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Community: Storm Warnings over Development Fund

If the contrasting views emerging from the national capitals are any indication, the going will be rough later this year when the Council of Ministers discusses the European Commission's proposals for setting up a Regional Development Fund *(Common Market Reports, Pars. 153 and 5326.01)*. A storm is likely to develop not so much over the objectives of the Fund (to overcome differences between the EC's rich and poor regions) as over the financial aspects and political implications and expectations.

The Commission proposal, providing for some $3 billion for regional development for the 1974-76 period, is based on Treaty Article 235 and is in line with last year's Paris Summit agreements, which activated the pertinent EC Treaty provisions. It is clear that the United Kingdom, Ireland, and Italy would be the main beneficiaries, although affluent Germany, too, has its regional development problems, particularly in the areas along its eastern border. Aid would be given both in the form of grants to industry providing new jobs in poor areas and as interest rebates on bank loans, including those extended by the European Investment Bank. A business could obtain grants of up to 15% of the project's total cost. Local governments improving the infrastructure - for example, by building roads and bridges - could be eligible for grants of up to 30% of the cost. Priority would be given to areas where farming is declining, where unemployment is high, where industry has been lagging, or where an industrial monostructure prevails.

Germany, again expected to shoulder most of the financial burden, will do so only if the U.K. and Italy show more Community discipline and join block floating of the other EC cur-

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Development Fund *(contd.)*

rencies. To do this, London and Rome argue, they must have substantial infusions from the Fund. In addition, the British government expects to get back some of the money it has been contributing to the Agricultural Fund. Germany and Belgium would like to see several hundred million units of account diverted from the Agricultural Fund (for 1973: around 4.2 billion units of account, i.e., pre-Smithsonian dollars) to be used as financial stock for the Regional Development Fund. This is the last thing the French and Dutch want to see happen since they have been the principal beneficiaries of the Agricultural Fund. French government officials have already said that the proposed capital volume of the Regional Development Fund is too large to begin with.

Aside from these political problems, difficulties are also expected from the Commission concept of tapping the Community's own financial resources to meet the Fund's future expenditures. The revenue would come from agricultural levies and customs duties as well as a share of the Nine's VAT revenue. Several member state governments have said that this concept could be discussed only in connection with cutbacks in other sectors.

Britain: Multinationals Have 'No Adverse Effect' on U.K.

A report prepared by the U.K.'s Dept. of Trade and Industry (the Steuer Report) on the state of foreign investment in the U.K. contains passages that are tantamount to exoneration of the often-maligned multinational corporations. The report has been given further dimension inasmuch as it was completed at virtually the same time as the one issued by the United Nations' Dept. of Economic and Social Affairs and is oddly at variance with the latter. The U.K. report is characterized by a lenient attitude toward multinationals - an obvious reason for the disparity being, of course, that the U.N. study reflects a concern for third-world countries and adopts a global approach.

From a purely British point of view, the Steuer Report concludes that there is little evidence that the activities of multinationals have had an adverse effect on the U.K.'s balance of payments, e.g., from the remission of profits from subsidiaries to their parents abroad. Instead, says the report, the balance of payments may even benefit by as much as 10% as a result of multinationals' output. Moreover, the argument that the U.K. may be suffering from a foreign takeover of its technology and may be losing its "technological independence" is rejected as "romantic nonsense."

On the industrial relations front, it emerges that foreign companies seem to have a better strike record than domestic companies - even allowing for the present problems at Chrysler U.K. *(see EURO COMPANY SCENE)*. Foreign companies may even have contributed to an over-all improvement in labor relations generally by their greater emphasis on flexibility and production agreements. The disadvantages of a foreign company's acquiring a strong or even semi-monopolistic hold on a particular sector may, according to the report, be outweighed by benefits to the U.K. of higher taxes and wages. Foreign firms have done much to generate employment in certain key areas in Britain - this again is beneficial to the economy as a whole, although the report adds a caveat to the effect that there have been "disruptive social effects." In all, the report concludes, to date there seems to have been little indication of any loss of national autonomy.

(By contrast, the U.N. study finds that the multinationa

Multinationals *(contd.)*

are often strong enough to challenge the "national sovereignty" of their host countries. It makes a strong plea for the establishment of international ground rules to govern the activities and curb the influence of these companies.)

Price Commission Forced to Deal with Defaulters

The U.K.'s Price Commission has conceded that some of Britain's largest companies have not met the official deadline (Aug. 11) for the submission of performance reports in the first weeks of the government's Phase Two Counter-Inflation Policy *(Doing Business in Europe, Par. 30,644)*. The Commission also has confirmed that "it will take some time to mop up defaulters," since it was not quite certain how many companies were actually involved. A provisional estimate put the figure between 1,500 and 2,000 - a high one considering that this represents companies in the so-called Category Two as defined in the Phase Two White Paper. For manufacturing industries, this category includes companies with an annual turnover of between £5 million and £50 million.

Spokesmen for the Commission indicated that companies that had failed to submit the necessary reports would be told that, if it was determined that cancellation of price rises was necessary in view of excessive profits, the reductions would be greater and "more publicized" the longer they were delayed.

Problems will exist not only for defaulting companies, however, but also for the Commission: the success or failure (or degrees of either) of the Phase Two policies will be gauged by reference to the Commission's report to the government and, if the statistical input is inadequate, there is bound to be some guesswork involved. This is regarded as a less than satisfying situation considering that the details of Phase Three - provisionally scheduled for announcement within a few weeks - will be established at least in part on the basis of Price Commission and Pay Board findings.

Germany: More Powers Sought for Bundesbank

The Bundesbank's main role of regulating the supply of money and credit may be strengthened considerably by the German government's legislative plans to give the Central Bank new and sharpened instruments for curbing the credit volume created by commercial banks. The Bundesbank would also lose some of its independence, however, because it could not use those instruments without the government's consent. The primary objective of these proposed measures is to reduce the over-all money supply and thus throttle yet another source of inflation.

New would be the Central Bank's power to ask commercial banks and other financial institutions (for example, the building and loan associations) to deposit minimum reserves of up to 100% on growth volume in lending. Presently, reserve requirements have applied only to their borrowing activities. Small banks and some other institutions would be entirely exempt or subject to fewer restrictions. Foreign bank branches, however, would come under the full scope of the proposed rules.

Instead of or in addition to decreeing variable minimum reserve requirements, the Bundesbank would be authorized for the first time ever to place a ceiling on domestic credit expansion, although powers to impose 100% reserve requirements on granting new credit would accomplish pretty much the same thing. No percentages for this are provided in the still unpublished bill,

Bundesbank
(contd.)

but the Bundesbank is reported to favor a ceiling of near 10%. (Domestic credit volume expanded by some 20% during the first half of 1973.)

In addition, the Bundesbank would be able to influence bank liquidity by becoming more active in its own right. It would have substantially more funds and securities provided by the federal government to buy and sell fixed-interest bonds and treasury bills.

Although hearings on the bill are not scheduled before mid-September, the banking community already has made its position clear. It particularly objects to the Bundesbank's proposed power to limit credit expansion. Since Bonn's consent would be required for the imposition of reserve requirements on credit growth as well as a ceiling on credit expansion, it is argued that the Bundesbank would lose the relative independence it enjoys under the present system which has brought it occasionally into direct conflict with the government. Bankers also say that credit limitations would not work because the banks could still lawfully escape control.

The government proposal is expected to be a sensitive issue in the upcoming discussions between the ruling coalition parties, the Social Democrats and Free Democrats, prior to the hearings. Economics Minister Friderichs, a Free Democrat, perhaps spoke for a large segment of his party when he objected to strengthening the Finance Ministry's control over Bundesbank policies. That ministry, of course, is headed by a Social Democrat, Helmut Schmidt.

Italy:
Speeding Up
Labor Disputes

A new Italian law will go a long way toward expediting employment disputes that wind up in the courts, although it is not expected to reduce the number of such cases (about 100,000 in 1972 - a record for Europe). At present, it sometimes takes several years to settle a legal dispute over dismissal or higher pay. But under the new law, which has been passed but not yet signed, any court proceeding involving employer and employee could not exceed seven months.

Although the law does not establish a new labor court system, it nevertheless separates employment disputes from civil cases and gives the individual judge additional powers to speed up proceedings and execution of judgments. Parliament also voted the funds needed to appoint additional judges and to hire more clerical staff.

Original jurisdiction would remain with the local judge, who would not always have to hear the parties' arguments but instead could accept their testimony submitted in writing or could utilize tape recordings made by the arbitrator. Employees earning less than 2.5 million lire per year would be entitled to defense counsel appointed by the court. If he won his case, the employee would be entitled to the amount awarded plus 10% to make up for inflation loss.

An important innovation would free the employee from paying court costs, regardless of whether he won or lost. But this would not apply to the employer. Also important, though not new in principle, would be the provision authorizing the judge to declare any judgment subject to immediate execution. Thus, a pending appeal would normally not suspend execution, except where the employer would be liable to incur unreasonably high damage. This pr-

Labor Cases *(contd.)*

sion is patterned after the 1970 Labor Code Amendment, which empowers the judge to order reinstatement of an employee dismissed by an employer for unjustified reasons.

Belgium: Taxes, Budget, Price Controls

The Belgian cabinet has decided to drop earlier plans to increase individual income taxes for the top brackets and to impose a road toll tax. (This decision, however, is unrelated to the increase in corporate income tax rates passed earlier this year - *Doing Business in Europe, Par. 30,645.)* The cabinet also voted to boost excise taxes on cigarettes and beer (which the government was committed to do anyway by a Benelux harmonization agreement) as well as adopt certain changes to the added-value tax, i.e., defer by a year the refunding of the tax balance on inventory on hand at the time of TVA introduction and to maintain in 1974 the 1973 limitation on the TVA tax credit on investment. These cabinet proposals are still to be formulated in draft legislation and to be submitted for parliamentary approval following the summer recess.

In related news, the government - after intensive haggling among the coalition partners - has managed to trim some BF 12.5 billion from its original 1974 budget proposals. The regular budget is now essentially balanced at BF 472.7 billion, which would represent an 11.5% rise in public expenditure over expected 1973 outlays.

Furthermore, a new governmental decree will serve to broaden the powers of the Economics Ministry in the area of price controls, particularly as regards service businesses such as hotels and restaurants, parking garages, laundries and dry cleaners, automobile repair shops, etc. Previously, service businesses with annual turnover of BF 5 million and less were entirely exempt from the obligation to register price increases in advance. The new decree removes this basic privilege and empowers the Economics Ministry to object to price increases within three months after being notified.

Netherlands: Car Owners Face Stiff 'Disposal Tax'

As a result of the government's plan to keep the country's automobile traffic within manageable limits, Dutch car owners in future will have to pay a lot more for their registration documents whether they are acquiring new or used automobiles. The fee will vary between 150 and 200 guilders. When the car is transferred to a new owner, the former owner will be reimbursed. But the holder can reclaim the fee from the state only when he relinquishes the registration papers and turns in the car for disposal. The proposed measure, submitted to the Transport Ministry by the cabinet for a final draft, is officially designed to keep the Dutch countryside from being dotted with abandoned and wrecked cars. Just as important, though, is the extra revenue of between 50 and 100 million guilders which the Treasury needs to finance communal projects. However, there is much skepticism whether this amount will actually materialize in view of the high administrative costs to be incurred in collecting the tax.

The government's plans to brake automobile traffic also include a proposal to reduce the rate of tax deductions now applying to the purchase of an automobile. Furthermore, the price of gasoline is to be increased by 0.045 guilders per liter. That proposal, however, was defeated in Parliament at the end of June, and

Disposal Tax *(contd.)*

observers in The Hague are predicting another government crisis should the new legislation be turned down again.

Denmark: Green Light for Stock Corporation Act

Denmark's new Stock Corporation Act, which has been in preparation for several years, will take effect on Jan. 1, 1974, since the Folketing (Parliament) has now approved the draft law submitted by the Ministry of Commerce. Implementing regulations probably will be published this fall. The new legislation governing stock corporations contains two essential points:

- In future, the supervisory boards of all stock corporations with more than 50 employees will also have to include employee representatives.
- The required capital base will be increased from 10,000 to 100,000 kroner. However, a three-year transitional period will be allowed.

In addition, the Act contains a number of regulations severely limiting share speculation directed at domestic companies. For this purpose, it will be permissible for corporations to purchase their own shares if they find themselves a target of speculation. This particular regulation was included primarily in view of the planned liberalization of capital transactions within the European Community.

Sweden: Tax Reductions - Too Little, Too Late?

Worried by polls showing that its popularity has reached an extreme low, Sweden's Social Democratic government has submitted proposals to reduce the income tax burden on medium-income gro[illegible] Just one month prior to the general elections on Sept. 16, Prime Minister Olaf Palme and Finance Minister Gunnar Sträng said that these plans call for those with annual incomes of 35,000 kronor or more to pay up to 1,500 kronor less in taxes (a reduction of 4-11%, depending on income). The tax cut, totaling some 4 billion kronor, would be made possible by eliminating old-age pension contributions now paid by these taxpayers. The contributions would have to be taken over by the employers on top of their existing social insurance obligations.

The government is proposing that these higher wage costs should be taken into account when new contract negotiations commence in November, with the unions expected to scale down their demands. However, it is clear that even moderate wage boosts would elevate employees into income brackets where the stiff tax progression would soon eat up intended gains. Still, the Stockholm government is resisting demands by the opposition parties and some labor groups to ease the tax progression in order to offset the relative loss of purchasing power accompanying nominal wage increases. Specifically, these groups are pressing for a reduction of the standard tax rate which automatically skims 60% and more off any wage gain.

Even within the Social Democratic party opinions are split whether the Palme-Sträng proposals, coming only four weeks prior to the Riksdag elections, will avoid defeat for the government. The latest opinion polls show that the administration's popularity has now slipped below that of the three non-socialist opposition parties and that, consequently, 40 years of uninterrupted Social Democrat rule might well end on Sept. 16. Disillusionment has many causes but is fed mainly by high unemployment and the fact that the price freeze on staple foods decreed for the electio[illegible]

Swedish Tax Cuts *(contd.)*

year has failed to keep consumer prices from rising by 6.9% during the last 12 months.

EURO COMPANY SCENE

Volkswagen/ Volume Export & Trading Corp.

Rumors that Volkswagenwerk AG may choose Kansas City, Mo., as the site for a U.S. production base have been scotched by spokesmen for the German company, who said that management will submit cost comparison data for a possible American manufacturing plant to the supervisory board, but not before October. Other reliable sources are now speculating that VW will drop these U.S. plans entirely because certain government agencies in Washington are taking an "unfriendly" position and because of high labor costs.

In related news, Volkswagen has announced establishment of the Volume Export & Trading Corp. in Englewood Cliffs, N.J., also the seat of Volkswagen of America, Inc. With an initial capital base of $150,000, Volume Export is to "intensify" worldwide VW distribution of spare parts and equipment and will closely cooperate with sister companies to be founded in Mexico and Brazil.

Alfa Romeo/ CIPE

Trouble is brewing between Alfa Romeo, a member of Italy's state-controlled IRI group, and CIPE, the government's economic planning committee, now that CIPE has vetoed the company's proposed expansion of its main plant near Milan. Permission was denied in accordance with Italy's economic planning regulation No. 853, which gives the government power to block large plant construction projects in areas already industrially congested or having an inadequate labor supply, both of which hold true for Milan. Approval of the Alfa Romeo expansion would mean the hiring of some 11,000 new workers and doubling plant capacity to almost 1 million vehicles yearly.

In response to CIPE and to government officials who have been pressing for preferential investments in the underdeveloped South, Alfa Romeo chief Giuseppe Luraghi countered that his company had already made a major contribution to the industrialization of southern Italy with construction of its new Alfa Sud plant at Naples and transfer of other production from Milan and that rejection of the proposals would jeopardize survival of the entire Alfa Romeo group. CIPE, which controls the authorization of funds and other investment incentives for industrial projects in the South, is expected to reconsider the case in December.

Chrysler U.K.

Further strikes at plants throughout the country have brought automobile production at Chrysler U.K. to a standstill. Chrysler's losses since the beginning of the year have now reached about £20 million. The most recent stoppages have caused the layoff of 8,500 employees and cost around £4 million. Not surprisingly, it has been reported that the Detroit parent company is unhappy about the situation, and there has been renewed speculation that the threat issued in February that the company might cease all further investment in the U.K. if the industrial relations climate did not improve dramatically might now become a reality. Initial rumors at Chrysler U.K. indicated that the company might attempt to break the deadlock by acceding to the workers' demands in full, in the knowledge, however, that the Pay Board and the Price Commission would impose a restraining order. Such an exercise would not be as pointless as it sounds, since Chrysler could thereby demon-

strate good faith and the labor unions could claim a political, if somewhat hollow victory.

Mannesmann-Röhrenwerke

Mannesmann-Röhrenwerke AG, Düsseldorf, and two of its executives won their fight before the German Supreme Court against a Federal Cartel Office ruling imposing fines totaling DM 130,000. The fines were levied in 1971 for alleged participation in an international steel pipe export cartel that did not have any bearing on the German market. After the Berlin Court of Appeals had overturned the ruling on grounds that the contract had not become final (the negotiations were still going on at the time of the Cartel Office action) and that cartels confined to exports in foreign markets are not covered by the Cartel Law, the Supreme Court upheld the appellate court decision on the second ground. The implication of the high court judgment is that, in future, parties to cartels of this type need not register their agreements with the Cartel Office and, as a consequence, that office no longer has the power to check whether these agreements entail abusive practices.

Genesco Europe

Genesco Inc., Nashville, Tenn., currently making news in connection with labor difficulties at its French luxury-shoe subsidiary, Seducta-Charles Jourdan, is consolidating its entire European operations. Faced with a grim financial picture at home - the company was forced to cancel its July 31 quarterly dividend payments - Genesco has already shut down its holdings Elle SA of France, Nadia SA in Belgium, and Textima SARL of Portugal and has sold its 42% interest in H.&M. Rayne of the U.K. The group also plans to phase out two Dutch subsidiaries, Marlyn Ormcraft and Lastina and is streamlining its three German companies, Charmor, Bohne, and Eterna. Despite its aim to reduce production at Seducta-Charles Jourdan, Genesco reportedly will raise its stake in the French company from 75% to 91%.

Thorn/ Ericsson

Thorn Electrical Industries of Britain is currently negotiating with the Swedish-based multinational electronics concern L.M. Ericsson about a possible pooling of resources in an attack on the U.K. public telephone and exchange equipment market. In order to make any impression in this sector, Thorn must be deemed an "approved supplier" by the country's Post Office. Such approval is based on a number of factors, notably technical quality and competitive pricing policies, but a decisive element is the establishment of a sufficiently large manufacturing facility in the U.K. Accordingly, Thorn has announced that it bought out its U.S. partner, General Telephone & Electronics, thereby dissolving Thorn-General Telephone, and turned its attention to a possible merger with Ericsson's U.K. offshoot, Swedish Ericsson. Ericsson already has a share in the private exchange market in Britain - perhaps as much as 20% - but has indicated its wish to enter the main exchange market. To do so, a British partner and a manufacturing plant in the U.K. are needed. No details of terms have been announced.

Trust Houses Forte/ TraveLodge

The U.K.'s Trust Houses Forte hotel and motel chain has launched a $30-million bid for TraveLodge International, headquartered in El Cajon, Calif., which operates nearly 500 motels and motor hotels in the United States, Canada, and Mexico and ranks among the top five U.S. motel chains. THF already has a minor stake (6%) in TraveLodge Australia and is represented in the United States in the Miami area.

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Community: Coordinating Research Goals of the Nine

The European Commission has recommended setting up a high-level body composed of national and Commission experts for the purpose of gradually aligning research and development efforts. Part of a six-point action program to coordinate member states' scientific and technological policies, the proposal is one of many items on the Council of Ministers' fall agenda. Other points include Community aid to encourage basic research, exchange of scientific and technological information for the benefit of industry as well as public institutions, a European Bureau of Standards, and the commissioning of policy studies labeled "Europe Plus 30 Years."

National R&D policies would be coordinated by a new Scientific and Technical Research Committee composed of government and Commission officials. This committee, patterned after the Monetary Committee, would evaluate national research programs and budgets and would recommend common objectives. It would report to the Commission and Council so that national policies could be coordinated to set priorities and to avoid overlapping of efforts. It would be for the Council of Ministers to set goals in research projects, particularly in energy, social, industrial, and environmental policies and development aid. Brussels also would like to see the national academies and research councils establish a European Scientific Foundation to foster research by sponsoring projects; this institution would receive some financial aid from the Community.

The Commission's own contribution would come from its new Directorate-General for Scientific and Technical Information and Information Management, which would collaborate with

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Research Goals *(contd.)*

national institutions. Industry, government agencies, and non-governmental organizations would be assured easy access to new information. The new Bureau of Standards would act as a joint clearing office for scientific standards and reference material. The Commission feels that the nucleus for such an institution is already present in the European Bureau for Nuclear Measurements, at Geel, Belgium, and the European Reference Bureau, at Ispra, Italy.

Finally, the Commission is proposing a one-year study to determine whether scientific forecasting could provide useful data for the policy-making process and what methods should be used before embarking on the futurology project known as "Europe Plus 30 Years."

EC Comparison: Work Week, Paid Vacation, Legal Holidays

In contrast to the varying income structures still prevailing in the nine countries of the Community, there appears to be only a token difference in the number of hours worked per week. As reported in a recent study by the German economic research institute IDW, the widest discrepancy in the length of contractual work weeks was 2.5 hours in 1972, though the difference in the statutory maximum was as much as eight hours. In virtually all of the countries the contractual work week, as fixed by collective bargaining agreements, was considerably shorter than the legal work week:

1972 Work Week in Hours	*legal*	*contractual*
Belgium	*45*	*41 - 42*
Denmark	-- (1	*41.75* (2
France	*40*	-- (3
Germany	*48*	*40*
Ireland	*48*	*40 - 42*
Italy	*48*	*40 - 42*
Luxembourg	*40/44* (4	*40 - 44*
Netherlands	*48*	*41.25 - 42.5*
United Kingdom	-- (1	*40*

1) No statutory rules.
2) Will be 40 hours within two years.
3) No contractual work week.
4) White-collar/blue-collar employees.

Source: IDW

The institute points out, however, that in all nine countries the actual number of hours worked per week more or less exceeds the contractual work week.

The steady trend toward approximation of the work week in the EC is paralleled by the situation concerning annual leave. Last year the Community average for paid vacations was about three weeks. The contractual leave period, though, exceeded the legal minimum by 2 to 6 days, with the exception of the U.K., where the amount of paid annual leave is solely a matter of contractual agreement:

1972 Paid Annual Leave (Working Days)	*legal*	*contractual*
Belgium	*18*	*20*
Denmark	*18*	*21*
France	*24*	*24*
Germany	*15 - 18*	*17 - 24*
Ireland	*12*	*18*
Italy	*12*	*13 - 18*
Luxembourg	*18 - 24*	*18 - 24*
Netherlands	*15 - 18*	*16 - 20*
United Kingdom	--	*12 - 18*

Source: IDW

The most obvious "disharmony" among the EC countries exists in regard to paid legal holidays, and here the situation is not likely to change appreciably in the near future. Leading all Community member states, Italy boasts no less than 17 legal holidays during the year, followed by Germany (10-13, depending on area), Belgium and Luxembourg (10 each), Denmark (9 1/2), France (8-10), the Netherlands (7), Britain (6-7), and Ireland (6). As the IDW report points out, countries with fewer legal holidays enjoy theoretically a "not inconsiderable" competitive advantage inasmuch as they can produce more goods for the same wage costs.

Germany: Co-determination Concept Taking Shape

Although party spokesmen of Bonn's coalition government have denied such reports, Chancellor Willy Brandt and Foreign Minister Walter Scheel are said to have agreed on a co-determination concept that would give labor more say in management of companies by electing representatives to the supervisory boards *(Doing Business in Europe, Pars. 23,222 and 23,441).* Details would be worked out in official negotiations starting early this month (and perhaps later, once the concept has found its way into a legislative proposal). The mutually acceptable formula is said to lie somewhere between those evolved by the Social Democrats and the Free Democrats at their respective party conventions last year. It provides that the supervisory board of a company with more than 1,500 employees (a change in this figure, up or down, is conceivable) would consist of 12 members - six stockholder and five labor representatives plus one company executive *(leitender Angestellter).* At least three of the five labor representatives would have to be employees but two could be outsiders (i.e., union nominees).

The new model would weight the scales even more in favor of labor, particularly in areas where a supervisory board's statutory powers are of the greatest impact: in decisions involving major investments, important corporate changes such as mergers and takeovers, and appointment and recall of managing board members. These issues require the approval of the supervisory board, but such approval could be blocked by

Co-determination *(contd.)*

the veto of at least four labor representatives. In other words, a one-third minority could effectively defeat a decision which is backed by the overwhelming majority of the board.

Shareholders' representatives would be chosen at the annual meeting. All labor representatives would be elected by the work force as would be the company executive, who would be nominated by the company's executives (other than those on the managing board). The unions would be entitled to nominate two labor candidates for election.

Industry spokesmen have, of course, rejected all co-determination models previously proposed on the grounds that they would drastically encroach on shareholder interests and management's freedom of action. By accepting this newest formula, they charge, the Social Democrats in fact would retreat from their own principle of equal labor and shareholder interests which Chancellor Brandt had advocated in his Jan. 18 policy address. The unions thus would be the real winners should the government seriously intend to push through co-determination legislation based on the compromise model.

Italy: Government Plans Partial Tax Amnesty

In order to work from a clean slate as it introduces a new direct-tax system, the Italian government is planning a partial tax amnesty to settle contested cases now pending. The plans revealed by Finance Minister Emilio Colombo in a newspaper interview call for legislation authorizing tax payments that would constitute a compromise between official assessments and taxpayers' returns. The fiscal authorities would accept these settlements, provided that taxpayers involved in the contested cases pay off their tax debt in short order.

The Finance Minister did not elaborate on the amount of tax revenue the Treasury would expect to forfeit by meeting cooperative taxpayers halfway, but unofficially it has been estimated to be the equivalent of $1.6 billion and possibly more. The number of contested tax proceedings has been put at nearly two million. The speedy settlement of pending cases thus would enable the fiscal authorities to concentrate fully on the implementation of the new tax system and to crack down harder on the widespread evasion of the value-added tax.

Colombo rejected speculation that the government was preparing to introduce a net worth tax and that it already has decided on higher VAT rates. But the Finance Minister did re-emphasize the urgent need to reform the Italian capital market in the interest of domestic industry and investors.

Britain: Study Probes Invisible Earnings

The U.K.'s Committee on Invisible Exports has released a survey which indicates that the value of gross private invisible receipts for 1972 rose by some 6.5% to a total of £5,611 million. Although the net value (after accounting for private invisible payments and miscellaneous government expenditure) represented a drop from £734 million in 1971 to about £710 million last year, receipts from invisibles compare very favorably with Britain's £692-million deficit on visible trade.

Equally encouraging is the committee's prediction that receipts from invisibles will increase by about 10% in 1973.

Invisibles *(contd.)*

Despite such optimism, however, the report concedes that inflation, the uncertainty of present currency exchange rates, and the prospects of tighter international capital controls - via EC bank harmonization proposals, for example - may render such optimism nugatory.

One of the key questions in the survey, the first of its kind to be made public, was how optimistic the 13 sectors polled feel at the moment as regards growth prospects. There were considerable variations, but nine of the 13 were distinctly optimistic, especially oil, shipping, and brokerage. The insurance and merchant banking sectors did not share this feeling: they, together with the transport and tourism sectors, were particularly concerned about currency fluctuations. This is considered a somewhat surprising attitude, since exporters of invisibles generally reap the benefits of sterling devaluation in the form of improved foreign currency earnings. The explanation given in most instances is that monetary instability would give rise to stricter provisions on capital movements and remission of profits. The insurance industry in particular envisaged dimmed prospects, principally because foreign competition is on the increase and foreign legislation is becoming more restrictive.

It was announced that such surveys will be conducted on a regular basis, but the committee will not be publishing results in detail. This is in response to a certain fear in individual sectors that such details would reveal "classified" information.

Belgium: Draft Program to Combat Water Pollution

The Belgian Ministry of Health and Environmental Protection has submitted draft legislation designed to help contain and eventually reduce pollution of the country's rivers and waterways. The legislation would define water quality standards as well as establish criteria for the controlled discharge of effluents. In addition, the ministry's program calls for the establishment of public companies to conduct water treatment and control operations in the Scheldt and Meuse river basins and along the North Sea coast. These institutions would maintain an extensive network of substations, and their inspectors would be authorized to enter industrial premises and facilities to take water samples.

To be prepared to deal with critical situations, the government intends to seek authorization to tighten general standards - for instance, in cases when several enterprises dump effluents of similar composition (thus upsetting a river's biological equilibrium) or when drinking water supplies are threatened.

The program, however, also would set aside state grants for the construction of sewage treatment facilities by enterprises that are not relying on public systems. These subsidies would be available until 1980 and would be provided in a degressive form: for the years 1973 and '74 they could amount to up to 60% of a project's total costs, then shrink by 5% in each of the following years to reach 35% in the years 1979 and '80. The percentage would be based on the year of application, provided an enterprise submits con-

Water Pollution *(contd.)*

struction contract specifications within 360 days after applying for a grant.

According to reports from Brussels, the draft legislation already has been cleared by the European Commission for possible conflicts of interest with the EC's regional aid provisions. However, some reservations over the proposed legislation have been expressed by Belgian business and industry sources which fear that it would impose an undue financial strain on certain enterprises and thus threaten their competitiveness.

Austria: Amendment Act Cuts Number of Cartels

Austria's 1972 Cartel Amendment Act, in effect since Jan. 1, is showing its intended impact: the parties to 20 cartels registered under the 1959 law have failed to gain registration under the new law, among them the subsidiaries of Germany's Opel AG (General Motors) and Volkswagen AG. Registration is a precondition for validity, and thus the parties to 65 cartels have applied to the special court in Vienna to have their agreements transferred to the new register. However, registration is not granted automatically because, upon request by an interested party, the court must verify that the agreement is not contrary to the Austrian-EC Trade Agreement and that it is justified otherwise (for instance, not in conflict with consumer interests).

Article 23 of the Austrian-EC agreement rules out cartels and concerted practices that would impair Austrian-EC trade by preventing, restricting, or distorting competition. The same is true for abuses by market-dominating enterprises in the entire Austrian-EC territory or a substantial part of it. Registration must also be refused when the parties agreed to buy or sell only products under contract, stipulated quotas, fixed prices, or agreed to discriminate against others. Any agreement, decision, or concerted practice still must be justified under overall economic considerations (Section 24 of the Cartel Amendment Act).

It is particularly this last condition that has brought a powerful interested party into action: the Chamber of Labor (*Arbeiterkammer)*. This chamber, of which all wage earners and salaried employees are members, is a semi-governmental body with considerable influence in formulating labor and social legislation, and it has numerous times acted as the interested party, challenging registration of cartels.

At present, the court is examining cartels of the beer and sugar industries as well as cartels made up of firms in the home entertainment industries. Its decision on those cases is not expected until late this year.

Finland: Ratification of EC Treaty Now Assured?

Despite continuing internal political hassles, Finland is soon expected to ratify the free-trade agreement with the EC that has been "on ice" for about a year. The reason for the long delay has not been the treaty itself but rather the insistence by the ruling Social Democrats that ratification be made dependent on passage of their controversial "economic protection" law. This law would give the Helsinki government broad

Ratification *(contd.)*

emergency powers to impose price controls and price stops, to accumulate capital reserves in order to steer the business cycle, and to support sectors that might suffer as a result of the treaty. This proposed legislation, however, has run into the fierce opposition of the Communist and Conservative parties which, even separately, can easily block the bill, since it requires a five-sixths majority in Parliament (the treaty does not). Confronted with this standoff situation, Prime Minister Kalevi Sorsa and his administration apparently are now prepared to have Parliament ratify the free-trade agreement regardless of the fate of the economic protection bill.

Upon ratification, tentatively expected for early October, Finland for the time being will be the only country maintaining formal trade agreements with both Comecon and the Common Market. The pact with the EC provides for successive 20% tariff reductions on April 1, 1973, with the beginning of 1974, '75, and '76, and on July 1, 1977. Because of Finland's failure to ratify the treaty on time, the tariff cuts scheduled for April 1 of this year are expected to be combined with those of Jan. 1, 1974.

EURO COMPANY SCENE

Opel AG/ Ford Germany

A series of demonstrations and wildcat strikes has affected numerous companies in the metals sector of Germany's state of North Rhine-Westphalia. Among the major companies hit were the Bochum plant of the General Motors subsidiary Adam Opel AG, where some 19,000 workers stayed away from the assembly lines, and Ford-Werke AG at Cologne which temporarily had to shut down the plant, where about 20,000 are employed. In all instances, the strikers and demonstrators protested the steep rise in the cost of living and demanded wage increases and other compensation to offset inflation-caused income losses. In many cases, management agreed to meet some of these demands in order to maintain the production pace.

Industry spokesmen tended to blame "radical minorities" and "left-wing extremists" for the walkouts, which were not officially sanctioned by the unions. In Bonn, there were fears that continuing outbreaks of wildcat strikes would upset the normal rhythm of collective bargaining, which has been a key factor so far in Germany's history of labor stability. Worried that excessive wage demands and subsequent price rises might deal a severe blow to the government's current stability program, Chancellor Willy Brandt went on television to plead for moderation by all factions involved in the current confrontation.

Lip

The situation at France's Lip SA d'Horologie was as confused as ever after new rounds of negotiations involving employee delegates and the labor unions, on the one hand, and the government mediator and the Swiss majority owners, on the other, failed to produce any results. All offers or suggested solutions have been rejected by the unions, and this has led to speculation that radical union factions plan to use the Lip affair as a fuse to set off nationwide labor disruptions in the fall.

Meanwhile, on Aug. 23, radio and television broadcasting was suspended for 24 hours and dealings on the Paris Bourse were interrupted for 15 minutes as journalists, technicians, and

Lip *(contd.)*

stock exchange clerks staged a strike in support of the Lip workers and to protest alleged police brutality at Lip's Besançon plant.

Firestone/ Dätwyler

The Firestone Tire & Rubber Co. of Akron, Ohio, which previously held 25% of the SF 4-million share capital of Switzerland's Fabrik für Firestone-Produkte AG, has now acquired the remaining 75% from Dätwyler Holding AG, a leading Swiss rubber and cable producer. Firestone in the past has mainly contributed licenses and know-how to the company, which employs 1,400. Dätwyler reportedly decided to sell out after failing to get commitments from the U.S. group which would have assured it a certain European sales quota for steel-cord radial tires. Originally, Dätwyler had planned extensive investments to produce such tires.

Babcock & Wilcox N.Y./U.K.

Babcock and Wilcox of New York have increased their holding in London's Babcock and Wilcox by a further 3.4 million shares, thereby lifting the U.S. group's stake in the U.K. group from 15.2 to 22.6%. The move prompted speculation that the American group was planning to acquire a controlling interest in its British namesake, but a formal statement issued in New York denied that this was the case. The cost of the transaction was estimated at some £3.5 million.

Siemens/ Dickson

Siemens AG of Germany reportedly has agreed "in principle" to take over Arizona-based Dickson Electronics Corp., a components producer, for about $8 million, i.e., $12 per share. Dickson stockholders have been offered an immediate distribution of about $10 per share, the reports said.

Dow Chemical/ Philips

On the basis of recommendations of a feasibility study begun last December, Dow Chemical Co., Midland, Mich., has broken off talks with NV Philips of the Netherlands for possible acquisition of a stake in Philips-Duphar, the Dutch company's chemicals subsidiary. Apparently, the firms would not have been able to reconcile their differing product lines. Dow Chemical will nevertheless continue to distribute through Duphar GmbH, a German Philips offshoot, in a license arrangement. Philips, for its part, has announced it will seek another candidate for a Philips-Duphar participation.

Commercial Union/Delta-Lloyd/Nationale

Britain's Commercial Union insurance group is now in a commanding position in its struggle for control of Holland's No. 2 insurance group, Delta-Lloyd, following the announcement that rival bidder Nationale Nederlanden has dropped its offer. Delta has issued new shares to the extent that CU now controls fractionally over 50% of the Delta capital. The official takeover document was delayed following this move. Under Holland's Takeover Code such a move is permitted, whereas in Britain, the City Code would ban such a step.

Lockheed

The Netherlands Ministry of Defense reportedly has decided not to replace its Lockheed Starfighter jets until after 1976. France's Mirage, Sweden's Saab-Viggen, and the U.S. Cobra had all been under consideration as successor jets, but the ministry has reversed a plan of the previous government to invest some 1.5 billion guilders in new aircraft for 1976.

Common Market Reports

EUROMARKET NEWS

Issue No. 243 *Report No. 221, September 12, 197*

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Community: rt of Justice Clarify Antitrust Issue

At least one of the 50-odd cases on the docket of the European Court of Justice this fall will have broad implications for the Community. It involves the answer to the question of whether any proceeding initiated by the European Commission (granting a negative clearance or an exemption, for example) can prevent a national court, in civil proceedings, from invoking the prohibitions of Treaty Articles 85 (1) and 86 against cartels and abusive practices *(Common Market Reports, Par. 2482.10)*.

This question was submitted by a Belgian district court, which felt that Regulation No. 17 is ambiguous on this point because its Article 9, paragraph 3, bars "authorities of Member States" from prosecuting antitrust violations once the Commission has stepped into the case but does not specify whether this term extends to national courts as well.

The case involves Belgium's Radio and Television Corp. (BRT) and Sabam, a Belgian company with a domestic monopoly on copyrights of musical works, both of which seek damages from a producer of "pirated" recordings. It became an EC antitrust case when BRT charged Sabam with abusing its dominant position, which brought the Commission into the picture. The district court deferred judgment and asked the Court of Justice for a preliminary ruling, apparently unaware that the Commission in 1970 had started its own investigation on the matter (this probe is still continuing).

The Luxembourg ruling is expected to settle the principal issue once and for all. In the past, numerous national courts have wavered on the question, although most tended to give Article 9 (3) a broad interpretation so as to include national jurisdictions.

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Antitrust *(contd.)*

Furthermore, the European Court decision should terminate a long-standing dispute between the Commission and Germany's Federal Cartel Office. The Commission would like to see the Belgian court's request rejected on grounds of inadmissibility because of its own role in the case. Commission attorneys are citing the Court of Justice's 1970 judgment in Bilger v. Jehle *(Common Market Reports, Par. 8076)* to the effect that the term "authorities of Member States" also includes the national courts. The German cartel authorities, on the other hand, argue that the Bilger judgment has been superseded by the Court's ruling earlier this year in the Brasseries de Haecht case *(Common Market Reports, Par. 8170)*. They feel that the Commission's position would not only block the national courts' efforts in protecting individuals and companies against the consequences entailed in violations of Articles 85 and 86, but it would also enable cartel parties to prevent national courts from invoking EC competition rules by applying for a negative clearance or an exemption. It is also argued that legal security would be in jeopardy because there is no way for a national court to know whether the Commission has initiated proceedings unless it is informed by a party likely to benefit from the court's knowledge.

Netherlands: Investment Bill Goes to Parliament

The Dutch government has now sent an amended draft of the controversial selective investment legislation to Parliament, where its passage is expected during the fall session. As previously reported, the bill aims to control commercial and industrial investment in the congested areas of the country, with emphasis on a stringent permit system rather than on an outright investment tax. However, licensed projects in the heavily industrialized western regions will still be subject to levies, though the rates will be reduced from 40 to 25% for buildings and from 5 to 3% for installations in the "open air." Buildings costing less than one million guilders and installation investments below 5 million will not fall under the permit system.

Special provisions will apply to the large cities, where projects in urban renewal or reconstruction areas can be exempted from the investment tax. In communities officially designated as "growth centers" the tax rate can be halved; the 50% rate also applies to office facilities, auction halls, storage and freight transfer depots, newspaper plants, and to projects for various other specialized purposes. Entirely exempt will be municipal and agricultural buildings and public transport facilities as well as hotels, cafés, and restaurants.

To allow as much local control as possible, permit procedures are to be handled by the communities, though in line with the regulations issued by the Economics Ministry at The Hague.

France: Price Rises Fuel Labor Resistance

With the end of the summer vacation season and resumption of full industrial operations, economic observers are fearful of massive labor problems for France this fall. The unions are now in the process of lining up their prime targets for the coming bargaining sessions, with the public service sector and the state-owned industries heading the list. For the coming weeks, the Communists have planned campaigns to protest the persisting erosion of individual purchasing power and to draw attention to the poor financial situation of retired persons and large families. Plant occupations, wildcat strikes, and demonstrations

Labor
(contd.)

patterned on the commotions at Besançon's Lip works would be the weapons wielded in support of new demands.

As ever, the impact of inflation is bound to remain the No. 1 topic in the impending confrontations involving the government, industry, and labor. In this connection, even neutral sources have expressed doubts as to the credibility of official economic statistics which, for some time now, have fixed the annual rise of the cost of living at 10%. It has been charged that the government figures ignore the steep inflation rates affecting important sectors of the economy. Wholesale price levels were cited as an example: in the month of July, they reportedly rose by 1.5% for raw materials and by 1.8% for foodstuffs, which converts to an annual rate of 18-20%. Spokesmen for the Communist CGT union accused the government of using distorted statistics "to lie" to the workers. The union's own compilations have shown, they said, that during the first seven months of 1973 the cost of living for the average wage earner's household has gone up nearly 6% instead of 4.1% as officially claimed.

Still, and though necessarily concerned by mounting public disenchantment with the government's stability efforts, the French cabinet at its last session in August did not opt for the imposition of a general price stop. Although such a step had been widely predicted, the administration apparently is not convinced that this would be the real solution to the price problem. Also, a price freeze at this time would put a heavy strain on domestic industry, which has to cope with a 14-15% rise in wage costs and inflated raw material prices. Consequently, Finance Minister Giscard d'Estaing said, the government would adhere to its policy of price controls in cooperation with business and industry. However, Giscard d'Estaing did not preclude the possibility of tighter credit restrictions in the near future.

Britain: Unions Attack Anti-inflation Policy

The British labor unions, just prior to their annual congress, have made it clear that they will offer stiff opposition to the government's counter-inflation policies, a principal tenet of which is the continued imposition of wage restraints as an instrument of economic growth. One union leader was quoted as saying that Whitehall's policy was "an invitation to industrial dislocation and the reduction of productivity" and that thus a complete breakdown of the Phase Three talks cannot be ruled out. A particular source of irritation has been the Pay Board's attitude on wage increases for workers in the china, clay, and trucking industries. A specific resolution has been passed to boycott the board's procedures in every phase of government policy.

Such opposition from the unions was widely anticipated, but there is an element of confusion introduced by Dept. of Employment figures, which indicate that the government's "brake" on wages has not effectively slowed actual average earnings: these, according to DoE figures, have increased by more than 50% over the last three and a half years. Furthermore, wages rose during November 1972 and April 1973 when "officially" no increases were permissible. The unions point out, however, that certain basic costs - food, housing, fuel, and transport - have risen dramatically to the point where basic standards of living are in jeopardy.

Unions *(contd.)*

The specific proposals envisaged by the government for Phase Three have been a matter for conjecture. Unofficial reports have spoken of a formula which would provide for maximum 8% pay increases, threshold agreements, and 4% productivity increases. There is no telling what the government will propose for consideration by the unions, which have made no secret of their wish to return to a system of voluntary controls and free collective bargaining.

U.K.'s Partners Disturbed by HS146 Project

The British government's announcement that the Hawker-Siddeley HS146 airliner would be subsidized with £46 million of tax money has met with mixed reactions, despite the fact that the Minister for Aerospace described the project as "an arrangement for full-risk sharing investment" and emphasized that Hawker would be putting up a matching sum. The government, said the minister, would recover its investment by a levy on sales - equivalent to a cash flow return of 10%.

Domestic comment on the announcement, favorable or otherwise, was of less import, however, than reactions from Britain's EC partners. The European Commission is studying the subsidy to Hawker to establish whether it would result in any distortion of intra-EC trade. The U.K. feels that the project is of common European interest in that the HS146 constitutes an essential contribution to the promotion of a strong, integrated European aerospace industry. The Dutch-German group VFW-Fokker, though, feels that the HS146 will be in direct competition with its Fokker F28 and that the U.K. decision is thus incompatible with any reasonable European policy regarding development of new aircraft. It is now up to Brussels to study the U.K.'s aid policy and to give an opinion.

Germany: Bonn Prepares Stricter Law on Detergents

Detergent makers in Germany are hopeful of getting Bonn to dilute at least some of the future regulations now planned under authorization of the 1961 Detergent Law *(Doing Business in Europe, Par. 23,547F)*. Conceived under pressure from environmental and consumer groups, these proposals are aiming, among other things, for better biodegradability of synthetic cleansing agents, a lower phosphate content, and explicit labeling. Specifically, the biodegradability of cleansing agents would have to be boosted from 80 to 90%, and the phosphate content of detergents would have to be lowered from 35-40% to 20%.

Industry is not so much concerned with the biodegradability requirement, which (except for extra costs) would pose no major problems either in terms of technology or time. The same goes for the labeling provisions, although these would be something new for Germany. But compliance with the phosphate limit would require many years of research and could be extremely expensive. As a result, producers might be forced to develop a substitute (phosphates act as water softeners) or face sales losses.

Bonn sources report that the government is willing to compromise on the time period within which industry would have to develop a substitute but not on the R&D effort itself. This tough position is based on statistics which show that consumption of detergents in Germany is rising by about 5% annually and that the phosphate pollution of rivers and waterways has reached intolerable levels. However, deadlines for compliance will not be suggested until further government study.

Switzerland: Bern Presents Own Amendment on Co-determination

The Swiss government has asked Parliament and the Swiss electorate to reject a union-sponsored drive for a constitutional amendment authorizing the Confederation to enact broad co-determination rules for employees and their organizations in enterprises and in government. Instead, the government is seeking approval of an amendment of its own that differs considerably in accent, scope, and substance. Any legislation proposed under the government's amendment would not necessarily give unions a voice in management but would not rule it out in principle. The government's idea of co-determination would stop short of interfering with the operation of a business.

The Economics Ministry said the government would be guided by the principle that co-determination legislation should not be regarded as a means to change society but rather as a way of making jobs and the job environment more humane and giving employees an opportunity to develop their personality. The ministry said that it is up to the works councils (*Personalkommissionen*, elected by employees) to help attain these objectives. Since many businesses still lack works councils, the government would introduce legislation making them mandatory for enterprises with a certain number of employees.

The government's message to both houses of Parliament reiterates its long-held view and that of past administrations that any social legislation must not impair the free enterprise system by limiting the freedom of management to run a business in the most efficient way. Although Bern's proposed amendment would not bar legislation entitling employees to representation on the supervisory boards of stock corporations (and thus to influence decision-making on the management level), the government feels that the time has not yet come for making a move in this direction. And although union representation would not be ruled out either, the government makes no secret of its opposition to this concept. The unions advocate equal representation of shareholders and labor on supervisory boards and want a federal arbitrator to break deadlocks. However, individuals who neither provide capital nor lend their abilities to an enterprise and yet have a voice on the supervisory board would introduce an alien element to the co-determination concept, the government believes.

As for co-determination of personnel matters in public service, the government's position is that giving civil servants a say is inappropriate, not only because public agencies are run differently than private enterprises but also because of the constitutional prerogatives of cantonal and local governments that bar federal legislation on those levels.

AROUND THE MARKETPLACE

Britain: Troubled Future for Insurance Markets?

Although U.K. underwriters Lloyd's have reported record profits for 1970, their chairman has indicated that the British underwriting market as a whole is facing troubled times. The apparent paradox is explained by the fact that results in this sector are published on a three-year basis, so that the record £65-million profit for 1970 - up some £13 million from the preceding year - does not reflect the current state of the market. This conclusion would still stand should the 1971 accounts year produce an even higher profit, as now indicated by interim cal-

Insurance *(contd.)*

culations (based on the sum of profits and losses of some 6,000 underwriters operating about 300 syndicates in the four main areas of aviation, marine and transit, nonmarine, and motor).

In spite of this past performance, Lloyd's chairman has spoken of "ominous signs" and "positive danger signals" and dismissed the repeat of 1970 profit levels as unlikely. The reasons are essentially threefold: increased foreign competition (notably from the U.S.), the impact of inflation on the cost of claims, and the threat to profitability engendered by the weakness of sterling and the dollar. In addition, EC membership might cause a further problem inasmuch as a new tax on insurance premiums in the U.K. has been recommended from Brussels.

On the question of claims, it was noted that prevailing profit margins do not provide an overabundance of reserves, especially in the aviation and marine sectors, where the crash or hijacking of a wide-bodied jet or the wreck of, and subsequent pollution from, a giant tanker could be a catastrophe in more than one sense. Increasing competitiveness - from U.S. life insurance companies in particular - has led (despite the mounting incidence of such disasters) to drastic rate-pruning and to "premium reductions that cannot possibly be justified."

The underlying message for the insurance industry is thus clear: the reduction in premium income provisionally noted for 1972 will continue this year, and a rate increase for all four main sectors is indicated if costs are to be prevented from overtaking premium income.

EURO COMPANY SCENE

Commission/ Hollow glass producers

The European Commission has accused a number of Continental manufacturers of hollow glass of price-fixing agreements and coordination of sales conditions in violation of Article 85 of the Treaty of Rome. The case involves producers in Germany, France, Belgium, Holland, and Italy, all of them members of the International Fair Trade Practice Rules Administration (IFTRA), registered in Liechtenstein. The companies will have a chance to reply to Brussels' complaint before the Commission will hand down its final decision and, possibly, impose fines.

Commission/ Hoffmann-La Roche

In addition, the Commission has confirmed that it will proceed with a cartel investigation against Switzerland's Hoffmann-La Roche AG to establish whether the drug producer exploited a dominant market position in the distribution and sale of its tranquilizers Valium and Librium. The Basel-based pharmaceutical concern already is involved in a U.K. and German monopoly probe and also is subject to investigations in Belgium, the Netherlands, Sweden, Greece, South Africa, Australia, and New Zealand.

Gist-Brocades/ Centrale Suiker/ Meneba

Infractions of the Dutch merger code and apparent financial problems for one of the partners have resulted in the scrapping of the merger of Gist-Brocades NV, Centrale Suiker Maatschappij (CSM), and Meneba NV. The fusion would have created a major Dutch food group with annual sales of about 1.4 billion guilders. The three companies announced jointly that Gist-Brocades would not renew its bid, which had been withdrawn after the merger commission of Holland's Social-Economic Council (SER)

Gist-Brocades *(contd.)*

had addressed an official reprimand to the managements of the three firms, accusing them of multiple violations of the merger code. Also, the quoted share value of Gist-Brocades has dropped since the bid was tendered, leaving the firm in a poor position to revise its bid upward to meet the challenge of another contender for CSM, Scholten-Honig NV. Also still in the running is Suiker-Unie, although it is felt that its bid for CSM would be rejected by the European Commission.

Dixon/ Inveresk/ British Tissues

Britain's Peter Dixon and the Inveresk Group are in the process of divesting themselves of their shares in British Tissues as part of a £3.6-million deal. The U.K.'s Associated Tissues is raising its stake in British Tissues to 50%, while the other half of BT equity will go to two of Europe's papermaking giants, Nokia and G.A. Serlachius, who together account for all tissue production in Finland. Dixon and Inveresk will incur book losses on the transaction, but the former in particular was expected to move its BT stake following heavy losses in its paper branch.

Blaupunkt France

Germany's Blaupunkt Werke GmbH, member of the Bosch electrical group, has plans to produce auto radios and television sets in France. For that purpose, a newly established subsidiary, Blaupunkt (France) SA, will acquire the production facilities, inventory, and some 750 employees of the Société Normande des Fabrications Electroniques (Sonormel) SA, Mondeville, near Caen. Production will be for the French market as well as for export.

Nissan/ [Mits]ui/ [An]adolu

Japan's Nissan Motor Co. and Mitsui & Co. will cooperate with Anadolu Industry Holding of Turkey in a $59-million joint venture for the production of trucks, engines, gearboxes, and chassis for buses and mini-buses. The Turkish plant is to have an initial yearly capacity of 12,000 vehicles and a corresponding number of engines and gearboxes. Forty percent of the venture will be held by the Japanese partners (Nissan, 25%, and Mitsui, 15%), while Anadolu is to acquire 30%. The remaining shares are to be sold to the public.

Bayer/ Ciba-Geigy

Bayer AG of Germany and the Swiss Ciba-Geigy group have agreed on close cooperation in the sector of certain pigments and dyes by coordinating production to meet increasing demand and by developing new production methods. The R&D efforts in that sector are to be coordinated by a joint subsidiary at Antwerp, Belgium.

Hartmann/ Dambremé

Germany's Concentra GmbH Gebr. Hartmann, a leading producer of printing inks, has acquired a majority interest in the Dambremé group, Lille and Paris, by its own account one of the major ink manufacturers in France. The acquisition will enable Hartmann to give relief to its Frankfurt plant, where production capacities are strained to the limit, and to create an additional export base abroad.

Johnson & Johnson/ Dr. Hahn

Johnson & Johnson, Inc., of New Brunswick, N.J., reportedly has acquired control of Germany's Dr. Carl Hahn chemicals through a share exchange deal. The value of the transaction has not been revealed.

Unilever/ Gardner

Anglo-Dutch Unilever NV and Britain's Gardner Merchant Food Services Ltd. have plans to break into Germany's fast-expanding ca-

Unilever *(contd.)*

tering market via a newly established joint subsidiary, Interserve Management Service, in Wiesbaden. Gardner is regarded as the U.K.'s leading caterer and will contribute its extensive know-how to Interserve, which is presently establishing catering centers in Hamburg, Cologne, Düsseldorf, and Munich to serve company cafeterias, hospitals, schools, and retirement homes.

Gamma

Gamma of Milan, owned by the Monzino Brothers and one of the few large supermarket chains in Italy, reportedly is negotiating with several potential buyers, among them the Italian subsidiary of the U.S. group Grause & Greenberg and the GS supermarket chain (part of state-owned IRI). With 55 stores and annual sales of 20 billion lire, the Gamma chain is said to operate at a loss. But among its most attractive assets reportedly are the licenses to build more branch stores, and such licenses are difficult to obtain in Italy.

Buitoni/ Bibby

Having acquired the French food group Amieux last year, Buitoni Perugina, a major Italian food producer, is continuing its European expansion with the planned acquisition of the grocery products division of the U.K.'s J. Bibby & Sons. The Bibby food division has sales of about $42 million annually, mainly in canned goods, household oils, and meat and fish pastries. The deal, expected to be signed next month, still requires the approval of government authorities in both countries.

Fabbri/ Praeger/ Schuler

Fratelli Fabbri Editori, Milan, one of the top Italian publishers of school textbooks, encyclopedias and popular science publications, has purchased majority holdings in the German publi[shing] companies Edition Praeger and Schuler Verlagsgesellschaft, both of Munich.

Elsevier/ IPC

Publishers NV Uitgeversmaatschappij Elsevier of the Netherlands and the U.K.'s IPC Business Press plan to set up a joint holding company in Holland, Elsevier IPC Europa BV, to integrate their European activities in the specialty magazine market.

Common Market Reports

EURO MARKET NEWS

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Community: Hearing Set on Recognition of Diplomas

The European Commission plans to try the novel approach of testing public opinion in order to make some headway on Treaty Article 57, which provides for mutual recognition of national diplomas *(Common Market Reports, Pars. 1422.01 and 1422.21)*. By way of a public hearing - scheduled for late October under the chairmanship of Commissioner Ralf Dahrendorf - it will attempt to elicit the pros and cons entailed in Community-wide recognition of medical degrees. In testing his options for such a proposal, Dahrendorf decided to choose the medical profession first, not only for its obvious significance but also because he feels that a future directive dealing with that sector has a fair chance of passing the Council of Ministers. (It has been noted, however, that this may be too optimistic in light of the Council's past record of failing to adopt any of the 40 directives dealing with mutual recognition of professional qualifications.)

At the Brussels hearing, some 170 representatives of the medical profession, hospital organizations, health insurance funds, and consumer organizations from the nine EC member states will present their arguments. The governments, Community institutions, and organizations representing other professions will send observers.

To be held on Oct. 22-26, the hearing will concentrate on three major questions:
- Is it possible to regulate the mutual recognition of diplomas independently from the broad problem of bringing about equal educational systems in the member states?
- Is the confidence in the comparability of educational standards of the individual member states sufficient enough to

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

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Diplomas *(contd.)*

permit a physician who qualifies in one member state to practice in another?

- If this recognition is not possible, what should be the criteria for establishing minimum standards in the national curricula?

The 'Eurco' - a Prototype Monetary Unit?

Even the most optimistic among Europeans will concede that plans for a European monetary union are not at an advanced stage. Like it or not, the Eurodollar market represents the closest approximation to a common European currency and capital market to date. In spite of this, the weakness of the dollar and the uncertainties of exchange rates for borrowings denominated in other Euro currencies have resulted in a waning of investor confidence and in a highly speculative element being introduced on both sides of the market. The European composite unit now introduced by Rothschilds has been conceived as a possible safeguard against such uncertainties, and there is every likelihood that the "Eurco" may emerge as the prototype European monetary unit.

In an effort to arrive at a stable medium based on components weighted on the respective GNPs of the nine EC member states, Rothschilds put together a European Investment Bank test issue of 30 million Eurcos (approximately $39 million), which was oversubscribed within two days. The Eurco is made up as follows: 0.90 D-marks (28.9% of the present value of the Eurco), 1.20 French francs (22.3%), 0.075 pounds sterling (14.6%), 80 Italian lire (9.9%), 0.35 Dutch guilders (10.1%), 4.50 Belgian francs (9.5%), 0.20 Danish kroner (2.7%), 0.005 Irish pounds (1%), and 0.50 Luxembourg francs (1%). The Eurco's value at any time will be equal to the market value of its components.

The EIB issue is, in every respect, experimental. Depending on international reaction, it could be the forerunner of other major transactions, three of which already are reported to be under consideration. Reactions to the Eurco have been mixed, and dealers in the secondary market have registered some skepticism. According to David C. Mulford, senior vice-president of White, Weld & Co., speaking at the Fifth Annual Trans-World Investment Seminar just held in London, the experiment has a good chance of success providing that a creditable secondary market can be developed. If such a market does not develop, Mulford said, it does not really matter *how* an issue is composed. On this point it is interesting to note that, to provide some secondary market support for the loan, the EIB is pledged to purchase up to 1 million Eurcos every year if the bond price drops below par.

Germany: Income Tax Reform Due for 1975

After having suffered a series of politically motivated delays, one of the German government's most ambitious projects - a deep-reaching overhaul of the tax system - has now advanced a major step with the administration's internal agreement on the details of a personal income tax reform. Chancellor Brandt's Social Democrats and their coalition partners, the Free Democrats, announced that they would push for enactment next year, so that the reform could take effect on Jan. 1, 1975. The same target date appears now possible for the reformed corporate tax and net worth tax - Bonn reports said that here, too, agreement is imminent.

Income Tax *(contd.)*

The proposed changes in the personal income tax, announced on Sept. 13, would primarily lighten the tax burden on low and medium incomes. Benefiting would be single individuals with an annual taxable income below DM 40,000 and married couples with an income below DM 80,000. Also aided would be surviving spouses, pensioners, handicapped persons, and others.

Technically, the tax reductions are to be achieved by way of boosting tax-free basic allowances, deductible special expenditures *(Sonderausgaben)*, and family allowances. The basic exemption for all taxpayers *(Freibetrag)*, for instance, would be nearly doubled, from DM 1,680 to 3,000. Also to be doubled are the limits up to which the standard tax rate is applied: to DM 16,000 for single taxpayers and to DM 32,000 for married couples. The government's intention to raise the minimum or "proportional" tax rate from 19 to 22% would not alter the fact that low and medium-income groups would still wind up paying less. By the same token, the minimum rate of the progressive tax schedule is to be fixed at a high 30% and subsequent progression would be steeper than now, ending at 56% (exclusive of any surcharges). Obviously, this would be at the expense of taxpayers with higher income.

Finance Minister Helmut Schmidt explained that the proposed revisions would make for more equitable treatment of all taxpayers and give some needed relief to those whose incomes lately have become artificially "inflated," thus propelling them into tax brackets that do not correspond to the real value of their incomes.

The reform of the personal income tax as now agreed upon would entail a revenue loss of DM 8.2 billion for the Treasury, provided that the standard rate of added-value tax remains unchanged at 11%. The revenue reduction would amount to only DM 2.8 billion should the VAT rate be lifted to 12% in the near future. (In this context, Schmidt has reserved the administration's right to raise VAT at any time but indicated that current economic conditions do not warrant such a move, at least not until 1975. Over the medium term, however, the government would have to boost the VAT rate in the interest of sound public finances.)

Switzerland: Six Cantons Move toward Tax Alignment

Six neighboring Swiss cantons have agreed to coordinate cantonal income tax rates for individuals in high income brackets. The move by the cantons Aargau, Basel-Land, Basel-Stadt, Bern, Solothurn, and Zurich is viewed as a contribution to harmonization of cantonal tax laws and as a means of persuading wealthy individuals to stay where they are whenever a particular canton raises taxes on individual incomes.

Settling in another canton to escape higher taxes has been a way out for a number of wealthy residents. On the other hand, intercantonal tax harmonization is progressing slowly and may not be a reality for five to eight years from now. But still another aspect made the cantonal governments take this approach: in all six cantons, the Social Democrats and the unions have either initiated or are pushing ahead for referenda aimed at introducing a rich man's tax *(Reichtumsteuer)*.

The agreement calls for a common 24.5% tax rate on individual incomes of SF 120,000 or more, rising to 30.5% for annual

Tax Alignment *(contd.)*

incomes of SF 500,000 or more. These rates would be mere averages, and the cantonal legislatures could deviate from them by enacting tax rates of 3 to 4% above or below these average rates.

Meanwhile, a recent OECD tax survey again rates Switzerland as a tax haven, an assessment not shared in many quarters of the Swiss business community. Critics do not challenge the arithmetic of the OECD experts, who placed Switzerland as No. 19 in terms of the overall tax bite (a low 21.5% of GNP), but they point out that the survey does not take into account that in Switzerland private organizations often assume functions carried out by the government in other countries. The critics charge that in the area of social security the survey covers only contributions made to the government but fails to include the employer's and employee's contributions made to private pension funds (SF 5.5 billion in 1970).

Britain: Details on Sex Equality Legislation

The U.K. government has released details of proposed legislation to end discrimination against women *(Doing Business in Europe, Par. 30,664)*. A consultative document, "Equal Opportunities for Men and Women," makes it clear that the government intends to give women legally backed equality with men in three major areas: employment, training, and education. The proposals, which represent "the biggest step toward a society of real equality since women got the vote," would necessitate major amendments to certain statutes concerning female employment, taxation, pension programs, layoffs, mortgage qualifications, and the like. Exceptions to equal opportunity would be kept to a minimum and basically would be allowed only where sex is a "genuine occupational qualification," i.e., in such occupations as midwifery, or in cases where the nature of the employment calls for communal living accommodations, as in shipping.

In summary, the proposals are as follows:

- Discrimination on the basis of sex would be illegal in the fields of training, job selection, and promotion. Thus, advertisements specifying the sex of the applicant would be banned, except where it can be established that there is a need for a member of one sex.
- Provisions of the Factories Act dealing with the hours women are permitted to work would be repealed.
- The taxation system would be amended so that pension programs would allow women the same benefits as men.
- Offenses under the proposed legislation would be referred to industrial tribunals and the National Industrial Relations Court.
- An Equal Opportunities Commission would be established to monitor developments and provide for subsequent legislation.
- Particular areas of concern, such as the question of mortgages for women, would be the subject of scrutiny by the Commission.

The government acknowledges that discrimination exists in the sectors of education and training but proposes to deal with such problems by means of discussion and persuasion rather than by introducing separate legislation. It is not intended to

Sex Equality *(contd.)*

abolish single-sex schools, for example, but curricular divergences which contribute to unequal opportunities would be monitored.

Reactions to the consultative document are to be submitted by the end of November, and it is expected that some form of legislation will come before Parliament in the next session. Three private MPs' bills on sexual discrimination have been presented in the last two years, but none has succeeded in becoming law.

Netherlands: Early Target Posted for 'Social Accord'

The Dutch employers associations and the labor unions have given their pledge to the government to seek an early agreement on wage and price guidelines for the coming year. All three factions will attempt to come up with a common design of a new "social accord" during October. In initial discussions, the Finance Minister and the Social Minister termed the need to reduce the high unemployment (now totaling 100,000 jobless persons) as the government's most pressing problem. Incomes allocation, the leveling of income structures, and the co-determination issue were identified as other areas of principal concern. At the same time, administration spokesmen doubted whether there would be much maneuvering room for any real income improvements at this time.

In formulating their own expectations, the labor leaders have gone on record that half of the contractual gains sought for 1974 should be in the form of fixed amounts. As compensation for inflation losses, they proposed an automatic wage adjustment of 160 guilders per employee for each one percent of price rises. Beyond a certain income level, this compensation should be gradually reduced according to a system yet to be worked out. However, spokesmen for the employers have already warned that it would not be easy to meet on these terms, which would pose real hardships in particular for small and medium-size businesses.

The next tripartite talks have been scheduled for Oct. 4, and a week later Parliament will debate the administration's 1974 budget proposals. At that time, the government also hopes to inform the Assembly on the progress of the tripartite discussions toward a social accord, which is then expected to be concluded by the end of that month.

Revaluation Forced by Payments Surplus

The surprise decision by the government in The Hague to revalue the guilder by 5%, effective Sept. 17, was explained by the Finance Ministry as a necessity in view of Holland's excessive balance of payments surplus. For the 12-month period from July 1972 through June 1973 a surplus of 5 billion guilders was recorded, and another 3 billion are anticipated by year-end. By having revalued just prior to submission of the 1974 Draft Budget to Parliament, the government also emphasized its intention to move vigorously in its fight against inflation and rising unemployment. It was hoped that the neutralizing effect of the guilder revaluation will cut the updraft of prices by about 1 to 1.5% in 1974.

Reaction from business and industry has been sparse and, in most cases, confined itself to the observation that the revaluation rate is too modest to make itself really felt. Neither is

Revaluation *(contd.)*

the revaluation expected to have a negative effect on the block floating of the European currencies - the guilder will continue to move within the prescribed 2.25% parity band.

(Also in reaction to the Dutch action, the government in Brussels let it be known that Belgium and Luxembourg do not intend to follow up with a revaluation of their respective currencies.)

Denmark: Foreigners Lured by Bond Market

Since Denmark opened its stock market to nonresidents on Jan. 1, 1973 (liberalization was a precondition for joining the EC), foreign investors have shown a keen interest in Danish shares despite the market's rather limited size. Bonds have attracted an even greater interest, but here the supply is limited because of government controls - the sale of bonds to nonresidents has not been liberalized as yet.

In the accession treaty, Denmark was given until 1975 to remove the controls in order to allow time for the necessary adaptation of interest and liquidity levels prior to the general opening of the bond market to foreign buyers. Unrestricted access for nonresidents to the bond market would have made it difficult to maintain the interest and liquidity policy necessitated by Denmark's balance of payments situation. Also, the government felt that selling bonds to foreigners would be a fairly expensive method of raising capital.

In an attempt to spread sales more evenly, the central bank has rationed bond sales to foreign investors. At the beginning of 1973, it released a quota of 125 million kroner for the first half of the year. An additional 75 million kroner were released for the third quarter of 1973.

To Danish bankers, the bond market's special appeal is not surprising because foreigners have become aware that yields of up to 12.5% can be obtained on safe investments ever since the government opened a crack in the bond market door in 1971. In 1972, bonds totaling 250 million kroner were sold to foreigners. This figure would have doubled easily in 1973 if it were not for the restrictions.

Norway: Political Shift May Herald Drastic Reforms

While the results of Norway's general elections on Sept. 10 permit few firm predictions on the future political and economic course of the small Scandinavian country, many observers are convinced that the shift to the left will automatically result in some radical reform efforts such as partial nationalization of the private banking system, parallel changes for the insurance sector, and "corrections" in the tax system, loosely patterned on the Swedish model.

After the Storting (Parliament) convenes on Oct. 1, it will be up to Trygve Bratteli's Labor Party to form a new minority government, although that party did emerge as the big "loser" from the elections. Having been deserted by more than 25% of its voters and reduced to 62 a previous 74 seats in the 150-member Storting, Labor thus will be forced to look for most of its parliamentary support to the so-called Left Alliance. That new group - an aggressive combine of left-wing factions, including the Communists - has won 16 seats, giving the Labor/Alliance socialists a tiny one-vote advantage over the nonsocialist

Political Shift *(contd.)*

parties in the Storting. However, political harmony would be far from guaranteed: spokesmen for the Alliance have ruled out any attempt to join in a coalition government with Labor, and Bratteli himself has maintained that he will seek his support on individual issues wherever he can.

Still, most observers expect the new political constellation to be under a decided socialist influence. This would mean, as the most pressing task, some revisions in the 1974 Draft Budget which already had been prepared by the outgoing Korvald administration for submission to Parliament. For its part, the Alliance - through its chief spokesman, Finn Gustavsen - has promised to pressure the government on a number of key proposals such as abolition of added-value tax on food, reduced defense spending, and extension of Norway's fishing limits. During the campaign, the Labor Party itself had called for a VAT reduction on foodstuffs and tax reductions for low income groups.

EURO COMPANY SCENE

Pirelli

The one-year-old labor crisis involving some 30,000 employees at Italy's Industrie Pirelli appears finally settled after company management and the unions agreed to a new restructuring plan submitted by the company. Over the next five years Pirelli will spend some 128 billion lire on the expansion of production and safety improvements and has agreed to rehire by the end of next year 1,300 workers who have been laid off. Furthermore, the company has pledged to create an additional 2,200 jobs by 1975, most of them at a new tire plant in southern Italy. As part of the restructuring of its plants in the North, Pirelli will not lay off any employee for more than nine months (during which period 80% of the employee's wages would be paid from state funds).

The unions, which had torpedoed Pirelli's original reorganization proposals, have hailed the agreement as a major victory. Observers feel that the pact - though it has yet to be approved by the unions' rank and file - will go a long way toward improving Italy's strained labor-management climate.

Paul Arnoux

The threatened plant closure and dismissal of 330 employees of Ets. Paul Arnoux SA, French subsidiary of the German shoe producer Salamander AG, has been averted. Several French shoe manufacturers and their industry association have signed a leasing agreement with Salamander which will assure continued production at Arnoux's Romans plant and continued employment of all workers. Last year the factory had a FF 25-million turnover in high-quality shoes, but incurred a FF 500,000 loss because the dollar and pound devaluations had hurt its important U.S. and British export markets. As a consequence, Salamander has announced plans to shift much of its production to low-cost areas of Italy.

FBFC

Eurofuel of France, Métallurgie et Méchanique Nucléaires (MMN) of Belgium, and Westinghouse of the United States have agreed to establish a joint subsidiary in Belgium for the production of nuclear fuels for light-water reactors. The three partners will hold equities of 60, 24, and 16%, respectively, in the new company, Franco-Belge de Fabrication de Combustible (FBFC).

FBFC *(contd.)*

Eurofuel had been founded last year by Péchiney-Ugine-Kuhlmann (51%), Westinghouse (35%), and other French partners. MMN is part of the Société Générale de Belgique and has been producing fuel elements for nuclear power plants under Westinghouse license; it will now be absorbed by FBFC.

Union Carbide

Union Carbide France, subsidiary of the Union Carbide Corp., New York, will build a fully integrated plant for the production of graphite electrodes for the steel industry at Calais. According to reports from New York, the facility will require investments of about $30 million and will be operative in early 1976. In France, Union Carbide also maintains a manufacturing plant for graphite and carbon materials at Notre Dame de Briançon, southeast of Grenoble.

Dassault-Breguet/ Dornier

The Belgian government has decided to favor the French-German Alpha over Sweden's Saab for the armed forces' next generation of jet trainers. According to reports from Brussels, the Defense Ministry probably will order 33 of the two-seat aircraft built jointly by France's Dassault-Breguet and Germany's Dornier.

Hanson Trust/ Holstet/ Cummins

Britain's Hanson Trust has sold Holstet Engineering, the major part of Hanson subsidiary BHD Engineers, to Cummins Engine Co., Inc. of the U.S. for some £11 million cash. Holstet manufactures turbochargers and related components for gasoline and diesel engines and posted pre-tax profits of about £1 million in 1972-73. Hanson also announced the sale of another BHD company, W.C. Holmes, for a further £2.59 million to the U.S. company Peabody Galion Corp.

Uniroyal/ Manuli

Uniroyal, Inc. of New York has announced the purchase of a 50% holding in Manuli Gomma, an Italian rubber products manufacturer. The new company will be named Uniroyal-Manuli.

Petrolite

Petrolite, a U.S. producer of electric automobile accessories, has established an Italian subsidiary, Eurolite, with headquarters in Genoa. By 1975 the company will build a plant to manufacture such accessories under license.

DuPont/ Hoechst/ BASF

U.S. chemical giant DuPont has filed a patent infringement suit against London-based Hoechst U.K. in order to protect its agrochemical products group of benomyl fungicides. DuPont filed similar suits against BASF in London in March of this year and against the BASF subsidiary Imaco in August. DuPont claims that Hoechst's Derosal and BASF's Bavistine infringe on its U.K. patents. Both companies have denied this, although BASF has admitted "chemical similarity."

Common Market Reports

EUROMARKET NEWS

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Community: Proposals on Work Week, Vacations

A 40-hour work week and a minimum vacation of four weeks throughout the Community are being proposed in a working paper now circulated within the European Commission. It stands a good chance of becoming part of the Commission's draft of a social action program, which is to be submitted to the Council of Ministers by mid-October. Should the draft become official policy, member states could be asked to introduce corresponding national legislation, which means that a uniform work week and minimum vacation might be established within a couple of years.

In preparing the social action program the Commission is not moving on its own but is merely following the general direction laid down by the Paris Summit conference of October 1972. An assignment to this end was necessary because the Treaty of Rome, unlike the Coal and Steel Treaty, does not provide for an active social policy. The primary aim of the program is to improve the quality of life through ways and means to be chosen by the Commission. Patrick Hillery, the Commissioner responsible for social affairs, has singled out three areas of priority: full and better employment, improvement of living and working conditions, and more participation in management of enterprises by workers and their union representatives.

While there is general agreement among the Commissioners over the program's first two objectives, some arguments reportedly have developed over the degree of coordination of policies dealing with workers' participation, since the Community's social policy cannot be isolated from other policies, such as economic and industrial policy. Commissioner Altiero Spinelli's amended industrial policy program, to be sent to the Council in

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Community *(contd.)*

late October or early November, is also said to contain some aspects of participation, especially with respect to multinational companies.

Brussels sources play down the disagreements, emphasizing the broad concept of workers' participation that has emerged in other fields. To the Commission, participation means more than establishment of works councils and putting employee and trade union representatives on supervisory boards (which it proposed in its fifth company law coordination directive - *Common Market Reports, Par. 1350.36*). An additional directive on mass layoffs is aimed at guaranteeing the worker his rights and job security and another one now in preparation would protect employees against dismissal resulting from international mergers.

Italy: Rome Acts on Simplified Tax System

The second part of Italy's *Riforma tributaria*, pertaining to individual and corporate income taxes, will take effect in 1974, now that the government has adopted several statutes based on prior parliamentary authorization. While the first part (introducing added-value tax in 1973 - *Doing Business in Europe, Par. 25,881)* was a matter of belated compliance with EC rules, the second part is considered a national necessity because it replaces an outdated system marked by 34 different taxes and lax collection methods. In future only four taxes will be imposed - individual and corporate income taxes, the local income tax, and VAT.

The main pillar of Italy's tax structure will be a general income tax for individuals in place of several different taxes levied at the present. This tax - to apply to income from employment, commercial and professional activities, and capital gains - will start with a rate of 10% on income up to 2 million lire and will increase progressively to 50% on income ranging between 81 and 100 million lire. Individuals with annual incomes of 500 million lire or more will be subject to the maximum rate of 72%. Taxpayers will be allowed to deduct statutory allowances from their tax liability rather than from their gross income, which is current practice. Those with income from employment will be entitled to an 84,000-lire exemption, which the employer would take into account when withholding income tax.

A company will pay a flat 25% on its income instead of the present patrimony tax and excess-profits tax. Government-owned enterprises will be subject to a reduced 15% rate. The new corporate income tax will also replace the present tax on bonds, which up to now is levied annually on a company's outstanding indebtedness on interest-bearing securities and bonds at the close of the fiscal year.

A local income tax with rates from 8.9 to 14.7% will be levied on corporations, non-corporate businesses, and individuals deriving income from non-employment sources. This new tax will provide local governments with revenue needed for building and maintaining roads, schools, and hospitals. It will replace a variety of local sales taxes already abolished with the adoption of VAT and also the family tax, which will be abolished at year-end. Directly related to the local income tax is another measure that will put fiscal relations be-

Tax Reform *(contd.)*

tween the central and regional governments on a new footing and provide for revenue sharing.

Generally, a sharp cut in the number of deductions and some toughened tax return and collection procedures are designed to make tax evasion even more difficult and thus to bring about more equality in taxation.

France: Withholding Tax System by 1978

As a way of gradually shifting France from indirect to direct taxation, the government has proclaimed its intention to introduce a withholding tax system by 1978. The surprise announcement, accompanied by news on other tax actions, was made by Finance Minister Giscard d'Estaing on Sept. 19, following the public presentation of the 1974 budget proposals. By establishing withholding taxes France will fall in line with all other Community countries and also contribute to the eventual goal of EC tax harmonization.

In what has been termed a small but encouraging step toward more *égalité* in the fiscal area, the government will shift the burden of some FF 2 billion in tax revenue from low-income to high-income groups, with the latter also suffering elimination of certain exemptions. The biggest blow to the rich, however, is the government's recall of the 3.5%, gold-pegged "rente Pinay" state bond issue of 1952 and '58, holders of which have been exempted from payment of inheritance taxes. The issue will be replaced by a new one, also tied to the gold price and carrying a higher interest rate, but not favored with the inheritance tax exemption.

Other announced tax measures will concern companies: the tax rate on long-term capital gains is to be lifted from 10 to 15%, tax allowances on company contributions to employee participation plans will be progressively reduced, and profit sharing for directors will be eliminated over a three-year period.

In an apparent effort to discourage rampant speculation in real estate (one out of every three property purchasers is an investor), Giscard d'Estaing outlined proposed alterations in the tax exoneration system for capital gains. In future, property must be held for a minimum 10 years instead of five in order to qualify for capital gains tax exemption. (This provision could possibly become a major deterrent to foreign property developers, mostly British, who within the past two years or so have bought up huge chunks of office space in the Paris region. French property prices are now an average 12% higher than a year ago, and 15-20% higher in certain areas of Paris.) Property utilized by its owner as his principal place of residence, on the other hand, will no longer need to be held for five years prior to its sale in order to qualify for the capital gains tax exemption.

As was predicted, Giscard d'Estaing has submitted an essentially balanced budget for 1974, calling for a rise in public expenditure by 12.4% to FF 220 billion, which will be fully accounted for by inflation-boosted tax revenues. Also, in support of the government's stability efforts and to bolster the franc, the Bank of France on Sept. 20 raised the discount rate to a record 11% and a day later "recommended" that domestic banks no longer issue new loans to nonresidents.

Netherlands: Budget Plan Includes Higher Taxes

As part of the formal submission of the 1974 draft budget, which inaugurated the new parliamentary session, the Dutch government has announced a wide-ranging program to combat inflation and unemployment and to promote greater social equality. The budget proposals, as detailed by Finance Minister Willem F. Duisenberg, call for a sharp increase in public investment, with state expenditure to rise by 8 billion to about 51 billion guilders. Tax revenue will be in the area of 49 billion guilders, up nine billion over the current year's. On the basis of these figures, it has been calculated that the Treasury in 1974 will be taking the equivalent of nearly half of the national income in the form of taxes (30.2%) and social contributions (18.9%). Generally, taxpayers in higher brackets can expect to pay more in the future, while the tax burden for low-income groups should be lightened. This, of course, is in line with the socialist-led government's concept of incomes redistribution. The same can be said of the idea to have wage increases paid mostly in the form of identical lump sums for all employees rather than on a straight percentage basis.

Specifically, the cabinet of Prime Minister Joop den Uyl announced the following proposals, among others:

- Both property and inheritance tax rates would be raised, while the introduction of a capital gains tax is still to be studied. (The higher property tax rates would primarily affect "rental value" assessments. As has been explained, a person owning a home with an assessed value of 60,000 guilders would have to pay 1,200 instead of 600 guilders, on top of regular mortgage and interest payments.)
- Drastic increases are planned for automobile taxes, and a new 200-guilder "disposal" tax is to be levied on newly purchased cars, to be refunded when they are turned in to be junked. Raised excise duties on gasoline and diesel fuel would result in revenues of some 210 million guilders in 1974.
- In the social-economic sector, the government intends to introduce legislation requiring mandatory advance notification on mass dismissals and giving employees a greater voice in management. The right to strike, never formally acknowledged in the Netherlands, is to be statutorily guaranteed, even to civil service personnel.
- In line with European Community guidelines, The Hague is preparing legislation that would require companies to give the government prior notification of planned mergers.

Britain: Accountants Object to 'Intervention'

Britain's industrialists and their accountants have solidly endorsed the practice of inflation accounting: the Confederation of British Industry has reaffirmed its original commitment to the concept of company accounts being adjusted for the effects of inflation, and the Accountancy Standards Steering Committee (ASSC) early next year intends to publish a draft accounting standard outlining procedures. The whole concept of inflation accounting has led to a clash between the ASSC and the government, with the latter planning its own inquiry into the problem, hereby triggering some hostile reactions among leading members of the accountancy profession who consider this intervention unjustified and an intrusion into their sphere of competence.

Curiously enough, the government has by no means rejected the ASSC proposals that companies should retain "historical"

Accounting *(contd.)*

(i.e., traditional) cost accounting principles and supplement these figures with others adjusted to "current purchasing power" by means of a general reference index such as the consumer price or retail price index. On the other hand, the government argues that the issue goes "well beyond accepted technicalities." Undoubtedly, the switch to inflation accounting will have considerable impact on company results in that, generally speaking, lower profits will be posted. This, in turn, will affect the stock market evaluation and rating of individual companies and, by extension, the flow of industrial investment. It will also pose the problem of company taxation: the government will be obliged to consider whether the profits to be taxed should be of the adjusted rather than the traditional variety.

Future Status as Economic Power Queried

Lord Rothschild, who heads the U.K. government's Central Policy Review Staff and functions as a top adviser to the cabinet, has delivered a hard-hitting speech claiming that Britain is in great danger of eclipse as an economic power, not only worldwide, but even in the more limited context of Europe. By 1985, he claimed - and his prognosis was distinctly reminiscent of the Hudson Institute's predictions earlier this year - the GNP per head in the U.K. would be half of that of France and Germany and would be roughly equal to that of Italy. (The Hudson scenario projected Britain's GNP at that date as undercutting that of Italy.) Rothschild further claimed that the U.K. "no longer has the money or resources to do all those things we would like to do": unless Britain abandons the idea that it is one of the wealthiest, most influential, and most important countries in the world, it is likely to find itself in increasing trouble.

Rothschild's speech, on Sept. 24, has caused considerable embarrassment in government circles, especially as it runs counter to the buoyant official optimism expressed of late, and it was suggested that he had exceeded his brief as head of the government's "think tank." Yet, the CPRS was conceived precisely to draw up such prognoses, and leading industrialists have sprung to Rothschild's defense, urging that the country "trim its spending to its capabilities."

Rothschild's remarks have come against a background of increasing problems on a number of fronts: the unwelcome possibility of a new inflation spiral following dogged pursuit of certain growth rates, industrial unrest, a virtual deadlock on the Stage Three counter-inflation program, disenchantment with the "benefits" of EC membership, the reversal of government policy on competition and credit control (and the resultant reversion to credit restraint via directive), and the sagging profits caused by Stage Two policies that have hit industrial expansion. Many Britons concur with Rothschild's indictment of the U.K. for complacency, a lack of forward thinking, and a residue of Victorian *folie de grandeur*.

Germany: Tighter Rules on Packaging in 1975

German manufacturers and particularly the packaging industry will have to prepare for tightened packaging rules (*Verordnung zur Änderung der Fertigpackungsverordnung*, Official Gazette, 1973, part I, page 843) that will go into effect on Jan. 1, 1975. These rules will extend coverage to additional products

Packaging *(contd.)*

such as household cleansers, car polishes, and pet foods and will stress "truth in selling" by prescribing how many percentage points a product's actual weight may deviate from that listed on the label. Packagers will be required to run more regular checks, with government-approved equipment and methods, and to keep records of these checks. Moreover, the variety of sizes in cans and other containers will be limited further.

Most important for industry are the new weight standards. Thus, a product may not be marketed if more than 2% of the total output of the same item does not meet the prescribed standards (at present, 5%). These standards have been upgraded for all products except liquids, on which rules are expected some time next year. Under present rules, a marmalade manufacturer producing one million 500-gram-net-weight jars of marmalade is still within the law if not more than 50,000 jars fail to meet the net weight, i.e., 3% less than described on the label. In 1975, the law would tolerate weight deficiencies in only 20,000 jars, and the actual content could not be less than 1.5% of the listed weight. Special rules will apply to poultry.

Sweden: Deadlock Vote Clouds Future of Socialists

Sweden's general elections in mid-September have produced a parliamentary deadlock. Nearly final tabulations gave the Social Democrats and the Communists a combined total of 48.9% of the votes and the three Opposition parties, 48.79%, leaving each bloc with 175 seats in the new Riksdag. This precarious stand-off situation obviously will jeopardize the chances of Olaf Palme's ruling Social Democrats to survive in office although, with a relatively modest loss of seven seats, they are still Sweden's largest party by far. Palme has made clear his intention to continue as Prime Minister, and he is being helped by the fact that the distribution of power in Parliament will not change until the end of the year, when the current session expires. In the interim, the government will have time to complete some pending business (for instance, a trade agreement with the European Community), and Palme undoubtedly will use this grace period to do some repairs on his party's damaged image.

The main issue, of course, will be whether Palme's minority government will be able to function at all come 1974, even on the presumption that the Communists (19 seats) would always vote with the administration on crucial issues. The "winner" of the elections, Torbjorn Fälldin, whose Center Party gained 19 mandates to bring its total to 90, has declared his readiness to form a new government should the Socialists fail. It has been suggested that Palme will now try to drive a wedge into Opposition ranks by seeking some form of cooperation with the Liberals, who likewise have suffered a big setback in the elections, with the loss of 24 seats. Whatever the government plans to do, the specter of a defeat on a vote of confidence will be a distinct possibility after Parliament reassembles in the New Year.

EURO COMPANY SCENE

Chrysler U.K.

Chrysler U.K. warned British labor unions that 8,000 employees stand to lose their jobs unless the dispute at the company's Coventry works can be resolved quickly. Chrysler has made

Chrysler *(contd.)*

such threats before, even going so far as to hint at a complete withdrawal from the British market, but this time the ultimatum sounded convincing. The dispute has hit the company's major export markets in New Zealand, South Africa, and South America. Chrysler has stressed that it is unable to meet the wage claims of its electrical employees, if only for the reason that the government's wages policy makes this impossible. In addition, to cede to these demands would, in the company's view, undoubtedly lead to a fresh bout of wage demands from other employee groups.

Miles Druce/ GKN

The takeover of steel stockholders Miles Druce by Britain's Guest Keen Nettlefolds is still pending, much to the frustration of the parties involved. Since the deal was referred for a ruling to the European Commission - a necessary step since the U.K. is now a member of the European Coal and Steel Community - some four months have passed. The delay has been caused by the fact that the British government has not yet presented its views to the Commission. In essence, the government must decide whether a Monopolies Commission probe is required, which should not be a difficult decision in view of the fact that all the particulars of the case were available back in 1972 when GKN made its first (and unsuccessful) approach to Miles Druce. Further, the government's stand on the issue would not be without precedent in a European context, since the recent merger between Germany's Thyssen and Rheinstahl was referred to the German monopolies commission, the Bundeskartellamt.

mens/ o Nuclear

Siemens AG of Germany has signed a long-term agreement with Ohio Nuclear, Inc., of Solon, Ohio, for distribution of the American company's nuclear-medical diagnostic equipment throughout the world except for the United States, Canada, and Great Britain.

Agfa-Gevaert/ Xonics

The German-Belgian photo group Agfa-Gevaert and Xonics, Inc., of Van Nuys, Calif., have signed an agreement for the development, manufacture, and distribution of Xonic's new electroradiography (XER) system, which is said to be faster and safer than conventional medical X-ray systems. R&D costs will be shared by the two partners, with Agfa-Gevaert to build a prototype. According to the agreement, Agfa will have production, sales, and licensing rights for Europe, Africa, Latin America, Australia, New Zealand, and parts of Asia, while Xonics will cover the North American and Far Eastern markets.

Svenska Dataregister

Svenska Dataregister AB, a Swedish member of the Litton group, has signed an $18-million contract with the Soviet Union to set up a production plant for cash registers near Moscow.

Bigelow-Sanford/ Dynamit Nobel

Bigelow-Sanford, Inc., New York, has sold its minority stake in Germany's Bigelow-Nobel Teppichboden GmbH to the minority owner, Dynamit Nobel AG, which has now changed the subsidiary's name to Nobel Teppichwerk GmbH. The former partners will continue to cooperate through a license and consultation agreement, however.

Enka/ Armour Leather

Enka Glanzstoff, German member of the Dutch Akzo group, is licensing its indirect affiliate Armour Leather Co., a subsidiary of Akzona Inc. of North Carolina, to set up a new plant

Enka/Armour *(contd.)*

for the production of Enka's "Xylee" synthetic shoe material for the American market. The factory is to have an annual output of 25 million square feet of Xylee, a so-called poromeric or "breathing" material.

Fischer-Voith

J.M. Voith GmbH of Germany and its majority holding Johann Fischer have set up a new U.S. subsidiary, Fischer-Voith Plastics Machines, Inc., in Hackensack, N.J. The company will handle distribution, engineering, and servicing of Voith plastics equipment.

Thyssen-Bornemisza/Indian Head

Thyssen-Bornemisza Group NV, a European industrial concern headquartered in the Netherlands, is negotiating to purchase $40-50 million worth of shares in Indian Head, Inc., New York, manufacturer of glass containers, communications equipment, automobile parts, and textiles.

Sperry Rand

Spokesmen for the Sperry-Vickers Umac division of Sperry Rand Corp., New York, have announced plans to begin European manufacture of numerical control equipment for the machine-tool and plastics industries, either in the U.K. or in Germany.

Thomas & Betts

Thomas & Betts Co. of Elizabeth, N.J., has set up an Italian subsidiary, Thomas & Betts SpA, electronic equipment.

Dickinson/Korn, Ferry

U.K. executive search consultants G.K. Dickinson have reached an agreement in principle to merge with Korn, Ferry International, one of the major executive search groups in the United States.

British Airways/Concorde

British Airways chairman David Nicholson has announced that BA has plans for a scheduled supersonic service between the U.K. and the United States in the second half of 1975. Two flights a day in each direction are planned, the flight time being half that of today's subsonic jets. Subject to the necessary approval, BA also plans to use Concorde on the London-Johannesburg, London-Sydney and London-Tokyo routes. Meanwhile, the chairman of British Aircraft Corp. has affirmed in Washington that the "enormous lead" over the U.S. that had been opened up by Britain and France through the development of the Concorde would not be conceded. There was, he said, no indication of either government's losing its nerve. In Britain, however, Concorde continues to be a *bête noire* of conservationists and Opposition politicians, and increasing evidence that world airlines are less than enthusiastic about the supersonic jet has called in question the continued viability of the entire project.

Citibank/SADE

First National City Bank of New York has gained official French sanction for its acquisition, through a subsidiary, of a majority holding in Société Auxiliaire d'Equipements (SADE), a finance company specializing in consumer loans. The SADE branch network, operating in eastern France, will complement that of Société de Crédit pour l'Acquisition et l'Amélioration des Immeubles, taken over in July by the Citicorp group.

Common Market Reports

EUROMARKET NEWS

Issue No. 247 *Report No. 223, October 11, 1973*

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Community: Commission Focuses on Multinationals

Multinational companies and their activities in the Common Market now have become an official topic of debate for the European Commission. In the first high-level meeting after the summer recess, the Commissioners discussed several position papers analyzing management conduct in multinationals domiciled both within and outside the EC area and proposing possible steps to deal with such behavior.

Some of the measures discussed in the position papers already have found their way into draft regulations submitted by the Commission - the most noteworthy being the one on merger controls. But Brussels is also looking into aspects of tax evasion, capital movements and monetary speculation, and "suspect investments," and work is progressing on specific proposals since these areas really go to the heart of the multinational problem. Other suggestions being studied include an efficient information system to help member state authorities coordinate controls on securities-exchange operations, and the establishment of a Community code patterned after Britain's City Code that sets forth rules of conduct for financial institutions and the stock market. Still another suggestion would require multinationals to reveal detailed information in their financial statements and annual reports.

In the coming weeks, Commission experts will draft a blueprint for a policy document, incorporating the worthwhile suggestions contained in the various papers. The proposals are bound to be the subject of long discussions in the European Parliament, the Economic and Social Committee, and also in the Council of Ministers before adoption. Brussels sources refuse to

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guess just when any of the measures might become reality, but it could be five years or more.

Britain: White Paper on Consumer Credit Bill

The U.K. government's White Paper of Sept. 26 on the Reform of the Law on Consumer Credit (Cmnd. 5427) heralds the introduction of sweeping changes in legislation concerning consumer protection and the credit industry. The government has conceded, as did the Crowther Committee in 1971, that present law is outmoded, piecemeal, and totally inadequate to cope with present-day consumer demands and new and more sophisticated credit arrangements. The legislation will cover transactions in which the borrower or lessee is an individual or a non-corporate body and where the credit is between £30 and £5,000.

One of the key proposals in the upcoming Consumer Credit Bill is for the appointment of a Consumer Credit Commissioner who, in addition to supervising legislative requirements and proposing further legislation, would be directed to disseminate information and educate the public on the uses of credit. It would also be his duty to issue and control licenses required by all those offering consumer credit or leasing facilities within the scope of the bill. These licenses would be required not only for principals but also for intermediaries, debt counselors, collectors, and credit-reference or rating agencies.

The White Paper is at pains to stress the necessity of "truth in lending." Accordingly, there are to be wide-ranging regulations for all types of advertising of loan and leasing businesses. Generally speaking, advertisements would have to contain complete specifications on credit transactions or provide for these to be made available free of charge to the potential borrower. The total charge quoted to a borrower would have to cover not only the element stated as "interest" on the sum borrowed, but also all the other compulsory charges imposed by the lender as a condition of granting the loan, such as charges for such "ancillary" services as survey fees (in mortgage situations) or compulsory life insurance. All such compulsory charges would be treated as part of the charge for credit and *not* as part of the principal advanced. Provision also would be made for rebate in the case of early discharge of debts. In all cases, the courts may override "harsh and unconscionable" agreements.

Finally, individuals would have a legally enforceable right of access to information held on them by reference and credit-rating agencies and would be empowered to have such records corrected when they could be shown to be wrong.

Ireland: Dublin Ends Tax Holiday on Mining

The Irish government's decision to withdraw the 20-year tax holiday on mining companies' profits has caught most observers unawares, especially since informed sources maintain that not even the mining companies in the Republic had been consulted or advised. The tax exemption on mining profits was introduced in 1967 as an interim (until 1968) measure in order to persuade international companies to finance mineral exploration in Ireland. The measure continued in force, however, and was instrumental in attracting some 90 compa-

Tax Holiday *(contd.)*

nies. But despite intensive exploration, major finds have been scarce, although Tara Exploration's discovery of zinc-lead ore at Navan is important even by international standards.

From available information, it emerges that Dublin's move has strongly political undertones. First of all, it has been noted that the government is now coalitional: the Labour Party, although a junior partner in this alliance, has a strong voice. At its last annual conference the party passed a resolution calling for nationalization of the entire Irish mining industry, and it is expected that a similar line will be followed at this year's conference later this month. Secondly, Ireland's labor unions have advocated a major review of fiscal legislation and have insisted that tax concessions for both the mining industry and the farmers be reviewed.

In any case, the fact remains that the government caused a furor by the overnight cancellation of the tax exemption for the mining industry. Administration critics have labeled the action "crude" and even improper. More important, however, is the implication of the decision for the continued success of the state-owned Industrial Development Authority, which has been remarkably adept at attracting foreign industry and capital to Ireland. The tools of the IDA's trade are, of course, the various tax concessions and other incentives offered by the Republic (*Doing Business in Europe, Par. 25,401*): the international business community may now begin to wonder how secure these inducements are in general, considering the government's sudden move against the mining industry.

France: Credit Ban Lifted as Franc Recovers

The Bank of France ban on franc loans by commercial banks to nonresidents - though put in the form of a "recommendation" - has been lifted after only one week upon evidence that speculation on a franc devaluation or a D-mark revaluation was dying down. Meanwhile, however, the central bank had raised the discount rate to a record 11% and had been forced - along with Germany's Bundesbank and other EC central banks - to support the franc to the tune of "several thousand millions."

Among the reasons for a return of confidence in the beleaguered French currency apparently were statements by Premier Georges Pompidou, in a Sept. 27 press conference, to the effect that the government would not stand by idly should the inflation rate show no signs of abating. It was felt that a wage and price freeze can no longer be ruled out entirely, although Pompidou indicated that the time was not ripe for this.

Still, there was more bad news on the inflation scene with the release of the latest INSEE figures on price development. Prices rose by 0.7% in the month of August, and at a rate of 7.5% for a 12-month period. (The real inflation rate is considered appreciably higher, though, if the temporary waiver of added-value tax on certain items, including beef, is taken into account.) Industry reluctance to step up the production pace also is reflected in the unemployment figures which in August went up by nearly 3% to 413,000, corresponding to an annual rate of 6.7%.

Switzerland: 'Negative Interest' Is Canceled

The Swiss National Bank has rescinded its decree of June 1972 requiring that "negative interest" be paid on Swiss franc deposits maintained by nonresidents in Switzerland. The current situation on the money and capital markets has made this rescindment possible, according to the central bank. The negative-interest rate had been fixed at 2% per quarter.

Netherlands: Government Exerts Price Pressure

Lest business and industry "forget" to pass on the price benefits that resulted from the revaluation of the guilder, the Dutch government has issued an amendment to the price regulations covering inventories, raw materials, and semifinished and finished products. The amendment obligates manufacturers as well as wholesalers and retailers to lower immediately by 2.5% prices for goods imported prior to Sept. 15 and by another 2.5% as of Oct. 15. The Economische Controle Dienst, the enforcement agency of the Economics Ministry, has been instructed to make sure that this requirement is strictly observed.

Italy: Policy Shift to Benefit 'Mezzogiorno'

By stepping up investments and changing its regional development policy Italy's present government administration hopes to succeed where all its predecessors have failed: in bringing to the backward *Mezzogiorno*, the country's southern regions, at least some measure of the prosperity enjoyed by the highly industrialized North. According to this modified policy, incentives for industrial settlement in the South would be granted on the basis of the number of newly created jobs rather than on the amount of capital invested. Some 1,000 billion lire in development aid is to be made available by the Treasury.

No specific legislation has been prepared as yet, but the Rumor Administration should be able to gain parliamentary backing for its Mezzogiorno plans (although parallel proposals to curb uncontrolled industrial expansion in the North - mainly in the Milan-Genoa-Turin triangle - may well falter due to local political resistance). Moreover, Rome currently is fighting for the largest possible slice from the European Community's proposed regional development fund. Present plans in Brussels call for Italy's getting about one-third of the 2.4 billion units of account to be allocated to the fund over a three-year period. But the Italians are lobbying for half of the total or at least 40%.

While there can be little argument that the Mezzogiorno is in desperate need of a massive build-up, agreement ends when it comes to the questions of how, where, and to what extent. A case in point is the controversy raging over the proposed Gioia Tauro steel complex in Calabria province. Plans for the gigantic project originated in the wake of the 1970-71 riots in Reggio Calabria. Including related infrastructural improvements such as roads, a power plant, a deepwater port, etc., the steel center would require investments on the scale of $1.5 billion. The IRI state concern has held off because it questions the commercial feasibility of an integrated steel complex on a site widely regarded as unsuitable anyway. Instead, IRI (through its Finsider subsidiary) has proposed a much smaller processing plant, without smelt-

'Mezzogiorno' *(contd.)*

ing operations, that would have a less devastating effect on Calabria's agricultural structure and tourism potential. Others have argued that the steel complex, as originally envisioned, would provide only 7,500 jobs, whereas the same amount invested in light industry and tourism could create employment for as many as 100,000 people.

The Gioia Tauro debate and charges that the previous policy of building industrial "cathedrals in the desert" has proven a failure have led to some reappraisals in Rome. The central government is becoming convinced that a series of smaller ventures will do a more effective job, and the industrial development minister, Carlo Donat Cattin, has now announced the start of 20 projects requiring total investments of 3,600 billion lire. Among them are water supply facilities for the Apulia and Basilicata regions, sewage treatment plants for the Bay of Naples, and 11 power plants for Calabria. By improving the Mezzogiorno's infrastructure first, the government feels it will be in a much better position later to persuade industry to move south.

Austria: Progress on Environmental Legislation

The Austrian government is about to complete work on the preliminary draft of a broad environmental statute setting forth rules to minimize damage to the environment, introducing the "polluter pays" principle, and providing stiff penalties for violators. Manufacturers whose production methods and/or products are deemed detrimental to the environment would have to contribute to a national environment fund. Upon presentation of the draft, industry will have a chance to express its views, possibly before the end of this year. The bill would then go to Parliament, where adoption is expected in 1975.

The government also plans to make available state incentives totaling 1.8 billion schillings over a 12-year period. Enterprises investing in facilities to reduce noise, water, and air pollution would be eligible for grants, low-interest credits, and interest subsidies. Also qualifying for such aid would be businesses that agree to relocate their production facilities so as to be less offensive in regard to noise, odors, etc. These funds would especially benefit the domestic paper industry, which (as in so many areas) is classified as a major polluter. The papermakers feel they need all the help they can get because their vital exports to the Common Market area are severely handicapped by Community tariffs. These tariffs will be only gradually dismantled by 1984, according to the Austrian-EC trade agreement.

EURO COMPANY SCENE

GM/ East Germany

Spokesmen for General Motors Corp., Detroit, have acknowledged that GM has been holding preliminary discussions with officials of the government of East Germany for the possible establishment of automotive production facilities there. The U.S. auto maker also confirmed that it has been negotiating with the Soviet Union for construction of a major truck assembly plant in Siberia.

Monroe Auto

Monroe Auto Equipment Co. of Monroe, Mich., has founded a new subsidiary in Bonn, Monroe Auto Equipment GmbH, to supply the German market. Monroe already maintains a production base in Belgium and plans to set up another in Denmark. European holding company for the group is Monroe Auto Equipment International SA in Brussels.

Ibramco

According to Belgian government sources, the Ibramco project for a joint Belgian-Iranian oil refinery near Liège is practically a sure thing, despite Dutch protests over possible air pollution hazards to neighboring Limburg province. Preliminary studies for the project are not yet complete, but reports so far have all been positive. The Ibramco refinery will cost BF 8.7 billion, with 25% to be shared by the company's owning partners, National Iranian Oil Co. (NIOC) and the Belgian state, and the remainder to be raised on the capital market. It will have an annual capacity of 6 million tons at first, later to be boosted to 12 million. In exchange for Iran's support of the project and its guaranteed supply of crude, Belgium will lower trade barriers for Iranian industrial goods. In addition, Teheran will allow the Belgian construction industry to build some 10,000 apartments yearly in Iran.

Montedison/ USSR

Italy's Montecatini Edison SpA has signed a final contract with the Soviet Foreign Trade Ministry for construction of seven chemical plants in the USSR at an estimated cost of $500-600 million. Work is to begin this year, with completion scheduled for late 1976 or early 1977. Montedison's Tecnimont subsidiary will supply the plants, to produce ammonia, titanium bioxide, urea, acrylonitrile, and chlorofluoromethane. The Soviets will ship these chemicals to Italy over a 10-year period to repay initial investments.

Howaldtswerke

The board of Germany's Howaldtswerke-Deutsche Werft AG (HDW), shipbuilders, has approved plans to invest DM 200 million to build a new dry dock at Kiel. The facilities will rank with Europe's largest, enabling construction of ships weighing up to 700,000 d.w.t., the size of the giant tankers now being built by other European and Far Eastern yards. The project requires an increase in HDW capital of DM 48 million, to be financed mainly by the company's majority owner, the government-controlled Salzgitter group, with the balance to be met by the state government of Schleswig-Holstein, which has a minority holding.

In related developments, HDW has just confirmed an order to build four 470,000-ton super tankers for Norwegian shipping lines. They will be the largest ships ever built by a German shipyard and will ensure full capacity for the projected new dry dock for about two years.

IWKA/ Orbital Collection Systems

The environmental protection division of Germany's Industrie-Werke Karlsruhe Augsburg AG (IWKA) has concluded a license agreement with Orbital Collection Systems, Inc. (OCS), of Chicago for production rights to IWKA's "Kuka"-brand equipment. The contract primarily applies to the German company's refuse vans, which OCS will start manufacturing by the end of this year, but includes options on other IWKA products.

IFI/ I-T-E

Italy's IFI Industriale SA, subsidiary of the Agnelli group's Istituto Finanziario Industriale, has acquired 6% of the common stock of I-T-E Imperial Corp., Chicago-based producer of electrical equipment. The shares are worth an estimated $11 million.

Ph. Morris/ Agros

Philip Morris International and Agros of Warsaw have concluded a licensing agreement for the manufacture of Marlboro cigarettes in Poland. It is the first licensing deal in eastern Europe for the production of a U.S. cigarette brand. As part of the arrangement, Polish tobacco exports to Philip Morris are to be stepped up considerably.

London Brick

The London Brick Co., Britain's largest brick manufacturer with about 43% of the market, has indicated that it is unperturbed at the news that the U.K. Monopolies Commission has decided to conduct an investigation into the industry. Although the company's market share certainly meets the test of technical dominance - one-third under the 1948 Monopolies and Mergers Act and one-quarter under the Fair Trading Act 1973 - a Commission reference need not be prejudicial, since market dominance per se does not constitute grounds for action. In practice, the Commission has often established that market dominance exists but has not been abused or used in a manner contrary to the public interest. The reference has nevertheless occasioned interest, inasmuch as the concept of "effective competition" anchored in the Fair Trading Act may be given a more precise definition in respect of at least one industrial sector.

__ish Match/ Wilkinson

The U.K. Monopolies Commission and the Dept. of Trade and Industry have both given the green light for British Match to complete its acquisition of razor blades-to-lawnmowers manufacturer Wilkinson Sword. The offer for Wilkinson now values the company at £17.5 million. Of more significance, however, is the fact that both companies refused to consider the reference to the Commission (made because the Minister for Trade and Consumer Affairs questioned the "industrial and commercial logic" of the merger) as a "kiss of death." In several cases in recent months a monopoly reference has effectively thwarted takeover bids, usually of the aggressive variety, principally because of the length of time that elapses while the Commission studies and reports on the issues involved.

Telephone Rentals/ Téléphonie Européenne

The U.K.'s Telephone Rentals has purchased an 80% stake in France's Téléphonie Européenne at a cost of some FF 10 million, payable in quarterly installments under French exchange control regulations. The move is understood to be in anticipation of increased telephone business in France following the French government's intention to expand and modernize existing networks.

Sabena/ McDonnell Douglas

Sabena Belgian World Airlines has become the first European carrier to operate the convertible passenger/freighter version of McDonnell Douglas Corp.'s DC-10 jetliner. The airline will take delivery of a second DC-10CF next June.

Suez/ Banque de l'Indochine	France's Cie. Financière de Suez and Banque de l'Indochine, which Suez gained control of over a year ago from La Paternelle insurance, will be merged completely in a two-stage operation, pending shareholder assent. First, Suez is to combine all of Indochine's financial holding activities into one company, to be absorbed by Financière de Suez, the parent firm. Then, by 1975, Banque de Suez et de l'Union des Mines (BSUM), the main banking arm of the Suez group and France's No. 2 merchant bank, is to merge with Banque de l'Indochine's strictly banking operations, producing a new bank, probably to be called Banque de l'Indochine et de Suez. Major shareholders in the Suez group are St.-Gobain-Pont-à-Mousson (16%), the U.K. government (12%), and INA Corp. of the United States (10%).
J.P. Morgan/ CGM	J.P. Morgan Overseas Capital Corp., a subsidiary of Morgan Guarantee Trust Co., has purchased a 6% stake in Caisse de Gestion Mobilière (CGM) of France, a discount house controlled by the Suez group. As soon as feasible, Morgan intends to increase the participation to 10%.
Rizzoli/ ENI/ 'Il Tempo'	Rizzoli publishers of Milan reportedly have acquired two-thirds of the capital of "Il Tempo," a Roman daily newspaper. The remaining third has been taken over by ENI, the Italian state energy holding, through a Swiss financial group. ENI also controls "Il Giorno," a Milan daily.
Midland Bank	London's Midland Bank Ltd., one of the major British clearing banks, has announced the opening of a representative office in Frankfurt. Other Continental offices are maintained in Zurich and Brussels.
Nikko Securities	Nikko Securities Co., Ltd., Tokyo, Japan's second-largest brokerage house, has been authorized to conduct full banking operations in Germany. The company announced it has converted its one-year-old representative office in Frankfurt to a direct subsidiary, Nikko Securities Co. (Deutschland) GmbH, which will be engaged in merchant banking in addition to traditional securities business.

Common Market Reports

EUROMARKET NEWS

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Britain: Heath Reveals Stage Three Proposals

Prime Minister Edward Heath on Oct. 8 unveiled proposals for Stage Three of the U.K.'s counter-inflation program, stressing that his government was not in a position to run a voluntary system of pay and price control and that a legal basis would continue to be maintained for the next 12 months. Still, the fundamental objectives remained unaltered: to continue the expansion of output and productivity in pursuit of a healthy economic growth rate, to contain inflation, and to provide more help for the low-paid and pensioners. The proposals themselves were less radical than some had feared and others had hoped. In essence, Heath claimed Stage Three would introduce stricter controls on prices and introduce greater flexibility in wage bargaining. Such an approach testified to the fact that recent discussions with employers and unions had not been entirely fruitless. Nevertheless, spokesmen for employer associations and labor unions registered little enthusiasm for the manner in which "flexibility" had been interpreted. Labor union leaders were particularly irritated that statutory controls would continue to operate, and Opposition leader Harold Wilson claimed that the proposals were "unfair and unworkable."

Here is a summary of the proposals:

WAGES

- New ceilings: Wage increases are to be subject to a ceiling of 7% or a £2.25-per-week limit, with a basic maximum increase of £350 per year (these are limits, not commitments). Further, a "flexibility margin" of 1%, giving average increases on the or-

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Stage Three *(contd.)*

der of 8-9%. (At first glance, this seems little different from 4% plus £1 per week under Stage Two: in effect, those earning less than £33 per week will gain by opting for the flat-rate increase.)
- Threshold agreements: These will operate throughout the 12 months (if the proposals in the consultative document are approved). The retail price index for October 1973 will be used as a base date. Payments of up to 40 pence per week will be made if the index rises by 7% and further payments will be made for each percentage point increase over 7%.

Action was also promised on the wages front in respect of anomalies uncovered by the Pay Board, equal pay for women (which is being introduced under statute), and special London allowances.

INVESTMENT

- Profits: Cuts in profit margins under the code relating to prices and pay will be limited to 10% to counteract a possible cutback on investment. The list of "allowable cost increases" is to be extended and further "depreciation increases" allowed. Companies earning low profits will be permitted to raise their return on capital to 8% before being subject to price control.
- Dividends: Present controls continue (rate of increase limited to 5% per annum) with latitude where new capital has to be raised for investment.
- Medium-sized companies: Category II firms (manufacturing, with sales between £5 and 50 million per year) are now required to notify price increases to the Price Commission. Above all, artificial subdivision of enterprises to avoid profit margin control is to be "discontinued."

Nationalized industries will remain subject to controls, with the government underwriting any "substantial deficits."

- Bank profits: These will be reduced on the order of some £30 million a year by non-payment of interest by the Bank of England on special deposits.
- Business rents: Standstill to continue until May 1974 and then prices will be allowed to rise to November 1972 level in the following 12 months.
- Public spending: Public building contracts will be "spread forward" to save some £100 million in the present financial year.

In addition to this, the proposals include a number of political rather than fiscal measures. Thus, the government will negotiate with building societies to reduce first-purchase mortgage rates, will peg the cost of milk and school meals, will cut defense purchases by some £15 million, and will give old-age pensioners a £10 Christmas bonus. The latter will be financed by an increase of 9 pence in employers' weekly national insurance contributions as of January 1974. Finally, and to the amusement of the government's critics, New Year's Day was proclaimed an "official bank holiday."

Netherlands: New Rules Limit External Cost Pricing

The Dutch system of price controls so far has not interfered with the freedom of businesses to pass on "external" cost increases in their own price calculations. This has now been changed by a modification of the 1973 Price Regulations issued by the Economics Ministry. It provides that companies may go beyond three officially designated cost categories only when other costs constitute an essential part of their own cost calculations. The three approved categories are a) the purchase price for raw and basic materials and semifinished products, b) prices and other charges levied by the government and public authorities, and c) automobile taxes, import duties on automobiles, and excise tax duties on transport fuels. Write-off costs do not qualify, however.

The new rules will affect only industry and service businesses. The profit margin regulations of the trade sector - based on the performance of distributing costs - will remain in effect at least until the end of the year, before the government decides whether changes or amendments are necessary.

The new provisions have no bearing on the requirement (in effect since May) to give the government prior notice of price increases.

Study Urged on Impact of [For]eign Firms

One of Holland's three major trade unions, the Christian National Trade Union Federation (CNV), has demanded an official study on the influence and impact of foreign corporations on the Dutch economy. An article in the CNV's official organ, "De Gids," referred to a similar study done in Belgium that had established that 18% of all industrial workers were employed by foreign enterprises, which in turn accounted for some 25% of domestic industry production and total exports. In some sectors such as rubber, chemicals, and petroleum the percentages reportedly were substantially higher.

The CNV report acknowledged that foreign investments and takeovers in Holland generally benefit the employment situation but warned that more and more corporate decisions affecting the Netherlands were being made abroad. To the same degree, it said, Dutch employees are becoming increasingly dependent on foreign-based managements. "These managements are in no way involved in the dealings taking place...between the government, the employers, and the unions in Holland," the report said, and they often do not know or fail to take seriously the Dutch way of doing things. This applies not only to collective bargaining procedures but also to other important decisions concerning production expansion or reduction, transfer or closure of plants.

The government in The Hague should concern itself with this problem, the CNV report concluded, because it may find that foreign-based corporate managements could ignore international agreements to which Holland is bound. But first the government should conduct a detailed study in order to determine what should be done to counteract the country's growing dependence on foreign enterprises.

Germany: Move to Control Compensation of Board Members

It is rare that a bill sponsored by Germany's Opposition MPs gets support from government coalition ranks, but the Christian Democrats' proposal aimed at limiting compensation for members on supervisory boards of stock corporations has a good chance of becoming law. The bill amending the 1965 Stock Corporation Act would allow stock corporations to pay not more than DM 8,000 a year to a supervisory board member or DM 14,000 to a board chairman (DM 12,000 to his deputy). Present law does not place any limitation on a supervisory board member's compensation; it merely states that it should be commensurate with his duties and be in line with the corporation's financial standing.

Prominent Social Democrats have come out in favor of the bill, but the Free Democrats - their junior coalition partners in government - have raised objections. As things stand at this early stage (the bill is in committee), passage of the measure will depend on how many Social Democrats are swayed by the argument put forward by the bill's sponsors that compensation usually is "out of proportion to the services rendered or responsibilities assumed." It was precisely this reasoning that the Social Democrats used in their many past attempts to place a limit on board members' remuneration, but all their moves in this direction were defeated by the governments of the Adenauer and Erhard eras, when the Social Democrats constituted the Opposition in Parliament.

An industry spokesman, acknowledging that in numerous cases a multiple of the DM 8,900 annual average is paid (last year, 2,271 corporations in Germany paid 12,000 board members some DM 107 million), said that above-average compensation usually goes to individuals with more knowledge and expertise than other members.

There is one point the sponsors did not raise, although other factions seem to attribute much more significance to it. It concerns the number of board memberships any one person may hold, presently limited to 10. Critics point out that, in most instances, an individual cannot possibly devote the time and energy needed to fulfill the duties entailed in 10 memberships (*Doing Business in Europe, Par. 23,222*).

Italy: Rome Continues to Delegate Tax Collection

For all its inherent inefficiencies and incongruities, Italy's time-honored system of delegated tax collection has received another lease on life. According to press reports, the government has decided to extend contracts for another 10 years, apparently fearful that it might lose huge amounts in revenue, at least temporarily, if it were to take over completely on its own now.

The system of delegating the collection of income and other direct taxes - possibly unique in the world - was established in 1870. Some 2,500 authorized collectors - including banks, companies, and individuals - reportedly bring in the equivalent of more than $7 billion annually, for a total fee of more than $300 million (the fee has to be paid by taxpayers on top of the tax due). Among the idiosyncracies of the system is that many collectors have exploited their status to the fullest - for instance, by "working" with the capital before turning it over to the fiscal authorities.

Tax Collection *(contd.)*

In extending the system for another 10 years, the government at least plans to establish a uniform 3% tax collection fee: presently, fees are said to average 1.25% of the tax due in the North but can come close to 10% in the South.

Denmark: Anti-inflation Program Still Lacks Detail

In a speech inaugurating the new parliamentary session, Danish Prime Minister Anker Jørgensen has committed his administration to an all-out fight against inflation and to a policy of economic restraint. Avoiding specifics, Jørgensen said the government is preparing measures to curb credit volume and private consumption, to slow down housing investment, and to contain the steep rise in prices and wages generally. (Among other items, he confirmed that the company tax rate would be lifted from 36 to 40% and that net worth tax rates would also go up.) The chief executive's failure to submit a detailed anti-inflation program was laid to the difficulties Jørgensen's Social Democrats have had in achieving rapport with the Socialist People's Party, whose support is needed if the administration is to steer its legislation successfully through the Folketing.

Jørgensen's address has come against a background of a strongly expansive economic boom, high private consumption, an acceleration of public expenditure, and worsening deficits in the Danish payments and trade balances. Official estimates put the probable balance-of-payments deficit for 1973 at 3.5 billion kroner compared to 0.7 billion last year. Through July 1973 the trade deficit had reached a record 5.458 billion kroner, with imports up nearly 30% and exports 16.7%.

On the inflation front, the government's problems are formidable indeed: during this initial year of the new two-year contract period, which began in April, the wage level is expected to rise by 26-32% in what has been described as a virtual "wage explosion." This will automatically be of serious consequence to price development since wages are tied to the price index. The government reportedly is exploring avenues to give some relief to those areas of consumption that are vitally important to low-income groups; a reduction of the 15% value-added tax on staple foodstuffs is among the options apparently being considered.

AROUND THE MARKETPLACE

Industry in Finland Hails EC Treaty

To the great relief of domestic industry, Finland finally signed the free trade agreement with the EC on Oct. 5 in Brussels after a long period of internal political bickering. Ratification is still pending but considered a mere formality since it requires only a simple majority in Parliament. The agreement will take effect on Jan. 1, 1974, if Parliament approves it by the end of next month. Thus, Finland will be the last EFTA country to come to terms with Brussels, which signed similar agreements in July 1972 with Sweden, Switzerland, Austria, Portugal, and Iceland, and in June 1973 with Norway.

The EC-Finnish trade pact, providing for a free trade zone for industrial products over the next five years, contains two elements that differentiate it somewhat from the

Finland/EC *(contd.)*

Common Market agreements with the remaining EFTA nations:
- The number of Finnish products enjoying a protected status for a longer period is unusually large, with the last tariff barriers to fall as late as Jan. 1, 1985.
- The agreement contains no clause pertaining to the expansion of economic cooperation in the future, which means that for Finland the pact is primarily a customs agreement. (This, of course, is a concession to the Soviet Union, which had been worried that Finland might use the agreement to strengthen its ties to western Europe.)

Finnish industry has always campaigned for the agreement since two-thirds of its exports go to the EC and EFTA area. Not only does the pact protect these vital markets but it also ends a period of uncertainty regarding new investments. The major beneficiary will be the country's pulp and paper sector, which alone accounts for one-half of Finland's foreign exchange earnings. But the pulp and paper producers know that stepping up export volume is not an end in itself - in future more emphasis will be on semifinished and finished products, particularly in packaging. The same will go for the wood industry (more furniture) as well as the machine tool, textile, and apparel sectors.

Bonn Program to Minimize Energy Risks

The conflagration in the Middle East in a way has confirmed the wisdom of the German government's recent decision to spend an additional DM 600 million annually over the next five years to safeguard the nation's energy supplies. Most of the money is to come from general revenues, but businesses and households will have to bear part of the load beginning next year when power consumption will be subject to a special levy of half a pfennig per kilowatt-hour.

Since crude oil will remain Germany's primary energy source, equal to 64% of the total, Bonn's program will be aimed mainly at lowering the risks of supply. For an immediate step, importers will be required to maintain larger emergency stockpiles. But the government itself will attempt to put its relations with the oil-exporting countries on a more certain footing. (Initial progress has been achieved with a Bonn-Teheran agreement that calls for joint construction of a DM 1.5-billion oil refinery in Iran, a similar refinery in Germany, and a natural gas pipeline between Iran and Germany.) State-owned VEBA, virtually the only German oil concern on the domestic market (90% of which is controlled by foreign groups), will be further strengthened through reorganization of its holdings and the addition of new ones.

But the program will also extend to the alternate energy sources. Thus, production of nuclear energy and natural gas as well as soft-coal mining will be intensified. Enterprises engaged in prospecting for natural gas may apply for government guarantees on bank credits. Nuclear power capacity is to be boosted to 50,000 megawatts by 1985 (though accelerated reactor construction will not be at the expense of the environment, Bonn sources insist).

As coal becomes less competitive, mining capacity in the Ruhr and Saar regions is to be further reduced from 110 million tons this year to 83 million in 1978. It is this sector

Energy Program *(contd.)*

that will benefit to a large part from the government's increased financial engagement: priority will be given to the assistance of miners laid off when uneconomical operations are shut down and to retraining programs. A new feature will be periodic review of state subsidization of mines (i.e., indirect aid to steel producers purchasing subsidized coke) to see whether it is justified by the steel industry's competitive position.

EURO COMPANY SCENE

Commission/ RWE/ Techsnab

The European Commission has approved an agreement involving the delivery of enriched uranium from the Soviet Union to a German consortium headed by Rheinisch-Westfälisches Elektrizitätswerk (RWE). The EC's Euratom Supply Agency, for the first time involved in such a transaction with the USSR, and the consortium are to seal the contract with the Soviet Techsnab export agency shortly. RWE will use the uranium in three new nuclear power plants. The group is said to have obtained a price about 5% lower than that offered by the United States for a quantity of uranium that is expected to satisfy 10-20% of EC requirements for the 1974-78 period.

Tenneco/ Texas Eastern/ Brown & Boot

A U.S. energy consortium planning the transport of natural gas from West Siberia to the United States has approached the Norwegian government about construction of a transfer shipping terminal in Arctic Norway near the Soviet border. By 1980 the companies involved - Tenneco, Texas Eastern Transmission Corp., and Brown and Boot - plan to have completed a $6.3-billion, 1,800-mile pipeline from Siberia to the potential terminal site. From there they propose to have tankers convey the liquefied gas to the U.S. East Coast. The Soviet Union reportedly would underwrite the pipeline project with gas supplies. No formal agreement either with Norway or the USSR has been reached as yet.

Dow Chemical/ Organsko

Dow Chemical Europe has announced plans to set up a joint venture in Zagreb together with Yugoslavia's Organsko Kemijska Industrija (OKI) for the manufacture of polystyrene and expandable polystyrene granules, base materials for the plastics moulding industry. Total initial investment will be about $17 million, according to Dow the largest investment by any U.S. company in Yugoslavia to date and also the first American investment in the country's chemical industry. The plant is to be completed by spring 1976.

Universal Grinding/ Dresser

Universal Grinding, the U.K. grinding wheel and abrasives manufacturer, is negotiating with the United States' Dresser Industries prior to the latter's making a bid for the British company. A rise in Universal share prices subsequent to news of the talks valued the U.K. company at some £22 million. Dresser is a leading abrasives group in the United States: acquisition of Universal would give it a solid entry into Europe.

Rank Xerox

The British-American Rank Xerox group plans to begin erecting its first German production plant before the end of the year at Aachen. The facilities, requiring initial investments of DM 36 million, will employ 800 upon completion in 1975-76.

Vorwerk/ Braidmakers/ First Hartford

Germany's Vorwerk & Co. is purchasing Braidmakers, Inc., a small textile manufacturer in South Carolina, from its parent First Hartford Co. of Manchester, Conn., which has interests in the textile, real estate, and retailing sectors. The value of the cash transaction, to be concluded on Oct. 31, will depend upon Braidmakers' latest inventory figures.

Salenia/ United Brands

Rederi AB Salenia shippers of Sweden have taken a 6.7% stake (735,500 shares), worth an estimated $6 million at purchase, in United Brands Co., the U.S. food conglomerate.

Imperial Tobacco/ BAT

Imperial Tobacco and British-American Tobacco, which have enjoyed close links for many years through complex cross-shareholdings and exclusive marketing arrangements, have now agreed on a radical program to split their partnership in western Europe in order to comply with EC monopoly regulations. Imperial in future will sell its own brands on the Continent, and BAT will compete with Imperial in the British market. Up to now, Imperial has not competed on the Continent, allowing its brands to be sold by BAT. Similarly, BAT has stayed out of the U.K. market. Neither company is expected to feel serious effects in terms of sales. If anything, some advantage should go to BAT, which retains the valuable duty-free trade in Imperial brands done with airlines, ships, military personnel, and diplomats.

Burgo-Scott

Burgo-Scott of Turin, Italy, jointly owned by Scott Paper of the United States and Cartiere Burgo, plans to build a new $15.6-million plant at Romagnano Sesia in Piedmont. The company controls 40% of the Italian market for disposable paper products and has an annual turnover of $24 million.

ANIC/ Kendall/ Alta

ANIC, of Italy's ENI group, and the Kendall Co. of Boston have formed a joint subsidiary, Alta. Kendall has licensed Alta to manufacture "Polyken," an anticorrosion liner for pipe, at a new plant being built at Bagnoregio and will also provide technical assistance.

Paternelle/ Parisienne de Gestion

The boards of La Paternelle, a leading French insurance concern, and Sté. Parisienne de Placement et de Gestion, a portfolio management company, have reached an agreement to merge. Subject to shareholder approval, Paternelle will exchange 11 of its own shares for 10 of Parisienne de Gestion. In this way Paternelle reportedly hopes to strengthen its position in the banking sector.

Chartered Bank/ Liberty National

Chartered Bank of London is to merge with Liberty National Bank of California under an agreement whereby Chartered will purchase Liberty's shares at considerably over twice the pre-takeover bid market price of around $6 per share. In effect, Liberty shareholders would receive $16.33 a share, bringing the total value of the acquisition, subject to official approval, to approximately $15.6 million. Liberty, with headquarters in San Francisco, has assets of about $100 million.

Security Pacific

Security Pacific Bank, second-largest branch banking system in the United States, has opened its new Brussels branch, the bank's fourth foreign branch and its third in the Common Market after London and Frankfurt. The new branch will replace Security Pacific's Benelux representative office, dating from 1971.

Common Market Reports

EUROMARKET NEWS

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Community: Council to Get Proposals on Multinationals

The European Commission's final policy proposals on multinationals, to be passed on to the Council of Ministers before the month is out, are far less ambitious than some of the many drafts circulated earlier and now scrapped, according to Brussels sources. The final three proposals of a seven-point program advocate 1) a clampdown on tax evasion, particularly by holding companies, 2) controls on movements of speculative capital, and 3) the exchange of information on company activities among national governments. Rather than being regarded more leniently as was outlined in the Commission's own memorandum submitted in June (*Common Market Reports, Par. 9573*), tax evasion practices would run into firm Community counter-actions recommended earlier this year in a French-German memorandum. On this subject, Commissioner Altiero Spinelli - normally known for his pragmatic approach - has had to yield ground to colleagues who feel that the two most powerful Council members, France and Germany, will persuade the others to follow a stern line. This should be helped by the fact that Denmark, pushing for vigorous controls over multinationals, currently holds the chairmanship of the Council.

Work on the final proposals is being sped up in Brussels because Commission President François-Xavier Ortoli wants the drafts in the national capitals before Commission experts testify before the United Nations committee investigating the conduct of multinationals. The European-based hearings are scheduled for Nov. 6-13 in Geneva.

The four earlier measures of Brussels' seven-point program (which would also apply to all companies, not just multinationals) are already pending before the Council: the draft directive on mass layoffs; the European company draft statute; the merger control proposal (*Common Market Reports, Par. 9586*), and partici-

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Multinationals *(contd.)*

pation of workers in management decisions as well as protection of third parties, both of which figure in the Commission's fifth directive to coordinate national company law (*Common Market Reports, Par. 1350.36*).

Benelux: Agreement on Harmonization of VAT Rates

Commission officials have privately welcomed the decision of the three Benelux governments to harmonize their value-added tax rates because the move in effect anticipates the alignment of VAT systems in the Community. The finance ministers of Belgium, the Netherlands, and Luxembourg agreed to begin immediately with the preparatory work, so that by the end of 1974 a formal Benelux convention can be signed and presented to the national legislatures for ratification.

The decision calls for a two-rate system (standard and reduced) similar to that already applied in the Netherlands. Observers believe that the rates eventually to take effect in all three countries would be 16 and 4%, respectively (the present Dutch rates), or very close to that. The three finance ministers also agreed in principle on the list of products and services that should benefit from the reduced rate. Implementation of the plan would mean that the remaining "tax frontiers" still hampering intra-Benelux trade would be eliminated: there would be no need to levy import (turnover) taxes designed to bring imported products up to the level of the tax burden carried by domestic products.

Belgian tax officials make no secret of the fact that the major obstacle to a Benelux draft convention will be their country's four-rate system (see table below). Also, Belgium depends more on VAT revenue than either of the other two countries, and thus a shift to other revenue sources, i.e., increased direct taxes, will be inevitable.

The European Commission's concept for VAT rate harmonization likewise calls for two rates, standard and reduced. Food, for the most part, would qualify for the reduced rate. The difficulties Brussels faces are partly illustrated by the following table, which reflects the VAT situation in the nine member states at present:

Value-Added Tax Rates

	Standard	Zero	Reduced	Intermed.	Maximum
Belgium	18%	--	6%	14%	25%
Denmark	15	--	--	--	--
France	20	--	7	17.6	33.33
Germany	11	--	5.5	--	--
Ireland	16.37	--	5.26	11.11	30.26
Italy	12	--	6	--	18
Luxembourg	10	--	5	--	--
Netherlands	16	0	4	--	--
United Kingdom	10	0	--	17.6	10[1]

[1]Plus another 10% on new imported autos (car tax).

VAT Rates *(contd.)*

Harmonization would mean that, except for Germany and Luxembourg, all other member states must change the number of rates. Denmark would have to introduce a reduced rate, while France, Ireland, Italy, and the U.K. would be required to cut the number of rates. In addition, the U.K. and the Netherlands would have to abolish their zero rates, i.e., VAT exemption combined with the privilege of deducting tax previously paid. According to present computations by Commission officials, the uniform standard rate would lie between 13 and 15%.

Italy: Tax Evasion Cuts Down on VAT Revenues

The Italian government's current policy of trying to keep a lid on industrial investment by way of price controls and budgetary restrictions may have to be reinforced by raising value-added tax rates on products not considered prime necessities, according to reports from Rome. Such a move could be dictated by economic policy reasons as well as by fiscal need: VAT receipts have been falling shockingly below the initial estimates since the "Imposta sul valore aggiunto" (IVA) was introduced on Jan. 1, 1973 (*Doing Business in Europe, Par. 25,881*). Through July of this year, total collected IVA revenue reportedly was the equivalent of $504.8 million below original forecasts.

At a time of economic boom, the explanation for this phenomenon clearly lies with the reluctance of private business and industry to recognize and meet their tax obligations. Two comparative figures make this plain: while revenue from tax imposed on products imported by the state monopoly industries rose $315.1 million above estimates during the seven-month period, IVA revenues raised from domestically produced goods and services fell short by $819.1 million.

Meanwhile, however, the reports said that stricter and more systematic controls of IVA administration and collection have been worked out. These should enable the fiscal authorities to identify the major types of tax evasion and to crack down on them before proceeding with the partial tax amnesty that is to dispose rapidly of the load of contested tax cases now pending.

France: Inflation Pace May Lead to Incomes Policy

The unabating rise of the French price spiral and what Finance Minister Giscard d'Estaing termed "unreasonable" pay increases recently negotiated have drawn his subtle warning that the government may have to impose a general incomes policy on the country, on top of the existing price controls. The minister indicated the government's unwillingness to compromise on the 1974 target of a maximum 6.7% rise in overall prices (which would be substantially lower than this year's probable 7.7% rate). To meet this goal, Giscard d'Estaing declared, future raises in the hourly wage rate would have to be held to a ceiling of 12%. Recent reports by INSEE, the national statistical institute, said that pay raises for the 12-month period ending on July 1, 1973, had averaged nearly 14%.

Inflation *(contd.)*

Meanwhile, it has been reported, the Finance Ministry and the Bank of France are hard at work on a new anti-inflation package, although other sources claimed the program was not yet ready to be submitted. An INSEE report on the medium-term prospects of the economy was interpreted as a tip-off of possible action to come: at least until the end of this year the report foresaw no possibility of decline in the current rate of inflation, which is now slightly below 10% on an annual basis. INSEE pointed to the risk of a cumulative strengthening of prime inflationary factors - low business inventories, strained production capacities, massive private purchasing power - that might bring pressure on domestic price levels to run away from those of many other industrial nations.

Whatever measures in the price and wage sector the government is contemplating, they will have to be fully compatible with the official commitment to rapid economic expansion. Giscard d'Estaing reaffirmed this priority very recently, on Oct. 9, when he again expounded on France's intention to draw even with Germany's GNP by the mid-'80s.

Denmark: Higher Taxes to Support Stability Plan

Filling in some details of its recently announced war on inflation, the Danish government now has presented plans to impose new or higher taxes on beer, cigarettes, automobiles, and on premiums for certain types of insurance (for instance, 15% on fire insurance). Also planned is a 1% tax on the value of business construction completed before 1965. Postal rates are to be raised as of March 1974.

The Treasury should gain some 1.2 billion kroner annually in extra revenue, according to Finance Ministry estimates. Approximately one-third of this is to be used to lower the price of dairy products by financing the refund of the 15% added-value tax at wholesale level. As part of the tax measure, the Jørgensen administration said it would attempt to cut state expenditures by some 200 million kroner.

Norway: Change of Government; 1974 Budget

The new Norwegian government has officially assumed office following confirmation on Oct. 15 of Prime Minister Trygve Bratteli's cabinet list. Bratteli won the mandate to form a new government after his Labor Party, together with the Communists and Socialist splinter groups, had gained a total of 78 seats of the 155-member Parliament in last month's elections.

Observers in Oslo feel that the new administration will try to establish a very cooperative relationship with the European Community despite its political dependence on the left-wing factions in Parliament. The appointment of Knut Frydenlund as foreign minister serves as a basis for this prediction: Frydenlund, 46, is known as a forceful proponent of Norwegian membership in the EC. So are, in fact, all ministers in Bratteli's 12-member cabinet, with the exception of Trade Minister Jens Evensen and Fishery Minister Eivind Bolle.

Just days before the new government took over, the outgoing administration of Lars Korvald had presented an "anti-inflation" budget for 1974. It called for public expenditures

Norway Budget *(contd.)*

of 34.3 billion kroner, an increase of 11.5% over this year's budgeted outlays and thus the lowest increase in years. The budget plans include several minor tax measures, higher postal rates, and raised transport fares. Also, the outgoing government submitted supplementary proposals for additional food subsidies (dairy products, meat) in the amount of 122.5 million kroner. The Bratteli administration is not expected to make substantial corrections in the basic structure of the Budget, Oslo reports said.

Austria: Legislation to Force Price Cuts

In line with a resolution adopted by the Socialist-controlled Parliament in July, the Austrian government has prepared legislation that would give authorities the administrative power to order any company to slash domestic prices of products it sells cheaper abroad. No action would be taken if the higher price is the result of a different fiscal burden made up of customs duties and taxes.

Government officials point out that experience has shown that it is mostly multinationals that sell at higher prices in Austria, taking advantage of the domestic market conditions, which are often characterized by little competition. The drafters also invoke clauses contained in two treaties with the European Economic and Coal and Steel Communities that call for "essentially equal prices" in Austrian-EC trade.

According to the draft, Austrian embassies and consulates would furnish the figures from EC and EFTA countries. Domestic subsidiaries or sales representatives of foreign companies would be required to provide the needed information. They also would have to open their business records for inspection; refusal to do so would subject company managements to fines of up to 150,000 schillings or jail terms of up to three months.

The bill has caused an uproar in the Austrian business community, where it is argued that the law would not merely affect multinationals but Austrian manufacturers and trade too. Both sectors are frequently compelled to offer their products at lower prices abroad so as to remain competitive. The bill also may be subjected to a constitutional battle. Prominent jurists feel that the federal government has no authority to prepare this legislation; they believe an amendment to the constitution would be necessary.

EURO COMPANY SCENE

Court of Justice/ Miles Druce/ GKN

The European Court of Justice has rejected a bid by the U.K.'s Miles Druce for a temporary injunction to ward off further takeover maneuvers by Guest Keen and Nettlefolds, the country's largest engineering group. The ruling reportedly was made on GKN assurances that it would not add at this time to the 29.9% of the Miles Druce shares it now owns outright and that it would not call a Miles Druce shareholders' meeting within six months.

One effect of the court's ruling is that it does not imperil European Commission plans to exercise jurisdiction over takeovers involving large companies in the EC. Earlier, Brussels also had refused to take interim action to prevent

Miles Druce/ GKN *(contd.)*

GKN from exercising its shareholder rights after Miles Druce had alleged abuse of a dominant position under Treaty Article 86. The Commission is still considering whether GKN has effectively taken control of Miles Druce without prior notification and whether such an acquisition should be authorized. A final decision reportedly is not due before next spring.

The GKN/Miles Druce legal battle shows every sign of developing into a landmark case. For the U.K., at least, it sets a precedent inasmuch as it marks the first time two British companies have taken their dispute to Luxembourg.

Commission/ German Philips

The European Commission has fined Germany's Deutsche Philips GmbH, member of the Dutch Philips group, 60,000 units of account for the maintenance of export embargoes in violation of Article 85 of the Treaty of Rome. In 1967 the Commission had instituted proceedings against the parent concern for applying such embargoes within the EC, whereupon Philips agreed to withdraw them and have its European subsidiaries amend their contracts accordingly. Deutsche Philips apparently failed to make these changes in distribution agreements covering specific products, although it complied with the order in principle in its general terms for payment and delivery within the Common Market.

Pirelli

Pirelli SpA has won a judgment by the Milan Court of Appeals confirming the legality of a capital increase it undertook in spring 1963. The case had been brought by several shareholders who last July succeeded in a parallel motion to invalidate the company's annual balance sheets for the fiscal years 1962-69, preceding the Dunlop-Pirelli union.

Lip

France's long-drawn "Affaire Lip" at last appears to be close to its denouement, now that employees of the bankrupt watch manufacturer have roundly rejected (626 to 174) the rescue plan put forward by Henri Giraud, the government-appointed mediator, and endorsed by the Communist-led CGT union. Giraud's final proposal entailed continued employment of some 990 of the old Lip work force in a reorganized company, with the remaining 160 or so employees to be retrained - while still drawing at least 90% of their regular pay - for new positions, possibly with Lip. The CFDT, representing a majority of the workers, opposed this plan and held out for full employment, despite the government's ultimatum that this was the company's last chance, because Paris could and would not set such a precedent at taxpayer expense. The next step for Lip will be liquidation and complete shutdown, unless a new 11th-hour buyer shows up.

Thyssen-Bornemisza/ Indian Head

Thyssen-Bornemisza of the Netherlands, which just completed its $50-million purchase of a 32% stake (1.85 million shares) in Indian Head, Inc., New York-based industrial conglomerate, has announced it is considering further U.S. acquisitions. The group now has two seats on the Indian Head board of directors and reportedly would prefer to make additional American purchases in cooperation with its new part-holding.

Dana Corp./ Brown Bros.

A 10.03% stake in the U.K.'s automotive accessories group Brown Bros. & Albany has been acquired by Ohio-based Dana Corp. Dana already has a 35% holding in Britain's Turner Manufacturing.

Siemens

Germany's Siemens AG and a Soviet engineering group are cooperating in construction of Finland's first atomic power plant some 40 miles east of Helsinki. Siemens is to supply and install measurement and automatic control devices worth DM 23.5 million, while the Russians are furnishing the reactor and turbo equipment. The plant is to be completed by 1976. Negotiations to build a second nuclear power station, also involving Siemens, are already under way.

Daimler-Benz

Daimler-Benz AG of Germany and the Soviet Union are said to be planning the joint development of an engine to power a medium-sized Soviet-built automobile. The USSR is also reportedly interested in cooperating with Daimler-Benz in the production of trucks and other utility vehicles and in the area of auto traffic safety.

Laker Airways

Britain's Laker Airways, which had scheduled its new low-fare, walk-on Skytrain service between London and New York to begin as of April 1, 1973, has charged that the delay has cost the airline some £8 million while the case is still being considered by the U.S. Civil Aviation Board. Pointing to the fact that the British Civil Aviation Authority had approved the £32.50-37.50 single fares some time ago, Freddie Laker, the airline's chairman, alleged that major American carriers were pressuring the CAB to block the project. Meanwhile, the CAB has set a hearing on the Skytrain application for Dec. 4, and Laker believes the project will be in full swing by April of next year.

Unilever/ Ellis & Everard

Unilever has allowed its £10-million takeover bid for U.K. builder suppliers Ellis & Everard to lapse, but there are signs that the battle is not yet over: although E&E shareholders gave assurances that they would not accept the 200 pence-a-share Unilever bid, the latter is clearly still in the market for E&E shares. Under the City Takeover Code, Unilever can keep buying until its holding goes beyond 40%, after which it will be obliged to make an unconditional offer at the highest price paid per share. As of Oct. 11, five days before the offer was allowed to lapse, Unilever had acquired 22.66% of E&E.

PPG/ Terni/ Vernante

Terni Industrie Chimiche of the ENI group has signed a licensing agreement with the United States' Pittsburgh Plate Glass for the production in Italy of "Silex" glass. The plant, to have an annual capacity of 33,000 tons, will be built at Terni and is scheduled to begin production in 1976.

In other news, PPG Industries, Inc., has reached an agreement with Vetrerie di Vernante SpA, whereby PPG is to acquire a substantial interest in the Italian company through a capital-doubling transaction. The agreement also calls for the merger of Vernante with Pennitalia SpA, PPG's Italian arm in the glass sector for the past 10 years.

McKee/ Liquigas	Arthur McKee of Cleveland, Ohio, has been awarded contracts valued at $200 million for two chemical projects by subsidiaries of Italy's Liquigas SpA. McKee will build a biochemical plant and expand a feedstock synthesis facility, both in southern Italy.
Orbital/ Telenti	Orbital Collections Systems, Inc., of the United States, has formed a joint venture with Achille Telenti of Rome to provide waste collection systems in Italy in six major cities.
Kraftco	Kraftco Corp., New York, is building a new central food processing plant in the Brussels area to relieve and supplement its other European production facilities. The plant, costing $26-27 million, is to begin operating by early 1976. It will supply mainly the EC market with Kraft cheese products, ready-to-serve dishes, gourmet items, and other packaged foods.
Svenska Tobaks/ U.S. Tobacco	Svenska Tobaks AB of Sweden has acquired over $1 million worth of shares in United States Tobacco Co., its major client, reportedly in order to underline the two firms' "mutual interests." Tobaks AB reportedly supplies more pipe tobacco to the U.S. company than it sells to the entire Swedish market.
Genesco/ Sanremo	Genesco Inc. of Nashville, Tenn., has revealed further plans to streamline its European operations by selling off an Italian holding, Sanremo men's wear. In August the company announced it was closing or disposing of clothing subsidiaries in France, Belgium, Portugal, and the Netherlands.
Slater, Walker/ Horizon	The U.S. offshoot of Britain's Slater, Walker is currently engaged in takeover negotiations with Horizon Corp., the Arizona real estate company, capitalized at some $53 million. Slater, Walker is represented in the United States by Slater Walker of America, formerly Franklin Stores.
C&C Property/ Western Realty	Britain's Capital and Counties Property has acquired a 62% controlling stake in the Canadian real estate company Western Realty Projects. The sum involved (£19.6 million) is of less consequence than the speed with which the deal was completed: it was closed on Oct. 14, one day before the Canadian government met to consider new legislation that in future might prohibit foreign companies from acquiring a majority holding in Canadian companies without Ottawa's approval.
Banco Hispano-Americano	Banco Hispano-Americano of Madrid, Spain's second-largest credit institute, has joined the triple banking alliance partnered by Italy's Banco di Roma, Commerzbank of Germany, and Crédit Lyonnais of France. The group, which cooperates closely with Lloyds Bank in the U.K., is also in the process of setting up a joint Dutch banking subsidiary, Europartners Bank (Nederland) NV, in which Commerzbank is to hold 60% and the French and Italian banks, 20% each. Later, Banco Hispano-Americano may also take a participation as well.
Paribas	Gosbank, the Soviet state bank, has authorized France's Banque de Paris et des Pay-Bas to set up a representation in Moscow, the second French bank to do so after Crédit Lyonnais.

Common Market Reports

EUROMARKET NEWS

Issue No. 250 — *October 30, 1973*

BRARY

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Community: SABA Decision May Establish Precedent

The European Commission soon will announce a decision in the SABA case that may well set the pattern for a series of rulings involving negative clearances (*Common Market Reports, Par. 2412.01*). According to Willy Schlieder, director-general of the Commission's antitrust division, Brussels will grant SABA's selective distribution system an exemption from the cartel ban of Treaty Article 85(1). SABA, a German home electronics manufacturer in which General Telephone & Electronics International of the United States has a majority interest, had asked for a negative clearance several years ago. But this petition was given a serious chance only after the company reformed its EC-wide distribution system and abolished export and re-import prohibitions upon the Commission's insistence (*Common Market Reports, Par. 9534*).

Speaking before an international symposium on EC competition law in Brussels, Dr. Schlieder gave the impression that he was not entirely happy with the qualitative criteria SABA applies in its distribution system. But he felt the Commission could tolerate the situation as long as these criteria were not used arbitrarily. SABA's exclusive distributors and wholesalers may sell only to company-selected retailers, and these retail dealers must comply with certain conditions such as maintaining minimum sales volumes, employing specially trained sales personnel, and providing after-sale maintenance and repair service. Thus, SABA products are not available to dealers who do not fulfill these requirements. However, although this system may not be without consequences for intra-EC trade (it restricts the number of SABA dealers), the Commission believes that its impact is negligible.

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SABA Decision *(contd.)*

Schlieder pointed out that the Commission has not yet decided whether it will grant an exemption to various distribution systems maintained by several French perfume producers as well as by French and German automobile makers. These provide for qualitative as well as quantitative criteria, with some impact on intra-EC trade (clear-cut quantitative restrictions are prohibited by Treaty Article 85(1)). On that part of the issue the Commission will hold hearings next month before resuming its deliberations, Schlieder said. He expressed his preference for a group exemption regulation to avoid having to continue issuing individual decisions.

Italy: Tax Reform Cracks through Bank Secrecy

In its general reorganization of the fiscal system, Italy's new Tax Reform Act for the first time will enable tax investigators to insist on access to information normally protected by the privilege of bank secrecy. Tax evasion, which traditionally has flourished behind this shield, in future will be more difficult under provisions of the Act (to take effect next year) that require banks to reveal information to the authorities whenever a taxpayer:

- fails to file an income tax return and when his annual income is officially estimated to exceed 100 million lire;
- files a return grossly understating his income (here the authorities must offer proof that this income was at least four times higher than declared in the return);
- fails to keep legally required tax and business records for three consecutive years.

This partial access to banking information may be extended to the taxpayer's spouse and children and, furthermore, would cover deposits kept in postal savings accounts. The banks would have 60 days to comply with the tax authorities' request.

Although the government's need for effective means of fighting tax evasion is generally conceded, many critics have also pointed to the dangers inherent in a partial lifting of bank secrecy. They warn that it might induce institutions and individuals to channel their savings abroad, setting off a renewed flight of capital and depriving industry of domestically raised capital for investment. There are also fears that the Treasury might be tempted to wield its new weapon arbitrarily, considering Italy's past history of scandals involving the tax authorities.

Switzerland: Restrictions on Licensing New Banks

The new president of the Swiss Banking Commission, Dr. A. Matter, has announced that the agency in the future intends to be more restrictive in licensing new banking establishments in Switzerland. Present regulations, which in theory authorize the Commission to cancel licenses upon evidence of illegal or questionable practices, have proven inadequate due to lengthy administrative appeal procedures and possibilities for cover-ups, Matter said. This is to be changed by way of tightened regulations.

The balance sheet total of the 85 foreign-controlled Swiss banks presently amounts to SF 21 billion, or nearly 10%

Bank Licensing *(contd.)*

of that of all domestic banking and savings institutions. Pending approval are the applications of 12 additional foreign banks seeking to establish operations in Switzerland. (As a matter of principle, new licenses are issued only in exchange for the corresponding right of Swiss banks to set up business in the respective countries.)

Britain: Growth Rate Lags behind EC Partners

The U.K.'s Dept. of Trade and Industry has released comparative figures on EC economic development indicating that, in spite of an "unusually" high growth rate (the prime target of the present government), the country is not faring as well as some of its Community partners. Some sample figures from the DTI report:

Industrial production as of August 1973 was up 8.5% over the past 12 months, compared to an EC average of 8.8%. The U.K. lags behind Belgium and France and considerably behind the 11.5% posted by Italy.

Britain's industrial growth rate of 0.3% compares less than favorably with the EC average of 1.2%.

U.K. exports as of August were up 46% over the preceding 12 months (almost double the Community average) but, even here, Britain was topped by France (56%) and Germany (58%). At the same time, U.K. imports soared by 61%, more than twice the EC average of 26.7%.

According to the DTI figures, Britain also was challenging for the top in the inflation stakes: the annual rate of 9.1% was lower than that of Ireland, Italy, and Denmark, but high in comparison with Germany and the Netherlands (between 8 and 8.5%), France (7%), and Belgium and Luxembourg (below 7%).

Costs in specific sectors have increased dramatically: imported foodstuffs by 61%, fuel by 64%, other basic materials by 50%, and imported manufactured goods by 33%. In contrast, earnings of U.K. manufacturers have risen much more slowly - machinery by 30%, textiles by 27%, chemicals by 19%, and metals by 18%. Non-manufactured goods were up by 46%.

Accountants Rule Out Self-promotion

The Council of the Institute of Chartered Accountants in England and Wales, following a report from a specially established "Ethics Committee," has ruled that its members should not be permitted to advertise their professional services on the ground that "advertising is symptomatic of a commercial approach and is incompatible with the duty of a professional man to put his clients' interests first." The Council's ruling, apart from its intrinsic interest, was intriguing for two reasons. First, although the decision was reported as having been reached by an "overwhelming" majority, the actual voting figures were not disclosed, suggesting that at least some members of the profession are not opposed to advertising and that the last word may not yet have been said on the issue. Secondly, the decision for appointment of the Ethics Committee was reached well before the U.K. Monopolies Commission announced that it was setting up an investigation into the

Accountants *(contd.)*

whole question of advertising by professional bodies: it remains to be seen what attitude will be adopted officially.

To date, other professional accounting bodies in Britain have given no indication that they are either contemplating the advertising issue or have decided to allow *their* members to advertise. (The leading bodies are the Scottish and Irish Institutes of Chartered Accountants and the Association of Certified Accountants.)

Belgium: Compromise on Flemish Language Decree?

A decree making Flemish the sole permissible language for all legally required company acts and documents and all personnel matters (*rélations sociales*) in the Flemish part of Belgium took effect on Sept. 16 after being unanimously passed by the Cultural Council of the Flemish-speaking Community (of Belgium). The obvious problems already raised by the decree's implementation appear to be bringing about a compromise, however, that would allow the government to interpret the law on a case-by-case basis. This compromise, offered by Flemish political leaders, would have to be approved by the cabinet.

As the latest highlight in Belgium's long-raging "language war" over the official use of French and Flemish, the Decree of July 19, 1973, effectively bars French as a business and legal language in Flanders. The fact that it also outlaws the use of any other language except Flemish has, as a first consequence, resulted in a Labor Ministry directive suspending the issuance of new work permits to foreign workers in Flanders. This is to "protect" these workers from running afoul of the law. This does not apply to Flemish-speaking foreigners or to citizens of other Community member states (the latter do not require work permits).

The new decree - the latest in a series of legislation dating back to 1932 - also affects foreign-held businesses in Flanders, of course, and is of particular concern to business and industry generally because it gives the authorities broad powers of inspection and supervision and provides for civil and penal sanctions, not to exclude jail terms.

Germany: Bonn to Revise Safety Rules for Machinery

Safety standards for machinery and machine tools will be tightened in Germany according to a government working paper that is to precede an amendment of the 1968 Machine Safety Act (*Maschinenschutzgesetz*). Under its provisions, only equipment that meets the revised standards could be imported, displayed, and sold. Present legislation gives the authorities only limited room for action when a particular piece of equipment fails to meet prescribed standards; in future, however, they could order a recall at any time after the equipment had been put on the market. Equally important: manufacturers and importers could be required to recall machines already sold.

Bonn's working paper also proposes to include general environmental standards - on an equal footing with safety rules - in the amendment. In a way this approach would be a departure from the present procedure of prescribing environ-

Machine Safety *(contd.)*

mental standards on a case-by-case basis (see, for example, *Doing Business in Europe, Par. 23,545D*).

Finally, the government will seek to introduce a single "seal of approval" for equipment meeting federal safety standards in place of various emblems now in use throughout German industry.

Greece: Revaluation to Slow Down Economic Boom

The 10% revaluation of the Greek drachma, effective on Oct. 22, has been officially explained by the need to put a damper on the economy, which currently is going through "a phase of explosive growth." This boom situation has been confirmed by the latest statistics of the National Bank of Greece indicating that for the first half of 1973 total industrial production was 17.2% higher than output during the same period of 1972. Exports of industrial products went up by 50.7%. But the bank reported that the boom is primarily fueled by internal demand as underscored by a 15.2% increase in retail sales.

The revaluation, government sources said, could pave the way for the liberalization of imports and could also permit further relaxation of price controls. (So far, some 400 products have been exempted from controls and others are to follow; the newly installed government reaffirmed earlier, however, that the Price Control Law No. 918 of 1971 will remain in force.)

Greek industry does not expect the revaluation to affect its exports significantly since foreign demand is outstripping domestic capacities by far. Economists and other experts, though, have expressed disappointment over the margin of revaluation: they insist it should have been at least 15% in order to effectively counteract price inflation.

In other developments: as of Nov. 1 Greece is to implement the next-to-last 10% tariff reductions for industrial products originating from the European Community. The final 10% tariff cut within a 12-year period will take effect on Nov. 1, 1974. This does not apply to products also manufactured in Greece - for these, past reductions amount to only 20% and future tariff cuts will continue step by step until 1984. (*Common Market Reports, Par. 5344; Doing Business in Europe, Par. 24,131*.)

AROUND THE MARKETPLACE

Mideast Crisis Lends Urgency to European Energy Policy

The recent decision by the oil-exporting countries to raise prices, curtail production, and implement selective boycotts has triggered as much reaction in western Europe as everywhere else. With oil prices rising rapidly because of fears of imminent shortages, governments have scrambled to assess national oil reserves, devise contingency plans, impose export embargoes, and even consider the rationing of fuels. These activities, largely uncoordinated on an international level, once more have demonstrated clearly the European Community's handicaps in achieving an effective common energy

EC Energy *(contd.)*

policy in the face of divergent national needs and interests.

But the Middle East conflict and its consequences may have their positive side after all: there are now faint hopes in Brussels for substantial progress at the next Council of Ministers session (scheduled for Nov. 26 and 27), which will be devoted exclusively to the energy issue. The Council should then decide on four draft regulations and two draft decisions concerning Community energy policy (*Common Market Reports, Par. 9597*) that were submitted by the European Commission in mid-year. Indications are that, under pressure of external influences, these proposals will be given priority, although they do not reflect a truly united "European" stand on the energy supply problems.

A recent conference of government oil experts from the nine member states established that the EC as a whole is maintaining obligatory oil reserves sufficient to last at least 65 days (in keeping with a Community directive of 1968). But it was also shown that the national requirements and degrees of government intervention tend to vary considerably, and this is where Brussels will find it hard to set a common denominator.

EURO COMPANY SCENE

Montedison/ USSR

Montecatini Edison SpA of Italy, which several weeks ago completed a $500-600 million chemical plant deal with the Soviet Union, reportedly is about to contract with the USSR for a possible eight additional industrial projects. The most important of these would be construction of a polypropylene fiber plant for the Soviet carpet industry. In commenting on the recent transaction, the company denied that the seven chemical plants it was to supply were part of a barter agreement. The Soviets will finance the plants through their arrangement with IMI, the Italian state credit bank, and their own Vneshtorgbank, according to Montedison, while the Italians will pay directly for the ammonia and other chemicals they are to receive from the USSR.

Klèber/ Semperit/ Semkler

The merger of tire manufacturers Klèber-Colombes SA of France and Semperit AG of Austria has been completed through formation of the new Swiss holding company Semkler AG, 55% owned by Creditanstalt-Bankverein of Vienna, 30.9% by Cie. Financière Michelin, and 14.1% by Crédit-Suisse. Semkler, with a base capital of SF 150 million and reserves of SF 199 million, now controls 67.22% of Semperit and 50.06% of Klèber.

Renault

Officials of France's state-owned Renault automobiles and the Spanish Industrial Ministry reportedly have met to discuss the possibility of Renault's building a second manufacturing plant in Spain and expanding its present production facilities there.

Fiat/ Citroën

Italy's Fiat and Citroën of France are to start production of jointly developed light trucks early next year. The transporters will be powered by gasoline or diesel engines made by Citroën or by gasoline engines made by Fiat. After assembly in Turin, they will be sold by Citroën in France and in

Fiat/ Citroën/ Honda *(contd.)*	French-speaking Africa, by Fiat in Italy, and by marketing networks of both companies in other countries. Last May the two auto manufacturers terminated their partnership agreement dating from 1968 but are continuing their cooperation in projects such as this one. Fiat also is rumored to be considering a contract with Japan's Honda to obtain patents and know-how for production of low-pollution engines.
Berliet/ Volvo	The months-long negotiations over technical and financial collaboration between France's Automobiles Berliet, the truck manufacturing subsidiary of Citroën (Michelin group), and Volvo AB of Sweden have been broken off. Citroën reportedly was not willing to grant Volvo more than a minority interest in any joint venture, while Volvo, seeking a majority participation and full management responsibility, is said to have been put off by the collapse of the Citroën-Fiat accord and repeated labor problems at Berliet.
Sanders	Sanders Associates Inc., Nashua, N.H., manufacturer of electronic video terminal systems, has set up a new German subsidiary, Sanders Data Systems GmbH, to handle distribution for Germany, Switzerland, and Austria.
Hoover	Hoover has announced plans to invest almost £30 million over the next three years to increase its present production facilities in South Wales and Scotland by about 50%. The projects are located in government-designated development areas and, by virtue of regional grants and state-constructed buildings offered to Hoover on a rental basis, the U.K. government will in fact be "underwriting" the project to the tune of some £10 million. The rest of the finance will come from the company itself. Company spokesmen denied that Hoover would be borrowing money on capital markets in the "near future."
Seiko Kaisha	Japan's leading ball bearing manufacturer, Nippon Seiko Kaisha, is proposing to set up a wholly-owned subsidiary or joint venture either in Wales or in northeast England. Total investment is reported at around £7 million. The Dept. of Trade and Industry has confirmed that NSK has started negotiations. Considerable opposition is expected from the U.K. Ball and Roller Bearing Manufacturers' Association.
Cadbury-Schweppes/ SIS	The U.K.'s Cadbury-Schweppes has acquired a leading Italian distillery, Milan-based Società Italiana Spiriti (SIS), from Eridania, the country's largest sugar producer, for £350,000. The British company plans to increase SIS share capital from the present 500 million lire to 3.85 billion as part of its expansion strategy for the Italian market.
Molex Italia	Molex, Inc., of Downers Grove, Ill., electrical components, has set up an Italian subsidiary, Molex Italia SpA, in Milan.
Xerox Data/ CTL	The U.K.'s Civil Service Dept. has decided to use a U.S. computer system from Xerox Data Systems for a major Dept.

Xerox Data/ CTL *(contd.)*

of Trade and Industry laboratory. The decision, made on "grounds of price," has sparked a bitter controversy at Westminster: the DTI had in fact been assisting Computer Technology Ltd. to develop a computer system and CTL had invested some Ŀ100,000 in the project, not to mention a further Ŀ500,000 from the DTI. CTL has now applied pressure to have the Xerox system order held up until the decision has been investigated.

DBS/ Rollei

Development Bank of Singapore (DBS) has taken 25% stakes in both Rollei Singapore and Rollei Optical and a 20% stake in Singapore Camera Factory, three Singapore-based subsidiaries of Germany's Rollei-Werke Franke & Heidecke. In addition, DBS has acquired a 5% share in the Braunschweig parent company and a seat on its supervisory board.

Barclays

Barclays Bank International has acquired a license to begin operations in Chicago, becoming the first foreign bank to avail itself of a relaxation in Illinois regulations permitting foreign institutions to work in the state. Barclays has had a representative in Chicago since 1971 and already has branches in California (30), New York (4), and Boston (1).

GATC/ Leasing Italiana

GATC International Finance, a subsidiary of the General American Transportation Corp., has acquired 75% of the capital of Leasing Italiana SpA.

Ted Bates/ Slesina

Ted Bates Werbegesellschaft mbH, German subsidiary of Ted Bates & Co.,Inc., New York, the world's fifth-largest advertising agency, and Horst Slesina Werbegesellschaft mbH & Co. KG, a family-owned German agency, have announced they will merge as of Jan. 2, 1974, into Slesina-Bates Werbe-GmbH. Bates New York will hold 80% of the new agency's base capital of about DM 1.8 million and Horst Slesina, 20%, in addition to an unspecified participation in the U.S. parent company. Bates also has an option on Slesina's 20% interest.

Finance for Industry

A major U.K. merger between Industrial and Finance Corp. and Finance Corp. for Industry has received Bank of England backing. The new group, to be known as Finance for Industry Ltd., aims to provide capital for new investment by British industry. Potential resources will be in the region of Ŀ500 million and will be used as a rule to furnish substantial sums for investment before profits are made or to provide additional funds for a company anxious to avoid spreading major capital expenditure programs over a number of years. In the past, individual banks have been hesitant to lend in such instances because of the amounts or the risk involved. It is also thought that the new group may offer a convenient institution for channeling funds into British industry from the European Investment Bank.

Common Market Reports

EUROMARKET NEWS

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LIBRARY

Community: Brussels Sets Priorities for Social Action

The timetable the European Commission has now set for part of its social action program may not be unreasonable but it might put the cooperative spirit of the national governments, and thus the Council of Ministers, to a real test. According to Patrick Hillery, commissioner for social policy, Brussels' current program lists a total of 24 actions to be taken within the 1974-76 period. Seven measures are given priority by the Commission, on the assumption that the Council could act on them by April 1, 1974. These include:

- a 40-hour workweek by 1975 and four weeks' annual vacation by 1976;
- implementation of the principle of Treaty Article 119 calling for equal pay for equal work (*Common Market Reports, Pars. 3942.01 and 9599*), and
- harmonization of the member states' rules on mass layoffs.

As for the other measures - including a directive to protect workers' interests in case of mergers and another to protect employees hired through private employment agencies - the Commission expects Council action by the end of 1974. Long-term projects include income support during job retraining, equal rights for migrant workers, and automatic adjustment of social security benefits to higher income levels.

In submitting this program Hillery admitted that measuring up to the new dimensions of a "human face" for the Community, proclaimed by the Paris Summit of 1972, would be difficult and costly. (The U.K., for example, has already raised strong objections to the 40-hour week at the same pay and four weeks' vacation, claiming that British businesses would become less competitive.)

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

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Social Action *(contd.)*

In regard to Treaty Article 119, Hillery reaffirmed the Commission's determination, announced in its recent Report on Equal Pay, to bring action against violators. The directive providing for the approximation of equal pay legislation is designed as an additional means of tightening national rules and of facilitating enforcement by the Commission. (In a way it is also a tacit admission that enforcement of Article 119 is not easy.)

Hillery pointed out that, as far as he was concerned, none of the member states has satisfactory rules on mass layoffs and that national criteria vary considerably. Brussels' initial draft placed emphasis on the number of employees rather than on the reasons for layoffs. Since both the U.K. and Ireland were not satisfied with this approach, the Commission is expected to make some changes, the extent of which is not yet known.

Problems on Lead Content in Gasoline

In other action, the Commission has adopted a draft directive that, if accepted by the Council, would oblige member states to align national legislation so as to limit the lead content in regular-grade gasoline to 0.15 grams per liter, effective Jan. 1, 1978. No decision has been reached as yet for supergrade gasoline. As an interim step, the draft proposal calls for a maximum lead content of 0.40 for all gasoline grades as of Jan. 1, 1976.

What complicates the matter is that the Commission's draft is not compatible with existing German legislation, although inspired by it (*Doing Business in Europe, Par. 23,544B*). Bonn's version has set an early, Jan. 1, 1976, deadline for the 0.15-gram maximum and, in addition, is covering all grades of gasoline. As a consequence, Brussels and other national governments may now bring pressure on the Germans to postpone enforcement - a move also demanded by the oil companies, which need more time to adapt production facilities. So far, there has been no indication that Bonn will change its mind.

The proposal to cut the lead content to 0.15 grams has further implications because the Commission is also preparing an amendment to a 1970 Council directive aimed at reducing automotive emissions, particularly of carbon monoxide and hydrocarbon residues (*Common Market Reports, Par. 3515.09*). This amendment would take into account technical progress to date and would require automobile makers to equip engines with catalytic afterburners. Since the life of catalysts is shortened by lead in fuels, this is an additional reason why industry might be compelled to develop gasoline with a low lead content.

France: Assembly OKs Controversial 'Loi Royer'

Following emotional public and parliamentary debate, the highly controversial *Loi Royer* bill passed the French National Assembly last month and is now expected to be confirmed by the Senate. Named after its sponsor, Trade Minister Jean Royer, the proposed legislation aims to improve the economic situation of small business in France. This would be done by way of more equitable, progressive, and less complicated taxation

'Loi Royer'
(contd.)

(including abolition of the *patente*, the commercial tax in its present form) and improvements in the old-age pension system. But other, more disputed provisions also would curb the spread of large supermarkets and clamp controls on "discriminatory" practices such as distortive price calculations and misleading advertising.

Although it had been deluged by some 300 proposals urging modifications, the government had to accept a compromise only on one provision of the bill: the Assembly voted that only half of the members of the special departmental commissions that in future are to license new supermarkets will be made up of small-trade representatives; the other half will consist of local government representatives.

Protest raised against the "Loi Royer" by the supermarket chains and large trade companies has been fervent. At least one of the major trade companies to be affected, Carrefour, charged in full-page newspaper advertisements that the legislation would protect some 700,000 small trade establishments but neglect the interests of 50 million consumers, who look to the increasingly popular supermarkets and hypermarkets for lower prices and better selections. All told, it was claimed, the law would block the modernization of trade, prevent competition, and promote price inflation.

The implications of the proposed "Loi Royer" were bound to produce repercussions in a country where shopkeepers, small traders, and craftsmen traditionally have a strong voice in both economic and political terms. Final passage of the legislation would give this sector another lease on life and the ruling Gaullists a certain four million votes. But the long-term benefits are being questioned. Since 1950, it has been estimated, about 80,000 small entrepreneurs have been forced to close down, beset by lack of investment capital, manpower, and know-how and burdened by high taxes. It is not clear whether this trend can be reversed by the government's planned shot in the arm, for which some FF 3 billion would be allocated over a five-year period.

Budget Speech Lacks News on Price Plans

Opening parliamentary debate on the 1974 Draft Budget, French Finance Minister Valery Giscard d'Estaing has again declared the government's intentions to promote vigorous economic expansion, wage a determined war on inflation, and follow a credit policy that will enable domestic industry to modernize its facilities and plan new investments.

In reference to previous speculations on a possible revaluation of the franc, Giscard d'Estaing conceded that a significant revaluation would help counteract the effects of inflation imported from abroad. But he adamantly rejected such a move on grounds that it would hurt the international competitiveness of French industry, notwithstanding the country's current trade surplus. Nothing was revealed about a new anti-inflation program, including a partial price freeze, that may be introduced before the end of the year, according to many observers.

Budget Speech *(contd.)*

With expenditures of FF 220 billion and revenues of FF 221 billion, the proposed 1974 Budget now formally submitted would be essentially balanced. The government has allocated a 12.4% increase in outlays and a 12.1% rise in revenues. Public investment and procurement (not including the defense sector) will require FF 26.2 billion, up 10.5% from 1973. This also does not include the funds for highway construction and telecommunications improvements that are to be raised on the capital market. On the revenue side, higher taxes are being proposed on alcohol and advertising.

Germany: Tax Reform Approaches Completion

The Brandt Administration has adopted the third and final bill of its tax reform legislation: it would introduce the tax credit principle to corporate taxation and bring significant changes in taxation of individuals. No details have been published yet on corporate income taxation, but with respect to individual income tax the information released by the government centered on the three areas of children's allowances, tax-free deductions, and treatment of special expenses.

The proposed law would do away with the present system that provides exemptions for children plus cash payments starting with the second child. Instead, a taxpayer would be entitled to payments of DM 50 per month for the first child, DM 70 for the second, and DM 120 for the third and each additional child; these amounts normally would be deducted from income tax owed. This plan would cost the Treasury DM 4 billion annually. (*Doing Business in Europe, Pars. 23,320 and 23,457*.)

A number of basic allowances and deductions would be raised. For example, the amount of tax-exempt income, currently DM 1,680, would be increased to DM 3,000 and the employee's exemption, currently DM 240, to DM 600.

The basic tax rate would be a flat 22% (presently 19%) on annual incomes up to DM 16,000, or up to DM 32,000 for married couples filing joint returns. Still, with the inclusion of raised exemptions, this would reduce the tax burden for those in low-income brackets. The maximum progressive rate, on the other hand, would be raised from 53 to 56%. (*Doing Business in Europe, Par. 23,326*.)

Insurance premiums and contributions made under the compulsory social security system would no longer be deductible as special expenses from income but could be deducted from the tax liability. But the maximum amount would be limited to DM 5,400 for individuals and to DM 10,800 for married couples. This new approach would yield approximately DM 1.2 billion in revenue. In the area of net worth tax, the tax reform bill would abolish the taxpayer's privilege of deducting net worth tax payments from the total tax obligation.

Britain: Major Bills to Highlight New Session

The U.K. government has announced a heavy legislative program for the 1973-74 parliamentary session, possibly the last before the next general elections. Well aware that its activities over the next few months can prove critical to its

Major Bills *(contd.)*

survival, the Heath administration thus will introduce a number of major bills, with the new Prices and Wages Codes foremost among them.

It remains to be seen whether this third stage of the counter-inflation program will be successful in curbing the accelerated cost of living and, at the same time, placating the labor unions at the wages front. Otherwise, a winter of industrial discontent and unrest appears inevitable. Government contingency plans for fuel rationing are also being implemented behind the scenes, and it is widely expected that Whitehall will seek reserve powers to impose rationing should this become necessary.

Of particular interest to business will be the major company law reform legislation, which ranks at the top of government priorities: in an effort to render more acceptable the "unacceptable" face of capitalism (an often-quoted phrase of Prime Minister Heath), the new bill will provide for toughened disclosure rules, restrictions on insider dealing and nominee shareholding, and tighter rules for filing company statements *(Doing Business in Europe, Par. 30,662)*.

In the consumer sector, credit, loan, and installment-purchase regulations will be reviewed and, generally speaking, the recommendation of the Crowther Commission implemented *(Doing Business in Europe, Par. 30,668.)*

Also expected is a new bill to cover wide areas of environmental protection, notably in the form of anti-noise regulations, clean air provisions, and prescriptions relating to the disposal of solid and toxic waste. In addition, a Road Safety Bill will introduce new regulations concerning road offenses, truck design, and noise abatement in the case of the "juggernaut" road vehicle category. The Dept. of the Environment also will sponsor a bill designed to release housing land by imposing a "land hoarding" charge of some 30% annually on undeveloped property. *(Doing Business in Europe, Par. 24,043.)* Other legislation is to cover local government financing, firearms control, and "indecent" advertising.

A most significant announcement for the new session was that introduction of the tax credit legislation, originally scheduled for 1975, has been moved up. The government's Green Paper on tax legislation was accepted last July and its provisions - notably the payment of child "credits" to mothers, the replacement of means-tested family benefits, and additional aid to pensioners - are clearly considered to have substantial vote-winning potential. *(Doing Business in Europe, Par. 30,621.)*

Ireland: Dublin Ponders Capital Gains Taxation

The Irish government is now considering the introduction of a capital gains tax to apply to stock exchange dealings and speculative transactions in real property, according to reports from Dublin. The Irish Labour Party, minority partner in the present coalition government, has consistently advocated major reforms of the country's tax system, including imposition of a capital gains tax. This pressure

Capital Gains *(contd.)*

undoubtedly will be reflected in the White Paper presently in preparation and scheduled for publication before the end of this year. If this schedule is maintained, sweeping reforms can be expected upon presentation of the next Irish Budget in April or early May.

Changes in the taxation system were foreshadowed by the recent decision to end tax exemptions on mining profits and by the announcement that the government was considering a restructuring of the present system to bring at least a segment of the agricultural community within the general income tax net.

EURO COMPANY SCENE

Celanese/ BASF/ Degussa

Germany's Patent Office has rejected one of two patent applications for an extrusion polymer by Celanese Corp., New York, because of objections raised by BASF and Degussa, coowners of Ultraform GmbH, which produces a similar synthetic material. An ancillary lawsuit before a Düsseldorf district court has been pending since 1972, when Celanese, which had made the patent infringement claim, agreed to await the decision of the Patent Office. The rejection may now be appealed to the Patent Court.

Shell Italiana/ ENI

The Anglo-Dutch Shell concern has denied rumors that it is negotiating to sell its Shell Italiana subsidiary to Italy's state-owned ENI oil corporation. ENI controls some 25% of the country's petroleum market, followed by Esso Italiana and then Shell Italiana (about 10%). The state holding is expected to play a key role in the government's projected reorganization of Italy's oil industry. An independent commission appointed to elaborate this plan is due to make its recommendations by the end of January.

Volkswagen/ Porsche

Germany's Volkswagenwerk AG has confirmed that it will sell out its 50% interest in the DM 14-million share capital of VW-Porsche Vertriebs-GmbH to partner Dr. Ing. H.C.F. Porsche KG by the end of the year. The joint sales company was set up in 1969 to distribute Porsche and VW-Porsche sports cars. Production of the VW-Porsche models will continue, however, as will research and technical cooperation between the two companies.

In other news, a warning from the Federal Cartel Office on potential abuse of a dominant position has influenced Volkswagen and its Audi-NSU subsidiary to drop plans for converting their retail sales dealers into commission agents after the ban on price maintenance practices goes into effect on Jan. 1, 1974. The company will be permitted to deal with its exclusive wholesaler network on a commission basis, however.

Semkler

Semkler AG, new holding company for Austria's Semperit AG and Kléber-Colombes SA of France, has announced it will shortly begin constructing a steel-cord truck tire factory in Austria. Requiring investments of 800 million to 1 bil-

Semkler *(contd.)*	lion schillings, the plant is to produce 1,000 tires daily in its first phase, eventually gearing up to 2,000. Michelin of France and Bekart of Belgium will supply the raw materials.
Moore/ Lamson	Moore Corp., the Toronto-based group of business form manufacturers, has made a bid of £19 million to acquire a controlling 52% holding in Britain's Lamson Industries. Approval of the U.K.'s Takeover Panel has been obtained. Moore had already owned a 20% stake in Lamson.
Demag/ Mannesmann	Demag AG and Mannesmann AG, both of Germany, will cooperate in setting up the world's largest continuous steel slab casting plant for the Soviet Union's Novolipetzk steel works. The high-capacity slab caster, with an output of 2 million tons annually, will be supplied by Demag, while Mannesmann is to provide metallurgical and technical processing know-how.
British Airways/ Trust Houses	British Airways has paid an undisclosed sum for a 30% holding in the U.K.'s Trust Houses Forte Travel group. The deal is in line with a number of existing tie-ups between the airline and THFT involving vacations at leading THF hotels in Paris, Malta, and Cyprus.
Ogilvy & Mather/ Fernandez	Ogilvy & Mather International has taken an unspecified interest in Spain's Publicidad y Marketing J.T. Fernandez SA advertising agency. The Madrid-based firm has been linked in partnership with O&M for some time.
Havas/ PLM	France's Agence Havas, leading European advertising group, and PLM, a subsidiary of Cie. du Nord of the Rothschild group, are forming a joint venture to take over their operations in the tourist sector, combining the Havas Voyages travel bureau network with PLM's hotel, motel, restaurant, and travel business. The new company's annual turnover is anticipated at FF 600 million.
TED/ Sanyo/ King	TED-Bildplatten AG of Switzerland, owned by AEG-Telefunken, Decca London, and their joint subsidiary Teldec, has licensed two Japanese companies, Sanyo Electric Co. Ltd. and King Record Co. Ltd., to produce and sell TED video records and recorders.
Barclays/ First Westchester	The U.K.'s Barclays Bank International has acquired for $52 million First Westchester National Bank, of New Rochelle, N.Y. First Westchester reportedly has 19 branch offices and total resources in excess of $200 million. Barclays also was in the news recently as the first non-U.S. bank to open a branch in Chicago.
WestLB	Germany's Westdeutsche Landesbank-Girozentrale (WestLB) is said to be considering establishment of a commercial banking subsidiary in the United States and may reach a decision by the end of this year. WestLB already maintains a representative office in New York.

E.F. Hutton	E.F. Hutton & Co., Inc., New York brokerage house, has opened its first German office in Hamburg, an important center for commodity trading. A branch of E.F. Hutton International SA in Geneva, the office will serve clients in Scandinavia as well as in Germany and will deal in securities, share issues, and consortial business. It will also handle acquisitions and merger transactions.
Fasco/ Wolff	Fasco AG of Liechtenstein, owned by Italian financier Michele Sindona, has acquired half the DM 13-million capital of Bankhaus Wolff KG of Hamburg, a privately-held German bank.
European International Fund	Banque Nationale de Paris, Dresdner Bank of Germany, the U.K.'s Hill Samuel Investment Management Co., and Japan's Daiwa Securities Co. are to set up European International Fund, a joint investment trust managed by an equally owned subsidiary to be based in Luxembourg. The management firm, with a capital of LF 8 million, is scheduled to begin selling fund shares early next year.
Nomura	Following the recent examples of Daiwa and Nikko Securities, Japan's Nomura Securities Co., Ltd., has established a German banking subsidiary, Nomura Europe GmbH, in Frankfurt, converting its former representative office there. The new offshoot will trade in stocks and securities and function as an investment and merchant bank.
U.S. National of San Diego/ European banks	The U.K.'s National Westminster with about $14 million, and Barclays with $4.5 million, Germany's Westdeutsche Landesbank with $8.4 million, and France's Societe Generale de Paris with $8.5 million are listed among some 50 European banks that have been Eurodollar creditors to the collapsed U.S. National Bank of San Diego. Reports issued in conjunction with the transfer of the San Diego bank's assets and liabilities to Crocker National Bank said that the European banks had lent a total of $85 million under stand-by letters of credit issued by U.S. National Bank of San Diego. The status of this loan is uncertain pending the outcome of lengthy liquidation proceedings.
Eurco	A group of eight European banks - Algemene Bank Nederland, Banca Nazionale del Lavoro, Banque Nationale de Paris, Banque de Bruxelles, Barclays Bank International, Bayerische Hypotheken- und Wechsel-Bank, Dresdner Bank, and Österreichische Länderbank - have announced they will utilize a newly created composite currency unit, the Eurco, in settling long-term commercial contracts as a means to reduce the risk of losses from international exchange fluctuations. The value of the Eurco, made up of fixed percentages of the nine EC currencies, varies with the exchange rates of its components.

Common Market Reports

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Community: Public Hearing Helps Clarify Diploma Issue

Testimony given at the recent Brussels hearing on Community-wide recognition of medical diplomas has been described as extremely useful by the Commissioner of Science and Technology, Prof. Ralf Dahrendorf, who acted as chairman. Dahrendorf said the four-day public hearing - a novelty in Community procedure - served to dispel a great deal of misunderstanding and suspicion that so far has slowed progress on the issue. The event was attended by nearly 100 representatives of the national medical associations, the medical teaching professions, health insurance funds, and student and consumer groups; delegates from national governments and the Council of Ministers took part as observers.

In his summation, Dahrendorf said he considered "rather artificial" the variances in quality and quantity of medical teaching and standards of practice elaborated on by various witnesses. He emphasized that the hearing could not remove the differences of opinion existing between the teaching professions and the practitioners but only lessened them somewhat.

The Brussels conference did, however, produce the important consensus that uniform European standards should not precipitate a lower quality of medical education or block the road to a curricular reform. Dahrendorf was hopeful that the objective of Treaty Article 57 - to extend the right of establishment to non-nationals through mutual recognition of diplomas (*Common Market Reports, Pars. 1422.01 and 1422.21*) - could be achieved without harmonizing national curricula. But he conceded that the standards of medical education could not be ignored in the attempt to define the criteria for diplomas.

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Diplomas *(contd.)*

A report now being prepared for the Commission may include additional proposals for the draft directive Brussels plans to submit to the Council of Ministers, which will then have to come to terms on the question of whether physicians should be granted the right to practice throughout the Community.

The issue, of course, goes still further: already pending before the Council are 40 draft directives dealing with mutual recognition of diplomas, and Council experts will resume negotiations later this month in an attempt to break the present deadlock over how to achieve freedom of professional establishment throughout the EC.

France: New Controls Scored by Business

The French government's new anti-inflation package has been denounced as "nonsense" by the president of the Patronat Français, the employers' federation, who pointed out that all attempts so far to combat inflation with state strictures and controls have proven hopelessly futile. Spokesmen for the grocery trade and other retail groups declared they would rather go to jail than sell at prices below cost. These pronouncements were typical of the defiant reaction to the measures that Finance Minister Giscard d'Estaing had announced on Nov. 3 as the latest trump card in the administration's struggle to get the domestic price situation at least partially under control.

In effect, the program amounts to a tightening of existing price control contracts but avoids a general price stop with all its political and economic implications. The government did freeze prices and retail margins on a number of important foodstuffs, including meat, bread, vegetables, and certain cheeses. That step was almost predictable after food prices had risen by 1.3% in September and by 11% on an annual basis, although producer and wholesale price levels recently have gone up only slightly or even declined. Also singled out was the shoe trade: officially accused of abusive price increases, this sector was ordered to limit its markups to a maximum 95% of the purchase price (before taxes).

To facilitate enforcement, the government's Price Commission, in its official bulletin, has defined "abusive" trade margins as those that are out of step with a ratio determined by the seller's own effective costs and the customary margins prevailing at that distribution level for the same or similar products.

For the industrial sector, the government extended existing price control regulations to all areas previously not included (about one-fifth of domestic industry had been exempted in mid-1972). All enterprises again will have to seek official approval for any price increases, which in turn will have to be limited to 3.6% over a year's time. Exempted, as before, are small businesses with fewer than 20 employees and manufacturers of "luxury" products, i.e., jewelry, perfumes, photo and phono equipment, etc.

FF-100 Limit Waived for Stock Splits

French companies whose shares are traded on the Paris Stock Exchange are now permitted to effect stock splits that result in a par value per share below the 100-franc minimum so far

Stock Splits *(contd.)*

permissible (*Doing Business in Europe, Par. 22,723*). However, the nominal amount may not be less than FF 10.

The new regulation has been issued in line with earlier government actions designed to spread capital ownership among employees. It does not dispense with the existing requirement prohibiting a new company from issuing shares with a par value below FF 100. But it should open the stock market to many small investors and should also spread ownership of such corporate giants as Michelin, LMT, CIT-Alcatal, and Carrefour, whose shares are relatively high-priced. Banks and brokers have long felt that these price levels have been out of reach for small investors, and this institutional pressure has now compelled the government to add another exception to the 100-franc par value rule (an earlier one pertained to shares issued to employees participating in profit-sharing plans).

Italy: Price Freeze Relaxed, but Controls Stay

As of Nov. 1, Italy's price stop has been lifted for most staple foods and basic-need industrial products, with the government hastening to offer assurances that "any fear of prices suddenly shooting upward again is completely unwarranted." In any event, the ban on price increases will continue for some 20 product categories and far-reaching controls will apply at least until June 1974.

It has been generally conceded that the 90-day freeze had helped to slow down somewhat the galloping pace of inflation that prevailed in midyear, although success has been modest at best: for the month of September, the cost-of-living index rose "only" 0.5% but, on an annual rate, it still hovered at 10.5% compared to slightly above 11% during the June-August period.

Britain: Legislation on Public Display of Obscenity

The U.K. government has published a bill to counteract what was described by the Home Secretary as "the spreading ailment" of public displays of obscene materials in Britain. The Cinematographic and Indecent Displays Bill published in the first days of the new session of Parliament is seen by most commentators as a well-timed political response to mounting public demand for some form of control of pornographic and other prurient material.

In the main, the bill is directed at the "public flaunting" of commercial pornography, especially in films and sex magazines. In addition, however, certain provisions have been included to safeguard the public as a whole from unsolicited material of an "indecent" nature, "suggestive" advertising, and obscene films. On the other hand, there is nothing in the bill to prevent anyone from purchasing indecent materials, presumably because the provisions of the Obscene Publications Act are felt to constitute an adequate deterrent to their undue proliferation. The sole purpose of the bill is to maintain the principle that the public is entitled to be protected against displays on general (and obtrusive) view: thus, for example, the covers rather than the contents of books and magazines will be subject to the bill's provisions.

Obscenity Bill *(contd.)*

It had been speculated earlier that some attempt would be made in the bill to define "indecency": it appears, however, that the question of definition will continue to rest with the courts.

Reports on Scotland/Wales Semiautonomy

The long-awaited report on the Constitution (the Kilbrandon Report) recently released has encouraged those who advocate that Scotland and Wales should enjoy at least semiautonomy and should be less dependent on decisions made in London. It can now be assumed that certain aspects of political and economic life in both regions in future will be subject to less central control and will be regulated from within: just how far beyond an extension of present local government and Scottish/Welsh Office perimeters the government is prepared to go remains a moot point.

In Scotland, however, any feeling of buoyancy prompted by the report has been severely dampened by the publication of another study commissioned by the leading daily (*The Scotsman*) and carried out by Glasgow University's Dept. of Social and Economic Research and the Scottish Council (Development and Industry). In short, the report underlines that Scotland is rapidly becoming a "branch plant economy" largely dependent upon decisions made outside the area inasmuch as ultimate ownership of well over half of local manufacturing industry, expressed in terms of employment, lies outside the Scottish frontiers. Perhaps even more significant is the fact that the more progressive the technology involved, the more probable it is that ownership is not locally based.

Specifically, only 13% of employment in the five top industrial growth sectors in the U.K. is under Scottish control. Although 71% of plants are locally owned, their small average size means that they account in total for only 41% of those employed. By far the greatest share of external control is in plants owned by English companies. But North American companies - with only a small number of large plants - already account for 15% of total employment and in high-technology sectors this percentage is much greater.

An inevitable result of this changing pattern of ownership is "the gradual erosion of decision-making" from the Scottish economy and, by extension, the progressive disappearance of a "truly indigenous manufacturing sector" in Scotland.

Although it has been objected that the developments outlined here are not detrimental to the U.K. as a whole, the trend toward external ownership, notably by English companies, may ultimately lead to recrimination at EC level: Scotland is officially designated as a development area and certain benefits automatically accrue to companies locating there. The already heated debate over EC Regional Development Fund allocations could become even more vituperative as Britain's Community partners apprise themselves of the implications noted in the Scotsman report.

Isle of Man to Tighten Company Law

Company law on the Isle of Man, which - together with the Channel Islands - has offered U.K. businesses and others tax haven and other fringe benefits, is to be tightened follow-

Manx Law
(contd.)

ing recognition by the Manx Cabinet that existing provisions, dating back 42 years, are inadequate to cope with present economic, social, and commercial conditions. Draft legislation, to be published shortly, will impose stricter control on new companies and banking institutions, directorship appointments, company registration, and company shares in parent or holding companies. Also mooted is the question of disclosure of names of principals in cases of nominee shareholdings.

Netherlands:
Bill Provides for Disposal of Chemicals

The amount of chemical waste produced annually in the Netherlands is considerable and estimated to exceed two million tons. Oil waste accumulates at a rate of 220,000 tons per year. To deal with the mounting problem of disposal, the Dutch Ministry of the Environment has now sent draft legislation to Parliament prohibiting the deposit of such wastes on and in the ground and restricting disposal operations to specially licensed enterprises.

The bill calls for a permit system regulating the storage and processing of chemical and oil wastes, to be supplemented by notification procedures that would allow the authorities to determine what amounts of waste materials are bypassing the licensed disposal companies. Furthermore, the ministry is planning to impose levies to help defray the cost of disposing waste materials both safely and without damage to the environment.

The new legislation also would empower the ministry to put time limits on the storage of certain materials on company premises and to intervene in production if it is determined that certain resulting waste is difficult or impossible to process.

The provisions of the proposed law are directed primarily at large companies but are to be extended later to smaller businesses as well. Private persons would not be affected at this time - legislation to be submitted later will deal separately with land pollution.

Spain:
Less Meddling in Collective Bargaining

The Spanish government has partially yielded to pressure from the International Labor Organization (ILO) in submitting legislation to the Cortes (Parliament) that would mean less government intervention in collective bargaining. Under a 1958 statute, the Minister of Labor not only has the final say on union-management contracts but also wields wide powers as to the content and scope. Contracts still would be subject to government approval, but negotiation of terms would be left to the employers and the state-controlled unions.

The proposed legislation also would extend the minimum period of contract validity from one to two years: this would give companies a chance to calculate costs over a longer stretch. Another innovation is an annual wage increase to offset inflation, though the extent would be established by the government.

New Labor Bill *(contd.)*

ILO officials reportedly are far from satisfied with the bill's approach because ILO rules stipulate that labor-management negotiations must be conducted freely, without government interference, and that the parties themselves must be independent. Spain's unions are, of course, under tight supervision, but an increasing number of strikes precipitated by the dismissal of union officials seems to indicate that the unions are gaining stronger support from the rank and file.

EURO COMPANY SCENE

Chrysler

Figures from Chrysler's British factories for the June-September period reveal that industrial disputes at the plants cost the company some 56,000 vehicles and put it some £5.6 million in the red for the four months. Chrysler has consistently maintained that labor unrest was curtailing any hopes of profit for the group and has intimated repeatedly that it is considering drastic cuts in its 8,000-strong payroll, not to mention a suspension of new investment in the U.K. The strikes have effectively canceled out £5.34 million of operating profits for the first six months of 1972-73 and the company now faces the probability of making a loss for the seventh time in nine years. More important, over this period, total profits have produced only £2 million as opposed to pre-tax losses of some £33 million.

DAF/ Krauss-Maffei/ Transrapid

Van Doorne's Automobielfabrieken NV (DAF) of the Netherlands and Germany's Krauss-Maffei AG reportedly will set up the jointly-owned Transrapid International NV in Brussels to coordinate development and sales of "Transrapid" and "Transurban" rapid mass-transit systems in Europe. According to DAF, other West European companies may also participate in the venture.

Volvo/ Jofa

Volvo of Sweden is said to be acquiring Jofa, one of the country's largest manufacturers of sports and leisure equipment, for an unnamed sum. Jofa has annual sales totaling about 20 million kronor.

Asahi Kasen

Reports from Tokyo say that Japan's No. 2 synthetic fiber manufacturer, Asahi Kasen, will probably establish a major acrylic fiber plant in the Republic of Ireland, at an investment of anywhere from £15 to 25 million. This would constitute the largest Japanese investment in Ireland to date and would join similar projects by other fiber manufacturers (a £10-million nylon plant at Sligo by Italy's Snia and a £25-million polyester plant in Donegal by Courtaulds).

The news on the probable Asahi Kasen venture comes at a time when Ireland's Industrial Development Authority is stepping up efforts to attract Japanese capital to Eire. Daiwa Securities, the Japanese brokers, was to have completed an assessment of the Republic as an investment prospect at the end of October, and a number of Japanese companies are rumored to be considering a move to Ireland. Two smallish companies, Donegal Dairy Products and Figaro Engineering, have

Asahi Kasen *(contd.)*

benefited from IDA incentives. Toyota and Datsun are already assembling automobiles, and Mazda is expected to join them soon. In addition, Mitsui Mining and Smelting has announced plans for a £4.4-million electrolytic manganese dioxide plant in Cork.

Empain/ Marine-Firminy

Baron Empain of the Franco-Belgian Empain-Schneider group has taken a stake of almost 20% in the share capital of France's Sté. Marine-Firminy industrial holding, blocking attempts by Swedish financier Bertil Akesson of the Roffo group to gain a foothold there. Empain-Schneider now becomes the largest shareholder in the company, with which it already co-owns 51% of Creusot-Loire, major French heavy machinery and nuclear power concern. Marine-Firminy also has sizable interests in the mining, steel, and metal-processing sectors.

Alusuisse/ Lonza

Schweizerische Aluminium AG (Alusuisse) is making a one-for-one share-exchange takeover bid for Lonza AG of Basel, producer of chemicals, fertilizers, synthetics, and electrical energy. Lonza, with a share capital of SF 115 million, had turnover of SF 516 million in 1972. If the offer succeeds, Lonza reportedly would become an independent subsidiary of Alusuisse, taking over all parent company operations in the chemicals, synthetics, and electric power sectors.

ford Elliot/ Brown Bayley

Dunford and Elliot and Brown Bayley have announced agreed terms for a merger that will bring together the two Sheffield-based special steel makers. The move is being backed by the U.K.'s Dept. of Trade and Industry, which has "inherited" shares in the new group via its former major shareholding in Brown Bayley. The deal is seen as being in accordance with government plans to encourage rationalization in the industry.

Krupp/ Outokumpu

Friedrich Krupp Hüttenwerke AG of Germany has concluded a know-how agreement on special steel with Outokumpu Oy, Finland's leading mining and metallurgical group. Krupp is to help Outokumpu plan, construct, and operate a new plant for stainless steel stripping and sheeting in Tornio, south of the Arctic Circle. Production is scheduled to start in 1976, totaling 30,000 tons annually in the first phase.

Tekkosha/ Mitsubishi

Two Japanese companies, Tekkosha and Mitsubishi, are furnishing $10.37 million of a total $17.35 million required to set up a plant to produce electrolytic manganese dioxide for dry-cell batteries in northern Greece. Initial annual output will be 12,000 tons annually, later to be increased to 24,000 and eventually 36,000. At least 60% of production will go into export.

Tecnimont/ Oronzo Techmashimport

Italy's Tecnimont (of the Montedison group) and Oronzo De Nora Impianti Elettrochimici SpA have signed a $34.5-million agreement with Techmashimport of the Soviet Union for construction of an electrolysis plant capable of producing 140,000 tons annually of caustic chlorine-soda.

ICI

Britain's Imperial Chemical Industries has formed a specialist group, ICI Pollution Control Systems, to sell its technical know-how and products to industry involved in the sector of pollution control. ICI envisages rapid expansion of its present activities in this area (current turnover is around £1 million per year) and it is expected that much of the market will be on the Continent, where pollution control expenditure reportedly is running at the level of £1 billion annually. Emphasis will be on the "waterborne pollution" market and on sales of ICI's Flocor, a plastic biological filter.

Eiser

The government of Sweden has paid 45 million kronor for a 50% interest in AB Eiser, the country's leading textile concern with an annual turnover of 250 million kronor. A precondition for the transaction reportedly was Eiser's agreement to drop plans for heavy expansion in Finland, where labor costs are appreciably lower, in favor of construction of three new plants in northern Sweden over the next five years, creating 600 new jobs. In addition to acquiring half of the company's 20-million kronor nominal share capital, the state will supply 44 million of the estimated 90 million kronor required for the projects. Stockholm's involvement is said to mark a clear change from its previous policy of encouraging rationalization and condensation within the textile and clothing industry. In this regard, the need to solve Sweden's continuing unemployment problem seems to have played a determining role.

Secowest

A new company, Secowest Italia SpA, has been set up by agreement between Wabco Westinghouse SpA of Turin and Westinghouse Brake & Signal Co. Ltd. of London. With headquarters in Turin and a branch in Milan, Secowest will produce and sell semiconductors for the Italian and foreign markets.

Raytheon/ Selenia

Raytheon of the United States, one of the founders of Selenia, the Rome-based electronics firm specializing in radar and telecommunications equipment, has sold out its remaining 11.2% interest in the company. Selenia is now controlled by Finmeccanica (24.2%), STET (67.1%), and IRI (2.5%), all state enterprises, and by Fiat (6.2%) as the only remaining private participant.

Chase/ Familienbank

Chase Manhattan Bank has opened the first branch of its new consumer banking subsidiary in Germany, Familienbank AG, in Düsseldorf. By late 1974, Chase plans to establish a network of 10-15 Familienbank offices. The bank is devoted exclusively to personal banking services - primarily installment loans and checking and savings accounts. Familienbank's policy of basing interest rates for savings on current capital market rates rather than on money market rates has been termed a "near-sensation" and may well set a precedent for other German credit institutions.

Common Market Reports

EUROMARKET NEWS

Issue No. 253 *Report No. 226, November 21, 1973*

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Community: Watered-down Proposals on Multinationals

Publication this month of the European Commission's document on control of multinational corporations has confirmed earlier reports that the extensive catalogue of measures suggested in the original drafts has been whittled down appreciably. The Commissioners have been divided not only on single issues but also on the general approach to be taken. Thus, even in the final hours prior to their accord, they weakened several recommendations and dropped another entirely that, if accepted, would have prevented banks from concealing the identity of bidders and the origin of capital in takeovers.

Essentially, the paper and the attached draft decision call on the Council to speed up work on several Commission proposals. One of these, the European company draft statute, would actually facilitate, not curb, activities of multinationals. The Commission also counts on early enactment of its directive on mass layoffs and its merger control draft regulation (*Common Market Reports, Par. 9586*).

But the Commission also asks the Council to introduce additional measures that could limit management's freedom of action. These include:

- rules requiring full and prompt disclosure of takeover bids;
- cooperation among national governments to combat tax evasion (primarily by scrutinizing prices of intercompany sales and licensing fees);
- as a means to control speculation, the checking of capital movements made by multinationals;
- publication of consolidated annual profit and loss statements with a country-by-country breakdown, and
- maximum public information on company activities, including the flow and origin of investment funds, profits, taxes, research costs, and employment figures.

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

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Multinationals *(contd.)*

If the Council considers these steps necessary, Brussels will come up with formal proposals. Some of them are already complete, some are in the drafting stage, and all may have to be revised in the light of Council discussions. Others still require extensive studies. For example, a working group currently is examining ways and means of fostering intergovernmental cooperation to fight tax evasion.

Commission officials emphasized that few multinational corporations will have to worry about any future Community rules because most have been behaving "relatively well": the problem was to put under the regulatory net those that had not. It was pointed out that some corporate managements even favor clear-cut rules to help clarify the legal position of multinationals and shield them against unjustified public criticism.

The first discussion of the Commission paper by the Council is scheduled for early December.

Agricultural Policy to Get Face-Lift

The Commission's recommendations for changes in the Common Agricultural Policy - eliminating costly surpluses and cutting red tape - may not be what Common Market consumers or several national governments (principally the U.K.) had hoped for, but at least taxpayers might benefit. If accepted by the Council of Ministers, the recommendations would save taxpayers one billion units of account (or pre-Smithsonian dollars) annually over the next five years by helping to eliminate dairy product and wheat surpluses, the two areas that have brought the most discredit to EEC farm policies. Almost three-quarters of the Community's 1974 budget of 4.5 billion units of account will be spent for price support and surplus storage.

Price support would continue under the new plan, but European farmers would share the responsibility for producing surpluses. A tax would be imposed if farmers in times of surplus sold more than certain quantities of milk to dairies annually. Producers of dairy goods, notably butter, would also be subject to the tax if their sales to EC intervention agencies exceeded certain quantities.

Another recommendation calls for a temporary freeze on prices of soft wheat so as to let prices for barley and corn catch up, encouraging feed grain and beef production. The gradual repeal of premiums for denaturing wheat used in animal feeding and increased quality requirements applied by intervention agencies would cut wheat surpluses.

Although Brussels anticipates soybean shortages because production in the United States and elsewhere cannot keep up with increasing demand for high-protein feed grain, it refused to relax restrictions on soybean imports. Instead, the Commission proposes to extend the soybean price-support system to sunflower seeds and some other oilseed varieties.

Several recommendations also have general and specific implications for businesses exporting agricultural produce to the Common Market. The Commission hopes to cut some of the red tape ensnaring each market organization for individual products by reducing the number of basic regulations from 200

Farm Policy *(contd.)*

to 30. Poultry and beef importers would also benefit from the plan to replace the present system of customs duties and agricultural levies with a single levy.

The discussions by the nine ministers for agriculture in December will indicate whether the Commission's recommendations are realistic enough to have a chance of being adopted by the Council. Once again, adoption will largely depend on France, the main beneficiary of the present system. (*Common Market Reports, Pars. 425, 428, 641, and 905.*)

Britain: Emergency Powers as Crises Mount

The U.K. government on Nov. 13 decided to declare another state of emergency - the fifth since taking office - as fuel and power shortages added to the multiple problems already engulfing the domestic economy. A record trade deficit last month contributed to a parallel decision by the Bank of England to tighten credit to a degree unprecedented in four years.

The proclaimed state of emergency gave the beleaguered government broad room for action, but initial attention was focused on conserving dwindling power supplies. Thus, display advertising and floodlighting were curtailed and means were devised to control space heating in business and industrial establishments, stores, restaurants, etc. Public sector employers were instructed to reduce energy consumption by 10%. The special powers also authorized Whitehall to impose fuel rationing and to control oil deliveries.

The move taken in the energy sector was to a large part due to the U.K. coal miners' threat to gear up for an all-out strike if current overtime boycotts fail to result in the award of major pay increases. Industrial action by power engineers had already prompted power cuts, and the Central Electricity Generating Board admitted that the "power supply situation is tight and uncertain."

This news coincided with Dept. of Trade and Industry figures for October that revealed a huge £298-million trade deficit as compared with £177 million in September. Just before the report was out, the Bank of England called for an immediate increase in the minimum lending rate from 11.25 to 13% and for a 2% increase in special deposits to forestall a run on sterling. That same day, Nov. 13, the stock market plunged 13 points, with blue chips suffering the worst decline since World War II.

Meanwhile, troubles flared up in various other areas. Postal services, already hit by personnel shortages, were expected to deteriorate as the Christmas rush gathered momentum. Train services in much of South England were threatened with chaos as railwaymen stepped up strike action. In addition to all these irritants the familiar problems remained: opposition to the government's Stage Three counter-inflation program continued, manufacturers registered a massive 42% increase in raw material prices (compared to the same time last year), the pound showed no

U.K. Emergency *(contd.)*

signs of revival, and discontent was again manifest in regard to such varied issues as mortgage rates, price boosts, etc.

Germany: Will Courts Rule for Tax Relief?

Individual and business taxpayers in Germany are anxiously awaiting the forthcoming decision by the Supreme Tax Court (*Doing Business in Europe, Par. 23,568*) that should answer the question of whether the government is entitled to tax income from interest during periods when the inflation pace outstrips interest rates. (Both the Brandt Administration and Parliament recently rejected an Opposition-sponsored bill that called for the easing of tax burdens as a way of compensating for inflation.)

Several legal actions by taxpayers are now before the Munich-based court, including two suits filed in 1969 and '70, when inflation rates amounted to only 2.7 and 3.8%, respectively. The court is likely to reject these two suits, but the judges nevertheless are expected to indicate under what circumstances (say, inflation levels) they might rule in favor of taxpayers.

The Munich decision in turn should be studied very closely by Germany's highest court, the Federal Constitutional Court at Karlsruhe (*Doing Business in Europe, Par. 23,552*). Its eight justices have been called upon to decide on the constitutionality of the government's unmodified powers to tax income in general (not only interest income) during periods when inflation is substantially eroding purchasing power. The Karlsruhe ruling would have much broader implications than the tax court judgment and might even order corrective steps to be taken by the executive and legislative branches of government.

In the meantime, though, taxpayers are pinning their hopes on the Supreme Tax Court, which appears inclined to rule for tax relief for those savers who had brought action this year. At issue is the fact that prevailing interest rates (up to 5% on short-term and up to 6% on long-term savings deposits) are disproportionate to the current annual inflation rate of 6.8%. Both the Finance Ministry and the Bundesbank, which had been asked to submit position papers, have urged the court to stick to the "mark equals mark" principle. Their main argument is that the benefits gained by deviating from that principle (primarily, more equality in taxation) would be far outweighed by the disadvantages (legal uncertainty and more administrative work for tax offices).

Netherlands: Provisional Consensus on Central Accord

Long and intensive negotiations - punctuated by repeated government intervention - finally have produced tentative agreement on the basic structure of the 1974 Social Contract ("Central Accord") between Holland's employer associations and the unions. It provides that new collective bargaining terms would limit real wage increases to 2.5% and that no automatic wage adjustments would be paid for price increases up to 0.3%. In this way, the rise in total wage costs would be held to 10%. The minimum for wage adjustments was set at 160 guilders for each percent of price increases; however, deviations would be possible for companies or industry sectors under severe economic strain.

Central Accord *(contd.)*

It was felt that the employers' side offered the most important concession in agreeing to certain reductions of automatic wage adjustments for employees in higher salary brackets. These reductions will apply in stages to annual salaries exceeding 35,000, 45,000, and 60,000 guilders.

A consensus has not yet been achieved on a number of additional union demands: obligatory publication of an annual "social report" by companies; revelation of individual compensation paid within a company, including that paid to members of supervisory boards; easier access to companies for union functionaries, and certain improvements for young employees.

France: Wage Safeguards for Employees in Bankruptcies

The French government is seeking National Assembly approval of a proposal that would guarantee payment of back wages to employees in cases of employer bankruptcy. The government's move comes in the wake of the Lip watchmakers affair, which has resulted in payroll claims by some 2,000 employees.

Under the proposed plan, back wages would be paid by a new national insurance system financed by employers. The monthly contribution would equal 0.01% of the payroll and would be paid to Unedic (*Union nationale pour l'emploi dans l'industrie et la commerce*), an organization established and financed by French industry and commerce and administered by private insurance companies. Its strong financial position, made possible by voluntary contributions from French employers, has enabled Unedic to pay benefits to unemployed persons in supplementation of state unemployment compensation (*Doing Business in Europe, Par. 22,835*).

Denmark: New Elections Called after Tax Bill Fails

Taxes, prices, and the need for political stability are expected to be the main topics of the brief but intense election campaign now under way in Denmark following the government's call for new elections on Dec. 4. The present Social Democrat minority government, headed by Prime Minister Anker Jørgensen, on Nov. 8 decided to ask for the dissolution of Parliament when it failed to gain passage of a bill that would have modified 1974 income tax schedules. The elections will come two years before the end of the current electoral period and will be the fourth in eight years.

The Jørgensen administration, which had taken over in October 1972, will stay on in a caretaker capacity until a successor government is formed. In the present Folketing it had only a one-vote working majority, including the 17 votes of the Socialist People's Party. The defeat on the tax bill was due to the defection of one prominent Social Democrat, Erhard Jacobsen, 56, who has professed dissatisfaction with the increasingly Marxist course of his party and who has announced formation of his own Center Democratic Party. In the most recent instance, Jacobsen, mayor of a Copenhagen suburb, also has objected to govern-

Elections *(contd.)*

ment plans for higher taxes on private home owners. (Taxes already account for 44% of Denmark's gross national product, among the highest rates anywhere.)

Observers feel that Denmark's current political problems and the new elections should not interfere with the European Community summit meeting scheduled for Dec. 14 and 15 at Copenhagen. Denmark is automatically host to the conference since it holds the chairmanship of the Council of Ministers this year.

EURO COMPANY SCENE

Thyssen-Rheinstahl

A commission of inquiry formed by the Düsseldorf Stock Exchange has found no evidence to substantiate charges of insider dealing in connection with the Thyssen-Rheinstahl takeover last winter. The commission examined records of the behavior of Rheinstahl, Thyssen, six banks, and some 160 individuals involved in the bid, including board members and top executives, during the period Jan. 9-Feb. 21. Now the transaction must clear two more hurdles, the European Commission in Brussels and Germany's Federal Cartel Office, before it becomes final.

Teves

Alfred Teves GmbH, German member of the ITT group and Europe's leading producer of automotive brake assemblies, will take up production at Ebbw Vale, South Wales, in April 1974. Alfred Teves Ltd., the company's British offshoot, is to operate the factory, employing a total work force of 700 by late 1977. The U.K. government is providing plant site and building as well as interest subsidies.

Ford Germany

Ford Germany has announced short work hours for one-fifth of the 35,000 employees at its Cologne plant starting in late November. Spokesmen for the company blamed the decision on the current energy crisis and potential fuel restrictions from Bonn. Other industry experts, however, point to the failure of Ford's larger "Granada" and "Consul" models to make a dent in the domestic market in the face of competition from Opel, Volkswagen, and Mercedes and the fact that only 40% of the firm's output was sold within Germany last year. Worse, the poor turnover has compelled Ford to subsidize or buy outright a number of its franchised dealers in order to save them from bankruptcy, according to press reports.

Poclain

Poclain SA of France, manufacturers of construction and earth-moving equipment, reportedly plans to set up a $5-million plant in Fredericksburg, Va., to produce excavators. The facilities are to be completed by late 1974.

TAS

Tvornica Automobila Sarajevo (TAS) of Yugoslavia, a joint venture formed in 1972 by the state-controlled Unis metals group (51%) and Germany's Volkswagen (49%), has begun production of two VW types in its new DM 50-million assembly plant.

Carborundum/ Dorfner

Carborundum-Werke GmbH, Düsseldorf-based subsidiary of The Carborundum Co., Niagara Falls, N.Y., has confirmed its ac-

Carborundum/
Dorfner
(contd.)

quisition of Germany's Dorfnerwerk Dr. Ing. Josef Dorfner KG, a family-owned producer of industrial abrasives, for an undisclosed sum. Spokesmen for Dorfnerwerk cited an increasing need for capital and specialists, advancing technology, and the greater interdependence of world markets as reasons for the sale.

Heinz-Perrier/
Somycel

Heinz-Perrier, a new joint holding company set up in Paris by H.J. Heinz Co., Pittsburgh, Pa., and France's Source Perrier SA, has completed acquisition of Groupe Somycel, the world's largest producer of mushroom spawn. According to the U.S. parent, Heinz-Perrier is to undertake "aggressive expansion" in the European food sector.

Champion/
A W

Champion International Corp. of New York, building materials, paper, and furnishings, has made a bid valued at ₤40 million for Britain's A W (Securities), a leading carpet manufacturer. The bid has been accepted by the A W board and prospects of a counter-offer were dismissed as "unlikely." The bid marks a significant turnabout in A W's fortunes: the 128p cash for each each share offered by Champion contrasts strikingly with the share price of 4p back in 1967, when the company posted losses of nearly ₤500,000. Champion is understood to have stipulated that there be no reference of the merger to the U.K. Monopolies Commission.

Telefunken/
Zanussi

AEG-Telefunken of Germany is said to be considering a minority participation in Industrie Zanussi SpA, Italy's leading producer of home appliances and television sets. Although opposition by Italian unions and German cartel authorities would preclude any attempt at a merger or majority takeover, the two companies reportedly are dissatisfied with their original plan for AEG merely to acquire a 25.01% stake in Zanussi Elettrodomestici SpA, a projected joint sales subsidiary. Last year Zanussi operated 26 billion lire in the red but expects to make up part of the deficit through its anticipated turnover of 300 billion for 1973.

Pirelli/
Cselt/
Corning Glass

Italy's Industrie Pirelli and Cselt, of the Stet group, have signed an agreement with Corning Glass Works of the United States that calls for collaboration in the research and development of optical fibers for use in telecommunications.

Spalding/
Caber/
Persenico

Spalding, the U.S. sporting goods company, has now also acquired Caber SpA, a leading Italian ski boot manufacturer, after recently taking over the well-known ski factory Persenico.

Smith, Kline
& French

Smith, Kline and French Laboratories, British subsidiary of the U.S. group, has requested the Commissioners of Customs and Excise to provide information on imports of the psychiatric drug trifluoperazine which, patent holders S, K & F suspect, may be being imported to the U.K. by pirate importers. A recent ruling by the House of Lords obliged the C&E to disclose names and addresses of importers of another drug (furazolidone) of which S, K & F is the exclusive U.K.

S, K & F *(contd.)*

license holder. The House of Lords decision giving the drug company access to this information is felt to have wide-ranging implications for C&E rules of confidentiality. The furazolidone case dragged on some 10 years before the Upper House reversed a Court of Appeal decision, but there is a possibility that the precedent set then will expedite matters in the case of trifluoperazine.

U.S. National of San Diego/ European Banks

Judging from the views expressed by leading members of the U.K. banking community, the collapse of the U.S. National Bank of San Diego could well lead to a significant lack of confidence in the American banking system on the part of European institutions. The insolvency will doubtless have repercussions on the interbank Eurodollar market, and European banks are said to be urgently reviewing loans outstanding either directly or as letters of credit to certain U.S. banks. Four British banks - Barclays, National Westminster, Cooperative Commercial, and International Commercial - have a total of some $35 million at risk following the San Diego fiasco, and they are understandably anxious that these loans be repaid. The situation has been complicated, however, because the loans made by the U.K. banks apparently were not made to U.S. National of San Diego but to companies run by the then-chief executive, C. Arnholt Smith, albeit backed by letters of credit from the San Diego bank.

Citibank/ Suez/ Trinkaus & Burkhardt

First National City Bank of New York and France's Suez banking group reportedly intend to expand their holdings in Germany's Bankhaus C.G. Trinkaus & Burkhardt to about 20% each. Citibank acquired a 15% stake last July, when Banque de Suez et de l'Union des Mines increased its previous 5.5% interest to 15.5%. The additional share packages are expected to include the 5-8% participation so far held by Marine Midland Bank of New York.

Continental Illinois

Continental Illinois National Bank & Trust Co., Chicago's largest bank, is opening its third German branch office in Düsseldorf this month. In Germany, the bank is primarily active in investment promotion and financial counseling.

Chemco Leasing/ Chemical Bank

Chemco Leasing SpA has been set up in Milan by Chemical New York Corp., the U.S. holding company. Also, Chemical Bank will open a Milan branch early in 1974.

Moulinex

France's Moulinex SA home appliance group has become the first company to take advantage of the relaxation of the FF 100 minimum rule on stock splits by proposing a 10-for-one split that would produce a nominal value of FF 10 per share. Moulinex shares have been selling at a market price of FF 5,750 each.

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Community: Step Closer to Stage Two?

An optimistic European Commission has presented to the Council of Ministers five proposals laying down the rules for more cooperation and coordination in national economic and monetary policies. Their adoption could lead much closer to the ultimate goal of a European economic and monetary union by 1980 and would strengthen the Community's status as a political entity on its own. The Council will take up the proposals at its Dec. 3-4 meeting, and a breakthrough could come at the Copenhagen Summit, now scheduled for Dec. 14-15.

Commission Vice-President Wilhelm Haferkamp said that the recent monetary crises, rampaging inflation within and outside the Community, and the Middle East war had once again demonstrated the need for greater alignment and flexibility of the Nine's economic and monetary policies. The five measures proposed are designed to achieve this during the 1974-76 period, designated as the second stage of the economic and monetary union.

In the first proposal the Council is asked to reaffirm its commitment to implement the second stage (*Common Market Reports, Pars. 9392 and 9406*). By 1980, the resulting European monetary union would permit a return to fixed exchange rates and abolishment of parity bands. Member states would no longer be allowed to take unilateral or bilateral steps in times of monetary crisis - the Community alone would act and speak with one voice.

Another draft proposal seeks to attain a high degree of alignment of economic policies pursued by the member state governments. The present ad hoc system of consultation would be replaced by a permanent system, whereby a steering committee would meet once every two weeks to work out steps to be taken. Consul-

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Stage Two *(contd.)*

tation would be mandatory and a member state could take no individual action until an agreement had been reached at Community level.

The third proposal calls on the member states to enact legislation to promote economic stability and growth and full employment in the EEC. The Commission feels that national governments must have the proper instruments at hand to fight inflation (for example, through raising taxes by decree) or combat downtrends (by ready-made investment programs). To this end, the proposal goes beyond any existing and advanced national legislation such as that implemented by Germany (*Doing Business in Europe, Pars. 23,118 and 23,319*).

Haferkamp put particular emphasis on the fourth proposal, a draft regulation setting up a common monetary fund that would be the core of a European central banking system, scheduled for 1980. Its main functions would be to settle accounts among member states and to intervene in support of individual currencies. All states would be required to contribute 10% of their non-EC currency reserves, i.e., IMF quotas, Special Drawing Rights, gold, and dollars. In Haferkamp's estimate, this would provide the fund with about 6 billion units of account (pre-Smithsonian dollars). Moreover, the central banks would be required to support any weak national currency. This assistance would be given for three months; additional three-month extensions would require the monetary committee's consent. Assistance beyond 12 months would be a matter for the Council, which could impose conditions.

The fifth proposal pertains merely to committee structure at the Community level.

Germany: Bonn Partners Agree on Codetermination

Bonn's government coalition parties, the Social Democrats and the Free Democrats, have reached agreement in the year-long dispute over the extent of co-determination rights of employees in company management. Expected to be put into legislative form soon and enacted by 1975, the compromise will substantially change existing legislation because it calls for 20-member supervisory boards in all enterprises employing 2,000 people or more (*Doing Business in Europe, Pars. 23,222, 23,279, and 23,441*).

A supervisory board would be composed of nine shareholders' representatives, nine labor representatives, and two company executives. So, theoretically, the representatives of the stock owners could be outvoted on any issue. However, it is assumed that the two executives would side with the shareholders' representatives and thus support management on issues important for the company's future: major investments, important corporate changes such as mergers and takeovers, and recall of members of the managing board.

In case of a tie vote, a second vote would be taken. If this, too, failed to break the tie, the chairman of the supervisory board would cast the decisive ballot. The key role of the chairman was one of the problems that held up an earlier compromise. Both sides must agree on selection of the chairman.

Co-determination *(contd.)*

Not all the labor representatives would have to be employees - the local unions could delegate three members. But these three and the other six representatives (blue-collar and white-collar employees of the company) would qualify only if they received at least 50% of the votes cast in the first balloting. If a candidate failed to get the absolute majority on the first ballot and provided there were still labor vacancies on the board, a second balloting would take place, and here a simple majority would do. Labor representatives would be chosen by the workers' assembly, and the executives by their own group.

France: Government under Siege by Retailers

Following the "Operation Dead Cities" protest action, which had left virtually all retail outlets in France's major cities closed down on Nov. 15, the government has made only half-hearted attempts to sort out "misunderstandings" with the retailers. The shopkeepers' 24-hour boycott - also joined by restaurants and cafés, hotels, taxi operators, etc. - was in direct protest of the new and severe retail price controls imposed early in the month by Finance Minister Giscard d'Estaing. The demonstration was accompanied by a week-long strike of the country's fruit and vegetable dealers, who protested that their livelihood was at stake. This meant that farmers and produce wholesalers were left with large supplies of fresh fruits and vegetables and made preparations to sell directly to consumers in order to avoid huge losses.

Possibly surprised by the violent reactions to the new regulations (which peg retail margins to wholesale price fluctuations), the government sent in Agriculture Minister Jacques Chirac to negotiate a truce with the vegetable dealers. Separate discussions were also scheduled with other retail organizations. But the administration's job was not made easier by the conspicuous absence of the Finance Minister, who had issued the controversial and complicated decree: in fact, just before departing on a trip to Southeast Asia, Giscard d'Estaing made it clear he would not back down.

This insistence on what the retailers have termed "iniquitous and arbitrary" price controls has brought the government under sharp attack not only from the leftist Opposition but also from many Gaullists. Socialist spokesmen charged that France "is not being governed," and other factions accused the administration of "intellectual dishonesty" in trying to pin the blame for its own failure to reduce inflation on one group, the retailers.

Italy: Decree on Settlement of Tax Cases

The Italian government has approved a decree spelling out the details for settling approximately 3.5 million tax cases by finding a compromise between official assessments and taxpayers' returns. But the decree, which puts the partial tax amnesty announced months ago into official form, does more than settle tax cases because it also eases the administrative way for the tax reform (effective Jan. 1, 1974) and is expected to yield some 700 billion

Tax Cases *(contd.)*

lire the Treasury badly needs to bolster its finances. (*Doing Business in Europe, Par. 25,802.*)

According to the decree, taxpayers have three months to apply for tax settlement. Those who have filed returns and received assessment notices are entitled to an automatic 40% reduction on the difference between their reported income and that assessed by the tax authorities, plus a further 25% reduction on the income declared. This additional reduction is designed as a reward for taxpayers whose returns do not deviate too much from official assessments. As an example:

Taxpayer A declared an income for 1970 of 4 million lire, but was assessed on 6 million lire income. The taxable income of 6 million lire is reduced by 800,000 (= 40% of the difference of 2 million) and further reduced by 1 million (= 25% of the income declared), so that the adjusted taxable income would be 4.2 million lire.

Taxpayers who failed to file tax returns would be entitled only to a 30% reduction of the income assessed by the tax authorities. Taxpayers who failed to file returns for 1970, 1971, and 1972 could file without any penalty and additional charge if they paid the tax equal to that paid on their last return, increased by the tax amount payable on income increased by 10% for each following year.

The decree is lenient toward taxpayers with modest income, and minor amounts in back taxes will not be collected at all. However, taxpayers in high income brackets do not get away so easily. Although also entitled to the deductions available to all taxpayers, they incur a 10% penalty on any tax due over 50 million lire.

Britain: Heath Defends Commitment to Economic Growth

The Heath administration has indicated in the U.K. Parliament that it will not abandon its commitment to economic growth, in spite of the murmurs of dissent that are being heard on back benches. A censure motion tabled by the Labour opposition was defeated in the Commons by 304 votes to 286, but Conservative members urged the government to be frank about the country's critical position. One MP characterized the present program as offering the choice between continued expansion with incomes restraint or a return to deflation, stagnation, and unemployment; this, he submitted, was a difficult choice to make. Opposition leader Harold Wilson was more direct: he indicted a government that had "cynically broken covenants with the British people over prices," the election promise to "reduce prices at a stroke" having been, in his view, the sole mandate on which the government was elected.

The impetus for debate was provided by the state of emergency declared on Nov. 13 following the "energy crisis," and by the catastrophic trade figures announced for October. Indeed, said Wilson, the deficit on visible trade claimed by the government to be £298 million was not accurate and even the Exchequer had conceded that certain figures had been left out, albeit inadvertently. The true deficit is now estimated to amount to £370 million for October, 12 times as great as in the month before the last general election, when the Wil-

U.K. Policy
(contd.)

son government was ousted. The "Heath pound," i.e., the status of sterling under the Conservative government since 1970, shows a devaluation of 25% at home and possibly as much as 20% abroad.

Jeremy Thorpe, the leader of the Liberal Party, also indicted the Heath government. He noted that, in spite of what appeared to be an economic crisis, the government was getting its priorities wrong in that it was indulging in three massive capital projects: the Channel tunnel, Maplin airport, and Concorde.

Heath, in attempting to refute these attacks, stressed that the government has embarked on a policy of expansion in full knowledge that "internal problems" would be encountered. These he summarized as lack of capacity on industry's part to respond to expansion, lack of modern plant and machinery, and the lack of properly balanced labor forces. The trade unions had not yet "organized themselves effectively to deal with industrial disturbances." Industrial production had risen by nearly 10% over the last year, however, and was "still rising fast." Further, 1974 would be the highest growth year for investments in over 10 years. Finally, British exports were now competitive on world markets.

To many observers, the Prime Minister's protestations appeared lame and left open the main question of whether the "successes" claimed for the program of expansion will be substantive or merely cosmetic.

Norway: Revaluation to Combat Inflation

The 5% upward revaluation of the Norwegian krone on Nov. 15 was prompted not so much by acute monetary pressures as by government expectations that it would make a 2.5% difference in the updraft of domestic prices in 1974. The Finance Ministry now estimates that prices will rise by 7-8% next year.

The revaluation will have an immediate benefit on import prices while being, at the same time, to the disadvantage of Norway's export sector, notably the metals, shipbuilding, forestry, and fishing industries. But Oslo obviously attaches greater importance to the fight against inflation, in particular since the country's comfortable payments surplus (nourished by income from shipping and offshore oil royalties) more than offsets the foreign trade deficit. Currently, Norway maintains foreign currency reserves totaling $1.6 billion.

Economic observers expect the krone revaluation to be followed soon by supplemental measures such as stricter controls on prices and profit margins, new credit restrictions, and assistance to ailing export sectors. Probably because of the encouraging performance of the domestic economy, business reaction to the revaluation has been relatively mild, although there was criticism that the move should have been accompanied by reductions in public spending and tied in with the negotiations toward a new collective bargaining agreement.

Revaluation *(contd.)*

The Norwegian move constitutes the third parity change by a country participating in the European block floating, having been preceded by the revaluations of the German mark at the end of June and the Dutch guilder in mid-September. There has been speculation that Denmark and Sweden will follow with revaluations of their own, although at least Stockholm immediately rejected such rumors.

Switzerland: Curbs on Sale, Advertising of Hard Liquor

The Swiss government has proposed legislation to substantially restrict retail sales of hard liquor and ban liquor advertising on radio and television and on public transportation. In taking this step Bern is not moved by a revived spirit of temperance but by a constitutional obligation to prevent excessive liquor consumption. The government is aware, though, that previous administrations have not been very successful in this endeavor.

A sharp increase in the consumption of hard liquor - from an average three liters per capita in 1955 to five liters last year - has been attributed to the proliferation of self-service and discount stores and supermarkets and to retail price wars that followed the 1968 disbandment of an officially tolerated price cartel. Drastic boosts of the alcohol tax in 1969 and earlier this year, together totaling 100%, did nothing to stop or reverse the trend.

The government feels that certain practices such as door-to-door and below-purchase-price sales have gone beyond what can be tolerated. In the future, a retail store would need a special cantonal permit to sell liquor. Cantonal authorities would exercise discretion in granting permits.

Banned completely would be door-to-door and vending machine sales, discount offers, and other gimmicks to lure customers, sales of liquor to minors, and free samples for promotional purposes. Those advertising their products through the remaining permissible media (newspapers, magazines, posters) would have to limit their ads to factual statements. Price comparison with competitor products would be prohibited, as would be promotional drives making the purchase of liquor a condition for participating in raffles.

The bill is now being studied by the cantonal governments, retail organizations, and consumer groups, among others.

EURO COMPANY SCENE

Commission/ Ball-Bearing Producers

The European Commission has charged five French and four Japanese ball-bearing manufacturers with infringement of EEC competition rules because the Japanese firms agreed to limit exports to France by raising their prices substantially. It is the first time Brussels has ever initiated proceedings against parties to a self-limitation cartel.

Charged with violation of Treaty Article 85 (1) were Société Nationale de Roulements, NADELLA, I.N.A.-Roulements (subsidiary of Germany's Scheffer), Société Nouvelle de Fabrications Aéronautiques, and S.K.F., French subsidiary of the

EC/Ball-Bearing Producers *(contd.)*

Swedish company. The Japanese companies cited were Nippon Seiko, Toyo Bearing, Koyo Seiko, and Fujikoshi. All parties involved apparently have no chance of obtaining an exemption from the cartel ban under Article 85 (3) because the agreement lacks any positive effect, one condition for exemption.

Commission/ BMW

In another area, the Commission is about to ask for comments from third parties as it prepares to grant Bayerische Motoren-Werke AG (BMW), the German automobile maker, an exemption from the prohibition of Article 85 (1) for the BMW selective distribution system. BMW has already backed down on several features of its system found objectionable by the Commission, but the weight of argument presented by third parties may induce Brussels to impose further conditions on BMW prior to considering whether to grant an exemption under Article 85 (3). The Commission has not reached this stage yet with respect to French automaker Citroën.

Gelsenberg/ RWE

In a modification of the original plans announced last June, the German government has declared its agreement to acquire outright 48.3% of the DM 485-million nominal share capital of the Gelsenberg AG oil concern from the present owner, Rheinisch-Westfälisches Elektrizitätswerk AG (RWE), for DM 641 million. Regarded by administration officials as "the key to the sought-after reorganization of the German mineral oil group," the purchase now must be approved by the parliamentary budget committee and the Bundestag (lower house). Bonn's earlier proposal to subsidize a Gelsenberg takeover by Veba AG, the 40% state-owned oil group, apparently fell through because of opposition from both Gelsenberg and Veba. The new solution still gives the government control of a total refining capacity of 24 million tons annually as well as the largest domestic distribution network for automotive fuel and heating oil and a strong bargaining position vis-à-vis Iran and other Mideast oil suppliers.

Lip/ Supemec/ Spemelec

Some 130 employees of the Ornans tool division of Lip SA d'Horologie, the defunct French watch company, have agreed to take up their work again for a new employer, Supemec tool manufacturers. The move probably signals the beginning of the end for Lip. Spemelec, a defense contractor, is negotiating to hire another segment of the jobless work force, while Lip's sales network and production organization are said to have deteriorated to such an extent that a revival of watchmaking operations at this point would be a near impossibility.

Ericsson/ Pupin

Sweden's L.M. Ericsson AB has licensed E.I. Pupin, a subsidiary of Yugoslavia's Elektronska Industrija (E.I.) Nisch, to produce coin boxes for long-distance, direct-dial telephone service. Manufacture is to begin in 1974. Ericsson maintains license agreements with another Yugoslav producer of telephone equipment, Nikola Tesla of Zagreb.

C.P.C./ Servo Mihalj

C.P.C. International, Inc., of Englewood Cliffs, N.J., is negotiating with the Yugoslav agricultural group Servo Mihalj to provide capital and technology - possibly in the form of a joint venture - for corn refining and cornstarch production in Yugoslavia. Through its Swiss subsidiary, Knorr-Nährmittel AG, CPC already maintains license ties with the Kolinska foods group of Ljubljana.

Perusyhtyma

Perusyhtyma Oy of Finland has contracted to build an iron mining and smelting complex for the Soviet Union's Kostamus iron fields south of Murmansk. The $250-million project, the largest ever attempted by Finnish industry in the USSR, is to include plant facilities and living quarters for 30,000 workers and their families. Upon completion in the early 1980s, the Kostamus center will produce 8.3 million tons of iron ore pellets yearly, 1 million tons of which will be earmarked for Finland.

Corning Glass/ Degussa/ Johnson Matthey

Corning Glass Works, Corning, N.Y., has won contracts with Germany's Degussa and Johnson Matthey & Co. of the U.K. to supply ceramic substrates for catalytic converters used in Volkswagen exhaust assemblies. The converters are designed to meet requirements of the U.S. Clean Air Act, beginning with 1975 models.

Maplin

The Maplin Development Authority, responsible for the land reclamation phase of the U.K.'s projected air and seaport development, has announced that foreign companies will be entitled to bid for contracts to ensure that the program is carried out at the lowest cost to the British taxpayer. Contracts valued at around £140 million are at stake, and it is expected that non-U.K. dredging companies will show interest.

La Henin/ Les Salins

Cie. La Henin, property and real estate affiliate of France's Suez financial group, has made a share-exchange bid for control of Les Salins du Midi, the country's largest salt producer and one of its leading vintners. The offer apparently was made to head off a rival proposal by Piper-Heidsieck, France's No. 3 champagne producer. Through Banque de l'Indochine, Suez already owns about 10% of Les Salins, the second-largest shareholding after Pechiney-Ugine-Kuhlmann's 19-20% stake.

Westminster

The U.K.'s Westminster property group has announced plans for a £2.1-million development in central Lisbon, the first such major undertaking by a British company in Portugal. To date, commercial development has been confined largely to northern Europe, with southern Europe figuring principally as a residential or tourist development sector.

Iéna/ De Luze

Société Financière Iéna, French subsidiary of the U.K.'s Bowater-Ralli group, has received Finance Ministry permission to take a majority interest in De Luze et Fils, well-known Bordeaux wine merchants.

Carl Ally

U.S. advertising agency Carl Ally, with European offices in Paris and Geneva, plans to open a German office in Munich soon.

Common Market Reports

EUROMARKET NEWS

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Community: Cornerstones for Alignment of Direct Taxes

The European Commission has laid down basic concepts for harmonizing national tax laws governing corporate income tax and withholding tax on interest income from debentures (*Common Market Reports, Pars. 3311 and 3311.35*). Should the Council accept these concepts, to be included in proposals it is to receive soon, all member states eventually would be required to base corporate taxation on the tax-credit system, providing for a single high rate payable by corporations and entitling shareholders to credit the corporation tax on their dividends against their individual income tax debt. If the corporation tax on these dividends exceeds the individual income tax, the shareholder would be entitled to a refund. France and the United Kingdom already apply this system, and the German government has proposed legislation to introduce it (though in combination with two rates). Thus, any Council measure would primarily affect the other six member states, which would have to replace their variable split-rate system, based on a high rate on retained profits and a reduced rate on distributed profits.

Favoring the tax-credit system over the split-rate system means a shift in policy, since the former Commission had favored split rates. The present Commission is aware, of course, that although the split-rate system involves the drawback of double taxation, it also has the advantages of being technically easier to administer and of

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Direct Taxes *(contd.)*

avoiding discrimination in international taxation. On the whole, however, the benefits of the tax-credit system outweigh its shortcomings. Moreover, the Commission views the tax-credit system as being more neutral in its treatment of companies using different legal forms of doing business and less discriminatory to the various ways of corporate financing. Also, the system makes it less attractive for major shareholders to avoid taxation by establishing fictitious companies elsewhere - it might even encourage savers with modest income to invest in stock and thus stimulate the capital market.

On the issue of harmonizing national withholding taxes on bond interest, Brussels favors a high withholding rate but is noncommittal on how high it should be until money markets have quieted and the Community has the power to exert capital controls, which the Commission has proposed in its program on the second stage of the Economic and Monetary Union. To suggest a rate now would possibly only encourage new flights of capital from the Community.

Originally Brussels had favored abolishment of withholding tax on bond interest. Now the Commission admits that, although beneficial to a European capital market, abolishment would be contrary to the Paris Summit doctrine for more fiscal and social responsibility; it would also defeat efforts by the Commission, the member states, and the OECD to combat tax fraud and tax evasion.

Britain: Bill Proposes Wider Controls on Pollution

The Protection of the Environment Bill introduced in the U.K. House of Lords promises legislative changes that will affect virtually every sector of pollution control in Britain (*Doing Business in Europe, Par. 24,043*). It extends existing statutes in the four main areas of land, water, noise, and the atmosphere and proposes the repeal of former key legislation. In addition, the bill proposes stiffer penalties for a wide range of pollution offenses.

Part I of the bill reformulates the law on the collection and disposal of waste by local authorities, requiring them to devise "comprehensive" plans for disposal and to ensure satisfactory disposal standards. "Controlled waste," i.e., household, commercial, and industrial waste, would be disposed of by County Councils (Districts in Scotland and Wales) obliged to survey all waste in their area and formulate disposal plans. A licensing system would enable authorities to impose operating conditions for disposal. It would be an offense to deposit waste except on a licensed site and in accordance with the conditions of the license. Refusal of a license or "unreasonable" conditions could be appealed to the Secretary of State. The Secretary also would be empowered to issue orders and regulations as to the handling and disposal of problematic or toxic wastes.

Pollution Bill *(contd.)*

Part II proposes to extend existing methods of protecting water from pollution to cover virtually all "relevant" waters within territorial limits, i.e., underground water, tidal stretches of river, and the sea. Discharges from working mines also would be brought under control. New powers also would be available to require more stringent precautions to avoid water pollution, including the designation of especially sensitive areas. The "relevant waters" provision would be extended so that existing provisions in regard to trade discharges and sewage effluents would be subject to local water authorities' control on an unprecedented scale. Applications for consent to discharge would have to be advertised and authorities would be required to keep registers open, as a rule, to public inspection.

Part III of the bill represents a modification of the statutory nuisance code as it applies to noise. Local authorities would acquire increased powers to control noise from construction sites and similar working areas. New procedures for the designation of noise abatement zones are laid down, together with a classification of the premises affected. Local authorities would maintain a noise register and would acquire more specific powers to control or reduce noise levels. Provision is made for appeal against "unreasonable requirements" by the local authority.

Part IV contains provisions on atmospheric pollution. Foremost among these would be powers acquired by the Secretary of State to issue regulations controlling the composition of engine fuels and the sulfur content of oil fuel. Local authorities could collect and publish information on air pollution in their areas, subject to consultation with local industrial interests and to regulations issued by the Secretary.

Part V covers power of entry and inspection for relevant authorities. These agencies would also be empowered to require information, unwarranted disclosure of which would, however, be penalized.

Part VI and Schedule 2 of the bill make provisions for increased penalties for offenders. Penalties in general would be increased drastically, with major offenses carrying fines of £400 (plus continuing fines of £50 per day) as compared to £200 and £20, respectively, today. Subject to prosecution would be offenses violating the Public Health Acts, the Water Acts, and the Rivers (Prevention of Pollution) Acts, together with the corresponding Scottish enactments.

Benelux: Toward Joint Environmental Legislation

The governments of the Benelux area are seeking to formulate common environmental laws. Two expert commissions reportedly are now working on the harmonization of existing national regulations pertaining to air and water pollution control. The initial results of these discussions are to be submitted in March 1974 for further study by the appropriate ministries in Belgium, Luxembourg, and the Netherlands.

Belgium: Economic Body Hands Down First Decision

Four companies handling practically all fruit imports and auctions in Belgium have been found guilty of abusing their economic power (*Moniteur Belge*, Nov. 9, 1973, page 12,623). The ruling came in the first case to reach Belgium's Council for Economic Disputes, an administrative tribunal set up in 1935 but given added functions under the 1960 Law against Abuse of Economic Power (*Doing Business in Europe, Par. 21,521*). Previous cases have been either settled or dismissed by a commissioner handling the proceedings in the first instance.

The Council found that the defendants - Ets. B.M. Spiers & Son, Gérard Koninckx frères, Firma Léon Van Parijs, and Fruitbrokers Co., a subsidiary of United States Fruit Co. - had unilaterally imposed unreasonable conditions on buyers, all members of a fruit wholesalers' association.

Among other charges in its complaint, the association had accused the companies of having denied its members access to auction premises, piers, and warehouses for the purpose of verifying the quality of fruit. The association also alleged that fruit samples were removed soon after the auctions.

The Council upheld the main complaint, ruling that the association was entitled to dispatch to the auctions a certain number of agents who, together with an equal number of importers' representatives, could select fruit samples for inspection by prospective buyers. The agents also must be given unrestricted access to piers and warehouses.

The Council's ruling, handed down in the form of recommendations to the four defendants, empowers the Economics Minister to force compliance.

France: Higher Tax Levied on Company Cars

All businesses in France, regardless of their corporate form, are subject to a drastically higher tax rate on automobiles registered or leased in the company name. By Nov. 30, firms were to file a form with the fiscal authorities showing the number and types of vehicles operated in the one-year period that ended on Sept. 30. The

Car Tax (contd.)

tax amounts to FF 350 per quarter and vehicle for cars with engines generating more than seven horsepower.

Exempted from the tax are nonprofit organizations and automobiles that are integral to the business activity, i.e., taxis, rental cars, demonstration models, and cars used by driving schools.

Italy: Turnabout in Labor-Relations Climate?

The substantial progress achieved so far in discussions between the Italian unions and Fiat amounts to more than a provisional agreement on collective bargaining terms with one company: it has been interpreted as an encouraging signal for a basic improvement in labor-management relations generally in Italy. Many observers are convinced that the outcome of the negotiations with the Turin-based auto maker - the country's No. 1 private company, with a turnover of 2,000 billion lire and 200,000 employees - could help break down the intransigence that has strait-jacketed any cooperative spirit in the past: "The walls of distrust no longer appear insurmountable."

A possible about-face began to shape up earlier this year when Fiat bared plans for massive new investments to help Italy's impoverished southern regions and offered to experiment with new, more humane production methods. The unions, while claiming credit for these proposals and basically welcoming them, nevertheless demanded more concrete commitments and promised to apply new pressure in the fall. These talks are now continuing, and Fiat took an early initiative by submitting a statement that the company was willing to discuss any issues, even going beyond internal corporate affairs to basic questions of social responsibility and joint investment policy. Subsequently, Fiat accepted a good portion of the "platform" formulated by the country's three major unions and the local metalworkers' organization.

Aside from the details of its future investment policy (*see EURO COMPANY SCENE, page 7*), Fiat in effect has called for an alliance of capital and labor as a way to overcome the lingering crisis in Italy's economic and social system. This stand goes far beyond the principles still defended by the Confindustria, the industrial federation, and is even opposed to these. But the Fiat movers, i.e., the Agnelli family, apparently have convinced themselves that the time is ripe for change if Italy is not to lose further ground to its European competitors.

Germany: Bonn Stops Influx of Non-EC Labor

The Brandt administration has decided to halt the flow of laborers from non-EC countries to Germany. The move has come in the face of increasing unemployment, which had been expected to result from the government's stability program

Labor Stop *(contd.)*

but could now worsen because of fuel shortages. Nationals from EC countries are not affected by the measure since the Treaty of Rome guarantees them free movement (*Common Market Reports, Pars. 1002 and 1031*) and neither are professionals and executives from third countries.

A similar proposal to stop the influx of alien workers from outside the Community had been advanced by the Labor Ministry in July but was rejected in favor of milder restrictions. At the time, the ministry had called for a stop in order to relieve the pressure on the infrastructure in areas lacking sufficient housing and schools. In urban centers such as Berlin, Frankfurt, Munich, and Stuttgart, the percentage of aliens in the total work force has ranged from 18 to 24%, well above the national average of 10.8%.

Should the energy crisis continue for a longer period, employers might even be forced to dismiss German workers first. Aliens normally are protected against dismissal by their employment contracts, whereas German employees do not have written contracts.

The latest measure supplements Bonn's general guidelines adopted in July requiring prospective employers to pay DM 1,000 (previously DM 300) to the government's employment agency for each foreign worker hired and making the provision of adequate housing a prerequisite for new employment. A bill now under consideration would prevent employers from requiring aliens to pay back the hiring fee and would subject illegal hiring to increased penalties (it is estimated that 250,000 foreigners illegally reside and work in Germany).

In any case, the influx of foreign workers has markedly tapered off in recent months - from 20,000 in September, to 11,000 in October, to 6,000 in November. There are about 60,000 on waiting lists, primarily Turks, Yugoslavs, and Greeks, who are directly affected by the ban. Presently, those three nationalities account for 22.4, 19.9, and 11.4%, respectively, of the 2.6 million legally hired foreign workers in Germany.

EURO COMPANY SCENE

Ford Spain

Fears that Ford Espana might have to invoke compulsory purchase legislation in order to acquire the 450 acres it needs for its proposed $350-million production plant at Almusafes, Valencia, have been dispelled with the news that most local landowners have now agreed to sell out on the company's terms. The farmers had been holding out for better offers but apparently gave in when Ford threatened to consider other sites. The factory is to be completed by fall 1976 and will have a yearly output of about 240,000

Ford Spain *(contd.)*

units. Plans include an extensive job training program, particularly for local residents displaced by the project. In addition, Ford has offered low-interest, long-term credits as compensation to landowners who wish to buy new property elsewhere.

Fiat

As part of its current collective bargaining negotiations, Italy's Fiat has agreed to continue to contribute toward the industrialization of the Mezzogiorno, the country's southern areas. The automobile manufacturer, which spent some $400 million there between 1970 and '73, will invest an equal amount in the coming years, thereby creating some 19,000 new jobs.

Investment plans involve the concentration of practically the entire national production of rail equipment in the South, in coordination with state-owned EFIM. New plants for the manufacture of buses, diesel engines, and forklifts also will be established. At a factory producing earth-moving equipment and operated jointly with Allis Chalmers of the United States, employment is to be boosted from 1,200 to 2,000. Still other manufacturing facilities (plastics materials, auto headlights) are to be shifted from the North to the South.

I/ Shell

According to unconfirmed reports, Italy's state energy holding ENI has agreed with the Royal Dutch Shell group to take a two-thirds controlling stake in Shell Italiana SpA. ENI would acquire Shell's three refineries at Taranto, La Spezia, and Milan plus the company's network of about 5,000 service stations. The Shell group would retain a minority holding in order to stay active in the Italian fuel market, where it is particularly interested in aircraft and marine supply. ENI also would have the option of selling off 15% of its participation to interested third parties, probably to include Iran, Libya, or another oil-producing nation. With Shell Italiana assets recently estimated at a total of 450 billion lire, ENI is expected to borrow the necessary funds on the international capital market.

Fearing for their jobs, Shell Italiana employees meanwhile have announced strike action to protest the alleged sale.

Urenco/ Eurodif

After rejecting an offer by the U.K., Germany, and the Netherlands to join their "Troika" nuclear energy consortium and its Urenco centrifuge project for uranium enrichment, the government of France has announced it will proceed instead with its own FF 7-billion gaseous diffusion plant project within the framework of Eurodif, a rival consortium partnered by France (47.5%), Italy (22.5%), Belgium, Spain, and Sweden (10% each). The European Commission reportedly has encouraged parallel development of both

Urenco/
Eurodif
(contd.)

projects, while Troika partners have argued that the French-sponsored diffusion method is less efficient and that a diffusion plant would prove too costly to the Community in terms of subsidies and fuel prices and would result in overproduction. French government officials, on the other hand, consider their projected 9,000-ton plant the key to independence from the United States in the nuclear fuel sector. For its part, Troika plans to begin construction of a smaller (400-ton) centrifugal-process enrichment plant by 1976, expanding it to 2,000 tons annually by 1980.

GE/
Chicago Bridge/
RSV/Rotterdam
Nuclear

General Electric and Chicago Bridge & Iron of the United States and Rijn-Schelde-Verolme (RSV), Dutch shipbuilding group, have been discussing plans to set up Rotterdam Nuclear, a joint venture to produce reactor vessels and other components for nuclear power stations. RSV would presumbly hold 51% of the proposed company and its U.S. partners, 24.5% each. Final word on the project is expected before year's end.

Alcan

Alcan, the leading Canadian aluminum producer, and Ireland's Industrial Development Authority are reportedly in the final stages of negotiation to build a huge 600,000 ton-per-year alumina plant on a 1,000-acre site purchased by Alcan on the Shannon Estuary. Total cost has been estimated at between £85 and 90 million.

Degussa

Germany's Degussa chemicals and metals group has founded a new subsidiary in the United States, Degussa Alabama, Inc. The American offshoot has purchased a site near Mobile, where it plans to complete a 16,000-metric-ton p.a. methionine plant and a 5,400-ton p.a. aerosol factory by 1976. The project will cost some $36 million in its initial phase, $5-6 million of which is earmarked for environmental protection. Three years ago the German company purchased land in Delaware but decided to postpone U.S. production because of the poor outlook for chemicals at the time.

Tee-Pak

Tee-Pak, Inc. of Chicago, a packaging materials subsidiary of Continental Can Co., Inc., has established an Italian subsidiary, Tee-Pak Italia SpA, with headquarters in Milan.

Calcomp

California Computer Products, Inc. (Calcomp) of Anaheim, Calif., has formed an Italian sales subsidiary, Calcomp SpA.

Oriel Foods/
RCA

Oriel Foods of the U.K. is the object of a bid valued at some £11 million by RCA Corp. The deal has been endorsed by Oriel's chairman, subject to appropriate approval from U.S. authorities.

Common Market Reports

EUROMARKET NEWS

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Community: Coordination of Banking Regulations

The European Commission has modified its approach toward coordinating the banking laws and regulations of the Nine: instead of combining all disparate aspects into one directive, it now favors a piecemeal approach, coordinating one by one the areas where varying national rules exist.

Commission officials concede that the new approach was prompted by the accession of the U.K., Ireland, and Denmark. The newcomers, particularly Britain, have banking rules that differ substantially from those of the original Six, and even those are quite apart on several issues. Coordination of national banking regulations is needed in order to make banks fully competitive with one another throughout the Community.

A first step in this direction was taken on June 28, when the Council of Ministers adopted a directive requiring member states to guarantee banks and other financial institutions freedom of establishment and freedom to provide services (*Common Market Reports, Par. 1349.10*). Under this directive, member states must abolish restrictions, including discriminatory administrative practices, that prevent banks and individuals from establishing themselves or providing services under the same conditions as nationals in the territory of another member state.

The Commission is expected to prepare individual draft directives that could cover rules pertaining to the general

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EC Bank Rules *(contd.)*

scope of activities, bank liquidity, solvency margins, and bankers' qualifications. Once all directives are adopted, Brussels foresees a substantially modified legal framework that would put branches under the control of banking authorities of the member state where the head office is domiciled and not under those of the state where branch banking activities occur.

Germany: A Formula for Spreading the Wealth?

Experts of the Bonn government coalition parties reportedly are inching toward a common formula on the spreading of capital ownership among people in low-and medium-income brackets. After earlier progress in broadening its codetermination model (*Doing Business in Germany, Pars. 23,222, 23,279, and 23,441*), the Brandt administration would be able to realize another major political goal if it could push through its ideas for a more equitable distribution of wealth. The basic concept of this *Vermögensbildung* would require businesses to transfer a certain number of shares or similar certificates of capital ownership to decentralized, government-controlled funds which, in turn, would handle distribution. The amount of a levy imposed on an enterprise would determine the number of shares to be transferred. Any one fund could never hold more than 5% of a company's stock.

Both government parties, the Social Democrats and the Free Democrats, agree that the number of enterprises to be subjected to the levy (*Vermögensbildungsabgabe*) should be kept as small as possible so long as some DM 4-5 billion is available annually for distribution and, also, that the levy should not exceed 10% of an enterprises's pre-tax profits. But there is still disagreement on how high profits should be before a levy becomes due: the Social Democrats advocate a DM 400,000 threshold; the Free Democrats plead for DM 1 million. Noncorporate businesses would be entitled to a DM 100,000 exemption. About 3,000 corporate entities and some 6,000-7,000 noncorporate businesses would be subject to assessment should the DM 1-million rule be applied.

Still open is the important question of whether noncorporate businesses should be required to issue shares or make cash payments instead. The definition of "beneficiaries" is also unclear: the Social Democrats want only employees to be eligible whereas the Free Democrats want to include all individuals earning up to 32,000 a year. It is obvious that, with a projected annual distribution of DM 4-5 billion, the nominal value of each share or certificate would be determined by the number of beneficiaries.

Intra-government discussions reportedly have progressed to the point where a compromise could be achieved before the end of the year.

Netherlands: Oil Boycott, Social Talks, Investment Law

The Arab oil boycott against Holland not only threatens to put an economic stranglehold on that country but may also pose an indirect challenge to the present Dutch government itself. The "Turnabout '73" banner under which Prime Minister Joop den Uyl had launched his new administration had carried a major commitment to do something about inflation. Now, at the close of the year, the oil crisis is defeating all efforts on that score, and both business and labor are flailing the government for the apparent failure of its prices and incomes policies. In fact, there is now the distinct threat of major unemployment: it has been estimated that some 80,000 people could lose their jobs should the boycott succeed in "drying out" the country's major oil refining and distribution centers. (For the present, however, the government feels that the situation is under control and has ruled out an embargo on foreign, non-EC labor such as that imposed by Germany and Denmark.)

Meanwhile, the administration is still struggling to wrest from employers and unions a firm agreement on the 1974 social contract. The basic terms of this "Central Accord" seemed settled last month when industry negotiators tentatively accepted a compromise on basic wage increases and automatic adjustments that would have limited overall wage costs to 10-10.5%. But the employers' federations came up with a last-minute veto, arguing that the effects of the oil boycott were bound to result in far higher wage costs, while business and industry would have to abide by the official price restrictions.

Confronted with this stand-off, the government has speeded the preparation of a kind of economic "wartime" decree that would hand The Hague broad emergency powers to intervene on the economic front, primarily by freezing incomes, rents, and dividends. This legislation was to have been sent to Parliament by mid-December.

In other news, Holland's Lower Chamber of Parliament has now passed, by a surprisingly solid majority, the government's so-called Selective Investment Regulations (SIR), which aim to control commercial and industrial expansion in the congested western areas of the country by means of a permit and tax system. The law probably will take effect in 1974; the Economics Ministry, sponsor of the legislation, indicated that this would depend on future developments in the energy sector.

Britain: Labour Snipes at Industrial Relations Act

The United Kingdom's new Secretary of State for Employment, William Whitelaw, has come under immediate fire from the Labour opposition party, which introduced a motion in the House of Commons seeking to condemn the government "for the increasing damage done to industrial relations and to the legitimate activities of trade unions by the Industrial Re-

Labour Charges *(contd.)*

lations Act 1971." In particular, the motion sought to indict the government for industrial disruption and harm to the economy caused by the act. The National Industrial Relations Court, it was alleged, has become involved in matters of political controversy - a reference to the sequestration order issued against the Amalgamated Union of Engineering Workers under which £100,000 had been seized from the union's "political fund." It was argued that, since this fund collects strictly voluntary contributions from members and cannot be replenished from general union funds, the order represented a "gross departure" from all normal standards of equity and a breach of constitutional convention. The machinery of state and the courts, it was charged, should not be used to tip the balance of political advantage between the parties: the effect of the order has been a serious weakening of Labour Party funds.

These charges are merely considered a prelude to a general attack on the act which, opposition speakers maintain, plays a major part in the present U.K. "chaos" and has become "dangerous and explosive," although it had been intended to usher in a new era of industrial relations. Whitelaw replied that while the government would consider any "sensible amendments," it was still convinced that the act's basic principles were correct.

The fact remains, though, that labor relations in the U.K. have deteriorated rapidly since the act was passed. At the moment, the country's miners are in direct confrontation with the government over pay increases - an explosive situation in light of the energy crisis - and it is estimated that new wage demands from some 5 million workers in other sectors are due soon. *(Doing Business in Europe, Pars. 23,921, 24,087, and 30,604.)*

Switzerland: Voters Confirm Extension of Crisis Program

Switzerland's 11-month-old emergency program to slow inflation (*Doing Business in Europe, Par. 30,629*) has won a two-year extension as a result of a plebiscite required by the Swiss constitution. Without the voters' approval on Dec. 2, the measures would have expired at the end of 1973, leaving the government and the Central Bank in a predicament over future economic and monetary policy.

The program has provided Bern with the powers to curb construction activity (a prime cause of inflation), to monitor prices, wages, and profits, and to restrain public spending. This was shored up by the Central Bank's tight money policy, achieved by raising minimum reserve quotas and curbing commercial credit volume. The inflow of foreign money has been slowed to a trickle by various additional measures: a ban on interest payments for nonresident deposits, temporary imposition of "negative interest" on

Swiss Program *(contd.)*

such deposits (2% quarterly, rescinded in October), and restrictions on investments by foreigners in domestic securities and real estate.

Government leaders have interpreted the outcome of the plebiscite as an indirect vote of confidence for the administration. But public criticism, particularly from the banking community, is expected to continue. Bankers have chided the government for the fact that two-thirds of the SF 900 million in bond issues authorized by Bern this year were issued for the benefit of the government - local, cantonal, and federal. Critics see here a clear contradiction to the government's self-proclaimed desire to keep spending down. Monetary experts do concede, however, that both the federal government and the Central Bank have been caught in a dilemma: their drive to contain the money volume must run counter to their other goal of preventing sharp increases in interest rates.

Austria: Bills Offer Alternatives on Sick Pay

Austrian legislators are facing somewhat of a predicament in the form of an impending vote on two sick-pay bills, one prepared by the Socialist government and the other by the Conservative opposition. Both would ensure continued pay for employees in case of sickness, but they differ on the maximum to be paid and on the method of financing.

Under the government bill, an employee would be entitled to full sick pay for four weeks a year; with seniority of five, 15, or 25 years he would get full pay for six, eight, or 10 weeks, respectively. The employer would carry the financial burden; however, his contribution to the mandatory health insurance fund would be reduced and, to further minimize the risk, he would be required to join a compulsory sick-pay insurance system.

The opposition proposal provides for sick pay for up to six weeks every half year and eight, 10, or 12 weeks if an employee has five, 15, or 25 years' seniority. The Conservatives, with strong support from businessmen, can afford to be so generous only because of the financing mechanism: employers would carry only about a third of the cost, because the health insurance fund, paid for by employers' and employees' contributions, would shoulder the remaining two-thirds. Thus, the risk for the employer would not be as great as that under the Socialist concept.

Cost estimates for both bills run between 500 million and 1.2 billion schillings annually.

Spain: Extended Controls on Prices, Wages

In another attempt to arrest the galloping pace of domestic inflation, now predicted to reach 15% for 1973, the Spanish government on Dec. 1 announced a long-expected plan extending existing wage and price controls. The decree, to re-

Tighter Controls *(contd.)*

main in effect until Dec. 31, 1974, holds that future wage increases may not exceed the rise in the cost-of-living index recorded since the previous collective bargaining contracts were signed. This, in effect, rules out any increases in real wage income for the next year.

The government also will set up a Prices Board to oversee the implementation of the new prices regulations. These amount to a freeze or a ceiling on the prices of some 80 items, including foodstuffs, automobiles, tractors, steel products, and newspapers as well as utility rates. Another schedule of 50 items, primarily food products, will come under close government scrutiny, with price increases permissible only up to predetermined levels. Heavy penalties are threatened for violations.

The new measures in a way extend the partial price stop decreed on Sept. 16 that was to run provisionally to the end of 1973 and covered staple foods and beverages, gasoline and heating fuel, tobacco, drugs, radios and TV sets, automobiles and motorcycles, public transport fares, and a wide range of services including hotels and restaurants, theaters, etc.

EURO COMPANY SCENE

Preussag/ Kaiser Aluminum

Germany's Preussag AG has decided to sell off its 50% interest in the Recklinghausen aluminum can factory it co-owns with Kaiser Aluminum & Chemical Corp. of Oakland, Calif., to its American partner. With an annual capacity of 100 million units, the facilities have been operating at a loss and while Preussag has been anxious to drop its unprofitable aluminum interests, Kaiser has announced plans to expand aluminum can production for the German and European markets. The plant belongs directly to the Kapal group's Kaiser-Preussag Aluminium Werke GmbH, in which Preussag holds 50%, Kaiser 45%, and the European American Banking Corp. of Nassau (Bahamas) 5%.

Alcan/ Aluminord/ ASV

Alcan Aluminium Ltd. of Montreal has agreed to sell out its 92.3% holding in Aluminord, leading Danish aluminum processor, to Ardal og Sunndal Verk (ASV) of Norway, joint (50:50) subsidiary of Alcan and the Norwegian government. ASV, the country's largest aluminum producer, already owns the other 7.7% of Aluminord.

Litton/ VMF/Intl. Handling

By agreement with Litton Industries, Inc., of the United States, VMF Verenigde Machinefabrieken NV of the Netherlands will become sole owner of International Handling BV, Amsterdam, when it takes over Litton's 50% stake in the manufacturer of special conveying equipment. VMF is said to be particularly interested in the company's Hewitt-Robins line of engineering products.

Ford/ Stirling

Ford Motor Co. has signed an agreement with Sweden's KB United Stirling for the exchange of technical information and certain patent rights for Stirling engines. The U.S. auto maker has had a similar arrangement with the Dutch Philips group and its American subsidiary, U.S. Philips Corp., for Stirling engine R&D since July 1972. This type of engine, employing a sealed gas that alternately expands and contracts as a result of external combustion, is said to be lower on exhaust and noise and more efficient than conventional automobile engines.

Calabrese/ Fruehauf

Officine Calabrese SpA of Bari, Italy, producer of industrial vehicles, has signed an agreement with Fruehauf Corp. of Detroit under which it will build Fruehauf equipment in Italy.

Rhinechem/ Cutter

Germany's Bayer AG has confirmed that its New York-based subsidiary, Rhinechem Corp., is to make a cash takeover offer for family-owned Cutter Laboratories, Inc., of Berkeley, Calif. The bid will be for $18.50 per share for all Cutter Class A and B common stock. Earlier, the Dutch Akzo group reportedly had been interested in buying Cutter.

General Mills/ Badger

General Mills Chemicals, Inc., has awarded the Cambridge, Mass.-based Badger engineering group a contract to design and construct an organic chemicals factory near Cork, Ireland. The plant, to produce for export markets, will be operated by General Mills Chemicals (Ireland), Ltd.

General Aviation Services

In its first compensation decision since it was established in 1971, the U.K.'s National Industrial Relations Court has ruled that General Aviation Services, the subsidiary of a Canadian company operating at London Airport in the ground handling sector, has a right to claim damages against the Transport and General Workers Union. In the court's view, the airport's shop stewards' committee had repeatedly "blacked" GAS, with the result that the company lost major handling contracts. This action constituted an unfair industrial practice, the court ruled, entitling GAS to compensation for financial losses suffered. An important aspect of the decision is that the union is held responsible for the action of the shop stewards. No figure was specified as compensation, and an appeal by the union is expected.

Scholten/ CSM

Kon. Scholten-Honig NV, the last bidder remaining in the battle for control of Dutch sugar producer Centrale Suikermij. (CSM), has failed to gain a majority stake, having acquired only about 34% of CSM's outstanding capital through its recent public offer. Rival contestant Suiker Unie, which owns an estimated 30% of CSM, dropped out of the running several weeks ago. The three companies are

Scholten/CSM *(contd.)*

now expected to renew negotiations before another takeover attempt is made.

Pommery/ Moët-Hennessy

The board of Sté. Pommery et Greno, French champagne maker, has rejected a one-for-one share exchange offer made by Sté. Moët-Hennessy, the country's leading producer. The bid, valid until Jan. 7, is for a minimum of 101,000 Pommery shares against Moët shares to be issued for the transaction. Opposition has been led by Pommery president Prince Louis de Polignac, who owns a 25% share block and is said to favor the company's continued independence. On the other hand, the Schneider group's Banque de l'Union Européenne has already agreed to sell back a 12.5% stake in Pommery acquired from Moët-Hennessy in 1971.

Fisons

The major U.K. fertilizer and pharmaceuticals company Fisons plans to introduce certain U.S.-manufactured drugs to the British market. The move suggests that the company has dropped its original plans to purchase a U.S. pharmaceutical company, probably because of the prohibitive price. Other U.K. drug manufacturers (notably Beechams and ICI) are known to have explored the possibility of taking over American companies but, like Fisons, have evidently decided that it is perhaps cheaper to purchase individual drugs.

Schroder/ Dominion-Lincoln

Britain's Schroder Life Group, part of the banking conce[illegible] has announced a £2.35-million takeover of Dominion-Lincoln Assurance, a subsidiary of Lincoln Assurance, itself a subsidiary of the United States' Lincoln National Life. The move is indicative of Schroder's intention to expand into the life insurance sector, taking a cue from Hambros and Slater, Walker. Schroder Life now claims £100 million in sums assured, life funds of £17 million, and an annual premium income of some £1.5 million.

Wells Fargo/ Crédit Chimique

Wells Fargo Bank of San Francisco reportedly will make its first investment in France with the purchase of 15% of Crédit Chimique of Paris, a bank controlled by Cie. Française des Pétroles and Pechiney Ugine Kuhlmann, and in which Germany's Commerzbank has a 10% interest. Crédit Chimique has assets totaling about $600 million.

Mercur-Bank

A group of six U.S., British, German, and Swiss banks has set up Mercur-Bank SA in Luxembourg, capitalized at LF 360 million. The founders, holding equal direct or indirect participations, are International Bank of Detroit, Barclays Bank International, Crédit-Suisse (through a subsidiary), Landesbank Rheinland-Pfalz, Landesbank Schleswig-Holstein, and Merck, Finck & Co., Germany's third-largest private bank.

Common Market Reports

EUROMARKET NEWS

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Community: Initial Plans on Consumer Protection

Better protection against health and safety hazards; more complete, accurate, and objective information on goods and services, and improved representation and participation of consumers in matters directly affecting them - these are the main objectives of a preliminary program on consumer protection that the European Commission has now sent to the Council of Ministers.

Carlo Scarascia Mugnozza, the Commission vice-president responsible for consumer protection and environment policies, said that while a great deal needs to be done in this sector, he now merely wants the Council to set the 1974-76 priorities to help facilitate further studies and the preparation of legislation. Mugnozza singled out three areas for action: improvement of health and safety standards for a wide range of products, with emphasis on food items and potentially hazardous products; elimination of deceptive labeling and advertising, and safeguards against abusive consumer credit practices. (Commission attorneys, however, have commented that any Community measure would stop short of requiring member states to extend the right to sue to consumer organizations; a trend in that direction is apparent in most member states anyhow).

Mugnozza feels confident that the Council will go along with Brussels' initial guidelines - a group of experts representing the nine member governments already has

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Consumers
(contd.)

reacted favorably to the preliminary program. Equally positive has been the reaction of the Consumer Advisory Committee, established recently to represent EC consumer interests and to help the Commission formulate policy and draft legislation. This committee, incidentally, is not expected to be the only consumer sounding board: the Commission is studying ways of getting more forms of representation on the European level and has sent out a questionnaire to national consumer organizations and governments to investigate these possibilities.

Even with early Council approval, concrete proposals may have to wait a while, since the Commission's consumer affairs division must first recruit additional staff. In the meantime, much of the work has to be shouldered by the environmental protection section.

France: New Plan Leans on Monetary Restrictions

Although most of its recent efforts to contain the sharp updraft of domestic price levels have proven rather ineffective, the French government has come up with yet another anti-inflation package - the fourth within a year's time. Unveiled by Premier Pierre Messmer and Finance Minister Giscard d'Estaing on Dec. 6, it did not contain any sensational revelations and confined itself essentially to proposed measures that are expected to reduce by some FF 4.3 billion the money supply in circulation. From a political viewpoint, the decision to favor monetary controls over other possible action was predictable: as again demonstrated by the 24-hour general strike of Dec. 7, the administration's relationship with the unions, and labor generally, has become extremely precarious. Thus, anything that would have smacked of wage controls or presented a threat to employment was out of the question.

The announced measures have been tentatively limited to a maximum of six months but could be lifted immediately if this were considered opportune. They contain these major points:

Prices - Existing controls would be reinforced and tightly supervised. Public service rates are to be frozen at least until April 1974, except for the energy sector. Housing and commercial rents also are to be frozen until the end of June.

Wages - Employers and unions are being urged to tie any future wage increases to the price index and to cooperate in achieving "reasonable" contract terms.

Credit, Taxes, Budget - Expansion of bank credit volume would be restricted to 12% on an annual basis in January and to 11% in February and March 1974. Interest rates would be raised for time deposits, savings accounts, and Treasury bonds. Increases in dividend payments are to be limited to a maximum 5% in 1974.

Restrictions *(contd.)*

Advance tax payments by individuals, due in February, are to be increased from 33 to 43% of the projected annual tax debt. Businesses that normally pay 20% of their tax obligation in mid-March would have to pay 33% a month earlier.

Planned public expenditures are to be reduced by FF 400 million to achieve a Budget surplus, with emphasis on housing and public works investments, which would be limited to 40% of the annual total in the first six months of 1974. However, all investments that would contribute to the conservation of energy supplies would be exempt from credit restrictions.

Trade - Import quotas for low-price products, especially from eastern Europe and Southeast Asia, are to be boosted by another 50%, following a 20% increase last June.

Netherlands: The Hague Seeks Broad Powers to Meet Crises

The Dutch government at this time sees no need to declare a national state of emergency, but it has taken the precautionary step of requesting broader statutory powers. In a bill now submitted to Parliament, the administration seeks to define the instruments it would have available in order to meet acute crisis situations; generally, this involves an extension of existing statutory provisions. If passed, the emergency powers legislation will enable the government to intervene in practically all sectors of public life, specifically, those concerning wages and prices, employment (layoffs), rents, supplies (hoarding), etc.

Although most political parties had pressed for this kind of authorization, its proposed extent has led to questions of constitutionality, and it has been suggested that the government consult Parliament on each action it plans to take within the framework of the blanket authorization.

The prime motivation for the emergency legislation has been the failure of the tripartite discussions between administration, employers, and unions toward a 1974 social accord. The employers have taken the stand that labor insistence on certain minimum wage increases will - in combination with the effects of the oil crisis - lead to excessive wage burdens. The unions, on the other hand, have refused to budge from their position and intend to renew their demands in upcoming regional collective bargaining sessions. Talks already taking place in the metals and electrical engineering industry may well determine whether any progress can be achieved.

Meanwhile, gasoline coupons have been issued to the public: as of Jan. 7, each motorist will have to make do with a weekly ration of 15 liters; higher allocations are possible upon proof of need. It is hoped that the rationing system will reduce gasoline consumption by 30-33%. At the same time, the government will tentatively lift the

Crisis Powers *(contd.)*

Sunday driving ban in effect since Nov. 4 in order to provide some relief to the hotel and gastronomic sector, which had suffered greatly from the ban.

Denmark: Post-Election Shock Paralyzes Negotiations

"Difficult" negotiations over formation of a workable government were continuing in Denmark following the Dec. 4 elections, the outcome of which compounded rather than alleviated domestic political problems. As had been feared, the voters' anger over inflation, high taxes, and other welfare-state burdens resulted in losses for all five parties so far represented in the Folketing, yet opened the parliamentary doors for five additional parties.

The major loser of the elections had been the Social Democrats, traditionally Denmark's largest party, who were reduced from 70 to 46 seats. Their leader, Prime Minister Anker Jørgensen, has handed in the resignation of his administration and indicated that he would prefer to lead his party in opposition. Jørgensen will, however, continue in a caretaker capacity for the time being and was also asked to manage the formation of a new government, though not necessarily to include the Social Democrats.

Apart from the fragmentation of the new parliament and a period of political instability now in store for Denmark, the biggest shock of the election had been the triumph of Mogens Glistrup, the eccentric millionaire lawyer whose anti-tax, anti-bureaucracy party won 28 seats at the first attempt and thus became the second-largest party in the Folketing. Erhard Jacobsen, who defected from the Social Democrats just last month to form his own anti-tax Center Democratic party, wound up with 14 seats in the 179-member parliament.

The constellations are now such that few observers have been willing to venture a guess on the composition of the future government, and neither does anyone expect a new administration to take over before January. In fact, Jørgensen did not preclude the possibility of holding elections early in 1974 - in a television speech he had accused the Danish voters of having played games with the country's future. However, it is felt that the Danes are in no mood to go to the polls again so soon after the elections of 1971 and this month and the EC referendum last year.

Meanwhile, the oil crisis, in combination with the cold winter weather, is beginning to make itself felt on the labor market. Many plants have begun to shorten work weeks by a day, companies are withdrawing officially listed job vacancies, and unemployment is increasing steadily. Foreign workers, so far in great demand, are now being turned back, too, after the government last month called a stop to the import of non-EC labor from abroad. Work per-

mits for some 17,000 workers from non-Community countries will not be renewed.

Germany: Bonn to Drop Investment Tax This Month

To reverse the current economic downtrend that has been considerably accelerated by the oil crisis, the Brandt Administration plans to repeal some of the anti-inflation measures it adopted earlier; others will be relaxed. Finance Minister Helmut Schmidt announced that the 11% investment tax introduced in July would be repealed as of Jan. 1, 1974 (*Doing Business in Europe, Par. 30,651*), and he also indicated for early '74 an easing of restrictions on the inflow of foreign capital. These restrictions were imposed first in 1972 at the height of the monetary upheaval and further tightened in June 1973 (*Doing Business in Europe, Pars. 30,601 and 30,654*).

In addition, Bonn is expected to introduce other measures to stimulate the economy. Included would be incentives to switch from oil to coal as a source of energy, construction of power stations fueled by coal and uranium, and stepped-up investment at all levels of government to prevent large-scale unemployment in 1974. (In the month of November, the jobless rate had gone up to 1.5%, with the number of unemployed persons rising by almost 65,000 to 331,800).

Britain: Unit Pricing to Benefit U.K. Consumers

The Unit Pricing Bill, currently under consideration in the U.K. Parliament, represents a small but significant gesture in the area of consumer protection in Britain and is designed to amend Section 21 of the Weights and Measures Act 1963 and Section 15 of the Weights and Measures Act (Northern Ireland) 1967. The bill would provide for the marking of unit prices in retailing. "Unit price" is defined as the charge for any goods expressed as price per unit of measurement, and Clause 1(4) of the bill proposes that "regulations made by virtue of the relevant sections as amended might require any unit price to be expressed by reference both to imperial and to metric units of measurement or by reference to one or other only." The bill also contains a provision that would empower the Secretary of State (or the Ministry of Commerce in Northern Ireland) to issue other regulations providing for the manner in which unit prices are to be marked.

The provisions of orders and regulations issued under the envisaged legislation would be enforced by local weights and measures authorities in Great Britain and by MoC inspectors in Northern Ireland, in both cases as an extension of their duties under the parent act.

Switzerland: Mandatory Work Accident Insurance?

A government-appointed commission has recommended legislation to make work accident insurance mandatory for all Swiss enterprises and employees and, furthermore, to make the Swiss system more compatible with those of neighboring countries. Should this proposal become law, workmen's compensation benefits would be coordinated with other benefits available under social security coverage (*Doing Business in Europe, Pars. 29,452-54*). Minimum compensation during accident-related absence from work would be 80% of average pay. At present, only about two-thirds of all Swiss employees are covered by a voluntary program (*Doing Business in Europe, Par. 29,455*). The commission does not recommend canceling this program but suggests that it be maintained along with the obligatory system.

Under the existing program, Swiss employees are not only insured against work-connected injuries but also against nonoccupational accidents. (In neighboring countries, nonoccupational accidents are covered under the general health insurance systems.) Insurance premiums for coverage of work-connected injuries are paid by the employer alone, while seven-eighths of premiums for non-job-related accident insurance is paid for by the insured person, and the remaining one-eighth is paid by the federal government. It is now recommended that the insured person pay the entire premium for non-job-related accident insurance himself.

Whether the new proposals would really serve to align the Swiss system with those of Switzerland's surrounding neighbors - Germany, Austria, France, and Italy - is questionable. While it is true that accident insurance is obligatory for businesses in all these countries, systems of coverage and contributions still deviate considerably from the proposed Swiss rules.

The recommendations are now being studied by cantonal governments, the unions, and business organizations, and their comments might be reflected in the draft legislation Bern is expected to submit to Parliament in the second half of 1974.

EURO COMPANY SCENE

AEG-Telefunken/ Zanussi

AEG-Telefunken of Germany has announced that, as of Jan. 1, it will take a 20% interest in the share capital of Industrie A. Zanussi SpA, holding company for Italy's No. 1 home appliance group. AEG, in which General Electric has a 10.66% stake, stressed that both firms would maintain their independence although they would be cooperating more closely in development and production. The price of the acquisition was not disclosed; Italian insiders estimated it at over DM 200 million. The Zanussi board plans to call an

AEG/Zanussi *(contd.)*

extraordinary shareholders' meeting soon to approve a 50% reduction in the company's capital to 37.5 billion lire as a means to offset losses. AEG and Zanussi reportedly have agreed to forego profit-taking until the company's original share capital is restored. Zanussi is expected to use proceeds from the sale to partially liquidate a 50 billion-lire loan arranged by IMI, the state financial holding.

Mobil Italy

Mobil Oil is planning to rationalize its Italian operations by merging its subsidiaries Mobil Oil Italiana and Mobil Oil Chimica Italiana.

Lurgi

Lurgi Gesellschaften, an engineering subsidiary of Germany's Metallgesellschaft AG, will supply licenses, know-how, and equipment for five coal gasification plants to be built in the United States - in New Mexico (two), Montana, North Dakota, and Wyoming. The plants, requiring a total investment of about DM 5 billion, were ordered by El Paso Natural Gas Co., Trans Western Coal Gasification Co., Panhandle Eastern Pipeline Co., and two other firms. Each will process 8 million tons of coal per year, producing 250 million standard cubic feet of gas daily. Although gasified coal is costlier than natural gas, Lurgi spokesmen estimated that between 10-20% of U.S. gas needs would eventually be met from this source.

[illegible]/ Senu

The government of Luxembourg and Germany's Rheinisch-Westfälisches Elektrizitätswerk AG (RWE) plan to set up Société Luxembourgeoise d'Energie Nucléaire (Senu), a joint (50:50) venture to explore the possibility of constructing a 1,200-megawatt nuclear power plant in Luxembourg along the Moselle River. If the Luxembourg parliament approves preliminary studies and financing, Senu would build and operate the plant, which could supply energy to other countries - primarily Germany - as well.

Westinghouse

Westinghouse Electric Corp. has won an order valued at over $200 million for supply of Yugoslavia's first nuclear power station, to be built near Zagreb. The contract, placed by Savske Elektrarne and Electroprivreda Zagreb Proleterskit, includes design, construction, and installation of the 615,000-kw Krsko plant and two gas turbine plants in Jertovac and Dolsko. This is reportedly the first time a U.S. reactor has been sold to an East bloc country. Other bidders included General Electric and Kraftwerk Union of Germany.

ESRO

European Space Research Organization (ESRO) has awarded a £25-million contract to develop a communications orbital test satellite (OTS) to a consortium headed by Hawker Siddeley Dynamics Ltd., of the U.K.'s Hawker Siddeley group, and including Aeritalia of Italy, France's Engins Matra,

ESRO *(contd.)*

Erno of Germany, and Saab Scania of Sweden. Scheduled for launching in 1976-77, the experimental satellite is intended as the first in a series planned for the improvement of European telephone and television service.

In this connection, ESRO has also placed a contract, valued at just under $4 million, for development of a solid-fuel rocket engine primarily for the communications, weather, and maritime satellite programs. SEP of France is the main contractor, and Italy's Snia Viscosa and MAN of Germany are subcontractors.

British Oxygen/ Airco/ Curtiss-Wright

British Oxygen has made an offer of some $60 million for a major (26%) stake in Airco, Inc. of the United States. Rumor had it that BO was contemplating a bid for the whole of Airco equity. However, it is not the only company interested in Airco: Curtiss-Wright has made a rival bid, claimed by Airco to be "inadequate," for 2.4 million shares of the U.S. group's common stock at $18 per share.

Riedinger

Riedinger Jersey AG, German knitwear manufacturer, has set up a subsidiary in Spartanburg, S.C., Riedinger, Inc., together with an unidentified U.S. partner. Currency revaluations had practically halted Riedinger exports to the States and are said to have precipitated the company's decision to produce there.

Morgan-Grampian/ Davis McKay

The British publishing group Morgan-Grampian has moved into the U.S. market via a £1.6-million cash takeover of Davis McKay of New York. The U.S. concern posted profits in the equivalent of £242,000 in 1972, but this year is expected to almost double that figure. Morgan-Grampian profits for 1972 were £2.057 million.

Lloyds Bank/ First Western

Britain's Lloyds Bank has revealed that the £50-million cash deal involving the takeover of First Western Bank & Trust has now received official U.S. sanction. Talks have been in progress since June between Lloyds and World Airways, which held a 99% stake in First Western, but there had been some speculation as to whether the deal would receive Federal Reserve blessing.

Cedar Holdings/ Chester

Also approved was a stock purchase by the U.K.'s Cedar Holdings Ltd., primarily a second-mortgage lender, in Chester National Bank, Chester, N.Y., which has deposits of $45.3 million. Cedar reportedly has proposed to acquire 51% of Chester's outstanding common shares through a tender offer but will turn over to its institutional shareholders all shares in excess of 20% in conformity with U.K. exchange control regulations.

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Community: Directives on Life Insurance Sector in EC

Life insurance activities throughout the Community will eventually be more uniform and equitable under a directive proposed by the European Commission. Should the Council adopt this directive to coordinate national rules, an insurance company in one member state wanting to engage in life insurance operations in another state through an agency or branch could do so under the same conditions applying to companies in that country. Marking the progress made since the Council's adoption of two directives applying to liability insurance last summer (*Common Market Reports, Pars. 1349.35 and 9596*), this new directive and a second Commission proposal that would remove restrictions on the freedom of establishment of foreign insurance carriers would open the way to a common market in the European life insurance sector, worth at least $28 billion in annual premium income (1972). A third and final directive that Commission experts are now drafting would complete the circle by extending to companies from member states the right to provide services, that is, to sell life insurance, in other countries without setting up agencies or branches there.

The removal of restrictions on the freedom of establishment of non-domestic insurers and the coordination of national rules governing insurance activities is expected to stimulate competition and would guarantee equal protec-

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Life Insurance *(contd.)*

tion for all policyholders and beneficiaries, no matter where they might reside.

Access to the life insurance market would still require a license similar to the one needed for engaging in liability insurance activities (*Common Market Reports, Par. 9596*). In addition to its technical reserves to offset liabilities, a company would have to maintain a supplementary financial reserve, called the solvency margin, and a guaranty fund. Control over insurance operations and finances would be exercised by the administrative authorities of the member country in which the company's main office was registered; authorities having jurisdiction over branches and agencies located in other states would cooperate.

The Commission had sought a compromise on rules for establishing new insurance companies within the Community, since France, Ireland, Germany, and the Netherlands do not permit insurance companies to deal in both life and liability insurance, while Belgium, Denmark, Italy, Luxembourg, and the U.K. have no such prohibitions, although rules in Belgium, Britain, and Luxembourg subject firms to strict accounting and management controls. The Commission finally decided on requiring new firms to specialize either in life or liability insurance in order to protect life insurance policyholders whose contingency rights might otherwise be jeopardized by losses in the liability business. However companies currently operating in both sectors could continue, providing they adopted strict rules on separate management and accounting.

National rules governing the activities of insurance agencies or branches established within the Community by outside companies would also be coordinated to some degree, although these subsidiaries would not be on an equal footing with EC firms.

Britain: 'Mini-Budget' Prescribes Cuts in Expenditure

There were turbulent scenes in the U.K. House of Commons as the government presented an emergency "mini-budget" occasioned by a series of major upsets to its economic growth policy. Chancellor of the Exchequer Anthony Barber made it clear that Britain's position was the gravest since World War II and admitted, indirectly, that the Conservative government's program had not met with the projected success. A number of factors had contributed to this, notably the rise in world commodity prices, the payments deficit, fluctuations in sterling, industrial unrest and, to cap it all, the world energy crisis.

Barber predicted that 1974 would be a year of "stagnant, if not falling output," accompanied by rising unemployment. He stressed that the dispute with the coal miners had exacerbated the situation to an unwarranted de-

'Mini-Budget' *(contd.)*

gree but he would not countenance any wage increase for the miners beyond that already stipulated.

The mini-budget is characterized by a huge (although some economists maintain insufficient) cut in public expenditure and by stricter controls on consumer credit. Food subsidies, advocated in many quarters, would not be introduced and neither would there be, for the moment, an increase in indirect taxation. Here are some of the details:

- Government spending - To be reduced by £1.2 billion annually. Heaviest hit are nationalized industries (£264 million), roads and transport (£212 million), education (£182 million), and defense (£178 million).
- Installment purchases - Minimum down payments will be one-third of purchase price, with a maximum repayment period of two years.
- Credit cards - Minimum repayment monthly to be raised to 15%. Cash drawing facilities are to be limited to £30 instead of £150-200. (Diners' Club and American Express cards are not affected.)
- Property speculation - Development gains on land and buildings are to be taxed as of Dec. 18 at the full corporate tax rate of 50% instead of at the 30% capital gains tax rate.
- Surtax - There is to be a 10% surcharge on surtax payments for 1972-73. This does not apply to taxpayers over 65 years of age on April 5, 1974.
- Banks - Clearing banks are to limit arbitrage transactions and to regulate lending. Banks and deposit-taking finance houses are directed to place non-interest-bearing special deposits with the Bank of England if their interest-bearing liabilities grow at more than the specified rate.

While the mini-budget turned out to be less severe than expected, it was clear that the government had left itself room to impose more stringent measures if this became necessary. Industrial leaders welcomed the proposals as a whole but registered misgivings in regard to earlier emergency measures, which have resulted in the institution of a three-day work week. Labour opposition spokesmen and labor union leaders denounced the measures in contradictory terms as "Draconian" and "purely cosmetic," although there was some relief that the main moves had come in the public rather than the private sector. In all, a dismal holiday season and a bleak 1974 are in prospect for Britain, and many observers predict a general election called by Prime Minister Heath to determine "Who rules Britain?"

Government Bill to Regulate Dumping at Sea

The Dumping at Sea Bill now in the House of Lords is designed to implement the U.K. government's intention to ratify the Oslo Convention as soon as possible. In effect,

Dumping at Sea *(contd.)*

the bill seeks to provide statutory backing for the voluntary controls presently applied and, in specific terms, prohibits dumping at sea unless the appropriate authority has granted a license (Clause 1). Upon conferral of such a license, the authority would be empowered to impose such conditions as are deemed necessary to protect the sea and fish (Clause 2). The bill also provides for fees to defray the costs of administration, monitoring, and scientific testing and would make it an offense to give false information in order to obtain a license.

Representations by "aggrieved" parties would be made to an independent committee, which would advise the appropriate ministers as to licensing decisions, conditions to be imposed, sums to be levied, etc. (Clause 3). Enforcement is dealt with in Clauses 4 through 8: above all, ministers would be empowered to appoint inspectors, who would take samples, examine equipment, articles, and documents and enter premises for such purposes. The bill also would provide the powers for the implementation of reciprocal enforcement arrangements made with other countries for the effective application of conventions for the prevention of marine pollution.

Germany: Stricter Rules on Pipeline Construction

Federal health officials in Bonn are drafting rules that would subject the construction and operation of pipeline for 32 substances other than oil to stringent supervision by the states' water protection agencies. These new rules would require businesses to obtain a permit before laying such pipelines and would empower the agencies to impose conditions if necessary or, where justified, deny the permit.

For the most part, the licensing procedure would be extended to crude oil products - such as naphtha and gasoline used for testing purposes - not already covered by existing legislation (*Doing Business in Europe, Par. 23,547C*). Also included would be oil products derived from coal and lignite, liquid hydrocarbons, acetylene and ethylene, organic acids, and a large number of aromatic hydrocarbons. In addition, coverage would be extended to liquid and gaseous matters mixed with substances that could pollute ground water and other water.

Austria: Labor to Gain Further Rights in Companies

The Austrian parliament has unanimously approved the administration bill extending the rights of works councils and providing for labor representation on supervisory boards of companies. The unanimous vote became possible as both the governing Socialists and the opposition Conservatives ceded some ground to each other prior to adoption of the *Arbeitsverfassungsgesetz*. But even in its final version (expected

Labor Rights *(contd.)*

to be signed into law shortly) it still will have far-reaching effects for businesses.

In future, the company management would have to inform the works council not only on plant closures and relocation of production facilities but also on plans to rationalize production. If the works council planned to oppose such measures, elaborate arbitration machinery would be set in motion and, if arbitration failed, the local labor court could be approached to settle the disagreement.

A second important innovation would give employees the right to elect one-third of the members of a stock corporation's supervisory board. The same would apply to other enterprises with mandatory supervisory boards. These representatives need not be employees; they could be outsiders (union representatives, for example).

Netherlands: 1974 Dividends to Be Held to 1972 Levels

Parallel to the legislation through which it is seeking broad emergency powers, the Dutch government also has submitted to Parliament a bill that would impose a freeze on corporate dividends to be paid next year. According to the draft law, companies would be restricted to dividend payments not exceeding those of 1972. Those companies that paid very low dividends or none at all in 1972 would be permitted to calculate 1974 dividends on the 1968-72 average.

Spain: Dividend Stop; Capital Gains Tax on Shares

As part of its anti-inflation program, the Spanish government has imposed a ceiling on dividend payments and has decided to make stock transactions subject to capital gains taxation.

Dividend payments in future are to be limited to the average of the past two years. This average in most cases should yield reasonable returns; for 1973, however, many companies were expected to pay record dividends, and here many investors may come in for some disappointment. Most observers interpreted the government's measure primarily as a way to free more investment funds for notoriously undercapitalized small companies, which are severely affected by the prevailing credit squeeze. (To give further relief to such companies, the Bank of Spain has made it easier for commercial banks to meet money demands by reducing the minimum reserve ratio from 7.5 to 6.75%, thereby immediately boosting total liquidity by some 14 billion pesetas. Related measures should improve liquidity even further in the near future.)

Madrid is expected to have more trouble policing the new capital gains tax provisions, since the fiscal authorities have yet to establish a report system on individual

Spanish Moves *(contd.)*

stock market dealings. According to the measure, a variable tax rate - depending on individual income tax rates - will apply to share sales effected within 12 months. Capital gains realized within three years will be taxed at 15%, with provisions for a halved rate in cases where profits are reinvested.

Greece: Open Questions on Course of Economic Policy

The new Greek government has appointed a three-man commission of cabinet ministers to study the country's economic situation and to invite the major business and industry associations to air their particular problems. Otherwise, the business community is still awaiting more concrete proposals, since the inaugural speech by Prime Minister Adamantios Androutsopoulos contained no reference to definite economic plans and timetables and made no mention at all of areas such as trade. Business leaders also missed a firm commitment to the continuation of the liberal economic policy that had begun to emerge under the short-lived Markezinis administration. Markezinis, in fact, had abolished the controversial Price Control Law of July 1971, which for two years had crippled business initiative. At this point, it is not entirely clear whether the law will be revived or not.

Of more immediate concern has been the resurrection of certain "dictatorial" measures, notably Law No. 186, which provides extremely harsh penalties for the violation of tax regulations. The law had been passed in 1967 but was later withdrawn following massive criticism.

The inaugural declaration had to refer, of course, to the means by which the government hopes to get a firmer grip on the country's multiple economic problems, of which inflation is by far the most crucial. (Greece this year has been experiencing the worst inflation rate of all OECD member countries - 23.2% during the 12-month period that ended on Oct. 31. From September to October alone prices went up by 4.7%. And the wholesale price index has set a grim record by rising no less than 34% since October 1972.) Through an "elastic" finance and credit policy the government expects to exercise tighter control over price development and to achieve some semblance of balance between public and private demand and production. More aid will be given to the agricultural sector, whose growth rate of 2-3% has lagged far behind that of other economic sectors in the past years.

In the public realm, the Androutsopoulos administration is planning severe austerity measures. Investment expenditure is to be curtailed by an estimated 27%: projects in progress will be continued or completed, but the start-up of new investments will be solely guided by maximum profitability and a direct impact on the economy. The 1974

Greek Economy *(contd.)*

budget, as adopted by the cabinet, proposes expenditures of 99 billion drachmas (1973 = 103 billion). Its regular portion calls for a surplus of 13.7 billion drachmas, of which 10.5 billion will flow into the public investment fund and 3.2 billion into reserves. The expected 6.5-billion deficit in the investment budget is to be covered through bond issues.

Meanwhile, the daily minimum wage has been lifted by 20% to 166 drachmas for unskilled male workers and to 144 drachmas for females, effective Dec. 1. The previous raises had come on Sept. 1 and May 1; this time the unions had asked for a 40% increase to offset the drastically higher cost of living.

EURO COMPANY SCENE

ENEL/ Westinghouse/ G.E.

Italy's state electricity holding, ENEL, has awarded contracts for two new 1,000-megawatt nuclear power stations - the country's fifth and sixth - to Italian licensees of Westinghouse and General Electric. The Westinghouse-type reactor will be set up by a consortium formed by Fiat, Breda, Franco Tosi, and Ercole Marelli, while IRI's Ansaldo will build the G.E. reactor plant. The facilities, requiring investments totaling some 600 billion lire, are to be completed by 1979.

National Bulk Carriers

The New York shipping company National Bulk Carriers has submitted a planning application for a £100-million oil refinery in Scotland. The proposed refinery, at Nigg Point in the Cromarty Firth, would handle naphtha, heating oil, and sulfur. It is anticipated that some form of Scottish participation in the project will be arranged.

Gasunie

Gasunie of the Netherlands, the state-operated supplier in which Shell and Exxon each hold 25%, has announced a 450-million-guilder expansion program for its natural gas distribution capacity. The aim is for an additional delivery capacity next winter of 3.7 billion cubic meters annually, equivalent to 12-13% of domestic oil consumption. The group will begin construction of a new natural gas terminal, storage facilities, and a deliquefaction plant at the Meuse Flats near Rotterdam and another natural gas terminal near Delfzijl in the North to process gas from the Netherlands North Sea sector. The Dutch government hopes to counteract oil shortages next year by inducing industrial and private consumers to switch from oil to gas.

Veha/Marubeni/ Staal Prefabricatie

NV Veha of Belgium, a manufacturer of heating equipment, and Japan's Marubeni Corp. are setting up NV Europese Staal Prefabricatie, a joint steel processing company, of which Marubeni will control 70% and Veha the rest. By October

1974 the firm is to begin operating a new 1.2 billion-yen processing plant with an annual capacity of 60,000 tons.

Rockwell

B.S. Carlson, president of the Microelectronics Division of Rockwell International Corp., Anaheim, Calif., has announced plans for a major expansion of the group's Common Market operations. The division will set up a microelectronics assembly plant in Curaçao, Netherlands Antilles, for direct supply of its European customers and will open sales offices in Frankfurt and London.

Grundig

Germany's Grundig group has decided to invest "several million pounds," including state subsidies, in expansion of its production facilities for cassette and radio recorders and other home electronics equipment in Northern Ireland. Plans include enlargement of the group's 13-year-old Dunmurry plant near Belfast, eventually to employ 1,300, and construction of a new complex at Newry, some 40 miles south of the Northern Irish capital, creating another 1,300-1,500 jobs on completion in about four years. Grundig's investment reportedly would be the largest by any foreign company since the present troubles in Ulster, and the Northern Irish Office has cited it as proof that Northern Ireland is still capable of attracting substantial investment.

GM-Opel

Some 38,000 of the 55,000 employees of Adam Opel AG, Germ[illegible] subsidiary of General Motors, have been affected by the company's decision to introduce short work hours for one week in December and one in January. The cutback means an average 5% reduction in take-home pay for those involved. The measure has been indirectly attributed to the oil shortage, credit restrictions, and the general economic slowdown.

Comco/ Crédit Français

Commercial Credit (Comco), a subsidiary of Control Data Corp., Minneapolis, Minn., is reportedly negotiating with Crédit Français for acquisition of a majority interest in the FF 5-million capital of the private French deposit bank.

Banca Commerciale/ Carte Blanche

Banca Commerciale Italiana has purchased a majority in Carte Blanche Italia from its U.S. parent, Carte Blanche Corp. of Los Angeles, for an unspecified sum.

Bache & Co.

Bache & Co., Inc., of New York, has added a bureau in Zurich to its two other Swiss offices in Geneva and Lugano. According to spokesmen for the brokerage house, which has also set up a new branch in Düsseldorf, Germany, Bache will continue expanding its European operations.

Common Market Reports

EUROMARKET NEWS

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Community: Into a New Year - for Better or Worse

Even prior to last month's Copenhagen Summit, observers were in general agreement that the Community had long been lacking the political impetus needed to progress toward the goal of European unity. The Arab foreign ministers, dropping in unexpected and uninvited, only exploited this immobility as they dominated and divided the conference so that the Nine could manage no more than a gesture of solidarity in the face of the oil crisis. However, no one really anticipated the road to a political and economic union to be without its ugly potholes: there have been setbacks before this Summit; another has developed now over Regional Development Fund financing, and others will undoubtedly follow.

Yet there is no denying that the nine member states remain deeply divided on the approach to, the extent of, and the timetable for the crucial "second phase" of the long-range program that is to lead to the ultimate target, i.e., that of a true European union. To several members, notably Germany and the Netherlands, it seems pointless to move into this second stage when the objectives of the first have not been met. Among other things, these aims had called for the floating U.K. and Italian currencies to join the snake of intra-EEC parity bands and greater progress in economic harmonization through common methods pro-

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Community *(contd.)*

moting stability, growth, and full employment.

Judging the Community's performance solely on political terms, however, would not do justice to the Common Market and the many facets of its institutional activities. The EC has not flunked all the 1973 deadlines set by a far more productive Summit, that held in Paris in October 1972: the Council of Ministers did approve establishment of the Monetary Cooperation Fund; it did adopt the European Commission's action program on environmental protection, and it did agree on an overall Community concept for the GATT negotiations, which started in September.

Furthermore, even though the Council failed to see the urgency of some Commission suggestions outlined in the social action program, it agreed in principle to a number of priorities, among them the protection of workers' rights in case of mass layoffs, a 40-hour work week throughout the EC by 1975, and a minimum four-week vacation by 1976. Last July the Council also adopted two directives designed to tear down national walls shielding liability insurers against competitors from other member states. And adoption of the two detergent directives last November should prove beneficial to interstate trade and the environment.

Of course, these positive actions account for only a trickle of draft regulations and directives Brussels has come up with - hundreds of its proposals are still buried in Council files. Yet 1973 was neither better nor worse than most preceding years in terms of Commission accomplishments and failures. As the EC's executive branch and its motor of integration, the Commission has a task that has been called Sisyphean since it requires continual and often ineffectual labor, in particular whenever Brussels moves into areas that ultimately require political decisions by the heads of government.

Belgium: Stagflation - the End of a Boom?

The impact of the energy crisis on the Belgian economy has, at least for the moment, overshadowed nearly all other problems the country normally has to deal with. The Arab oil boycott against neighboring Holland is having direct and serious consequences for Belgium, which obtains more than 60% of its oil imports by way of the Rotterdam-Antwerp pipeline.

At the turn of the year, the specter of stagflation is threatening potential economic expansion in 1974. For the past year, the socialist-led government was still able to chalk up passable grades on both economic growth and price stability. The business boom that had first gathered steam in early 1972 continued through most of 1973 and should have brought a 6% rise in real GNP. The (tentative) inflation rate of 7% would still be among the lowest in the Eu-

Stagflation *(contd.)*

ropean Community; as of October, consumer prices had risen 6.8% over a 12-month period.

Under the present circumstances, most experts are openly pessimistic about the Belgian economy for 1974: a study recently published by the economic research department of the University of Brussels warned, for instance, of massive unemployment, accelerated inflation, and zero growth should the energy crisis persist for long.

This situation could be compounded, government and industry leaders fear, by a spreading of the labor unrest - bordering on violence - that primarily afflicted Belgium's steel and metals sector during the latter half of 1973. Labor demands, not always fully backed by the unions, have been mainly for modification of the cost-of-living index to which automatic wage adjustments are tied, since the index, it is charged, fails to reflect the true tempo of inflation. Still, gross wages in industry - which in July 1973 had been 15.3% higher than a year earlier - are now calculated to have risen 18-19% for the whole of 1973.

Denmark: New Government Sets Out on Shaky Ground

To the relief of many Danes, the embarrassing bartering over formation of a new government following the Dec. 4 elections did not have to be carried into the New Year. By the same token, it was widely felt that the coming administration already has received the political kiss of death and that its early demise is only a question of time.

At first glance, such speculations may be well founded: Prime Minister Poul Hartling and his Liberal Party will occupy only 22 seats in the 179-member Folketing. Even if it could count on the regular support of the Conservatives, the Radical Liberals, the Center Democrats, and the Christian Democrats, Hartling's government will still lack a simple parliamentary majority. The big losers of the elections, the Social Democrats, who remain the largest party in Parliament, have not made any promises to Hartling, and labor has expressed its disappointment at his selection.

It will certainly take a lot of wheeling and dealing to get any major piece of legislation through Parliament - a disheartening outlook considering the enormous problems Denmark has to tackle as a consequence of the oil crisis and the country's worsening financial situation. In his inaugural address, Hartling - a theologian by profession who served as foreign minister in 1968-71 - said his administration would give top priority to further reduction of public spending. In so doing, it would go along with the 1974-75 Budget proposals drafted by the previous government that call for a virtual stop in new public investment and sharp curtailments in the housing construction sector.

France: Programs Stymied by Non-Support

As it programs its strategy for 1974, the French government must decide whether its much-maligned economic policies will still suffice to promote a high rate of growth and at the same time keep a loose lid on inflationary pressures. Over the past year, at least, the unstinting commitment to vigorous expansion and full employment has come at the expense of soaring prices. Some maintain that this was part of a "reverse psychology" scheme: the government may have hoped that the various factions would become so worn down by the dissipating effects of inflation as to give the official stability programs at least a fair chance.

So far this hope has been in vain. Industry, trade, and labor have been clinging to their positions by campaigning either for "adequate" prices and profit margins or for higher wages. The unwillingness of all groups to yield at least some ground and their combined attacks on government policy have given the Pompidou administration little room to maneuver.

Meanwhile, the economic situation has worsened rapidly. For the month of November, the cost of living had risen 14-15% on an annual basis - a rate unequaled since 1957-58. Wage levels are now some 16% higher than a year ago. The trade balance is showing the strain of the domestic boom: in October f.o.b. imports had climbed 31%, exports 18.4%, and experts felt that the country was heading toward a substantial trade deficit.

As discouraging as all this may seem, things could get far worse if major social unrest were to develop. The government did get a taste of potential problems in 1973 as it had to deal with the celebrated Lip affair, the revolt of the retailers, and a series of strikes (most recently the walkout in the cement industry and the general strike of Dec. 7). Despite all official denials, the oil crisis is now also touching France, resulting in temporary plant shutdowns, short work weeks, and layoffs, particularly in the automobile and textile industries. Although some social improvements have come in the form of higher minimum wages, old-age pensions, and similar benefits, many critics think the government still has a long way to go in fulfilling its promises of greater social equality and more employee participation in industry.

Germany: Energy Crisis Casts Gloom on Stability Hopes

The encouraging signals that heralded a somewhat higher degree of economic stability for Germany toward the end of last year have faded with the advent of the energy crisis. To be sure, the anti-inflation program introduced last summer had not solved all the problems: prices and wages still rose at a more than desirable rate, the construction boom had dropped off too sharply, and other sectors such as the textile industry continued to have their troubles. But the

Fading Hopes *(contd.)*

Brandt government had been confident at the time that selective measures would provide the answers.

In the meantime, though, such an approach has been invalidated by the country's rigid energy "diet." For one of the world's leading industrial powers the 20% reduction in crude oil supplies is a severe setback - the domestic economy depends to 67% on oil as a source of energy, not including the oil used as a base product by industry.

At the end of 1973 unemployment totaled 400,000 and could possibly climb to 1 million by springtime, should the energy shortage persist. Administration advisers expect an economic growth rate in 1974 of 1% at best and, if so, inflation would accelerate at 8% annually, dealing a blow to Bonn's hopes of being able to hold cost-of-living increases to below 6%. But the oil shortage alone cannot be blamed for the potential two-point difference: high wage demands for some 5 million workers, ranging between 14 and 21%, will add more than their share to inflationary pressures.

To forestall large-scale unemployment and assist the most troubled industrial sectors, the government not only is activating all the selective measures originally planned but also has repealed most of last year's stability package, notably the 11% investment tax and suspension of declining-balance write-offs on capital goods and certain tax benefits for home owners. The small-business aid program suspended in July has also been revived; it will provide low-interest credits particularly to hard-hit construction and textile enterprises. Furthermore, Bonn has eased the cash-deposit requirements for the import/export sector as of Jan. 1.

Ireland: EC Benefits to Accrue Only Slowly

The problems that have constantly faced the Republic of Ireland in the past - a high level of unemployment, price inflation, and high unit production costs - were again in evidence in 1973. In addition, however, the country suffered from rising commodity prices and the waning purchasing power of its currency. Britain and Ireland enjoy strong trade links, and it was inevitable that the troubles experienced by the U.K. would exercise a disruptive effect on the Irish economy.

The principal feature of 1973 was the introduction of an anti-inflation package designed primarily to bring prices and profits under control. Inflation was running at a level estimated in excess of 11% per year, and the government reacted by imposing controls to fix maximum prices for certain staples, establish profit margins, and extend notification periods for proposed price increases.

According to OECD projections, Ireland will gradually begin to feel positive effects of EC membership. However,

Slow Benefits *(contd.)*

these benefits should not be properly noticed until the end of the transitional entry period in 1977. In the agricultural sector especially, Ireland will enjoy certain advantages as prices climb to EC levels. The special conditions permitting Ireland to retain its present investment incentive programs will also help to speed up industrialization. Foreign investors continue to be attracted, and new jobs in manufacturing industries are now being created at the rate of some 6,000 per year.

Italy: Inflation - Still the No.1 Ailment

Long before the present left-center coalition government took over last July, the Italian economy had been sick to the core, suffering an explosive rate of inflation, runaway public spending, an alarming trade deficit, and lack of confidence in the lira. A three-month price freeze reduced the inflation rate only slightly, bringing it down by half a point to 10.5% during the August-October period. But going into the winter months, inflation regained its speed, fueled by the higher price of imports and fast-expanding domestic purchasing power (increased pensions, pay raises for some 3 million civil servants, and "13th-month" salaries for most employees at Christmas time).

Rome has allocated vast expenditures to keep the cyclical upturn going, and industrial output in 1973 was expected to be 7% above 1972 levels, despite heavy production losses due to strikes and other labor strife. Once all the figures are in, 1973 may indeed have been a turning point of sorts for the Italian economy, and the prospect of a 4.5% increase in the GNP (in real terms), reduced unemployment, and a rise in capital investment should be welcome for 1974.

The Rumor administration at one point even had set its ambitions on a 1974 equilibrium for the Italian payments balance, but statistics speak a soberer language. A trade deficit of nearly 1,900 billion lire for the first nine months of 1973 has been confirmed, and another one of 400 billion was expected for the final quarter. With the lira still outside the Community's block float, the capital drain abroad continues, depriving the country of money badly needed for investment - a loss officially estimated at 500 billion lire for 1973.

The Treasury is now counting on improved revenues as a result of the partial tax amnesty, involving some 3 million contested cases, that also is to clear the way for a new, more equitable and enforceable system of direct taxation. But the government should be warned by past experience: receipts expected in the wake of added-value tax introduction on Jan. 1, 1973, fell shockingly below estimates because of widespread evasion practices.

Luxembourg: A Haven in More Ways Than One

In most respects, Luxembourg's position among the nine nations of the European Community continues to be unique. Aside from its smallness, geographic position, and its interdependence on neighboring Belgium in the economic sector, the Grand Duchy nevertheless has managed to provide an isle of relative stability for its 350,000 citizens in the midst of raging European inflation. The rise of consumer prices - 5.5% over the one-year period ended in October - was the lowest in Europe. This laudable performance, moreover, was not accomplished at the expense of economic expansion: real growth of the gross national product should be in the area of 7-8% this year, though there are signs that this rate may be halved in 1974 as braking effects begin to take hold.

Two developments briefly thrust Luxembourg into the Community limelight last year: its "victory" over the U.K. on the issue of whether or not to locate the administration of the European Monetary Fund in the Grand Duchy and, somewhat related to the same question, its role as a tax haven for international holding companies. The Council of Ministers in June confirmed Luxembourg as the seat of the Fund, after Britain withdrew its insistence that the Fund should be administered in Brussels. At the same time, France and Germany also agreed to this decision without calling for immediate clarification of the holding companies issue.

Netherlands: No Crisis Yet in Wake of Oil Boycott

When the Arab countries first announced their general oil cutbacks and singled out Holland as the target of a total boycott, there had been fears that this would lead to a virtual collapse of the Dutch economy. Many people were convinced that the embargo could have been avoided by The Hague and they accused the government, notably the Foreign Minister, of having been too outspoken in support of Israel's cause in the Mideast conflict. Still, at the turn of the year, the Dutch apparently were no worse off than most of their Community neighbors. Although the government no longer publishes statistics on Holland's oil imports and exports, it is known that domestic fuel reserves have been kept up at normal levels, that imports (from various sources) continue, and that industry is operating as usual.

Nevertheless, the government has imposed various rationing schemes and has sought broad emergency powers to impose even stricter measures if this becomes necessary. Should the boycott continue for any length of time, most experts agree, the critical point for Holland's vulnerable economy may come 5-6 months from now. One of the newest independent studies predicts an increase in unemployment by 3% and a 5% drop in industrial production in the event that the embargo lasts one year, oil imports fall by 25%, and oil prices rise by 40%.

Boycott *(contd.)*

The left-center coalition government headed by a Socialist prime minister, Joop den Uyl, which had taken over early in 1973, intends to safeguard employment first and may soon restrict the influx of labor from non-EC countries. Legislation requiring employers to seek official approval before deciding on any layoffs and short-work schedules is likely to be introduced. The den Uyl administration also is expected to intervene in the price and income sectors and to clamp new restrictions on public and private spending. New tax measures may include an increase in the upper rate of value-added tax.

United Kingdom: 'Survival at a Reasonable Level'

As 1973 drew to a close, it became increasingly evident that the U.K. economy was grinding to a halt. The various programs introduced to contain inflation and to expand economic growth had been defended throughout the year by the government. A target economic growth rate of 5% over a two-year period was repeatedly pronounced attainable until late in the year. Finally, however, after a remarkable sequence of U-turns, the government had to concede that its policies were incompatible with developments both at home and abroad. For some time, the blame for the economic malaise was placed on the dramatic rise in world-wide commodity prices, the soaring cost of imports, and concomitant effects on the balance of payments (with an estimated deficit of over £2 billion for the year). The situation was then aggravated by the energy crisis, which coincided with what has become almost a traditional strike by key workers around Christmas time: the miners, the electricity workers, and the railway men.

At this point, the government maintained that the country's precarious position was somehow a direct result of a refusal by certain sectors to "pull their weight" - a tacit admission that the counter-inflation program had failed. By mid-December, the nation was in a state of emergency, and drastic measures were called for. Foremost among these was the decision to put British industry on a three-day working week in the new year and to introduce a "mini-budget" to ensure survival of the nation at "as reasonable a level of life and industrial production as it could for the months ahead."

The emergency budget, less severe than expected, represented a two-pronged attack on public spending and on consumer credit. The government was keeping other options open although it could not afford, for political reasons alone, to introduce tax boosts or tamper with indirect taxation (e.g., value-added tax or excise tariffs). On presenting the mini-budget, the government conceded that the forecast increase in the economic growth rate and in output could not be achieved in 1974.

Common Market Reports

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Community: Bonn Rejects Role as EC's 'Financier'

The unresolved controversy over both the financing and allocation of the EEC Regional Development Fund has stemmed largely from the resistance of the Germans, who are expected to bear a major share of the burden because their economy is still the most viable of the Nine (*Common Market Reports, Pars. 153 and 9605*). Bonn had been called upon to contribute one-third to the fund, now budgeted at $2.25 billion for the 1974-76 period. (Britain, Ireland, and Italy originally had demanded $3 billion.) But Germany is trying to whittle down its portion, and this comes as a surprise to some partners who recall the days when previous administrations in Bonn - eager to prove themselves "good Europeans" - seldom raised a fuss in the Council of Ministers when it came to footing Community bills. This was particularly true until 1965 when France temporarily halted the clock of European integration by boycotting Council meetings until it won acceptance of its formula that no member state may be outvoted on matters of vital national interest.

It may be the Germans' turn to invoke this privilege: the Brandt administration is growing visibly tired of playing the role of EC "financier." This reluctance is both politically and economically motivated. One contention, for example, is that the fund's main beneficiaries will be

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EC Fund
(contd.)

countries that have demonstrated, in the view of some people, a decided lack of "Community spirit," just to mention the independent floating of their currencies (British pound, Italian lira).

But the financial and internal political reasons are more convincing. For one thing, Bonn wants to start out with a small fund because, in times of economic strain, German taxpayers would fail to understand why so much of their money was being poured into depressed areas abroad when it was sorely needed at home. Furthermore, Bonn must consider the growing commitments to the East Bloc countries as a result of its celebrated *Ostpolitik*. In return for diplomatic and commercial ties, the Communist states are demanding and getting generous low-interest credits and financial participation in cooperative ventures. Some of these credits may really be restitution in disguise: it has been conceded, for instance, that the DM 300 million in "development credit" to Yugoslavia will cost German taxpayers about DM 130 million and that the DM 1 billion promised to Poland will cost some DM 600 million. Additional financial demands on Bonn are expected after establishment of diplomatic ties with Czechoslovakia, Hungary, and Bulgaria.

In any case, it appears logical that financial commitments incurred as part of Ostpolitik may not be without an effect on *Europapolitik* inasmuch as they are bound to limit Germany's role as the Community's "rich uncle."

Britain: 14% Inflation, Zero Growth This Year?

At the dawn of 1974, leading U.K. economists are vying with one another to chart a course for the country through what most agree will be troubled times ahead. The first week of the year saw British industry on a three-day working week prompted by the energy crisis and the continuing deadlock between the government and the miners. This was hardly an auspicious start, but most commentators nevertheless agreed that Britain's problems were solvable, in principle at least. The more charitable viewpoint was that the present crisis is due only in part to bad management: the country had been dogged by an astonishing amount of bad luck, notably in regard to spiraling commodity prices and the Mideast conflict.

A "projection for 1974" offered by Prof. Alan Walters of the London School of Economics takes the view that the year's economic conditions are already predetermined by past policies and that only "cosmetics and controls, rigidities and rationing" will be added. The choice for Britain will be between a trivial rate of growth and a substantial decline in output, the latter being the more likely if the government continues to adhere to its policy of price-fixing. The balance of payments problem looms large, however - if the pressure of demand continues, the deficit may

U.K. Economy *(contd.)*

even be larger than the £2.328 billion of 1973. Although there are many imponderables, Walters suggests that inflation will run at around 14% in 1974, assuming (as he does) a growth rate that will be virtually zero.

Walter's recipe for improvement boils down to a "slow but progressive reduction in public spending" so that the public sector deficit does not need to be counterbalanced by massive increases in the money supply or by borrowing abroad. A first priority would also be to cut subsidies to both nationalized and private industry and "wasteful public investment projects" (such as Concorde, the new London airport at Maplin, and the Channel tunnel). Walters sums up with a dire warning: if the government pursues the existing course of combining accelerated inflation with extensive controls, regulation, and ultimately rationing, then the consequences both for the U.K.'s material standard of living and for the level of unemployment will be severe. It is possible, he argues, that the three-day industrial week may be merely a portent of things to come.

Denmark: Wages, Prices Frozen for Two Months

The new minority government of Prime Minister Poul Hartling has decided to impose an immediate wage and price freeze until the end of February in order to give Parliament sufficient time to work out and enact the necessary anti-inflation measures. The interim freeze is designed primarily to forestall large-scale layoffs as the energy crisis continues. Economics Minister P. Nyboe Andersen said he hopes that the cancellation of three automatic wage adjustments, which would have been due shortly, and some compensatory tax relief will help to check the accelerated rate of inflation.

Netherlands: Wage 'Dictate' to Supersede Bargaining

With Parliament having passed the government's emergency powers legislation, the den Uyl administration has revealed more details on the catalogue of measures it intends to apply in order to keep the domestic economy on an even keel. However, before official announcement of the program, the special powers issue was to have been taken up once more in the Upper House, where its broad provisions have been under strong attack.

A key portion of the economic measures would take the form of wage controls tentatively substituting for collective bargaining agreements. According to early reports, the government will agree to an immediate 30-guilder raise for all employees whose contracts expire by April 1. This would affect some 2 million workers in the construction sector, the ports, and most of the metals sector. To prevent unemployment from getting out of hand, the government may go so far as to decree a virtual stop on layoffs and

Controls *(contd.)*

overtime work. The hiring of foreign workers is to be kept to a minimum. Special assistance is to be given to enterprises whose viability would be endangered by these measures. The accelerated conversion of industrial energy sources to natural gas is expected to create an additional 20,000 jobs, but The Hague still predicts a rise in unemployment of about 40,000 to 175,000 people this year.

The emergency powers law will, of course, mean further intervention on prices. Moreover, the fee schedules of the professions (physicians, lawyers, architects, etc.) have already been frozen at present levels. Dividend payments, as previously reported, have been restricted as well. Rents, on the other hand, were permitted to be raised by 7% as of Jan. 1.

Tax Exemptions for 'Pure' Holdings Out?

"Pure" holding companies in the Netherlands, i.e., those that serve no function other than to act as parents for other companies abroad, are not exempt from corporate tax on dividends of subsidiaries and on profits realized from the sale of subsidiary shares. This recent ruling by the Dutch supreme court, according to press reports from Amsterdam, has led various domestic and foreign companies to consider relocating their holdings. So far, it was reported, fiscal authorities have not taken note of the actual activities of holdings when applying a decree that provides for tax exemptions for these companies; they have been interested only in whether the foreign subsidiaries of Dutch holdings were in turn parent companies or not. The court decision has been described as "controversial" and is said to have created a state of legal uncertainty that may require clarification by the Finance Ministry.

Luxembourg: Steep Rise in Expenditures in 1974 Budget

Parliament has approved Luxembourg's 1974 Budget, which calls for total expenditures to top LF 20 billion for the first time - 17.9 billion has been allocated for the Ordinary Budget (plus 20% as compared to 1973 outlays) and 2.13 billion for the Investment Budget (minus 13%). Expenditures thus are projected to expand by 16%, a rate that is appreciably higher than the 12.5% ceiling the European Commission had recommended. Luxembourg's 1974 Budget, however, is not only balanced but shows a small surplus of LF 151 million. This, together with the 2.16-billion surplus accumulated in previous years, will make public financing independent of the domestic capital markets. (The rapid expansion of revenues will be due mainly to "inflated" business turnover and, thus, steeper tax progression rates.)

Still, it is likely that state expenditures this year will exceed the figure now accepted by Parliament. The government has announced that it intends to gain passage of

1974 Budget *(contd.)*

a short-term social program prior to the new elections in May. This package would include a reform of the health insurance system and higher benefits for accident insurance, family assistance, and welfare pensions.

Germany: A Watch on 'Recommended' Retail Prices

As of Jan. 1, manufacturers in Germany may no longer dictate retail prices for particular products, mostly brand items, in accordance with Parliament's prohibition of this practice in mid-1973. In the past, price maintenance agreements constituted a major element in product distribution - at the end of 1973, the Federal Cartel Office had registered such agreements for some 170,000 products by 800 manufacturers. It is still too early to judge whether the ban will lead to ruinous price wars or, as the government and consumer organizations hope, to price reductions as a result of increased retail competition (*Doing Business in Europe, Pars. 23,506-7 and 30,652*).

The Cartel Office, in any event, will now be able to concentrate more on price recommendations, which are still permissible but neither binding on retailers nor subject to registration. Here, too, the cartel authorities are concerned about possible abuses. According to the new Section 38a of the Law against Restraints of Competition, a price recommendation is abusive "if in a majority of cases the recommended price exceeds the price actually demanded" by retailers. A manufacturer may draw fines of up to DM 100,000 if its recommended prices are artificially high, enabling retailers to offer the products at sharply "reduced" prices and thus deceive consumers. The Cartel Office may prohibit price recommendations that are deceptive, lead to higher prices (or prevent their reduction), or curb sales.

Considering the number of existing price recommendations (estimated at 450,000) and the fact that they are no longer subject to registration, cartel authorities are facing the gigantic task of verifying whether a particular price recommendation is reasonable. Still, the office in December initiated proceedings against 20 manufacturers, mostly cosmetics producers, after it was established that their products were sold at between 15 and 50% below recommended prices. Should such abusive practices continue in future, the government can be expected to seek a ban on price recommendations as well; the subject will be taken up in a report to Parliament at the end of 1976.

EURO COMPANY SCENE

Commission/ Thyssen/ Rheinstahl

The European Commission has given its blessing - with reservations - to August-Thyssen-Hütte AG's takeover of Rheinstahl AG last March. Approval of the steel merger, which creates Germany's third-largest industrial concern after Volkswagen and Siemens, and the EC's largest steel group (10.3% of the market), was tied to a number of conditions, mostly affecting Thyssen's relationship with Mannesmann steel:

- Thyssen has been given a year to reduce its 33.3% stake in the jointly held Mannesmannröhren-Werke AG (MRW) to a maximum 25% and must renounce its contractual say over MRW policy;
- Thyssen and Rheinstahl must both quit certain product specialization agreements with other German companies;
- Commission approval is required for acquisition of 10% or more of the capital of any other steel-producing or processing firms, and
- interlocking directorates involving the new union and other steel concerns are forbidden "without exception."

The Commission has also declared that the co-determination rights of Thyssen and Rheinstahl employees must be fully preserved within the new entity. Thyssen-Rheinstahl will have a combined annual production capacity of 13.2 million tons of steel.

Commission/ Kali & Salz/ Kali Chemie

In other action, the Commission has invalidated a three-year-old agreement on distribution of potash fertilizers between Germany's sole potassium producers, Kali & Salz AG (BASF) and Kali Chemie AG, of Belgium's Solvay group. The pact had given Kali & Salz, the Common Market's top supplier, exclusive dominance of the German market.

Empain/ Marine-Firminy/ Creusot-Loire

A Paris arbitration court has enjoined the Franco-Belgian Empain-Schneider group from increasing its shareholding in Sté. Marine-Firminy, which controls 51% of Sté. Creusot-Loire, the heavy machinery and nuclear group, and has stipulated that it must divest itself of a major block of shares already acquired. Empain-Schneider is said to own at least 34% of Marine-Firminy since its purchase of almost 20% in November. The order is ostensibly aimed at restoring ownership of Creusot-Loire to the original parity balance between a French-controlled Marine-Firminy and the Empain-Schneider group.

Shell/ AGIP

The Anglo-Dutch Shell oil group has sold all shares in its Italian petroleum operations to AGIP, a subsidiary of the state energy holding ENI, for 120 billion lire. The sale includes three refineries with a total annual capacity of 14.3 million tons of crude as well as Shell's chain of over 4,500 filling stations. In addition, Shell has agreed to

Shell/AGIP *(contd.)*

provide Italy with 30 million tons of crude oil over the 1974-78 period. However, Shell will still retain its Italian chemical interests, Monte-Shell, which it owns jointly with Montedison, and its underwater research and agricultural activities. The acquisition gives ENI control of almost 40% of the country's gasoline market. In announcing the sale, Shell assured its Italian employees that their interests were "totally protected and kept in mind by both Shell and ENI."

EDF/ CGE

Confirming a preliminary order of last May, France's state electric utility, Electricité de France (EDF), has placed a record FF 3.5-billion order with Cie. Générale d'Electricité (CGE) for construction of two 995-megawatt nuclear reactors along with options on six more. The reactors will be the first in France to employ the boiling-water technique developed and licensed by G.E. of the United States. They are to be used in an expanded nuclear power complex at St. Laurent des Eaux on the Loire River. All previous nuclear stations ordered by EDF utilize the Westinghouse pressurized-water process.

Kaiser Aluminum/ Le Nickel

Kaiser Aluminum & Chemical Corp., Oakland, Calif., has agreed to sell out its 50% interest in New Caledonian Nickel Co. to co-owner Sté. Le Nickel, pending approval by the U.S. and French governments.

Klöckner/ Case

Germany's Klöckner & Co. has signed an agreement with Case Deutschland GmbH, member of Tenneco's construction machinery group, for sales and servicing of Case building equipment. Case, Tenneco's largest-selling division, maintains production bases in England, France, Germany, and Spain, and reportedly plans a major assault on the European market within the next few years.

Genesco/ Charmor/ Bielefelder

Genesco, Inc., of Nashville, Tenn., has sold one of its German divisions, Charmor lingerie, to Bielefelder Springer Verwaltungs-GmbH, which is indirectly owned by the U.K.'s Myles Ponsonby group. Charmor had been losing money ever since Genesco took it over in 1968.

Poclain/ Potain/ C2P

France's two top producers of construction equipment, Poclain and Potain, have decided to merge under a joint holding company, Cie. Financière pour le Développement des Industries Mécaniques (C2P), to be headed by Poclain president Pierre Bataille. Société Générale and Crédit Lyonnais reportedly also will take share participations in the company. Poclain and Potain in the past have already cooperated in export markets and operate one joint subsidiary, Potain-Poclain-Material (PPM), which manufactures mobile cranes.

Thomson-Brandt/ CGE	Thomson-Brandt of France reportedly has given notice that it will terminate the non-competition pact signed with Compagnie Générale d'Electricité (CGE) in 1969 when it expires at the end of this year. The two major electrical engineering concerns had agreed to divide their efforts, with Thomson-Brandt concentrating on electronic equipment, computers, and consumer electrical products and CGE specializing in telecommunications and heavy engineering. Thomson-Brandt, however, is now said to fear effects of an economic downturn in France on its consumer goods sales and is anxious to take advantage of rapid growth in the telephone equipment sector, where CGE has surged ahead, thanks to the 1969 pact.
KWU/ Siemens/ AEG-Telefunken	Under the merger control provisions of the Cartel Law of June 1973, Germany's Federal Cartel Office has approved the takeover last April of the nuclear energy divisions of Siemens and AEG-Telefunken by their joint subsidiary, Kraftwerk Union AG (KWU).
Gelsenberg	German Finance Minister Helmut Schmidt has announced the government's acquisition of an additional 3% of the basic capital of Gelsenberg AG, bringing its total stake in the oil company to over 52%. Bonn purchased a share block of 48.3% from Rheinisch-Westfälisches Elektrizitätswerk AG in November for DM 641 million. The per-share price for the new stake was not revealed but was said to have been lower.
Pommery/ Moët-Hennessy/ Remy Martin	French champagne producer Pommery et Greno, the target of a takeover attempt by the industry's leader, Moët-Hennessy, has signed a cooperative agreement with Remy Martin, France's fourth-largest cognac manufacturer. Specific terms have not been revealed, but observers speculate that Remy Martin may have bought into Pommery, probably at the instigation of Prince Louis de Polignac, the company's president, who fiercely opposes the Moët-Hennessy bid and now claims to control a clear majority of Pommery stock. Moët-Hennessy's offer is conditional on a minimum of 34% acceptances.
Gallaher/ Theodorus-Niemeyer	The U.S.-controlled British tobacco group Gallaher has announced that details have now been set for acquisition of the total outstanding equity of Holland's Theodorus-Niemeyer BV for a cash consideration of some £10.6 million. The move further consolidates Gallaher's position in the Netherlands, where it already owns a cigar company. Theodorus-Niemeyer is estimated to control at present over 25% of the Dutch tobacco market, in addition to other interests in coffee, tea, and margarine.