may now be tempted to make a straight takeover bid for La Paternelle.

Britain's Jessel Securities is divesting itself of U.K. shares valued at around £3 million in order to release funds for investment in Europe. Jessel gave no details of immediate plans but conceded that the company is "particularly interested" in the French and Dutch stock markets.

The upcoming flotation of Rolls-Royce Motors, the largest (£25 million) of its kind since 1945, will be handled by N.M. Rothschild and Sons. The flotation was originally scheduled for the June-September period, but the signs are that it will be delayed to allow for a reevaluation of the tax position of the new company. It has been proposed that shareholders of the former Rolls-Royce company be given preferential treatment in the allocation of shares in the new one, but this has not as yet been officially approved.

Common Market Reports

EUROMARKET NEWS

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ges in Swiss Company Law Suggested: A Swiss working group of experts has suggested to the federal government many changes and innovations in corporate rules. Among the changes are stricter regulations on the make-up of balance sheets and annual reports and their checking by independent auditors. Innovations would include new rules on authorized capital and conditional capital as well as the introduction of non-voting shares.

Some of the suggestions closely follow the legislative lines or intentions of most Western European countries - namely, more and better information for shareholders and the public. This is particularly true for the content and arrangement of annual financial statements. The experts feel that present rules are insufficient in allowing financial statements to misrepresent a company's strength and profit-making capacity. One example in point: the allocation of secret reserves. Recurring abuses of this management privilege, it is felt, call for some safeguards for the benefit of both shareholders and the general public. Management should be allowed to allocate secret reserves, but only through depreciation and not through other practices such as not activating expenditures ordinarily subject to disclosure in the balance sheet.

Directly related to this area is another suggestion dealing with the audit of annual financial statements. Auditing by laymen should no longer be possible, and the auditors of companies with annual sales exceeding SF 10 million or with a balance-sheet total of at least SF 5 million would have to be independent individuals or entities. Thus, a manager of a parent company could not be appointed auditor of a subsidiary.

Leaving an increase in the stated capital to the shareholders alone might prove cumbersome in practice, particularly if quick action is needed in order to take advantage of a situation that favors such a move. Flexible rules are needed, the experts say, and this could be done by making provisions for authorized capital. Management

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would have the right to increase the stated capital up to a specific ceiling previously approved by the shareholders' meeting.
Still another innovation would be new rules on conditional capital, allowing stock corporations to issue shares to holders of convertible bonds as well as to employees. Swiss law does not provide for non-voting stock. But if the recommendations are put into statutory form, rules would allow for this type of share, with the normal limitations: holders of non-voting shares themselves could not become officers nor could they delegate a man of their choice for management. The number of non-voting shares should never exceed that of ordinary shares. This restriction would prevent abuses without excessively limiting freedom of action.

U.S. Anti-Dumping Policy Protested: The U.K. government has made a formal complaint to the Nixon Administration, asserting that some aspects of the United States' anti-dumping regulations are inequitable to foreign exporters. The protest also includes a request that the U.S. Treasury bring its practice into line with the General Agreement on Tariffs and Trade Code. A similar complaint was registered earlier this month by the Common Market Commission, which said that certain procedures adopted in recent investigations under U.S. law give rise to concern that the application of some U.S. regulations and practice departs from the (GATT) principles internationally agreed upon. The British objection alleges that the U.S. has not followed correct procedures for the determination of injury to domestic industry. Washington announced on June 13 that it would impose anti-dumping duties on imports of large power transformers from France, Italy, Japan, Switzerland, and the United Kingdom. The British firms involved are Hawker Siddeley, Ferranti, and GEC. The U.S. Tariff Commission claims that Westinghouse and General Electric are being injured by these imports which "are being sold at less than fair value under the Anti-Dumping Act of 1921."

More Price Restraints Lifted: As proposed in April, the French government as of June 15 has exempted from its price control program a number of industries subjected to harsh international competition. The step affects 54 industrial sub-sectors — mainly in mechanical engineering, synthetic-fiber textiles, organic chemicals, electronics, and electrical engineering — which are now free to determine price increases of their own accord. To qualify for the privilege, however, companies must export at least 25% of their output, while at least 25% of their domestic markets must be taken up by foreign imports. This means, in effect, that about two-thirds of the capital goods industries are "freed" but virtually none of the consumer goods industries. The French authorities are confident, however, that the competitive conditions in which the 54 sub-sectors operate will keep over-all price inflation down to manageable levels.
Other sectors free of price restraint since April are "luxury" goods subject to the maximum 33.3% added-value tax and products of companies employing less than 20 people. Of the remaining industry sectors, still subject to control, more than two-thirds have fixed annual price contracts with the government, and the rest have chosen to submit individual price boosts for official approval.

Resistance to U.K. Industry Bill: Opposition to the U.K. government's Industry Bill is growing. The particular section of the bill challenged from within both the Conservative and Labour parties, as well as by the Confederation of British Industry, is Clause Eight. It allows the Secretary for Trade and Industry to give financial aid in virtually any form he chooses and to any area of the country up to a total of £550 million. The CBI has described the secretary's right to make the total sum available (via share acquisition, granting of loans, and issuing of guarantees against any contingency) "pernicious" and claimed that this gave the government "a degree of political patronage undreamed of since the Reform Bill of 1832." These objections have particular relevance for the U.K.'s shipbuilding industry, since many observers feel that state aid now is being granted in undisclosed sums. This could set a precedent for aid to other lame-duck industries and will certainly cause a problem when Britain enters the EEC.

New Budget Fails to Stimulate Investments: The last U.K. Budget, specifically designed to expand the British economy and to bring on an increase in investment, is rapidly emerging as a disappointment to the government and to the Exchequer. A government survey reveals that 47% of British manufacturing firms have revised their investment plans for this year and next downward and only 26% of firms now are planning to invest more than they scheduled at the close of 1971. Dept. of Trade and Industry spokesmen insist, however, that no consistent trend has emerged as yet and stress the fact that a slight capital spending improvement has been registered among the U.K.'s 200 largest firms. Many U.K. manufacturers blame the reticence to expand investment on the government's Finance Bill or, more exactly, on the government's refusal to amend it. Companies have been obliged in many cases to defer investment until after April 1973 because, with corporation tax at 40%, tax relief on this year's profits from investment also will be 40%. Under the proposed changes in corporation tax, however, the rate of tax is likely to be 50% by the time those profits are earned. The Treasury has shown no inclination to take measures to ease these transitional problems.

Trade Descriptions Bill Passed: An amendment to the U.K. Trade Descriptions Bill to the effect that imported goods bearing a British name or mark must carry an indication of their country of origin has been passed in the U.K.'s House of Lords. The bill was passed against government advice. The Lords amendment restored the bill to its original intention: during the report stage, the bill had in fact been amended to provide that goods having a mark that could be interpreted as a U.K. mark or name must bear the indication of the country of origin or the word "imported."

Bonn to Combat White-Collar Crime: West Germany's Minister of Justice has convened a commission of experts and given it the difficult job of drafting legislation that would reverse the sharp climb in white-collar crime in Germany. The state governments, which are claiming some success in this area, have sent some of their best attorneys to Bonn to give a hand and advise in drafting new laws.

About 30,000 white-collar crimes are committed in Germany annually, and the damage suffered by individuals, companies, and the government amounts to up to DM 20 billion ($6.3 billion), which roughly equals the defense budget. The new law would aim to curb such fraudulent practices as overpricing, deceptive merchandising, establishing fictitious companies, falsifying balance sheets, claiming unearned export rebates, selling nonexistent real estate, etc. Insurance swindles and tax evasion also belong in this category.

The Common Market, with its intricate levy and drawback system, has presented the culprits with more opportunities. For example, if a falsified certificate of origin states that the product originated in the Netherlands when it actually came from a third country, say

Brazil, the "importer" does not have to pay the levy actually applicable to third-country goods.
No one in Bonn expects fast work by the commission. Its most challenging task: to draft provisions that are comprehensive and more innovative than the crimes, and that would give prosecutors the statutory tools necessary to bring charges and obtain convictions. But legislation alone will not do the job. Experts feel that more and better-trained people are needed – both before the bench as prosecutors and behind it as judges. Presently a hundred federal and state attorneys are taking classes in accounting and mathematics.

AROUND THE MARKETPLACE

Tug of War Over Color TV: Italy's crisis-ridden electronics and home entertainment industry has been desperately pressuring the government to decide about choosing one of Europe's two rival color television systems – Germany's PAL or France's SECAM. Such a decision, observers in Rome predict, should be forthcoming before the start of the summer vacation season – provided current attempts to install a new government are successful by then. The odds definitely favor the German system, since Italian TV manufacturers already are producing PAL sets under license and shipped nearly 34,000 of them abroad last year. Some 10,000 PAL color sets also are said to be operating in North Italian homes, where programs originating in Switzerland, Austria, and Yugoslavia can be received.
The French – who exported only 1,583 (!) color sets in 1971 – have been trying to convince the Italians that the adoption of SECAM will open profitable markets in the Mediterranean and overseas. They point to the examples of Tunisia, Egypt, and Lebanon, which opted for SECAM late last year. But the Germans, whose system has been selected by most of Western Europe, also won new foreign markets recently when Australia, South Africa, and Brazil gave PAL the green light.
Another country where the color television dispute has yet to be settled is Spain, where political considerations too are playing a major role. It has been reported, but not officially confirmed, that the Spanish network has been quietly programmed for PAL. Meanwhile, however, the French are said to be exerting massive pressure on Madrid in an attempt to reverse this provisional decision. And they wield a powerful weapon with the warning that Spain depends on France's support in the upcoming trade negotiations with the EEC.

Finns Fear Delivery Problems: The Finnish Association of Paper Mills is claiming that Finland is about to lose its reputation as a reliable supplier of newsprint. Several foreign newspaper clients, including France's "Le Figaro," have expressed their concern over disturbances in deliveries and have threatened to purchase their newsprint elsewhere. Though the Finns expect to increase their paper exports to the United States this year, they are nevertheless concerned about strikes and other technical problems.

EURO COMPANY SCENE

Toyota and Nissan-Datsun, the Japanese automobile manufacturing giants, have opted for Ireland as a European base. Toyota will start production in Dublin before the end of the year and Nissan is soon expected to announce plans for a link-up with a local firm in the same city. The Irish Industrial Development Authority, which acts on behalf of the Irish government to attract new industry to the country, played an important role in the project. The agency plans to open a representative office in Tokyo some time later this year to cope with the many inquiries from Japanese firms anxious to avail themselves of Ireland's upcoming EEC entry and of the country's various concessions to overseas companies willing to set up manufacturing operations. However, the recent Anglo-Japanese agreement calling for "more orderly marketing arrangements" in Japan's sales drive in Britain and EEC apprehension about Japan's exporters may well restrict the companies' activities for a time. The IDA is obliged to keep a balance between national interests and its responsibility as an EEC member state, and Ireland must be careful not to offer its services as a supply base for European markets already troubled by an overabundance of Japanese goods.

Italy's Innocenti and the government of India have concluded a deal to transfer a Lambretta motor scooter plant to India. The facilities and machinery, with an annual capacity of 100,000 units, will cost India $1.85 million. Know-how and trademark rights are included in the agreement. The Indian government will hold 51% of the company formed to operate the plant; Automobiles of India, 29%, and Innocenti, 20%.

Germany's Kali-Chemie AG and Engelhard Minerals & Chemicals Corp., of Newark, N.J., will found a joint European subsidiary to supply catalysts for purification of automobile exhaust. The partners estimate European automakers will be exporting some 1 million vehicles annually to the United States by 1975. Products of their new company, accordingly, will conform to strictest American clean-air standards. Engelhard also will sell Kali know-how and technology in the United States and Japan. Both firms already cooperate in a joint German venture, Kali-Chemie Engelhard Katalysatoren GmbH, which manufactures precious metal catalysts for the mineral oil and petrochemical industries. Kali-Chemie, in which Belgium's Solvay & Cie SA holds a majority, has an annual turnover of about DM 600 million ($188 million).

Germany's Veba-Chemie AG and the Italian state-owned ENI group have agreed to cooperate in the petroleum sector. ENI subsidiary ANIC (70%) and Veba are to take "joint initiatives" in refining and petrochemicals. A first step will be the German company's acquisition of half of the DM 82.5 million ($25.78 million) share capital of ENI's refinery at Ingolstadt, Bavaria. Annual throughput of the refinery is to be doubled from three to six million tons by 1974, at an estimated cost of about DM 130 million. Veba's decision to collaborate with the Italian group reportedly was influenced by the fact that ENI has the best transport connections with Germany; it controls the Central European Pipeline and holds 10% of the Transalpine pipeline (TAL), in which Veba-Chemie also holds 3%.

Ecological considerations have led to rejection of Deutsche Shell AG's bid to construct a large refinery at Worms, Germany, along the Rhine River. Citizen protest and expert testimony on possible water pollution forced city and Rhineland-Palatinate state officials to change their minds after initial overtures to the Royal Dutch/Shell subsidiary.

Montedison SpA, Italy's largest chemical group, has presented the Italian government, the Central Bank, and state-held IRI and ENI with a memorandum demanding immediate financial assistance of up to several billion lire to rescue the foundering enterprise. Montedison president Eugenio Cefis is said to have proposed a five-point program suggesting creation of a new, half state-owned corporation for base chemicals, in which ENI would have a stake; takeover of all Montedison's money-losing plants and subsidiaries by GEPI, the state's industrial financing agency; passage of a special bill to procure state credits for the chemical sector; a low-interest loan of some 50 billion lire for Montedison's chemical fiber offshoot, Montedison Fibre, and a loan of 170 billion lire to shore up Snia Viscosa, the man-made fiber company in which Montedison holds a 33.4% interest. ENI, for its part, recently recommended creation of a joint pharmaceutical holding with Montedison to take over the latter's subsidiaries in this sector, Carlo Erba and Farmitalia. Another possibility is a link-up of Montedison textile activities with ENI's Lanerossi group.

Germany's Hapag-Lloyd AG, passenger and freight shipping line, is said to be considering establishment of its own charter airline division. The company reportedly plans to purchase five Boeing 727 jets for service in summer 1973. Operating a network of travel bureaus and holding a stake in Touristik Union International (TUI), Germany's largest tour booking group, Hapag-Lloyd would embark on the air charter business from an unusually strong starting position.

Kabel- und Metallwerke Gutehoffnungshütte AG (Kabelmetal), of Germany's Gutehoffnungshütte metals group, has combined with Phelps Dodge Communications Co., subsidiary of Phelps Dodge Industries Inc., New York, to found Cablewave Systems Inc. in North Haven, Conn. The joint venture will produce coaxial cable, wave guides, fittings, plugs, and transmitting systems for the high-frequency communications industry. Investments for Cablewave's new plant, to be operational in October, reportedly total $4-5 million.

After a two-year cooperation in the development of electronic telecommunications systems, Sweden's L.M. Ericsson and the French Compagnie Générale d'Electricité (CGE), are to form a joint subsidiary, SLE-Citerel. CGE will hold 67% of the new company's FF 5-million capital.
SLE-Citerel will carry out the R&D previously handled jointly by the French telephone subsidiaries of the two groups. It will also process all public orders won by them up to 1980 as well as service the export markets.
Both parent groups insist, however, that there are no merger plans for them and that they will continue to compete against each other abroad.

Negotiations presently under way will result in creation of a new company which would rank third on the French computer services market. The computer division of the management consulting group Cégos and SLIGA, the software subsidiary of Crédit Lyonnais, will form a joint subsidiary with an expected turnover of FF 45 million ($9 million). SLIGA and Cégos already work together in Cégos-Tymshare, in which the American Tymshare, Inc., also has a 20% interest. France's leading computer services companies are SEMA-Paribas (Banque de Paris & des Pays-Bas) and Générale de Service Informatique, owned by CGE and two banks, Société Générale and Crédit Commercial de France.

Pepsico Inc., New York, has contracted with Transacta, a Czech foreign trade agency, and Slovlik, state-owned producer of foods and beverages, for the introduction of Pepsi-Cola in Czechoslovakia next year. In Eastern Europe, the soft drink is already being marketed in Hungary, Poland, Rumania, and Yugoslavia. Pepsico Inc. currently maintains some 1,150 bottling plants in 128 countries.

Two European food producers and distributors, Germany's Joh. Jacobs & Co., Bremen, and Douwe Egberts Koninklijke Tabaksfabriek - Koffiebranderijen - Teehandel NV, of Utrecht, the Netherlands, plan to merge at the end of the year.

Matthews Wrightson and Mercury Insurance have finally agreed on merger terms that value the deal at around £40 million ($104 million). The move represents the biggest shake-up in the U.K. insurance industry in recent years and brings together two firms whose combined profits exceed £4 million annually.

Bowmaker, the U.K. finance house, has introduced an automobile leasing scheme in Great Britain that promises to halve the cost of traditional leasing methods. The Bowmaker system calls for a monthly installment of 1/24th of the expected depreciation of an automobile over a two-year leasing period. The customer negotiates the depreciation directly with Bowmaker - e.g., £450 over two years for a £1,000 automobile - makes the appropriate installment payments, and sets these against tax. After the two-year lease agreement expires, the automobile is sold by auction. If the price is higher than expected, the customer is paid the "refund" in full - or vice versa. Traditional leasing of a £1,000 automobile costs £47-50, all costs included. The Bowmaker scheme will provide a similar car for approximately £27 per month. Other groups are expected to introduce the same system shortly, but Bowmaker, by being first, believes it has the edge.

Two of France's leading publishing firms, Presses de la Cité and Editions Laffont (46.3% Time-Life), have agreed to coordinate their publishing activities. Last year Presses de la Citê had sales totaling some FF 310 million ($62 million), while Lafont's turnover amounted to FF 160 million.

The Japanese hotel industry hopes to stimulate burgeoning West European tourist interest in its country by strengthening ties with its European counterparts. Tokyo's Imperial Hotel Ltd., which has maintained reciprocal reservation services with Germany's Steigenberger Hotelgesellschaft since 1970, now has signed an agreement with the Hotel Meridien in Paris, a subsidiary of Air France. Two other Japanese hotel groups, Hotel New Osaka Ltd. and Hotel New Otani Co., are cooperating with the U.K.'s Grand Metropolitan Hotels, with which they plan to open joint offices in London and Paris. Prince Hotel Ltd., affiliated with Japan's Seibu industrial group, hopes to attract Continental business through the Paris buying facilities of Seibu Department Store Ltd.

As part of its plans to remain independent, U.K. brewer Watney Mann has linked with the American Marriott Corp. to build a 400-room, £6-million hotel in Amsterdam. Although there is no direct connection between the Dutch venture and the Grand Metropolitan bid for Watney, moves such as this and the recent takeovers of International Distillers, Samuel Webster, and Scotch Inventories have strengthened Watney's defense and enhanced its investment image.

Ramada World Wide, Inc., Brussels, subsidiary of the Ramada hotel group, Phoenix, Ariz., announced it will complete a new 200-room hotel in Düsseldorf, Germany, by 1974. Ramada currently is building hotels in Brussels, Liège, and Ludwigshafen and soon will begin one in Leverkusen, with others planned for Essen and some 10 additional German cities. The group also has projects in the U.K., Scandinavia, France, Italy, Austria, Spain, and Switzerland. Ramada Inns Inc.

owns 80% of the Brussels company; the rest is held by First National City Overseas Investment Corp. (First National City Bank of New York). Unlike in the United States, where most Ramada hotels are operated by franchisers, the group will manage its own hotels in Europe.

Hilton International has set 1974/75 for its first foray into East Bloc operations, with the opening of a hotel in Budapest. After a decade of negotiations with the Soviet Union, the hotel group sees new hope for entry there, too. Chief stumbling block to expansion into Eastern European countries, according to the company, has been Hilton's insistence on running its own hotels, rather than handing over management to local franchisers. By next year the firm will have opened hotels in Amsterdam, London-Kensington (Hilton's second in the U.K. capital), and Stratford-on-Avon. A 650-room luxury hotel in Vienna plus establishments in Basel, Lisbon, Barcelona, Florence, and possibly Innsbruck are scheduled for completion by 1975. Hilton International anticipates a sales volume of some $249 million for 1972, with European business accounting for about one-third of that amount.

Germany's Jos. Schneider & Co., Europe's largest independent manufacturer of high-quality photographic and projection lenses, has established a fully-owned subsidiary in New York, the Schneider Corp. of America (SCA). The new company will take over all of Schneider's export interests in the United States, the second-largest export market after Japan. However, Schneider's U.S. representative of more than 50 years, Burleigh Brooks Optics, Inc., will continue to serve photo retailers directly. The German company ships more than 50% of its production abroad.

CLOSING OFF

British definition of a European: a man who persists in driving on the wrong side of the road.

COMMERCE, CLEARING, HOUSE, INC.