Common Market Reports

EUROMARKET NEWS

Issue No. 261 *Report No. 230, January 17, 1974*

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Community: Oil Concerns Investigated by Brussels, Bonn

The impact of the energy crisis on individual EC member states and the Community as a whole is lending special weight to separate investigations of European and American oil concerns now being conducted by the European Commission and German cartel authorities. The question asked in both Brussels and Bonn is whether distribution practices by these companies have been in violation of competition rules.

The Commission is investigating whether the oil concerns have been abusing their undisputedly dominant market position by discriminating against independent distributors and filling station owners. Forcing upon such distributors prices and sales conditions different from those extended to company-connected distributors would be contrary to the EEC rules of competition, particularly Article 86 (*Common Market Reports, Pars. 2021 and 2111*). The same would apply to practices making the sale of gasoline and oil products conditional on the distributors' purchase of other automotive products marketed by the concerns.

The emphasis of Brussels' probe is not so much on possible instances of price fixing as on the potential threat to the competitive position and, hence, economic viability of independent distributing firms, which lack refining capacity of their own and thus must rely on those oil companies for their supplies. Although there were no major

This issue is in two parts, consisting of 168 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 261, January 17, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Oil Concerns *(contd.)*

complaints against any of the oil companies, several independents did air their situation to the public. The Commission then started investigating on its own.

While Brussels' investigation is still under way, the probe launched by the German Federal Cartel Office already has produced tangible results. Some independent distributors, who had - in terms of supplies - complained about discriminatory treatment, are once again on equal footing with firms owned or controlled by the individual oil companies. But the Cartel Office (relying pretty much on the same statutory tools given to the Commission by the Treaty of Rome) is continuing its investigation, which could culminate in fines for discriminatory practices or exploiting a dominant position (*Doing Business in Europe, Pars. 23,511-2 and 23,509*).

Italy: Cost Pressures Force Retreat on Price Stop

The cost pressures that have built up over six months of a virtual price freeze may now force the Italian government to let off some steam. There are indications that Rome in the near future will permit some of the price "corrections and modifications" that industry had been promised earlier. The government is being persuaded by the increasingly tenuous situation of some economic sectors, primarily agriculture and the food and textile industries, which have been hurt by the high costs of raw material imports. In many cases, production has had to be halted; in others, manufacturers have compensated by lowering quality or by packaging reduced quantities.

Business and industry in Italy are now expecting more leniency from the state Price Committee, although that authority - just hours before official expiration of the second three-month price stop on Dec. 31 - had again refused to grant price increases for a number of daily-use items. Also, the Committee approved only 40 out of 1,000 applications by medium-size and large industrial companies, all of whose products fall under the controls. This strategy was interpreted by observers as a government play for time to determine a new course. The betting is that more or less permanent controls of industrial prices will supersede the outright freeze.

It has been conceded that Rome's imposition of the first three-month stop in mid-year was partially successful in retarding domestic inflation. However, the price stop in force during the final quarter of 1973 did more harm than good. More and more products disappeared from open trade and have surfaced on a "gray market." Others simply could no longer be produced, either because of soaring costs or because of material shortages. Furthermore, many companies are said to have taken advantage of gaps in control regulations to raise their prices far above average.

Price Stop
(contd.)

This, aside from other factors, caused the cost of living again to rise by 1.1% in November, and a similar rate was expected for December.

The price increases officially permitted to take effect on Jan. 1 reportedly average 10-11%. Fiat and Alfa Romeo were allowed to raise their automobile prices by about that percentage, the textile sector won increases of between 15 and 35%, and appreciable markups were also granted for household appliances and automobile tires. But the largest price boosts have come for fertilizers (48%), newsprint (45%), and cement (40%). The latter increases obviously are directed at price manipulations: producers have been "exporting" fertilizers and cement in huge quantities, reimporting them as commodities free of price restrictions.

Trade Deficit for '73 Tops 3,000 Billion

The deficit of Italy's 1973 balance of trade has exceeded 3,000 billion lire and thus set a disastrous record, according to preliminary figures from Rome. Previously, the highest deficit had been recorded for 1963 at 1,600 billion lire. In 1972, the foreign trade gap had amounted to 434 billion.

The bulk of the 1973 deficit accumulated in trade with the other European Community countries; for the first 10 months of last year it stood at 1,140 billion lire and showed no indication of shrinking. In announcing the figures, Foreign Trade Minister Matteo Matteotti blamed 90% of the country's EC trade deficit on the metals, machinery, chemicals, and food sectors. He urged domestic industry to counteract this trend by promoting investment at home and by stepping up exports, now that de facto devaluation of the lira encourages this.

The startling effects of "imported inflation" on the Italian economy can be judged from the fact that, in the 10 months through October 1973, total imports rose 41.4% in value, while exports rose by only 18%.

Germany: New Rules on Installment Contract Sales

Ending 12 years of haggling among lawmakers and lobbyists, the German Bundestag almost unanimously has approved legislation designed to eliminate deceptive practices in installment sales. It provides that a buyer who has second thoughts about an article he has just purchased on an installment plan may cancel the contract by registered letter within one week after signing it. This privilege may be invoked as of Oct. 1, 1974, when the amendment to the Installment Contract Law (*Abzahlungsgesetz*) takes effect, and is seen as another major part of a consumers' "Magna Carta" the Brandt administration has promised.

The new legislation gives a buyer the right to reconsider all types of installment sales, including subscrip-

Contract Rules *(contd.)*

tions to magazines and other periodicals, and memberships in book clubs. (Mail-order sales are not covered, but then, all mail-order houses allow their customers to return items anyway.) In canceling a contract, the buyer need not give detailed reasons for doing so.

Sellers are required to inform customers of their rights, and the buyer must sign a statement that he has been informed. This written confirmation is significant in that it marks the beginning of the one-week period during which the buyer may cancel. A seller who fails to inform his customer risks having to take back the product after the normal one-week period if the buyer later decides that he does not want it and that he would have returned it had he been aware of his rights.

If a larger consumer product is involved - a washing machine or a refrigerator, for example - it is the seller's obligation to arrange for the return. Only products sent parcel post must be returned by the buyer himself. Another innovation obligates the seller to state in the installment contract the effective annual interest rate that the buyer will be required to pay.

Switzerland: Proposal for Tax on Wealth Gathers Steam

Pushing for a plebiscite aimed at establishment of a uniform tax on wealth (*Reichtumssteuer*), Switzerland's Social Democrats have stepped up their drive from the cantonal to the national level. An initiative sponsored by the party calls for a minimum rate of 20% on annual incomes above SF 40,000, increasing progressively to 50% on incomes of SF 1 million or more. In addition, individuals would be paying a net worth tax varying from 0.7% on a net worth of SF 1 million to 1.2% on SF 10 million. This proposal is also of concern to foreigners, of course, since it would in a way counteract the beneficial effects of the government's decision to relax restrictions on the purchase of Swiss real estate by foreigners (*Doing Business in Europe, Par. 30,638*) and would diminish the attractions of the Swiss tax system generally.

Chances for introduction of a "rich man's tax" have grown recently. Although the Social Democrats control only 46 seats in the 244-seat lower house of Parliament, and the majority of legislators are still opposed to the idea, public sentiment seems to be shifting in favor of it. A recent poll indicates that 71% of the Swiss electorate supports it. Most members of the federal government do not like the idea because of the implications of such a tax for the country's traditional role as an international center of finance and as a tax oasis. Several Swiss industrialists have openly declared that they would consider moving to another country should the Social Democrats' initiative

Tax on Wealth *(contd.)*

be successful. This hardly seems an empty threat, as evidenced by the case of the canton Basel-Land, where the electorate approved a cantonal rich man's tax in a 1972 plebiscite. Within six weeks of adoption 48 residents had moved to other cantons - a maneuver that would be pointless if the tax were applied nationwide.

<u>Spain: Tentative Halt in Economic Liberalization?</u>

The reorganization of the Spanish government following the assassination of Prime Minister Carrero Blanco has prompted speculations in Madrid and elsewhere on the probable consequences for economic policy, not only on the domestic scene but also on the international level. Even before the changeover, Spain's drive to gain a satisfactory arrangement with the European Community had slowed down perceptibly, and the one-time target of EC membership in or around 1977 had been quietly laid to rest. The installation of Carrero Blanco's successor, Carlos Arias Navarro, and the composition of the new cabinet line-up apparently have pushed the small remaining faction of the "Europeans" farther into the corner. Observers predict that the accent of the government's coming efforts will fall more than ever on internal problems, that tight state planning will cramp economic liberalization, and that Madrid will want to keep its political distance from the Community, even though meanwhile half of the country's trade is being conducted with the EC.

At the start of 1974, the administration's course of action was influenced not so much by the energy crisis (which so far has been of only incidental concern) as by the problems posed by soaring inflation and potential industrial unrest. The government has prescribed rigid price controls and a virtual stop on wage incomes for this year and is seemingly determined to follow through on this unpopular program. Madrid's decidedly more militant attitude of recent weeks may also put a damper on labor's readiness to continue the demonstrations and strike actions that had erupted in the coal mines and in the metal and textile industries toward the end of 1973.

Aside from these problems, the Spanish economy again achieved good progress last year. The GNP rose at a rate of about 8%, industrial capacity was utilized at more than 90% as production expanded vigorously, and unemployment did not become a weighty factor. With the expansion of foreign currency reserves from about $5 billion in 1972 to $7 billion in '73, the peseta even moved into the ranks of "hard" currencies.

AROUND THE MARKETPLACE

Italy Appeals to Council on Japan Imports

At the turn of the year, pressures by Japan's home electronics producers to boost their European exports again were very much in evidence as were the efforts by EC competitor industries to cut them down to size. The Italian government has now urged the Council of Ministers to overrule the European Commission, which had ordered Italy to abstain from extending its import restrictions on Japanese tape recorders into 1974. Last year Brussels had agreed to a maximum of 225,000 units for the April-December period. The Japanese have volunteered to hold down tape recorder exports to Italy to 330,000 units in 1974, but Rome considers this volume far too large to be acceptable to its troubled domestic home electronics industry. The Commission, on the other hand, is worried that too many EC restrictions on imports from Japan could lead to retaliatory measures by Tokyo.

On another front in this hotly contested market, relations have become more amiable: earlier last month an agreement was signed in The Hague by which the Japanese will limit their exports to the Benelux area voluntarily, while those countries will lift their import restrictions on home electronics products. The pact ends a succession of confrontations that culminated in early 1973 with the Benelux partners' refusal to issue new import licenses for Japan-made products and the subsequent decision to impose strict quotas. Following intense negotiations at government level, Tokyo has now agreed to limit exports to Benelux to 30% above the volume registered for the 12-month period that ended on April 30, 1972; concrete figures, however, have not been revealed by either side.

EURO COMPANY SCENE

Gelsenberg/ Veba

Germany's Federal Cartel Office has temporarily blocked government efforts to create a powerful state oil concern by vetoing the planned Gelsenberg-Veba fusion. The cartel authority refused permission under Section 24, Pars. 1 and 2, of the Law against Restraints of Competition (Cartel Law), which makes rejection mandatory when a merger would lead to domination of the market without a compensating improvement in the conditions of competition. However, under Section 24, Par. 3, the Federal Economics Minister may make an exception "if the restraint of competition is offset by the general economic advantages of the fusion or if the fusion is justified by an overriding public interest" (*Doing Business in Europe, Par. 23,510C*). Economics Minister Hans Friderichs is expected to grant such an exemption for just these reasons, probably after consulting with the newly

Gelsenberg/ Veba *(contd.)*

formed Monopoly Commission. He was to have headed Gelsenberg's supervisory board but may now withdraw to avoid charges of conflict of interest.

The Cartel Office has not yet cited specific grounds for its decision, except that the fusion would reinforce or create market-dominating positions in several sectors. Here it is thought to be referring to the threat of over-concentration in the country's electrical, fuel, petrochemical, and inland shipping sectors through the addition of Gelsenberg interests to the extensive Veba holdings.

Korf/ Midland-Ross

Germany's Korf steel group has purchased complete rights to the Midrex direct-reduction process for conversion of iron ore to sponge iron from Midland-Ross Corp. of Cleveland for an unspecified price. In addition to Midrex patents, process rights, know-how, and international distribution licenses, Korf has acquired the U.S. company's Midrex division in Toledo and its reduction plant in Georgetown, S.C., which has been supplier to Korf's own Georgetown Steel Corp. Korf's U.S. subsidiary reportedly will finance the transaction on a 10-year installment basis. The Midrex process is reputed to be the world's most advanced direct-reduction method, eliminating the blast-furnace stage and utilizing natural gas as a reduction agent. By 1975 Korf anticipates it will have a total of 19 Midrex plants in operation or under construction around the globe, each with an annual capacity of 400,000 tons.

Illinois Tool/ Tedeco/ Thomassen & Drijver

Illinois Tool Works, Inc. of Chicago reportedly has offered to sell out its 50% interest in the Tedeco synthetic packaging group to co-owner Thomassen & Drijver-Verblifa NV, Dutch subsidiary of Continental Can's Europemballage holding. Both Thomassen & Drijver and Illinois Tool had held inconclusive negotiations with Canada's Polysar Ltd. over the sale of Tedeco. The group, with operations in France, Germany, and the Netherlands, has annual sales amounting to about 20 million guilders.

SCICON/ SETM

SCICON, a computer software subsidiary of British Petroleum, is awaiting approval from the U.K. and French governments for a deal whereby it would acquire 76% of the equity of Société d'Etudes et de Travaux Mécanographiques (SETM), the French data collating specialists. SETM is a 100% subsidiary of leading steel producers Escaut-Meuse.

Macmillan Bloedel/ GEC

After five months of discussions, Canada's Macmillan Bloedel group finally has received French government permission to take 40% in Groupement Européen de la Cellulose (GEC), the EC's leading producer of paper pulp. The Canadian firm must agree not to increase its stake in GEC directly or indirectly, however.

Unilever/ Vitho/ Genvrain

The French Finance Ministry has authorized the Anglo-Dutch Unilever concern to take a majority interest in Vitho, a member of the hard-pressed Genvrain dairy group, in which Perrier holds over 25%. Unilever's La Roche Fees subsidiary will acquire Vitho for an as yet undisclosed sum, making it the country's third-largest enterprise in the fresh dairy product sector (yoghurt, cream, and cheese), with 11.5% of the market. Last year Genvrain had net losses of about FF 39 million.

Innovation-Bon Marché/ GB Entreprises

Belgium's two leading department store and supermarket groups, Innovation-Bon Marché SA and GB Entreprises, have announced plans to merge, creating a retail network with annual sales totaling over BF 40 billion and employing 30,000. The new combine will be the country's fourth-largest concern after Petrofina, Solvay, and Cockerill and will account for over half the Belgian retail distribution network. The two groups are thought to have undertaken the fusion as a way around a possible ban (5-10 years) on construction of large-scale shopping facilities in metropolitan fringe areas, a proposal now under consideration in the Belgian parliament.

Cornhill/ AAI

Cornhill Consolidated Group Ltd. and a number of other leading British financial institutions - including Slater, Walker - have dismissed as "totally unfounded" allegations of a conspiracy to defraud that were brought by Illinois-based American Agricultural Insurance Co. In a suit filed in Chicago, AAI had charged that Cornhill - the ailing investment banking group with admitted liquidity problems - had misused some $22 million in "sight drafts" to obtain AAI funds. In addition to its demand for recovery of certain monies involved, AAI also is asking for $5 million in damages.

The suit accused Cornhill of having persuaded AAI's general manager to sign notes committing the insurance company to certain payments to Cornhill. This transaction took place without the consent of other AAI officers and directors, it was alleged. The suit claimed that Cornhill, contrary to original promises, turned the notes over to other investors. Cornhill allegedly had told the AAI executive that the notes were needed to complete a merger with another company.

Bates

Sources in Scotland indicate that Edward Bates, the one-year-old merchant bank owned by Edinburgh-based Atlantic Assets Trusts, has acquired holdings in oil and gas properties in the United States. Bates' interests in North America are now to be grouped under a new company, Bates Oil Corp., and it is said that further acquisitions are imminent.

Common Market Reports

EUROMARKET NEWS

Issue No. 263 *Report No. 231, January 30, 1974*

IN THIS ISSUE

Community: Adv. General Cites Faults in CSC Decision

Commercial Solvents Corp. (CSC) and its Italian subsidiary Istituto Chemioterapico Italiano may have a good chance of winning their case now pending before the European Court of Justice should the court agree with the conclusions of its Advocate General Jean Pierre Warner that the European Commission's decision against CSC and ICI is marred by substantive and procedural faults. By the same token, Warner did side with the Commission on the basic issues of CSC-ICI's alleged abuse of a monopoly and a dominant position. The case now rests with the court, which may deliberate several weeks or even months before issuing its decision.

In presenting his argument on Jan. 22, Warner followed the Commission's contention that:

- CSC did exercise control over ICI and that both companies should be treated as a single undertaking according to Treaty Article 86;
- the CSC-ICI group did have a world monopoly in the manufacture and supply of base products needed by the original complainant, Zoja Corp., to produce an anti-tuberculosis drug;
- CSC-ICI did abuse its dominant position in cutting off supplies to Zoja, reducing competition, and that this abuse affected interstate trade.

Warner said he thought that any U.S. court would have upheld the Commission in its interpretation of Article 86.

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COMMON MARKET REPORTS, Issue No. 263, January 30, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

CSC/ICI Case
(contd.)

While that Article does not list "refusal to sell" among the abuses of a dominant position, the Court of Justice already had ruled in its Continental Can decision that the abuses cited in the Article are only examples.

In turning to the shortcomings of the Commission's decision, Warner contended that a major fault was the failure to adduce evidence showing how many of Zoja's sales were made in the EEC and how many went to third countries. By this omission, Warner said, Brussels failed to comply with rules set forth in Treaty Article 190 which require the Commission to detail facts and reasons for a decision. The Commission's finding might be sustainable, Warner argued, if it had been established that Zoja's exports to third countries were vital to its survival and if this fact had been recorded in the decision.

But the Advocate General also challenged the imposition of the $200,000 fine, since Article 15(2) of Regulation 17 (*Common Market Reports, Par. 2541*) requires that both the "gravity and duration of infringement" must be taken into account (CSC had immediately complied with Brussels' order). Furthermore, in Warner's opinion, the Commission failed to establish the extent to which CSC's conduct affected trade between member states. Finally, the Advocate General pointed to serious procedural defects in the action before the Commission, among them the fact that although Zoja had filed its complaint in April 1971, it was not until April '72 that Brussels reacted by sending notices of objection to CSC and ICI. Both companies were given only 15 days to respond. In view of the complexity of the case and the fact that one head office was in New York, the other in Milan, the time limit was unreasonable, Warner argued (*Common Market Reports, Pars. 2422, 2637, 2638*).

A Setback for Brussels' Proposals on Merger Control

Although the European Parliament rejected the Commission's merger control proposal this month, the decision was not an overwhelming one, since the assembly returned the measure by a slim two-vote majority made possible only because Britain's Labour members are boycotting all sessions. The vote ignored the recommendations of the Economic Committee, which favored the proposal although it had presented several minor amendments. Even though the parliament has no more than a consultative function, the rejection of the measure plus some 30-odd amendments signals the rough going the proposal probably will face in the Council of Ministers (*Common Market Reports, Par. 9586*).

The French government long ago likened the Commission's merger control plans to a request for an ax when a scalpel might suffice. Industrial associations in France and the U.K., too, are opposing the proposal on virtually all points.

Merger Control *(contd.)*

Commission officials would not be surprised if the proposal is watered down considerably in upcoming discussions by Council experts. Under Article 1 of the Commission's proposal, minor forms of concentration of economic power would be exempt from the merger ban, i.e., where the combined sales of the merging firms total less than 200 million units of account and the goods or services do not amount to a market share of 25% in one member state. Committee members felt that the 25% market share criterion should be left out entirely because of its ambiguity - 25% could be negligible or substantial, depending on the circumstances.

Responding to critics in the European Parliament, Commissioner Albert Borschette said that Brussels is prepared to take account of several recommendations made by the assembly. One of the more important ones calls for a reduction of the three-month period the Commission would have to decide on intervention in a merger of which it has received prior notification.

EC Partners Shocked by French Action

Initial European reaction to France's Jan. 19 decision for an independent floating of the franc has been one of shock and disappointment, although subsequent reflection has also produced some positive interpretations. Most of the other EC partners apparently entertained no doubts that the French withdrawal from Europe's joint currency float would put monetary integration out of reach for an indefinite period. The greatest alarm was registered over the 180-degree turnabout in French monetary philosophy; as late as December, in a policy speech to the National Assembly, Finance Minister Giscard d'Estaing had insisted on the need to maintain fixed parities as a main pillar of a new international monetary system. At that time, he also considered any possibility of a franc devaluation "absurd."

In the light of this sudden switch, French assurances that the floating of the franc would be limited to six months have met with much skepticism. But these technicalities were of less concern than the fact that Paris once again had chosen to put national interests before Community interests. This opinion, however, was not shared everywhere: leading German commentators, for instance, argued that France had acted "realistically" and "merely broke away from something that could not have been preserved over any length of time, anyway," i.e., the joint float.

The week that followed the de facto devaluation of the franc saw a stampede into gold, severe currency fluctuations, and hectic rounds of conferences. The finance ministers and central bank presidents of the surviving joint floating block - which includes Germany, the Benelux countries, and Denmark within the EC plus Sweden and Norway - met in Brussels and agreed to try to keep the system intact

Reactions *(contd.)*

despite France's defection. But repercussions also were predicted for the Community's Regional Development Fund and, even more important, for the Common Agricultural Policy, an area in which France has always urged European "solidarity."

France: Franc Floating to Halt Drain of Reserves

The decision in Paris for a de facto devaluation (provisionally estimated at 4-5%) was taken as outside pressures on the franc mounted: France has been hit hard by the drastic increases in oil prices, and the administration evidently wanted to take no chances on the country's ability to meet its energy supply bills. According to official estimates earlier this month, France can expect to pay some FF 45 billion for oil imports this year, three times as much as in 1973.

The breakaway from the joint Community float will provide major relief inasmuch as France had been obligated to support the franc out of currency reserves whenever it threatened to drop below the 2.25% European parity "snake." Last September, for instance, the Bank of France was forced to spend the equivalent of $2.2 billion within a few days to intervene on behalf of the "commercial" franc. (The financial" franc in the two-tiered system has been floating since mid-1971; it is used in transactions unrelated to direct trade, i.e., tourism, stock and bond dealings, etc.)

The immediate consequences of the independent floating on the domestic economy are mainly twofold:

- Exporters should be able to find more receptive foreign markets for their goods, which in turn should benefit the domestic employment situation. The extra export revenues should make it easier to pay for the high-priced oil imports needed to keep industry going.

- Import costs will rise in proportion to the decrease in value of the franc, resulting in higher costs both for French manufacturers and, subsequently, consumers. Obviously, this was expected to make it even harder for the government to deal with inflation at home, although some quick measures were said to be in preparation to counteract this negative effect.

Detaching the franc from the European currency snake was accompanied by two measures designed to discourage currency speculations. French enterprises may now raise foreign loans in amounts totaling up to FF 10 million instead of 2 million, and franc-denominated loans to nonresidents in future will require Finance Ministry approval.

Belgium: Government Resigns over Refinery Issue

On Jan. 18, one week short of a year in office, Belgium's coalition government was forced to resign as Prime Minister Edmond Leburton and his Socialist ministers quit the cabinet. The surprise move was indirectly prompted by an Iranian government decision to withdraw from the planned Belgian-Iranian oil refinery complex at Liège. The cabled cancellation by the National Iranian Oil Co. arrived in Brussels only a few hours after expiration of the Jan. 15 deadline by which the Leburton administration was to have confirmed the BF 8.7-billion Ibramco project, pending clarification of several contractual points. Teheran's withdrawal triggered a round of recriminations within the Belgian cabinet, with the Socialists reportedly accusing their coalition partners in effect of killing the deal through their delaying tactics.

The swift action by the Iranians in pulling out of the Ibramco plans was interpreted in Belgium as evidence that Teheran had been losing interest in such a project anyway. It was pointed out that in the two years since the signing of the letter of intent, and particularly in the course of the current energy crisis, Iranian oil policies have undergone a change of direction, in terms of which a participation in a major European refinery project may no longer seem useful. For the Belgian Socialists, however, the Ibramco proposals had constituted a means of ensuring the country of independent oil supplies via direct cooperation with an oil-producing country. Through Ibramco, the government also would have been able to acquire a direct influence on the marketing and pricing of oil products in Belgium, and it was for these and other reasons that its plans had met with considerable suspicion from the political opposition and private industry.

Observers in Belgium have reported, however, that the clash over the Ibramco project was merely the outward reason for the government's resignation. Throughout its relatively brief tenure, Leburton's administration had been constantly at odds with its coalition partners over many aspects of political and economic policy. These differences also have prevented the completion of a state reform program, of which a constitutional amendment on economic regionalization would have been a key part.

Britain: No Progress Yet on Principal Problems

Although the shock news about the floating French franc contrived to push Britain's economic troubles slightly into the background for all of 24 hours, the nation's attention remains riveted to those issues which have dominated over the last few weeks: the clash between the government and the unions, the deterioration of the balance of payments by a further £330 million in December, the shortened industrial workweek, and speculation as to when general elections would be called.

U.K. Problems *(contd.)*

The Trades Union Congress' attempt to persuade the Prime Minister that the country's miners represent an "exceptional case" proved abortive when, on Jan. 21, the Chancellor of the Exchequer stated unequivocally that there would be no payments made in excess of the limits set by Stage Three of the counter-inflation program. Whitehall's main reason for this stand was that the TUC could not guarantee acceptance by other member groups of Stage Three settlements; the government feared, in effect, that too many "exceptional cases" would follow. The breakdown of talks was succeeded by renewed speculation that Stage Three itself would be terminated - or that there would be prompt introduction of Stage Four, which amounts essentially to the same thing. Union leaders left the talks with the firm impression that a general election would be called "very soon." But no announcement was forthcoming from the Prime Minister and it seemed that Feb. 14, the last available date for an election in terms of the old electoral register, could be ruled out.

On the balance of payments front, the news was admittedly gloomy as December trade figures were released. At the same time, two reports from influential sources contributed to growing alarm. Writers for the London and Cambridge Economic Bulletin, which had virtually forecast the present situation some two years ago, sharply rebuked the government for what they said was a completely erroneous assumption that the balance of payments is determined as much by events abroad, domestic costs, and the exchange rate as by fiscal and monetary decisions at home. This, according to the Bulletin's authors, "was to completely misunderstand the interrelationship between fiscal policy and competitiveness on the one hand and the determination of the real national income and the current balance of payments on the other." The second blow came in the form of an OECD forecast that the U.K.'s GNP could drop by an annual 9.5% between the second half of 1973 and the first half of 1974. Further, it was predicted that private consumption would fall at an annual rate of a mere 1% over the same period.

Finally, and perhaps more cheerfully (certainly from the viewpoint of the Confederation of British Industry), there was an indication that the three-day industrial week would be terminated and replaced by either a four-day week or a five-day week using 80% of normal power supplies. The TUC also favors a return to the five-day alternative.

Germany: Environmental Bill Approved by Bundestag

A unanimous German Bundestag has approved legislation providing for a maximum fine of DM 100,000 and 10 years' imprisonment for violating the proposed Clean Air and Noise Abatement Law 1974 (*Doing Business in Europe, Par. 23,549A*).

Environment *(contd.)*

The measure now goes to the Bundesrat, where adoption of the *Bundesimmissionsschutzgesetz* is assured.

Again taking the lead in environmental legislation within the Community, the German government would gain broad statutory powers to set standards for the construction and manufacture of equipment and machinery. These standards could be raised to conform with technological advances, and stricter standards could entail substantial investments on the part of management. Bonn could set limits for air pollution and noise, and operators of plants and machines would be required to measure air pollutants and noise levels according to methods to be specified in upcoming regulations.

The public, affected most by the hazards of a deteriorating environment, would have more opportunities to express its views on plans for new factories: the existing licensing system, limited to some 52 stationary sources of air and noise pollution, would be extended to any plant, machine, or vehicle apt to damage the environment or constitute a substantial nuisance to the public or the surrounding area. The time limits for raising objections would be substantially prolonged.

In one respect, the lawmakers even went beyond the government's original bill: large businesses would be required to appoint an environmental safety engineer, who would have to enforce the observation of environmental rules. Moreover, he could approach management directly and make suggestions for better air pollution control and noise abatement.

EURO COMPANY SCENE

CEGB/ Westinghouse

A recommendation is expected within the next few weeks from Lord Carrington, Britain's new Energy Secretary, on whether the U.K. should switch to U.S. technology for its next series of nuclear power orders. The Central Electricity Generating Board (CEGB) is urging a speedy decision on the question of ordering a third-generation system from Westinghouse.

The choice for the £5-billion program is between gas-based U.K. systems and water-based U.S. programs. The CEGB and the National Nuclear Corp. have come out strongly in favor of the American systems. At a "political" level, however, the U.S. systems are opposed by the Atomic Energy Authority, certain nuclear engineering companies, a House of Commons Select Committee, and by environmentalists. The principal hurdle for the American systems is one of safety. In terms of cost, they appear to have a slight edge. According to the CEGB, the alternative British systems are

CEGB/ Westinghouse *(contd.)*

either obsolete (British Magnox), over-complicated (the advanced gas-cooled reactor), too expensive (the steam-generating heavy-water reactor), or more suitable for ordering in the '80s and '90s (the high-temperature and the fast-breeder reactors).

Rotterdam Nuclear

General Electric, Chicago Bridge & Iron, and Rotterdam Dockyard Co., a member of the Dutch Rijn-Schelde-Verolme group, have gone ahead with establishment of Rotterdam Nuclear BV, a joint venture to produce and distribute reactor pressure vessels and related products, first announced in March 1973. As proposed, G.E. and Chicago B&I are each taking 24.5% in the new company, subject to U.S. government approval, while Rotterdam Dockyard will hold the rest.

G.E./ Osram

General Electric is said to be pressing to increase its present 21.4% holding in the DM 110-million share capital of Osram GmbH, leading German manufacturer of electric light bulbs, to a majority stake. To this end the U.S. company has been negotiating with Osram's other two co-owners, Siemens AG (42.8%), and AEG-Telefunken (35.8%), in which G.E. controls 11% as well. G.E. and Osram number among the world's largest producers of light bulbs, along with Philips and Westinghouse.

ENI/ Montedison

Italy's Ministry for State Holdings has proposed a reorganization of the ENI energy concern and a direct transfer into government hands of certain Montecatini Edison interests now held by the state's ENI and IRI. The new plan - reportedly drawn up with an eye on the national petroleum supply program now being prepared in Rome - calls for ENI to cede its chemical divisions (ANIC petrochemicals and other pharmaceutical activities) to Montedison. ENI would then regroup into three industrial holding companies, one for energy (oil, natural gas, and nuclear fuel), including the AGIP subsidiary; one for investment activities (engineering projects), primarily in the oil-producing countries; and a third for textile production. State-owned share packages in Montedison would come under immediate control of the ministry.

Essochem Siciliana

Essochem Siciliana, a subsidiary of Esso Italiana (Exxon), is planning to build a new $31-million plant at its Augusta petrochemical complex for production of isopropyl alcohol.

Osec/ Ulster

Osec Petroleum SA of Luxembourg, wholly-owned subsidiary of Germany's Osec Petroleum AG oil exploration company, has taken an interest of over 20% in Ulster Petroleum Ltd. of Calgary, Canada.

Common Market Reports

EUROMARKET NEWS

Issue No. 264 February 5, 1974

IN THIS ISSUE

Community: Partners Urged to Refrain from Unilateral Acts

The European Commission has called on the Council of Ministers to take several ad hoc measures to keep the Community from further disintegration. The advanced disarray within the EC, most recently exemplified by France's independent floating of the franc, and negative effects of the energy crisis on the national trade balances have led Brussels to ask the Nine to refrain from any further unilateral action in the monetary field and in trade that could lead to incalculable economic and political consequences.

Vice-President Wilhelm Haferkamp, who vented the Commission's anxiety to the public and explained the proposed steps, said that the member states initially should pledge not to devalue their currencies to attain competitive advantages. They should also generally avoid doing anything that could disrupt trade and thus even endanger the customs union - the one still-solid foundation of the EC - now that progress toward the economic and monetary union has been slowed. In addition, Haferkamp asked for weekly consultations among the Nine on exchange-rate developments, interest-rate policies, and the partners' involvement in the international financial markets.

COMMON MARKET REPORTS, Issue No. 264, February 5, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Unilateral Acts *(contd.)*

The Commission is particularly concerned about the prospect of individual member states outbidding each other on the international capital market as they are forced to finance their balance-of-payments deficits caused by massive price increases for crude oil. (The additional cost for the EC this year is estimated at around $18 billion.) Since the oil-producing countries cannot possibly use the entire additional revenue for domestic investments and imports, a great portion would find its way onto international finance markets.

But the Commission also believes that the Council should enact its Dec. 17, 1973, proposal for a decision providing for an increase in the Nine's short-term credit support facility even if an agreement on the Regional Development Fund is not forthcoming. Britain, Ireland, and Italy had blocked that decision because the proposed budget of the fund did not measure up to their expectations.

France: Withholding Tax Bill Facing Uncertain Fate

The fate of the government-sponsored bill seeking to introduce withholding tax on the incomes of French employees is uncertain: the lawmakers are continuing discussion in committee without reporting the measure to the floor. But even there its chances are doubtful because the assembly is just as divided on the measure as the tax committee, which rejected it and asked the administration to come up with a new proposal. Basically, the bill is being opposed for two reasons: Parliament is reluctant to give the government the broad authorization it wants to establish the details of the withholding tax and, secondly, the lawmakers fear the wrath of their constituents.

Wage and salary earners in France have been favored up to now because employers are not required by law to withhold tax from their income, although employers must report total payrolls to the tax authorities. Instead, employees must file income tax returns for the previous year by the end of February, whereupon they are assessed and then pay the tax. Thus the average taxpayer is granted a respite of nearly a year. (Taxpayers in high-income brackets are required to make two advance payments annually. They may opt for monthly advance payments instead, but this system is seldom used.)

Internal Community studies have shown that the incidence of tax evasion in France is second only to Italy within the EC. Yet French legislators are convinced that, generally, the wage and salary earners among their constituents are conscientious taxpayers. A government-appointed commission, in a 1972 report, in fact found more fault with the French tax system as such and blamed the high delinquency rate on businesses and farmers. Still, the commission did suggest introduction of the withholding income tax, which the government attempted to achieve through the bill now suspended in Parliament.

Germany: Business Cheers Capital Control Liberalization

The German business and financial community has been unanimously positive in its reactions to the government's decision for a major liberalization of the drastic capital transfer controls that had been imposed in stages, beginning in 1972, to ward off intense speculative pressures on the Deutsche mark (*Doing Business in Europe, Pars. 23,153, 30,601, and 30,654*). The Brandt cabinet approved a joint proposal submitted by the economics and finance ministers that, effective Jan. 31, lifted the requirement of Bundesbank permission for:

- credits raised abroad by German residents;
- capital investments in Germany by nonresidents, and
- the purchase by nonresidents of German securities, with the exception of certain bonds that have a remaining life of up to four years.

The cabinet did not go all the way, however: the cash-deposit (*Bardepot*) regulations on credit taken up abroad remain in force, at least for the time being, although the rate of obligatory, noninterest-bearing deposits with the central bank has been sharply reduced from 50 to 20%, while the exemption per individual credit transaction has been doubled to DM 100,000. Also still subject to Bundesbank permission is the payment of interest on nonresident deposits held by domestic banks.

In announcing the decision, administration spokesmen said that the government could "not yet" lift the exchange controls completely because of its commitments to the remaining European floating block and in the face of "undesirable differences" in international interest levels. The spokesmen expressed the hope that Bonn's move would have a "moderating effect" on the exchange-rate fluctuations of the D-mark, which in turn would help to keep import prices down.

Business and financial representatives in Germany tended to share this hope inasmuch as the action in Bonn was accompanied by the news that the country's 1973 foreign trade balance had closed off with a record surplus of DM 33 billion. Optimism also was reflected on the stock markets as well as on the currency exchanges, where the D-mark chalked up light gains relative to the dollar. Prices also rose for DM-denominated Eurobond issues.

Belgium: New Elections on March 10

King Baudouin on Jan. 29 formally dissolved the Belgian parliament and thus cleared the way for new elections after attempts to form a new administration had failed. The previous coalition government headed by Prime Minister Edmond Leburton had submitted its resignation following the collapse of plans for a Belgian-Iranian oil refinery project that would have given the state a major influence on the domestic oil market. The new elections have been scheduled for March 10.

Britain: Miners' Strike Adds to Problems

There are as yet no signs that Britain's strife-torn economy is on the mend. Hopes of a return to a four- or even five-day industrial week were dashed with the announcement that the nation's coal miners had voted to go out on a full-scale strike. There has been a "slowdown" in the mines for the past twelve weeks. An unexpectedly high percentage of the vote--81%--favored the walkout, which is set to begin February 10. Prime Minister Heath said that the strike could spell economic disaster for Britain. The Minister for Energy has talked of a two-day workweek. Mr. Heath has declared that the issue is no longer one of wage increases: the purpose of the miners' action is, in his view, "to smash Stage Three, an entirely political approach." He has also conceded that the government is considering the possibility of blocking social benefit payments to the families of dissident miners, such payments being considered by many Conservatives (and others) to be tantamount to subsidizing the miners' action.

One of the key issues in the dispute is the fact that the miners are officially a "special case." In this connection, the report of the Pay Board (Problems of Pay Relativities, Command 5535, HMSO London, Jan. 24) has appeared at an opportune moment. The report proposes a framework for the treatment of special cases based on four stages: 1) a preliminary selection of those whose case for special treatment should be examined; 2) an examination in depth and in public of each case by or on behalf of a single examining authority; 3) a recommendation from that authority, and 4) a decision by the Secretary of State. The immediate application of this procedure to the miners is not evident: nevertheless, it would appear that the government is now furnished with at least a procedural framework within which to tackle future claims by workers whose function is central to the national interest.

Questions on Viability of Financial Institutions

Investment confidence in the U.K., already eroded by the general deterioration of the economy, showed immediate signs of strain following the news of an impending strike by the miners. Share prices plummeted on Jan. 28, with the Financial Times Index closing 14.6 points down at 301.7, U.K. Investment *(contd.)*

the lowest level in seven years. Even more remarkable, the level went through the low of the previous bear market, which ended in March 1971 - an unprecedented development. This led to speculation not only in Britain but also in the United States that the viability of London's financial institutions, other than the most powerful, was threatened. To some observers, this would certainly seem to be the case in the secondary or "fringe" banking sector, where some 30 companies are currently said to be "in difficulty." Support operations have been launched by the major clearing banks - at the Bank of England's prompting - but these are designed to safeguard deposits rather than shareholders' interests. It is generally conceded, however, that the misfortunes that recently befell London and County Securities will soon extend to other similar institutions.

Netherlands: Price Controls Now Affect All Businesses

Concerned by public restiveness over steadily rising prices and following talks with employer associations, consumer spokesmen, and the unions, the Dutch government has acted by tightening both price controls and monitoring procedures (*Doing Business in Europe, Par. 26,620*). Announced on Jan. 22 and made retroactive to Jan. 18, the temporary measure draws its authorization from the emergency powers legislation earlier approved by Parliament.

According to the new regulations, all businesses regardless of size are required to give prior notification of planned price increases to the Economics Ministry, citing valid reasons. (Previously, advance notice had to be given only by enterprises with annual turnover of 1 million guilders or more.) Furthermore, industry may pass on "external" cost increases only after eight weeks, service businesses after six weeks, and the trade sector after four weeks. However, these transitional periods do not apply to labor cost increases, which may be passed on immediately via higher prices.

In order to prevent excess profits from oil product sales, The Hague also said it would inform consumers of the retail price ceilings for such products. Some 1.25 million guilders is to be set aside for consumer price information generally. The government apparently had not come to a decision on professional fee schedules - for these, a temporary freeze will prevail until it is determined what increases above the current 1972-based rates would be reasonable and necessary.

Economics Minister Ruud Lubbers said the new price control measures will remain in force for "a few months" and that enforcement would be facilitated by the authorization of additional manpower for the inspectorates. Violations of price provisions will result in stiffer penalties than before, Lubbers warned.

Switzerland: Price Monitors Issue Revised Guidelines

A new set of guidelines for government supervision of prices, profits, and wages has been issued by Switzerland's Price Monitoring Agency (*Doing Business in Europe, Par. 30,629*). The most important of the modifications, according to Prof. Leo Schürmann, who heads the agency, is that enterprises cannot expect to gain official sanction of planned price increases if these are based solely on higher labor costs. This should force businesses to meet new wage increases at least partially out of existing profit margins, Schürmann said, which in turn should fortify management positions when it comes to refusing unreasonable new wage demands.

If the agency receives reports of alleged excessive profits, Schürmann said, it will carefully and thoroughly investigate whether these profits resulted exclusively from price increases. If so, the agency would prevail on the offending companies to lower their prices.

Although Schürmann's agency has been given no direct statutory powers to control wages, it may negotiate with employers and unions whenever wage demands or offers appear to be "extraordinary." The new guidelines call for what have been termed rather complicated procedures to distinguish between "fair" and "unfair" wage increases. During the preparatory discussions with the agency, employers' representatives and the unions in fact failed to agree on mutually acceptable definitions. The unions insisted that increases reflecting cost-of-living adjustments and reasonable participation in the expansion of productivity should be considered fair and ordinary within the meaning of the guidelines. This interpretation was rejected by the employers, who argued that this would, in effect, amount to automatic wage escalation. Both sides finally compromised on the term "extraordinary" to describe wage demands or offers that would warrant intervention by the Price Monitoring Agency. Independent observers expressed doubt, however, whether this vague definition would really help the agency do its job.

EURO COMPANY SCENE

Petrofina

Following the demise of the Belgian-Iranian Ibramco refinery project, directors of Belgium's Petrofina petrochemical concern have suggested the alternative of forming a state and privately owned petroleum company to operate a refinery in the Liège region. The proposal calls for the government to obtain crude oil supplies for the new refinery through direct dealings with the oil-producing countries. Eventually the state could take majority control of the company. Although this is the third time the plan has been presented within the past few years, observers in Belgium give it good chances for acceptance now.

Delfzijl Refinery

Despite the oil boycott, a group of Saudi Arabian investors - with the blessing of King Faisal - reportedly has announced its readiness to join with Dutch and French concerns in setting up an oil refinery near Delfzijl in the industrially underdeveloped northern province of Groningen in the Netherlands. The plant would process about 10 million tons of Saudi Arabian crude per year, with delivery guaranteed over a 10-year period, as well as North Sea oil.

Burmah/ Signal

The U.K.'s Burmah Oil has now completed its purchase of some $480 million of Signal Oil & Gas, a subsidiary of Signal Oil Cos. of California. There had been some opposition to the deal, but the last obstacle fell when the Delaware Supreme Court upheld lower court rulings against two challenges to the sale of Signal.

Nippon Seiko

Major Japanese ball-bearing manufacturer Nippon Seiko has now confirmed that it will set up a plant in the U.K. with an investment in excess of £6 million. The plant will be located in the north of England or in Wales and should come on stream by 1977. In either location, the plant would qualify for government aid. An immediate response to the news came from British bearing manufacturers, who have consistently protested about the damage allegedly caused by low-priced Japanese imports. In the bearings sector quotas were established in 1972 at an unofficial level, but this informal agreement has since lapsed and there has been no move to extend or replace it. It is understood that the U.K.'s Minister for Industrial Development has encouraged direct investment of this sort by Japanese companies, conceivably on the tacit understanding that such investment might win U.K. support for Japanese companies seeking access to North Sea oil.

Swedish Match/ Cardwell

The Swedish Match Group has purchased Cardwell Machine Co., Richmond, Va., along with its British sales and engineering subsidiary, for an unspecified price. The Swedish concern reportedly plans to integrate Cardwell with its Arenco Tobacco Machinery Production division, which manufactures cigar- and cigarette-making machinery.

Ascinter-Otis

Ascinter-Otis SA of France, a subsidiary of Otis Elevator Co., New York, through Otis Europe, plans to invest about FF 30 million in construction of a third French production plant. To be located at Troyes, the factory is scheduled to begin operations in the latter half of 1975 with an annual output of 7,500 elevator units. It will employ 700 in its final stage.

Snia Viscosa

Italy's Snia Viscosa has formed its own U.S. subsidiary, Snia Viscosa Inc., in New York and will no longer operate through American sales representatives. Snia is one of the leading European manufacturers of man-made fibers.

Pall Italia

Pall Corp. of Glen Cove, N.Y., has set up an Italian subsidiary, Pall Italia. The company, with headquarters in Milan, distributes filters for the pharmaceutical industry.

Gestetner/ Rex-Rotary

Gestetner Ltd. of the U.K., which claims to be the world's leading producer of stencil copying machinery, has acquired the entire share capital of its Danish competitor Rex-Rotary Internationale AS for a reported 70 million kroner. The Rex-Rotary group manufactures reprographic and calculating equipment.

Dorland/ Dancer/ Garrott

The German sister advertising agencies Dorland-Werbeagentur, Berlin, and Dorland GmbH & Co. KG, Munich, are to be consolidated into one firm based in Munich, in which Dancer Fitzgerald Sample of New York and Garrott-Dorland-Crawford of London are to take 15% each. The U.S. and British partners have already cooperated with the Dorland group through a joint international holding company set up in London in 1967.

Macmillan

New York-based publisher The Macmillan Co. has set up a new German subsidiary in Frankfurt, Macmillan GmbH.

Fischer/ Athenäum

Germany's Fischer Taschenbuchverlag, paperback subsidiary of the Georg von Holtzbrinck publishing group, has taken over the 50% stake in Athenäum Fischer Taschenbuch Verlag formerly held by partner Athenäum Verlag, an offshoot of Harcourt Brace Jovanovich, New York. The joint venture was set up a year-and-a-half ago to produce a line of scientific and educational soft-covers.

Morgan Grampian/ Buttenheim

U.K. publishing group Morgan Grampian is to acquire for some £1.7 million Buttenheim Publishing Corp. of Pittsfield, Mass.

Shearson, Hammill

Shearson, Hammill & Co., Inc., the U.S. stock brokerage firm, is in the process of closing its Frankfurt branch. The company's active securities dealing in Europe continues to be handled from offices in Basel, Lausanne, and London. High costs were cited as a major reason for the German shutdown.

Slavenburg's/ Oyens en Van Eeghen

Slavenburg's Bank of Rotterdam, in which First National Bank of Chicago has a 20% interest, will acquire Oyens en Van Eeghen, an Amsterdam bank house, for an undisclosed sum.

Common Market Reports

EUROMARKET NEWS

Issue No. 265 *Report No. 232, February 14, 1974*

IN THIS ISSUE

Community: SABAM Ruling Ends Antitrust Dispute

A long-standing dispute between the European Commission and the German government has been ended by the Jan. 30 ruling (SABAM et al.) of the European Court of Justice that a national court may continue to apply EEC competition rules even after the Commission has initiated proceedings in a particular case. The SABAM decision is bound to determine the speed with which national courts enforce or invalidate cartels under EEC rules in future.

The German government last year stepped into the SABAM case as an intervenor, fearing that a business might have to contend with long delays and thus legal insecurity if a national court were prevented from pressing on in a competition case in which the Commission also had started proceedings. Supported by the Federal Cartel Office and legal experts in other countries, German government attorneys have argued that these apprehensions are justified since the Commission rarely winds up such proceedings within two years, mostly requiring up to five years and sometimes even longer. The likelihood of delays has become still greater since the Haecht II ruling of early 1973 (*Common Market Reports, Par. 8170*), in which the Court left some doubt about its position.

The SABAM case arose out of legal actions by Belgium's Radio and Television Corp. (BRT) and SABAM, a Belgian com-

This issue is in two parts, consisting of 168 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 265, February 14, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

SABAM Ruling *(contd.)*

pany with a domestic monopoly on copyrights of musical works, both seeking damages from a producer of a "pirated" hit recording. When BRT charged SABAM with abuse of a dominant position, the Commission stepped into the case. BRT and the Commission claimed that the Belgian court handling the matter had to suspend proceedings according to Article 9, Par. 3, of Regulation No. 17, which bars "authorities of the Member States" from prosecuting EC antitrust violators once Brussels has initiated proceedings. Paragraph 3 fails to specify, however, whether "authorities" includes courts in addition to national antitrust agencies (*Common Market Reports, Par. 2482.10)*, and this prompted the Belgian court to ask the European Court of Justice to clarify the issue once and for all.

In its 1970 Bilger judgment, the high Court had held that the term "authorities of the Member States" includes the national courts (*Common Market Reports, Par. 8076*), but its 1973 Haecht II ruling sidestepped the earlier position. In the SABAM case the Court now has made a complete turnabout by declaring that the authorities referred to in Regulation No. 17 are identical to those described in Treaty Article 88 - the national antitrust authorities.

Euromarkets Hardly Touched by Removal of U.S. Controls?

The removal of U.S. capital controls is unlikely to have significant impact on Euromarkets, according to a survey of over 100 banks and financial institutions carried out by the influential Eurostudy review of the Eurocurrency markets. Of those surveyed, only 6% predicted a "severe" effect. It did emerge, however, that the Eurobond sector may be the hardest hit, now that U.S. companies are no longer obliged to turn to it on such a large scale. In the words of the survey, "the Euromarkets have now generated a momentum of their own." A cautionary note was added, however, to the effect that "a certain amount of business will flow back to the United States resulting in a corresponding decline in London's importance as an international financial center."

France: $1.5-Billion Eurodollar Loan for Treasury

In order to reduce the large payments deficit expected this year as a result of the costly oil imports, the French government has floated a $1.5-billion Eurodollar loan, which was oversubscribed within days. According to first estimates, the dollar proceeds should cover about one-third of the expected 1974 current payments deficit. Finance Minister Giscard d'Estaing also confirmed that the Treasury loan will be supplemented by others to be raised by French banks and state and private enterprises. An unofficial list of potential borrowers of an additional $1.5 billion

Eurodollar Loan *(contd.)*

included the names of the state telecommunications system, the gas and electric power utilities, the Régie Renault automobile works, Pechiney Ugine Kuhlmann, and the Foreign Trade Bank.

The French Treasury loan has been described as the largest single borrowing ever raised by a government on the international capital markets. With a variable interest rate tied to the six-month Eurodollar rate, the seven-year loan is managed by an international syndicate headed by France's Société Générale state bank. The issue carries a premium of 0.375 points over the Eurodollar rate for the first two years, 0.5 points for the next three years, and 0.625 points for the last two years. Giscard d'Estaing said the dollar income will bolster Bank of France reserves and help finance foreign investment by state enterprises. Although the loan was quickly oversubscribed, the Finance Minister indicated that the Treasury would not accept more than the predetermined amount.

In his original announcement of the loan, Giscard d'Estaing also commented on the outlook for the French economy this year, rejecting a projection by the Paris Chamber of Commerce that domestic price levels would rise beyond 12% in 1974. The Finance Minister said the price increases would remain within 10%, and he based his optimism on a likely decline in oil prices toward the end of the year and on the effects of new anti-inflationary measures now in preparation by the government. The fact that overall growth of the economy should be confined to 4-5% in 1974, Giscard d'Estaing concluded, would have a calming effect on costs and prices.

<u>Britain: No Amendment to Accommodate 'Participation'</u>

The U.K.'s Minister for Trade and Consumer Affairs has rejected proposals to amend the new Companies Bill in order to introduce greater leeway for "worker participation." The proposals, which came from the Industrial Society, urged that a few simple changes in the bill would "give employees a more important role by making them 'members' of their companies." The minister rejected this, noting that conferring "membership" would not really come to grips with the various problems of consultation, decision-making, ownership participation, and job satisfaction. It thus appears that the controversial issue of "industrial democracy" will now be shelved until the government releases its proposed Green Paper on worker participation. (*Doing Business in Europe, Pars. 30,662 and 30,663.*)

<u>Industry Begins to Feel Pinch, FT Poll Notes</u>

There are increasing signs that British industry is beginning to feel the pinch of the three-day industrial week and the generally flaccid state of the country's economy. The Financial Times' most recent monthly Business Opinion Sur-

FT Survey
(contd.)

vey reveals that, after a month of short-time working, business confidence has reached its lowest ebb since the survey was instituted some seven years ago. The latest poll was taken before the miners opted by an overwhelming majority for strike action.

In assessing the "general business situation," well over 80% of those surveyed were less optimistic than four months ago. Still, there was a glimmer of confidence as regards export prospects, with 75% predicting an increase over the next four months. Generally, it was believed, however, that inflation would get worse and that the three-day week would continue to reduce output and accentuate supply difficulties. Forecasts of production or turnover have been revised downward, with the median forecast dropping from 14% to under 12%. Similarly, investment intentions have eased up, with those companies that have not yet contemplated cutbacks indicating that the situation is "constantly under review."

The pessimistic tone of the FT survey was paralleled in other reports, notably from the National Economic Development Office (NEDO) and from the London Chamber of Commerce and Industry. NEDO has gone on record as predicting serious financial pressures on many companies and much greater disruption of output if the three-day week is allowed to continue throughout February. The Chamber report focuses on the plight of small companies, which it regards as by far the most seriously affected. It predicts that production levels, which have averaged between 70 and 75% since the introduction of the shortened week, will probably remain at between 60 and 70% over the next month. In some sectors, however, particularly those dependent on steel, a reduction to 50% of normal capacity has already been recorded.

Italy:
Fuel Rationing;
Foreign Trade
Restrictions

In the struggle to keep the country's foreign trade deficit from slipping from nearly 3,000 billion lire (1973) to a possible 5-6,000 billion this year, the Italian government is planning a number of measures designed to husband dwindling currency reserves. Among the most drastic actions announced are major increases in state-controlled fuel prices combined with a rationing system as well as foreign trade restrictions. The latter will primarily involve curtailment of imports of consumer goods and meat, for which European Commission approval is being sought.

Immediately to be raised were gasoline prices, from 200 to 250 lire per liter. Within two months, motorists will then be issued coupons entitling them to a monthly quota of 60-70 liters at the 250-lire "social" price. Additional needs will have to be met by the open market, where prices will be ranging up to 400 lire per liter. The

Rationing *(contd.)*

price difference consists of taxes, with which the Treasury intends to make up for revenue losses caused by shrinking fuel sales.

A similar two-tier price system already is being practiced for electric power users (rates are much higher when consumption exceeds a certain number of kilowatts per month) and may well be extended to certain staple foods such as spaghetti, olive oil, etc.

So far as Italian industry is concerned, the two major problems of the moment, aside from the coming import/export restrictions, are the skyrocketing fuel costs (the price for heavy heating fuel has been doubled to 40 lire per liter) and the automatic wage adjustments for the first quarter of 1974 that will result in an additional burden of 470 billion lire.

Germany: Tax Relief for Development Investments

New legislation soon to be introduced in Germany would reinstate only one major tax benefit that individuals and companies received for their investments in developing countries until Dec. 31, 1973, when the 1961 *Entwicklungshilfesteuergesetz* expired. A 15% write-off on capital goods would no longer be allowed, and no tax relief at all would be extended to capital outlays in tourist ventures (hotels, airlines, etc.). However, investors would be entitled to the investment reserve (in effect, tax-free reserves gradually to be restored to taxable income), although this reserve would no longer be a uniform 50% of investment costs but would be graduated. Thus, for developing countries such as Bangla Desh, Ethiopia, and 15 central African countries, the percentage would be 75%. It would be 50% for some 90 countries that are neither highly undeveloped nor advanced (Algeria, Egypt, most coastal African and Arab countries, as well as most countries of Latin America and the Far East). The rate would shrink to 25% for investments in countries with a comparatively high degree of industrialization. This last category includes Argentina, Brazil, Greece, Portugal (except for its colonies), and, for the first time, Yugoslavia and Rumania. The two last-mentioned countries have opened their borders to capital investments from abroad, though only on a restricted basis.

Normally the investment would have to be restored to taxable income by one-sixth annually over a six-year period, beginning with the sixth business year following the year for which the reserve was formed. However, investments with a high labor/investment ratio would benefit in that the reserve could be dissolved over a 12-year period. To this end the investor would have to submit documentation to the tax authorities showing that his investment had indeed created the required number of jobs. This documenta-

Tax Relief *(contd.)*

tion would be issued by the Economics Ministry in consultation with the Ministry for Economic Development. The criteria for the job/investment ratio would be set forth in implementing regulations.

In laying down the new criteria, the Brandt Administration could not ignore domestic and foreign criticism to the effect that it does not make sense to grant tax benefits on the basis of plant and machinery costs but not according to the number of jobs created.

'Länder' Set Precedents on Training Leave

Employers in Germany may have to grant employees annual training leave in addition to their regular vacation as *Länder* (state) legislatures take advantage of the constitutionally guaranteed right to enact laws in areas where the federal government has not yet done so. In late 1973 the Hamburg state legislature passed a law requiring all employers to give blue- and white-collar workers two weeks' paid time off each year to attend educational courses. Similar bills are expected to be introduced soon in the state legislatures of Hesse and Lower Saxony, both of which are controlled, as in Hamburg, by the Social Democrats. But other German states, in particular those controlled by the Christian Democrats, are either waiting for a federal law or are restrained by concern over the obvious financial consequences for business.

Under the Hamburg statute, an employee is free to choose when to take his training leave so long as it does not interfere with business operations. But to qualify for this type of leave, he must attend courses that have been certified by state agencies.

Training leave is not an entirely new feature in Germany, but for the most part it has been limited to junior employees or, upon collective bargaining agreement, to specific sectors such as forestry. Often, it is granted voluntarily by larger companies, though usually restricted to employees in managerial positions. Furthermore, under the 1972 Works Council Act (a federal law), all works council members are entitled to three weeks' paid time off during their three-year term in order to attend educational courses (*Doing Business in Europe, Par. 23,445*).

EURO COMPANY SCENE

Gelsenberg/ Veba

As anticipated, German Federal Economics Minister Hans Friderichs has overridden last month's Cartel Office decision to bar the government from acquiring a majority holding in Gelsenberg AG from Rheinisch-Westfälisches Elektrizitätswerk AG (RWE) and, accordingly, from implementing its proposed merger of Gelsenberg with the 40%

Gelsenberg/ Veba *(contd.)*

state-owned Veba oil group. In granting the Finance Ministry permission for the purchase, Friderichs for the first time has utilized the exemptive powers accorded him under the German Cartel Law (*Doing Business in Europe, Par. 23,510C*).

Lip

The nine-month struggle to bring France's "Affaire Lip" to a satisfactory conclusion has ended with a compromise agreement negotiated by the French employers' federation and approved almost unanimously by employees of the bankrupt watch manufacturer. The settlement is the third proposal since last summer and ironically offers far fewer concessions than earlier plans rejected by union extremists. The pact calls for reinstatement of 300 of the original 1,300 Lip workers in revived watchmaking and armaments operations by the end of March and a total of 500 by late next fall if business conditions permit. A new holding company will succeed the former Lip SA d'Horologie, with half the capital to be taken by a French industrial group, 34% by Ebauches of Switzerland (holder of 43% in the old Lip), and the remaining 16% by a French banking group. In addition, the employees have obtained a wage guarantee and will participate in a labor-management committee to supervise execution of the agreement and to handle other labor problems. The Lip work force has now surrendered its hoard of 10,000 watches along with company documents and machine parts seized at the onset of the conflict.

Dow Chemical/ OKI

Dow Chemical Europe and Organsko Kemijska Industria (OKI) of Yugoslavia have signed a contract to set up a joint venture in Zagreb for the manufacture of polystyrene and expandable polystyrene granules. First announced last October, the $17-million project represents "the largest investment in Yugoslavia to date by any American company" and is Dow Chemical's "first attempt to operate in a Socialist economy," according to European division president Zoltan Merszei.

ICI

The U.K.'s Imperial Chemical Industries has announced investment plans involving some £43 million to be spent on new plants in the Teesside region and in Northern Ireland. Expenditure at this level is highly significant inasmuch as it underlines the group's confidence in the ability of the U.K. economy to recover from its present slump.

Norsk Hydro/ Saga/ Statoil

Leading petrochemical companies in Norway are planning to invest more than 5 billion kroner for exploitation of North Sea oil and gas during the next few years. Norsk Hydro, Saga Petrokjemi, and the state's Statoil are putting the finishing touches on an agreement for joint investment of 2 billion kroner to build processing facilities for North Sea-Ekofisk gas at Rafnes in Telemark Province. The gov-

Norsk Hydro *(contd.)*

ernment reportedly is prepared to grant additional funds to Statoil for this undertaking, which is scheduled for completion by summer 1977. Norsk Hydro, for its part, has announced a 3 billion-kroner construction program for an industrial complex at Mongstad, where it has begun building a refinery. To be developed in stages over the next 10-12 years, the project will include production facilities for ammonia, urea, and other petrochemicals, as well as magnesium and aluminum plants. Norsk Hydro also plans to expand the capacity of its original Mongstad refinery to 8 million tons annually.

Sperry Univac

Sperry Univac, a division of Sperry Rand Corp., has announced a major consolidation of its European marketing operations. A new European Division headquartered in London has been established to include all Sperry Univac commercial distribution and service operations in Western Europe, the COMECON countries, the Middle East, and South Africa.

Barclays/ Telecredit

The U.K.'s Barclays Bank is the subject of a suit for alleged trademark infringement brought by Telecredit, Inc., the Los Angeles check verification and insurance service company. Telecredit submits that Barclays is using the name Telecredit in advertising a credit access service it has established in conjunction with other European banks. The damages claimed total $1.5 million.

Cedar Holdings/ Chester Bank

The U.K.'s Cedar Holdings has dropped for the time being its $3.9-million planned takeover of Chester National Bank of New York State. The takeover was approved by the U.S. Federal Reserve Board last December, but since then Cedar has run into major financial difficulties and was the object of a rescue operation mounted by the U.K.'s Barclays Bank, which stepped in when leading U.K. financial institutions withdrew their funds from Cedar. Although the takeover is comparatively small, it is symptomatic of waning confidence in the financial viability of U.K. financial institutions.

British Airways/ Air France

British Airways and Air France are understood to have made detailed arrangements for tightly integrated Concorde services when the supersonic airliner, dismissed by many as a "white elephant," enters service in 1976. In effect, normal competitive services will be shelved and the nine airliners purchased - five by B.A. and four by Air France - will be operated as a single fleet. It was also announced jointly that there would be only one Europe-Washington flight per day, operated in turn by each airline. The timetable of flights to New York has been set up as well.

Common Market Reports

EUROMARKET NEWS

Issue No. 266 *February 19, 1974*

IN THIS ISSUE

Community: Brussels Sifts Evidence on Oil Companies

Not even European Commission officials know at this point whether the evidence amassed by Germany's Federal Cartel Office against 14 international oil companies will, together with Brussels' own investigative material, suffice to bring action against the individual concerns and whether any such action would be sustained by the European Court of Justice. Charges leveled by the Cartel Office include discrimination against independent gasoline and oil product distributors with the object of driving them from the market as well as intra-company accounting manipulations designed to channel profits to low-tax countries. Shell, BP, and others are alleged to have charged their own German subsidiaries prices above those demanded of their Dutch affiliates.

Brussels has power only to combat discriminatory practices affecting interstate trade, but not tax evasion (*Common Market Reports, Pars. 2021.02, 2111.01, and 2542.02*). The German cartel authorities are expected to level fines on the oil companies' subsidiaries in Germany should it be shown that they have discriminated against independent distributors and filling station owners (*Doing Business in Europe, Par. 23,511*). But the Cartel Office is helpless where discrimination against independent importers of gasoline and oil products was practiced by firms domiciled in other member states (primarily the Netherlands).

COMMON MARKET REPORTS, Issue No. 266, February 19, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Oil Companies *(contd.)*

Furnishing Brussels with evidence is not based solely on the Germans' eagerness to give their fellow antitrust watchdogs in the Community a helping hand. In return for their assistance they would like to be given the opportunity to inspect the books of the oil companies just as they did after the Mideast war of 1967. Only recently the agency abandoned plans to search the offices of German oil company subsidiaries, presumably because any incriminating records would not be located there but probably at the BP and Shell headquarters in London and Rotterdam, respectively. The Commission could subpoena this evidence, of course.

Britain: Key Legislation Left Stranded by Vote Call

Contrary to some expectations, the announcement by U.K. Prime Minister Edward Heath that general elections would be held on Feb. 28 did not result in any change of plans on the part of Britain's miners, who voted to ignore a truce appeal and continue to implement their strike actions. As a result, the upcoming elections will be held against a background of industrial disruption, notably the continued three-day workweek for industry, as coal stocks begin to run down and steel production is cut back drastically.

The elections will be the first since 1931 to be called for purely "economic" reasons. Heath was faced with the choice of acceding to the miners' demands and allowing his government's Stage Three anti-inflation program to be breached or, alternatively, holding out against the miners and running the risk of widespread economic disaster. Thus, he had little recourse but to call for elections to establish, as he put it, "who governs Britain - government or militant labor unions." The opposition Labour Party is at pains to widen the issue beyond the industrial dispute: its leader, Harold Wilson, is attempting to whip up support for his party on the basis of, among other things, growing disenchantment with the Common Market, widespread discontent at the provisions of the ever-controversial Industrial Relations Act 1971, alarm at the escalation of prices (above all in the food sector), and outrage at what Labour alleges to be severe inequities in Britain's prices and incomes structure.

Public opinion polls to date have only served to cloud the issue, and there has been little indication as yet which way the country will go. The Conservative Party manifesto did contain, however, a couple of surprise proposals, notably that the labor unions should in future accept "primary responsibility" for the welfare of the families of men on strike. This would entail a restructuring of Britain's social security system. Further, the Conservatives - tilting at the militants who, they feel, dominate the labor unions - have proposed that the unions' governing bodies

U.K. Elections *(contd.)*

and national leaders be elected by a postal ballot of all members. Finally, the Conservatives have indicated that, if reelected, they will consider amendments to the Industrial Relations Act "in order to meet valid criticisms and to make conciliation a precondition of court action."

Whatever the election outcome, it is clear that certain key items of planned legislation will be affected. The dissolution of Parliament has produced a long "casualty list" of bills. Some of these will be presented again when Parliament reconvenes, probably with certain amendments. Foremost among the casualties are the Companies Bill, the Consumer Credit Bill, the Protection of the Environment Bill, the Channel Tunnel Bill, the Health and Safety at Work Bill, and the Unit Pricing Bill. Should the election result in a Labour government, considerable reformulation of these items can be anticipated: as a rule, the Labour Party in opposition has contested the scope of the government's proposals rather than the general principles involved.

Don't Approve U.S. Reactors, Panel Urges

The Commons Select Committee on Science and Technology has recommended that the U.K. should not opt for U.S. reactor technology for the next generation of nuclear power stations. The Committee's report left open which system would eventually be preferable, however, suggesting only that "proven British technology" should be used. This narrows the choice to either the Magnox system or the steam-generating heavy-water reactor. The report stressed that "no proposal to build American light-water reactors... should be approved by the government on the basis of evidence currently available." Above all, the safety factor of the l.w.r. was questioned and the report called on the proponents of that system to prove its safety beyond all reasonable doubt. The choice of reactor is to be announced shortly, although the report will first be debated in the Commons before a final decision is reached. (First Report from the Select Committee on Science and Technology: *The Choice of a Reactor System*, HMSO London, Feb. 4, 1974.)

Denmark: Major Budget, Tax Concessions by Government

A compromise with the Social Democrats on economic and fiscal policy has enabled the Danish minority government of Prime Minister Poul Hartling to clear the first major political hurdle since coming into office last December. And the Social Democrats - still the largest party in Parliament despite the loss of one-third of their seats - will apparently realize some of the goals they had been unable to achieve while they themselves headed the government.

Under the compromise formula, the Liberal administration agreed to tighten tax procedures for earners of high incomes who have been taking advantage of loopholes in the

Concessions *(contd.)*

law to evade paying taxes. (The most celebrated case involves, of course, attorney Mogens Glistrup, whose Anti-Tax Party became the second-largest faction in the Folketing following the elections.) Fiscal authorities would be instructed to assess tax debt on the basis of additional evidence such as personal spending. Banks would have to report the amount of interest accruals above certain limits, indirectly revealing the size of deposits.

Hartling also had to agree to a number of budgetary concessions in scaling down planned expenditure cuts from 3 billion kroner to about half that. In addition, compulsory savings plans would be instituted: those with taxable incomes of 50-80,000 kroner per annum would be required to save 3% of this income for at least three years. The rate would be 6% on incomes of 80-120,000 kroner and 9% on those above 120,000 kroner.

Meanwhile, the Folketing has been presented with the first portion of the compromise package: a draft law providing for 1.9 billion kroner in state assistance to enterprises as compensation for automatic wage adjustments based on the cost-of-living index. Due in March, these adjustments will in effect amount to wage raises of 6%, and the compensation is to keep business and industry from adding these extra costs to prices. It is on this issue, political observers have pointed out, that the Liberals had to cede the most ground. Hartling had intended to do away with the index-wage escalator clause (in itself considered an inflationary factor), proposing instead a one-time compensatory payment of 1,000 kroner to all employees. These plans have now apparently been shelved.

France: 'Professional' Tax to Replace the 'Patente'

The French government has kept an old promise to replace the *patente*, a local tax levied by municipal governments and *départements* and known for its archaic structure and many inequities, including highly varying rates between communities (*Doing Business in Europe, Par. 22,843*). The administration has proposed instead a new *taxe professionnelle*, which would be more equitable in terms of avoiding competitive distortions since it would restrict the communities' latitude in imposing highly varying rates. (Under the patente, large businesses and major revenue providers generally enjoyed low rates.) But it also would shift some of the tax burden by requiring industry and the liberal professions to pay more and small businesses, craftsmen, and retailers less, keeping overall revenue at the patente level (FF 8.5 billion in 1973). Government experts estimate that large and medium-size companies would be paying about 15% more than at present.

Tax Proposal *(contd.)*

A major innovation pertains to computation of the tax base, which would be governed by three factors having a variable impact on tax liability: a company's payroll would account for 46% of the tax owed, profits for 32%, and items such as lease of plant or equipment for the remaining 22%. Salaries of corporate executives would be lumped with profits rather than with the payroll.

In the coming months, business and industry associations will have a chance to submit comments before the bill goes to Parliament, where other suggested changes are expected.

Germany: Bonn Plans Levy on Rise in Land Value

Current plans by the German government call for a levy in the equivalent of up to 80% of the increase in property value resulting from the opening of land for construction and development or from local improvements. The revenue (*Wertsteigerungsabschöpfung*) would flow into local government treasuries. Spokesmen for the governing Social Democrats maintain that this high rate would be justified because windfalls from land values come about without any effort on the owner's part. They also cite Article 14 of the German constitution, which states that property ownership entails certain duties and that the use of property should serve the public good.

Local governments have complained for many years that current legislation and tight budgets prevent them from taking a more active role in planning. In future, they could obtain preemptive rights for acquiring land at prices charged prior to development or urban renewal. Communities thus would gain more land for public use or private housing. Moreover, the time-consuming expropriation procedures that often block development would be separated into two different steps: 1) expropriation, which would enable authorities to proceed, and 2) compensation, which would guarantee the owner a fair price, reviewable by courts.

Plans for another, uniform levy (*Bodenzuwachssteuer*), designed to tax the soaring value of privately held real estate (a rise of DM 300 billion since 1950), have not been shelved, and the discussions among coalition experts continue. Both parties still differ widely on the tax rate, with the Free Democrats favoring 20% and the Social Democrats 60%, and on deductions. Also, tax experts (including most of the government's tax advisers) maintain that the concept of taxing increases in value is contrary to a fundamental principle of the German system, which permits taxation of profits only. To a certain extent, this argument could also be applied to the *Wertsteigerungsabschöpfung*.

Switzerland: Preservation Law to Aid Local Planning

The lower house of the Swiss parliament has approved the *Raumplanungsgesetz*, a land preservation law that would give the federal government a guiding function in cantonal and local planning (*Doing Business in Europe, Pars. 29,550B and 30,619*). Local governments would gain the power to check real estate speculation and the law would even authorize them to expropriate land held by real estate owners who obstruct effective local planning by refusing to sell or develop their property.

In future the cantons would designate areas eventually to be opened for industrial development or for housing. They would also identify areas that - in the interest of conservation, scenic beauty, and recreational potential - would be forever closed to any type of construction or development. A property owner would be required to pay the appropriate fees whenever roads, sewers, utility lines, etc., were installed; he could not defer payment until the site was actually occupied by a home or other structure. Property that increased in value as a result of local improvements or planning would be assessed the amount corresponding to the rise in value.

The bill now goes to the upper house, which earlier had approved a slightly different measure, for reconciliation of the differences.

EURO COMPANY SCENE

Ford Spain

Ford Spain has announced that the present energy situation is not interfering with progress on its new plant project in Almusafes near Valencia. Construction of the $500-million facility - Ford's sixth in Europe - has already begun and the assembly line is scheduled to start rolling in November 1976. Two-thirds of the annual plant output of 250,000 cars is to be exported.

Chrysler U.K.

Chrysler U.K. has issued one of its periodic warnings that layoffs may result if industrial relations at the company's U.K. plants do not improve radically. Last year Chrysler top executives warned that, unless the labor situation improved, there would be a serious cutback not only in jobs but also in investment in Britain. It was even hinted that Chrysler operations in the U.K. might be terminated.

Braun

Braun AG of Germany, controlled by Gillette, has obtained permission from the government of Ireland to set up subsidiary operations there. By next fall, the company plans to complete a new plant at Carlow, southwest of Dublin, for the manufacture of cigarette pocket and table lighters for the international market. Later the production program may be expanded. Braun Ireland will have a base capital of

Braun *(contd.)*

£330,000 and will employ 250-300 initially. Costs for the plant have not been disclosed; the Irish government reportedly is offering investment aid.

Hoechst/ Roussel-Uclaf

The French government has agreed to allow Germany's Farbwerke Hoechst AG to take over the majority participation in Cie. Financière Chimio, holding company for France's second-largest pharmaceuticals and chemicals concern, Roussel-Uclaf, from the Roussel family. Hoechst already holds 44% of Sté. Chimio. Paris made approval conditional on the split-up of intermediary holding Centrale Roussel-Nobel into two independent entities: Roussel-Uclaf, the pharmaceuticals branch, which would pass into German ownership, and Nobel-Bozel, the chemicals and explosives arm, which would have to remain under exclusively French control for reasons of defense. Last year the Roussel-Uclaf group had turnover of FF 2.234 billion, 80% accruing from drug sales. Only Rhône-Poulenc pharmaceuticals is larger. Internationally seen, the takeover reportedly would make Hoechst the world's No. 2 drug manufacturer after Hoffmann-La Roche.

Hoffmann-La Roche

A study undertaken by the Dutch Ministry of Economic Affairs has led the government to request that Switzerland's Hoffmann-La Roche pharmaceuticals group lower its prices for Librium and Valium tranquilizers in the Netherlands. The drug manufacturer reportedly has submitted information to The Hague in support of its price claims.

Kuttner/ Texfi

The German textile group controlled by industrialist Dr. Ludwig Kuttner of Munich has acquired a stake of at least 10% in Texfi Industries, Inc., Greensboro, N.C., on the stock market. The Kuttner group, now principal shareholder in the U.S. company after founder Joseph H. Hamilton, who reportedly owns a 14.4% interest, is expected to obtain a seat on Texfi's seven-member board of directors at the annual stockholders' meeting next month.

Eurodif

The Eurodif nuclear fuel group has announced it will build its plant for the production of enriched uranium by the gaseous diffusion method at Tricastin, France, in the Rhone Valley some 175 miles south of Lyons. The plant will cost an estimated FF 7 billion, of which France is expected to supply 47.5%, Italy 22.5%, and Sweden, Spain, and Belgium 10% each. There is some doubt, however, about Swedish participation in the project, and a final decision on financing probably will not be made for several weeks. The Tricastin plant is to be completed by 1980-81 and will be able to provide sufficient fuel for 80 nuclear stations with a capacity of 1,000 Mw each.

ITT Lacroix/ Schächter	One of ITT's German food subsidiaries, Conservenfabrik Eugen Lacroix GmbH of Frankfurt, has taken over Heinrich Schächter GmbH, producer of Westphalian smoked ham and sausage.
Europcar/ National	Cie. Internationale Europcar (Europcar-Carop), by its own estimate the largest non-American-owned auto rental network in the world, has signed an international cooperative agreement with National Car Rental System, one of the top three U.S. car rental agencies. The companies will represent and promote each other in their respective territories. Together, the partners operate a chain of about 3,000 rental stations extending to five continents.
Bank of America/ Rabobank/ Rabomerica	Bank of America NT & SA of San Francisco and Coöperatieve Centrale Raiffeisen-Boerenleen Bank (Rabobank), a leading agricultural lending bank in the Netherlands, are planning to set up a new subsidiary for international financing in Amsterdam as of April 1. With capital of $40 million, the new Rabomerica International Bank will be equally owned by Bank of America and its Dutch partner.
Donaubank	The Soviet Union has established a new bank in Vienna, Donaubank AG, in which the USSR state bank holds 60% of the 100 million-schilling capital and Moscow's foreign trade bank, 40%. Donaubank has been granted a limited domestic banking concession by the Austrian authorities and is expected to concentrate on international financing and East-West trading. In return, Austria expects to be granted permission for one of its banks to open a representation in the Soviet Union.
Midland Bank/ Drayton	The U.K.'s Midland Bank has extended its merchant banking operations with the purchase for £20 million of the share capital of Drayton Corp. Last year Midland demonstrated its aggressive acquisition policy by taking control of leading U.K. merchant bankers Samuel Montagu immediately after the Bank of England had relaxed its rules on the acquisition of merchant banks by clearing banks.

Common Market Reports

EUROMARKET NEWS

Issue No. 267 Report No. 233, February 27, 1974

IN THIS ISSUE

Community: Policy Shift Favors Partial Harmonization

Commissioner Finn Olav Gundelach's recent assurances that Brussels is no longer trying to inflict a gray uniformity of products on EC consumers should encourage progress on the removal of intra-EC trade barriers at a time when stalemate appears to be the rule everywhere else. Gundelach's statement to the European Parliament mainly served to reemphasize the Commission's change of approach already spelled out in the industrial policy timetable adopted by the Council of Ministers in December. Brussels now will push for legislative harmonization only when this is absolutely necessary to assure the free flow of goods and services and only when all other means fail (*Common Market Reports, Par. 3515*).

This shift in position has been warmly welcomed on national levels. The Germans, for instance, need no longer worry over Community regulations that would have forced them to relax their strict purity requirements for domestically brewed beer. (The need for EC rules in this area was thought highly questionable anyway, since only 7% of Community beer output is distributed across member state frontiers.) Nor must the French be concerned about possible uniform Euro-standards for bread.

According to Brussels' revised concept, total harmonization will be replaced by partial harmonization or other methods to improve interstate trade (along with the simpli-

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

COMMON MARKET REPORTS, Issue No. 267, February 27, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Policy Shift *(contd.)*

fication of customs procedures). Existing national standards would be allowed to remain, though products destined for export would have to meet EC standards. In other words: a member state could not turn back imports meeting these EC standards, yet national manufacturers and consumers would not have to give up national or even local standards.

To avoid unjustifiable bureaucratic burdens, Brussels would not try to regulate products manufactured in small quantities or to customer specifications: here, the Commission would propose that the controls carried out by the authorities of the exporting state be accepted by the importing state. The advantages for manufacturers would be obvious because controls would be effected in their home state and at minimum cost.

Total harmonization of legislation would be sought, however, where - in addition to the removal of technical obstacles to trade - Brussels pursues other objectives in areas of health, environmental protection, and consumer protection. This would apply, for instance, to uniform standards on the biodegradability of detergents.

Britain: Parties Step Up the Pace on Election Eve

As the British election campaign moved into its final phase, leaders of the three principal parties redoubled their vote-getting efforts. The Conservatives, headed by Prime Minister Edward Heath, based their election strategy on the need for a strong government to deal with the problem of inflation, "much of it forced on the U.K. from abroad," on a fair and firm basis. It was Heath's contention that the Conservative government would be best equipped for this task.

The Labour Party, by contrast, assembled a highly diversified arsenal of political weapons, perhaps the most significant being its emphasis on the extreme rises in food prices since the last election in 1970. Figures released on Feb. 15 showed that these prices had risen by 53% since the Conservatives assumed power. Obviously, Heath had a difficult task convincing the electorate that his government had kept prices down. He could hope, however, that the public would be convinced that price rises might have been even more drastic but for the government's counter-inflation program and the monitoring activities of the Price Commission.

Two other election issues figured prominently in campaign speeches: industrial relations and Labour's nationalization plans for North Sea oil. Labour leader Harold Wilson, who had already claimed a measure of success by persuading the dissident railwaymen to return to work in the southern region of the country and who had called (al-

Election Eve *(contd.)*

beit unsuccessfully) for an all-party, one-day conference to seek a solution to the miners' strike, indicated that a pact could be formed between a Labour government and the labor unions that would "transform the industrial and economic outlook." A new contract with the unions would involve rigorous price controls and voluntary income restraints.

On election eve, however, the hottest issue appeared to be North Sea oil, with Labour calling in effect for full public ownership and majority public participation. The Conservatives believe that these plans would be impracticable and too expensive and would result in major oil companies' simply pulling out.

Meanwhile, the Liberal Party continued as the rank outsiders, although the polls gave it up to 20% of the vote, an unprecedented figure since 1945. The principal hope of the Liberals was to hold the balance of power in the event of an even split between Conservatives and Labour members in the next Parliament.

Roche Suit against Chief of Monopolies Commission

Swiss-based international pharmaceutical group Hoffmann-La Roche, whose prices were ordered to be cut drastically in 1973 on the recommendation of the U.K. Monopolies Commission, which decided that the charges for the drugs Valium and Librium and the resultant profits were "excessive," has added the name of Sir Ashton Roskill, chairman of the Monopolies Commission, to the list of defendants in Roche's case against the Dept. of Trade and Industry. Roche is seeking a High Court declaration that commission procedures during the investigation of the company were "unfair and contrary to the rules of natural justice" and that the price cuts ordered last April are invalid. By naming Sir Ashton, Roche is actually suing the commission itself, and by tacking the chairman's name onto the list of defendants, Roche is effectively insuring against a possible government argument that the Dept. of Trade and Industry has no responsibility for the actions of the commission.

Germany: Bonn May Go for Selective Price Controls

There is mounting evidence in Germany that the Brandt administration is preparing to impose selective price controls. Regardless of the official reasons for such a move, many economists and others would regard it primarily as a political "smoke screen" thrown up to obscure the inflationary impact of the new wage settlements that have gained an 11% pay boost for 2.3 million public service employees and even more for some eight million employees in other sectors. The government's inability to prevent pay raises of such magnitude may well affect the outcome of four state elections this year - recent polls have reflected diminished voter confidence in Brandt's administration.

Price Controls *(contd.)*

The imposition of price controls could help the government to recoup lost ground, although it is understood within the administration that a blanket price and wage freeze is out of the question. While no details have been revealed, selective controls apparently would be confined to certain key items such as gasoline and oil products or even steel. At this point, however, it is not yet known whether government charges of excess profit-taking by oil companies can be substantiated. The control of steel prices for its part would be somewhat redundant, since these prices must be approved by the European Commission anyway. Besides, Bonn probably could not expect steelmakers to absorb entirely extra costs resulting from inflationary wage settlements and higher raw material prices.

Administration officials are still undecided on whether the controls should be of a preventive nature (requiring businesses to seek prior authorization of price increases) or whether the government should simply be empowered to roll back price increases it considers unjustified. Cartel authorities have come out in favor of preventive controls, particularly for market-dominating enterprises. But observers believe that the ultimate proposals would contain a combination of both preventive and corrective controls, and that the implementation job would be shared by the Federal Cartel Office and the Economics Ministry, perhaps - as suggested by the unions - with the help of a price surveillance commission.

More Loopholes in Tax Laws to Be Plugged

Now that tax benefits for investments in airlines and for certain investments in developing countries have been abolished, some of the remaining loopholes in Germany's tax laws may also be closed. New rules under preparation by the Finance Ministry would eliminate tax evasion schemes widely practiced by so-called tax write-off companies (*Abschreibungsgesellschaften*). Operating in the form of a GmbH & Co. KG, these companies advertise for taxpayers to become partners and lawfully reduce their income tax liability by writing off "losses" on the basis of the *Berlinförderungsgesetz* (Law to Promote the Economy of West Berlin - *Doing Business in Europe, Pars. 23,408 and 23,413*).

Although this law offers substantial tax benefits for Berlin investments, the tax loophole actually stems from the civil law features of the GmbH & Co. KG limited partnership. These provide for unlimited liability of at least one partner, while liability of the other partner(s) is limited only to his or their share in the partnership. However, case law confirmed by the Supreme Tax Court has upheld practices attributing to the limited partner losses exceeding his contribution and deductible from his income tax debt. The tax savings may be substantial - depending on the "loss" and the tax bracket - but the government

Tax Loopholes *(contd.)*

maintains they are in no way justified because the limited partner is not liable for the loss. Should the partnership go bankrupt, as is frequently the case, his liability to creditors remains limited to his contributions.

Finance Ministry experts are confident that these evasion practices can be eliminated simply by including a clause in the law that prevents a limited partner from deducting partnership losses exceeding his share.

It will be more difficult, however, to plug another loophole contained in Section 6, Par. 2, of the Income Tax Law. To simplify the preparation and review of tax returns, this provision leaves it to the taxpayers to valuate assets of low value - a freedom now frequently abused. But restricting this freedom would require considerable extra work on the part of the fiscal authorities, and so the experts have yet to come up with a solution to the problem.

Italy: Strike Threats; $1.2-Billion Stand-by Loan

The Italian government has implored the unions to call off their plans for a general strike (which originally was to have been staged at the end of this month), arguing that the domestic economy is in no shape to weather additional labor strife. The country's three major unions had tentatively called for a four-day strike of some 13 million employees in the public and private sectors to protest the high cost of living and inflation generally. With government-union discussions still going on, strikes lasting up to eight hours erupted in the metals, chemical, and textile industries and brought some regional economies (Milan) to a complete stop. Union spokesmen labeled as "insufficient" the Rumor administration's program, which is primarily concerned with the promotion of exports and partial correction of the country's massive foreign trade deficit. However, some agreement could be achieved on the need for gasoline rationing, lower meat consumption, a reduced payments deficit, an increase in value-added tax rates on "luxury" products, and an extension of the freeze on rents to the end of 1974.

For the February-April period, employees in Italy are receiving an additional cost-of-living compensation of 3% based on the rise in the cost-of-living index. For the future, however, the unions are proposing to update the 1957 base year of the index, to streamline various employee categories, and to adjust compensation to the highest amounts now being paid.

In other news, the Italian government has provisionally contracted with the International Monetary Fund for a $1.2-billion stand-by credit. Thus Italy became the first major industrial country to negotiate such a loan, although the U.K. and others are expected shortly to seek similar credit lines with the IMF.

Norway:
Oil Revenues
May Permit
Lowering Taxes

The Norwegian minority government headed by Prime Minister Trygve Bratteli has held out the possibility of "substantial tax reductions" in future years as the government benefits from rising revenues from North Sea oil and gas production. According to a White Paper on national oil policy released on Feb. 15, the extra revenue in the early '80s should amount to up to 15 billion kroner annually, equal to 25% of total revenues this year. This would enable the government, in addition to lowering taxes, to beef up public expenditure in such areas as regional development, transport, and education. (Earlier this month, Finance Minister Per Kleppe indicated that the administration would tax profits from North Sea oil production as high as possible, and that this policy also would be applied to the granting of any future concessions for Norway's Ekofisk field. It is mainly for that reason, Kleppe said, that Oslo is keen on participation in the Ekofisk pipeline consortium.)

In its paper on oil policy, the Labor government warned that a "gold rush atmosphere" in the exploitation of the country's oil and gas deposits would not be tolerated. Production would be held at a "moderate tempo" to protect these resources and to permit gradual adjustment of the Norwegian economy. Private foreign and domestic groups in future would be permitted "reasonable" profits from oil and gas production, but the government would remain in full control of all activities. The report, which is still subject to parliamentary debate, said a special agency would be created to oversee the "effective taxation" of oil companies involved.

EURO COMPANY SCENE

Rheinstahl/
Thyssen

Following the lead of the European Commission two months ago, Germany's Federal Cartel Office also has given the nod to the takeover of Rheinstahl AG by August-Thyssen-Hütte AG. Approval of the steel merger came unconditionally now that Thyssen has complied with the Commission proviso to reduce its stake in Mannesmannröhren-Werke, which it held together with Mannesmann steel. The Cartel Office determined that the Rheinstahl-Thyssen fusion, although of considerable magnitude, would not give the combine a dominant market position. According to German cartel law, size alone cannot be the basis for a merger veto. Thyssen-Rheinstahl will be the country's third-largest industrial group after Volkswagen and Siemens, with annual turnover exceeding DM 15 billion.

Alcan Ireland

Alcan Ireland, offshoot of Montreal-based Alcan Aluminium, has announced plans for a £100-million aluminum extraction plant with an 800,000-ton annual capacity. It was widely expected that Alcan would opt for Ireland with its generous government backing for foreign investors, but other sites, notably in Scandinavia, were known to be under consideration. The actual alumina plant will be sited on an island in the Shannon estuary. The U.K.'s largest aluminum company, Alcan Aluminium (U.K.), will hold a 10% share of the new company's equity.

Concorde

Precisely one year after the independent airlines decided not to place orders for the Anglo-French Concorde, the French government has now agreed to recommendations to reduce joint assembly of the supersonic passenger aircraft from eight to four units per year. There was also agreement to install additional fuel tanks in units No. 17, 18, and 19 to improve the plane's range. So far, only nine firm Concorde orders have been received from the respective national carriers, Air France and British Airways, while costs have accumulated to about FF 15 billion.

Rolls-Royce/ Lockheed

The U.K.'s Rolls-Royce would benefit substantially by a positive U.S. government decision on Lockheed's plans to build up a modern civil aircraft fleet in the Soviet Union. If agreement is given, the Russians propose to buy 30 TriStars at £8 million each, 2 million of which will go to the British company which supplies the TriStars' RB-211 engines. Although there is still some doubt as to the effect of Lockheed's proposals on defense strategies, there can be no doubt that RR stands to profit.

Heath Tecna/ MBB

Heath Tecna Corp. of the United States and the Hamburger Flugzeugbau division of Messerschmitt-Bölkow-Blohm GmbH, German aircraft manufacturers, are cooperating in the sale and distribution of aircraft interior conversion kits. MBB will sell and install the "wide-body look" interiors throughout Europe, the Middle East, and Northern Africa.

CII/ Unidata

The French government has indicated its approval of membership by the state-controlled Cie. Internationale pour l'Informatique in the Dutch-French-German Unidata computer alliance, confirming a contribution of an estimated FF 250 million toward CII's FF 300-million investment budget for 1974. Some FF 100 million of the total is to be channeled into Unidata.

Farmafin

Seven leading Italian drug manufacturers (Montedison's Farmitalia and Carlo Erba, Bracco, Zambeletti, Guidotti, Italseber Farmaceutici, and Zambon) have joined financial groups Mediobanca and Sade Finanziaria in setting up Farmafin, a new lending enterprise that will offer backing to

Farmafin *(contd.)*

Italian chemical, pharmaceutical, and related firms and will acquire shares in such companies as well. Located in Milan, Farmafin will have initial capital of 300 million lire. In view of the fact that some 70% of the Italian drug market is reputedly controlled by foreign producers, Farmafin is expected to aid in consolidating and rationalizing the domestic manufacturing sector, which is fragmented among over 1,100 firms.

Tecnofarmaci

In related developments, Italy's state-controlled Istituto Mobiliare Italiano (IMI) and 12 private drug producers have established a new research company to provide R&D facilities to small and medium-sized pharmaceutical companies that otherwise could not afford them. IMI holds 22% of the 100 million-lire share capital of Tecnofarmaci, with each of the other 12 partners taking 6.5%. State subsidies are to increase the company's capital to 1.5 billion lire after its research operations begin.

Du Pont/ 'Polcorfam'

About two years after the Polish government acquired the technology for "Corfam" from Du Pont de Nemours, a new plant for the production of the poromeric shoe upper material has been inaugurated at Pionki, Poland. It is to have an initial capacity of about 27 million square feet of "Polcorfam" per year and will produce for the domestic market as well as for export. The plant also includes equipment purchased from Du Pont's former Corfam facilities at Old Hickory, Tenn. Poland's state foreign trade organization Polimex-Cekop, which had contracted for the Corfam technology in November 1971 for an unnamed price, has been the only purchaser so far.

Mitsubishi

Japan's Mitsubishi Corp. announced it will open a buying center in Rotterdam to procure European machinery and equipment for its industrial exports to third countries. The office is to purchase some 10 billion yen worth of plant equipment in Europe this year. Inflationary costs for domestically produced machinery required the move, according to Mitsubishi, which may now turn to European manufacturers for over 50% of the equipment it has already contracted to supply.

La Rinascente/ May Merchandising

La Rinascente, Italy's largest distributor of non-food merchandise, has signed an agreement with May Merchandising Corp. of New York, under which May will become the exclusive U.S. purchasing agent of goods for Rinascente's Italian distribution.

Common Market Reports

EUROMARKET NEWS

Issue No. 268 *March 5, 1974*

IN THIS ISSUE

Community: Again from Neutral into First Gear?

Among other items, the fate of the EC's Regional Development Fund will again be on the agenda for the next major Council of Ministers meeting tentatively scheduled for March 18 following the elections in the U.K. and Belgium. Much of the initiative is expected to come from the Germans, who are currently presiding at the Council. A consensus on the Regional Fund allocation is urgently needed to shift the stalled Community program once more from neutral to first gear. But these hopes might be premature. After having doubled its original offer for the fund, Bonn at this point appears unwilling to yield on the 180 million units of account still to be negotiated to achieve a compromise with Paris. Although an agreement would mollify the British and Italians, the Brandt administration has to tread carefully at home: recent pay raises in the public sector will burden federal, state, and local budgets by DM 15 billion, and thus any additional concessions in Brussels would be politically dangerous.

With virtually all member governments having to concentrate on domestic problems first, no real progress was

COMMON MARKET REPORTS, Issue No. 268, March 5, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

EC Agenda *(contd.)*

expected to follow from the Council's meeting last month when it adopted:
- a decision to set up an economic policy committee;
- a directive on "stability, growth, and full employment";
- a decision to seek "a high degree of convergence" of the economic policies pursued by the member states, and
- a resolution on short-term monetary support.

Merging the activities of the short-term and medium-term economic policy committees and the budgetary committee into a single unit is considered to make sense but, at the same time, no great step forward. Nor does the "commitment" to stability, growth, and full employment carry a convincing message at this time - the national differences on how to achieve these objectives are simply too obvious.

The only meaningful measure, in the view of some observers, concerns the short-term monetary support of which members can avail themselves automatically in times of payments difficulties. The allocation for the Monetary Cooperation Fund was raised substantially from 1.4 to 9.8 billion units of account. Commission officials believe that Italy may be the first to draw on this facility in order to help finance its imports.

Britain: Political Scene Confused After Deadlock Vote

After one of the most fiercely contested elections in British history - in which 78.7% of the electorate went to the polls - it emerged that the country's political situation had only become more thoroughly confused instead of being clarified. In calling for a general election on the last day in February, Prime Minister Edward Heath had made it clear that his primary purpose was to secure a firm mandate from the British people endorsing his Government's policies since the last elections in 1970. But Heath's basic question, "Who governs Britain?" received a disturbing answer: Who knows? Thus, the Conservatives' gamble had failed, and in retrospect their decision to hold an election at all turned out to be a tactical mistake.

To the surprise of many observers and pollsters, the two major parties are now tied up in a deadlock, with the Liberals and other independents ostensibly holding the balance of power between the Conservatives and Labour. The new membership of the House of Commons breaks down as follows (1970 figures in parentheses):

Labour	301	(287)	- 11,661,488 votes	37.2%
Conservatives	296	(323)	- 11,928,677 votes	38.1%
Liberals	14	(11)	- 6,056,713 votes	19.3%
Others	23	(10)	- 1,695,315 votes	5.4%

While Heath had lost ground, Harold Wilson and the La-

U.K. Elections *(contd.)*

bour party had not been confirmed as a viable alternative by the election, so that a coalition or minority government appeared inevitable. At the beginning of this week, the question was who goes with whom: Wilson indicated his readiness to govern in the minority, while Heath sought an alliance with the Liberals. Rank-and-file Liberal voters, however, seemed to oppose any form of "collusion" with the Conservatives. Even if the Liberals were to combine with the Conservatives, there would be no absolute majority: the Ulster Unionists, who traditionally vote with the Conservatives, are bitterly opposed to the Heath Government's position on the Irish question. Again, although the Conservatives and the Liberals agree on the need for an incomes policy and for participation in the Community, the preelection manifestos of the two parties differ substantially on implementation. On the other hand, even assuming that Labour can count on support from the Nationalists (in exchange for a measure of self-determination in Scotland and Wales), no clear-cut majority can be established.

Whatever alliances are forged, one fact was considered inescapable: electoral reform will have to be given serious consideration in Britain. Under a system of proportional representation, the Liberal vote would have resulted in that party's gaining no less than 123 seats instead of 14.

Payments Gap: Major Test for New Government

During the final week of the U.K. election campaign it emerged that, whichever party should be elected, the balance of payments deficit would be given top priority in ensuing government measures. The Conservative government, held "responsible" for the staggering trade deficit of £383 million in January by virtue of its being in office, blamed the increase (from £328 million in December 1973) on the higher cost of oil and industrial materials and machinery. It was confirmation, said party leader Edward Heath, that Britain needed a strong and resolute government "and not the irrelevance of the Liberals or the destructiveness of Labour." In fact, the £383 million figure topped the previous record (October 1973) by £22 million. Exports steadied at £1.025 billion but imports surged to a new peak of £1.408 billion; thus, exports accounted for only 73% of the cost of imports. Fuel imports had cost £154 million more than in January 1973 and there was an increase of £255 million in imports of industrial materials and equipment. Three days before Labour's defeat in the 1970 election, the trade deficit stood at approximately one-tenth of the January 1974 figure.

It is now the view of most informed observers that a narrowing of the gap could only be achieved via extensive borrowing abroad - and this at a time when other countries are also beginning to tighten their belts.

Italy: Higher Budget Deficit; Price Rises Approved

In obtaining final parliamentary approval for Italy's 1974 Budget, Treasury Minister Ugo La Malfa revised his deficit forecasts to 9,200 billion lire from the 7,375 billion estimated just last December. The original Budget had called for gross receipts of 17,286 billion and expenditures of 24,661 billion. The rise in outlays, La Malfa said, is mainly due to the higher deficits run up by the social services.

In reporting on the budget situation to the Chamber of Deputies, the Treasury Minister and his cabinet colleagues painted a grim picture for Italy in 1974: price rises outstripping those of last year and ranking on top in Europe, an economic growth rate falling short of the 6% target due to inflation and the oil crisis, borrowing abroad on an unprecedented scale in order to shore up the lira and the payments balance, and all this in addition to the vast national deficit. These, said La Malfa, are the "bitter truths" facing the nation, while the Budget Minister warned of "painful operations" ahead. Public spending, the deputies were told, has now reached "nearly intolerable limits."

The government apparently regards the containment of the payments deficit as its overriding task this year, since Italy's new $1.2-billion credit line with the International Monetary Fund was coupled to a promise by Rome to bring its monetary house in order. Parallel to the passage of the Budget, the administration thus decreed another drastic increase in gasoline and oil prices, the third in five months. This will be followed by gasoline rationing in two months, unless the fuel situation improves spectacularly by then. Furthermore, the government approved "controlled" price increases averaging 10% for staple foods such as cheese, butter, ham, olive oil, salami, and sugar, removing in effect the freeze that was placed on these items last summer. Also, all but low-income taxpayers will be required to make advance payments on their income taxes. Because of the new tax reform, however, a boost of tax rates has been ruled out, although Rome reports did not preclude other means of tax increases.

While government approval of new price increases has been predicted for a long time, the labor unions immediately attacked the decision as proof of "surrender" to inflation. Disputes over future economic policy have also erupted within the cabinet, and a full-scale government crisis could follow if official charges of bribery against a number of incumbent ministers (and former ministers) can be substantiated.

**France:
20% VAT Rate
to Be Reduced?**

As an additional means of cooling down domestic price rises, experts in the French Finance Ministry are said to favor a reduction in value-added tax rates. According to unconfirmed reports, they are considering lowering the 20% standard rate by lumping it with the 17.6% intermediate rate. The government probably could afford such a move, since the 1974 Budget is expected to result in considerable surpluses.

**$500-Million
Loan Sought by
French Utility**

Following the floating of the $1.5-billion Eurodollar loan by the Treasury early last month, the French state electric power utility Electricité de France announced a $500-million, 10-year borrowing of its own. Rather than be fully committed to the Eurodollar market with the loan, the EDF has provided for an option to issue commercial paper in the United States if the rates there prove to be more advantageous than those on the Euromarkets. Meanwhile, the Caisse Nationale des Télécommunications ($75 million) and the state railways SNCF reportedly have asked the U.S. Securities and Exchange Commission for authorization to float loans on the U.S. markets. If these borrowings are approved, the French state export credit bank probably would follow suit.

**[illegible]many:
[illegible] Final Word
on Co-determination Bill**

In three top-level meetings recently held by the German government coalition parties to discuss the upcoming co-determination legislation, the junior partner Free Democrats achieved a partial success by getting the Social Democrats to be more specific on points that the original compromise paper had failed to clarify (*Doing Business in Europe, Par. 30,695*). These mainly concerned the procedures proposed to break voting ties on supervisory boards: in case of a deadlock over the appointment of a member of the managing board, the shareholders in the end would make the decision. Whether this formula would actually work out in practice is subject to question, however - a candidate for the managing board could be reluctant to have his nomination submitted to the shareholders' meeting after failing to win supervisory board approval. After all, once appointed, he would have to work together with the supervisory board.

The tentative clarification of this particular problem by the coalition partners does not necessarily mean that a final consensus on the bill has been achieved. There is still pressure from the Social Democrats to give labor an even greater voice in management, with a warning to Chancellor Brandt by factions within his own party that the present compromise would be only a starter for parliamentary discussion. But additional concessions favoring labor

Co-determination *(contd.)*

definitely would put the Bonn coalition government to a test of survival - nothing has strained relations between the two parties more than the co-determination issue.

Although union leadership is still grumbling over the proposed measure, observers consider this no more than a tactical maneuver. Counting on the future, the unions are hoping for more influence on corporate management should the Brandt administration be returned to office in 1976. In the meantime, they have to conduct an intensive talent search to fill some 1,300 to 1,400 posts on 650 supervisory boards. While labor spokesmen officially deny a shortage of qualified people, other experts believe that there are few union men around with the specific knowledge needed (mainly in economics and accounting).

Sweden: Draft Law on Foreign Investment Controls

The Swedish government on Feb. 20 submitted a draft law proposing stricter controls on foreign investments by Swedish enterprises. In future such investments would require a ruling by government authorities as to their likely impact on "full employment and industrial development in Sweden." According to reports from Stockholm, it is planned to expand the board of the central bank by four members, who would rule on proposed investments: one each would represent the industry and labor ministries, respectively, and the other two would be delegated by labor organizations.

Business and the industry association were expected to speak out strongly against the extent of these planned controls. To dispel these apprehensions, one government spokesman said that the proposed law should be mainly regarded as a "stand-by measure" and that a complete prohibition of individual investment projects abroad probably would occur in only a few instances. Critics, however, have pointed out that the law would give the authorities the power to bar certain investments abroad on political as well as economic grounds. They could, for instance, prevent Swedish enterprises from investing in Portugal, where extremely cheap labor happens to be available.

Norway: Oslo to Seek Public Hold on Private Banks

The Finance Ministry in Oslo was expected to release this month a preliminary plan on the proposed "democratization" of Norway's commercial banking sector, which would impose extensive public controls on banking operations. The issue already has stirred up heated controversy, with opponents to the plan arguing that the government's move would amount to quasi-nationalization of the private banks.

Following close consultations between the government and the Norge Bank, central bank vice-president Hermond Skanland revealed in an interview that the restructuring of

Bank Controls *(contd.)*

the banking system would mainly involve the membership and functions of the banks' administrative boards. In effect, a certain number of board members in future would be indirectly appointed by national and communal governments, resulting in a shift of power benefiting the public interest. It is proposed that present shareholders be required to turn in their shares for compensation. Furthermore, the government is said also to be considering whether to remove from private ownership savings banks and building societies affiliated with the commercial banks.

This "democratization" process would, according to Skanland, not necessarily lead to lessened competition. In fact, once the reorganization was completed, foreign banks probably would be licensed to operate in Norway.

Spokesmen for the Norwegian banking association have complained of the Finance Ministry's unilateral action and non-consultation policy in this issue. They said the association was merely invited to submit pertinent information material and other data but not to cooperate with the special three-man committee established by the Finance Ministry to formulate the reorganization plans. Without the expertise and cooperation of the banking community, it was charged, the government would hardly be in a position to implement its proposals within a reasonable time.

EURO COMPANY SCENE

Belgian Oil Companies

Belgium's oil concerns have threatened to turn off the taps on gasoline and heating oil in response to the present government's decision to maintain a price stop for these items until April 20. With elections coming up on March 10, neither the government nor any of the country's leading political parties apparently has wished to commit itself in favor of part or all of the 25-30% price increases demanded by oil suppliers to compensate for higher crude oil costs. On the other hand, Belgian prices for gasoline and heating oil excluding taxes and other duties are admittedly the lowest in Europe, so that oil company claims of operating at a loss have not been rejected out of hand. By slightly lowering the gasoline tax, the government in fact has allowed service station owners and operators to increase their profit margins somewhat. The present administration has now asked oil suppliers for more information about price structures before undertaking any new decisions.

Haindl/ Holtzmann

Germany's Federal Cartel Office has blocked a merger of paper producers Haindl Papier GmbH and E. Holtzmann & Cie. AG that would have created Europe's largest manufacturer of newsprint. Last summer the two companies reached an agreement for Haindl to acquire a majority in Holtzmann by

Haindl/
Holtzmann
(contd.)

means of a Holtzmann capital increase and the issue of new shares to Haindl. Although registered with the Cartel Office, the merger procedure had not yet been completed. The authority found, however, that interlocking directorships between the two companies represented a virtual fusion and intervened to forbid both a merger and the personnel ties. Citing Sec. 24, Par. 1 of the German Cartel Law (*Doing Business in Europe, Par. 23,510C*), the Cartel Office concluded that the fusion could be expected to strengthen an "oligopoly" already operating in the newsprint sector, since it would mean coverage of about two-thirds of the market by only three companies (Haindl-Holtzmann, Gustav Schürfeld, and Feldmühle-Stora). Between them, Haindl and Holtzmann account for some 90% of domestic newsprint production. Besides, German and other EC paper manufacturers are protected against their main competition, the Scandinavian paper industry, by EC customs regulations, so that they are practically guaranteed sales. According to the Cartel Office, Haindl and Holtzmann were not able to substantiate claims that their union would improve the conditions of competition enough to offset the disadvantages of market domination. The Cartel Office decision is not yet legally binding.

Mannesmann/
Demag

In other action, the German Cartel Office has given the go-ahead for Mannesmann AG's takeover of a 51% majority stake in Demag AG, paving the way for a fusion of the major steel pipe and machine construction firms. The European Commission had approved the merger last June under terms of the EC Coal and Steel Treaty (Article 66). Mannesmann-Demag will be a highly diversified concern with worldwide sales totaling an estimated DM 9 billion. In its decision, the Cartel Office rejected the contention of both Mannesmann and Demag that permission for the fusion by the Commission had removed the case from German Cartel Office jurisdiction. Such a preemption would occur only where mining industry products were exclusively involved, the Cartel Office said, as specified in Sec. 101, Par. 3 of the German Cartel Law.

Pesenti/
Banque Blyth

According to French press reports, the Pesenti industrial and financial group of Italy is about to gain control of France's Banque Blyth, in which Blyth Eastman Dillon & Co. and INA Corp. of the United States are principal shareholders. Agreement on the takeover is subject to approval by France's supervisory National Credit Council. Blyth Eastman Dillon is said to plan to retain a 5% interest in Banque Blyth.

Common Market Reports

EUROMARKET NEWS

Issue No. 269 *Report No. 234, March 13, 1974*

IN THIS ISSUE

Community: Agreement Near on Export Credit Policies

Despite the problems besetting the current trade compensation negotiations in Geneva, the Community, the United States, and Japan have made good progress in Brussels toward coordinating their export credit policies and are reportedly close to agreement. The implications of such a pact on competition are obvious because 1) the participants account for about two-thirds of world trade and 2) their differing national credit policies often give their exporting industries an edge over foreign competitors. This, of course, is clearly contrary to the intentions of the Treaty of Rome (*Common Market Reports, Pars. 2922.10 and 3532.01*), at least so far as the Community is concerned.

According to the draft likely to be accepted in Brussels, interest rates for long-term export credits could not be less than 7%. Furthermore, time limits would be placed on credits, depending on the recipient country. For exports to industrialized countries, the maximum period would be five years, to East Bloc countries 8.5 years, and to developing countries 10 years. These limits would prevent some of the signatories from being as generous with their credit terms as in the past.

Efforts toward an agreement of this kind originally started on the Community level nine years ago but failed to produce tangible results in the face of the diverging views that emerged in the Council of Ministers. Some progress was made last December when the Council adopted a decision

This issue is in two parts, consisting of 168 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 269, March 13, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Export Credits *(contd.)*

committing the member states to consult Brussels on steps taken in this area. But the new tripartite agreement in a way would also anticipate what the Commission proposed in a 1973 draft regulation laying down common principles governing the duration of guarantees and export credits to developing and East Bloc countries.

Progress on this draft regulation in the Council was possible because of concessions that Germany made to France and Italy, a fact recognized in Brussels. Both France and Italy have been generous in credit terms to industries exporting to the East, with credits having a life of between 10 and 12 years. Adoption of the Council regulation would still burden national budgets, but at least the member states would be on equal footing and competitive distortions would be removed.

European Court Rejects Appeal by Commercial Solvents/ICI

The European Court of Justice has rejected the appeal of New York's Commercial Solvents Corp. and its Milan subsidiary ICI seeking to invalidate Brussels' 1972 decision that compelled them to resume selling a base material to Italian drug maker Zoja (*Common Market Reports, Par. 9543*). The $200,000 fine on CSC-ICI was halved, however, since infringement would have been curtailed had the Commission acted faster on Zoja's complaint.

CSC had argued that Treaty Article 86, prohibiting abuse of a market-dominating position, was not applicable, since Zoja had been selling 90% of its production outside the EC. Putting Articles 85-86 into the broader perspective of Article 3(f), which obligates the Community to establish an effective system of competition, the court held that EC authorities must consider all consequences that restrictive practices may have on the system, and in so doing need not distinguish between intra-EC sales and exports to third countries. Such a distinction is deemed not to matter once it has been established that the conduct in question is likely to eliminate a competitor and thus affect the EC's system of competition. The court held further that a parent company domiciled outside the EC but controlling a subsidiary there could be held jointly and severally responsible for the subsidiary's conduct.

Britain: Wilson Moves to Set First Priorities

Following the unsuccessful attempts of his predecessor, Edward Heath, to remain in office through a coalition with the Liberals, Labour's Harold Wilson now faces a third term as Prime Minister that promises to be the toughest. Wilson announced his first priorities immediately: to end the miners' strike, to return the country to a full workweek, to repeal the controversial Industrial Relations Act 1971, and to introduce a very early Budget. He also hinted that British borrowing abroad would be possibly more extensive

Priorities *(contd.)*

than had been indicated by the previous Chancellor of the Exchequer. The new chancellor in Wilson's 15-member cabinet is Denis Healey, the former defense minister, and other key positions went to James Callaghan (Foreign Secretary), Roy Jenkins (Home Secretary), Anthony Wedgwood Benn (Secretary for Industry), and Peter Shore (Trade Secretary), a leading opponent of EC membership. A major surprise was the appointment of Michael Foot, a fervent "anti-European," as Secretary of Employment - Foot's close rapport with the unions was expected to lead to a speedy settlement of the miners' strike but there were doubts whether he would be able to resist excessive pay demands. Prior to the elections it was predicted that Wilson, if returned to No. 10 Downing Street, would take immediate steps to dissolve the Pay Board, since his party is committed to a system of free collective bargaining under the "social contract" negotiated with the labor unions. The coal miners did, in fact, return to work on March 11.

Wilson faces the task of running the U.K. with an inadequate majority in the House of Commons. But although his room to maneuver is strictly limited, he does have the backing of former cabinet members of considerable experience. More significantly, the strengthened left of Wilson's party, the so-called Tribune group, will be more readily held in check in view of Labour's precarious position as a whole. Wilson's first moves were not expected to be as sweeping as his opponents have feared. But apart from repealing the Industrial Relations Act, he will certainly seek to abolish the Housing Finance Act, make some move toward decentralized rule for Scotland and Wales, and introduce some North Sea oil measures. Other major tasks in the months ahead would involve the question of Britain's EC membership, the restoration of a positive trade balance, and the implementation of a viable incomes policy.

Another election within 12 months is considered likely. Should Wilson then receive a firm mandate, certain measures dear to the heart of Labour supporters - such as nationalization and worker democracy - would be feasible.

Ireland: White Paper Proposes Gains, Wealth Taxes

The Irish government has published a White Paper outlining proposals for a flat-rate capital gains tax, an annual wealth tax, and a progressive "capital acquisitions tax" (*Doing Business in Europe, Pars. 25,351 and 25,358*). In introducing the proposals on Feb. 28, Finance Minister Richie Ryan said they were designed to "achieve greater flexibility in distribution of wealth and to spread the burden of taxation more equitably."

White Paper *(contd.)*

In more detail, the principal features of the White Paper are as follows:

A capital gains tax is to be introduced at the relatively high flat rate of 35% of gains made as of April 6, 1974, by individuals, companies, and unincorporated entities. The tax would not apply to gains of up to Ŀ15,000 on sole or principal residences, life insurance policies, government securities, gambling winnings, and works of art. No capital gains taxes would be levied on property transferred upon death. Transactions considered gifts within the scope of the capital acquisition tax would be automatically excluded from capital gains tax liability.

The annual wealth tax would be imposed on the market value of all property, real and personal, of which a person was competent to dispose or in which he had a beneficial interest. In practice, the taxpayer's wealth would be valued on the last day of the tax year (April 5), and property would be taxable at its open market value (taxpayers would submit their own valuations). Special concessions in the form of a 50% valuation would apply to agricultural land valued at up to Ŀ200,000. Assessments would be made on single taxpayers whose total wealth exceeded Ŀ40,000 and on married taxpayers whose wealth exceeded Ŀ60,000. Progressive rates of between 1.5 and 2.5% would apply, depending on status. "Fairly heavy" penalties would be imposed in the case of nondisclosure of assets or essential information or evasion. "Serious undervaluation," if with fraudulent intent, would also be penalized.

The White Paper finally proposes that the present legacy and succession duties be abolished together with estate duty. These would be replaced by the new capital acquisition tax levied on gifts and on inheritance. The threshold for liability in the case of immediate family members would be high, possibly as much as Ŀ150,000, but other beneficiaries (of which there would be five classes) would be subject to appropriate "exclusion limits." This tax would be levied at progressive rates, ranging from 6.5 to 60%, and the ultimate liability would fall on the beneficiary. Bona fide debts and encumbrances would be accepted as deductions for tax purposes. Donors, trustees, and executors would also be obliged to make disclosures of liability within a certain, as yet unspecified period.

Ryan stressed that the proposed new capital taxes would affect only those who owned, realized, or acquired significant amounts of capital. Since inflation might reduce the real value of the thresholds, however, he proposed that these be subjected to regular review.

The bill will be introduced before the Dail recesses for the summer, but the new legislation should not be in the statute books before fall.

Germany: Inching toward Compromise on Tax Legislation

The status of the German reform bills on inheritance and net worth taxes (*Doing Business in Europe, Par. 30,643*) obviously is in urgent need of clarification: tax authorities are being swamped by inquiries from taxpayers wanting to know whether they should make advance payments on their net worth tax liability (Feb. 10 was the due date) or whether they should pay less in the light of upcoming but not yet enacted legislation. Efforts are now being made in Bonn to break the stalemate that resulted when the Opposition-controlled upper house of Parliament rejected the lower house bills as well as compromise versions worked out by a conference committee. Adjournment of the committee until March 13 was to allow the formulation of proposals that would be acceptable to the upper house after all.

Differences still exist in three major areas, the most important being the tax basis for the inheritance tax on family foundations. Contrary to Brandt administration objectives, state governments controlled by the Christian Democrats wish to ensure that enactment of both bills, with higher inheritance and net worth taxes for large estates and wealthy individuals and entities, nevertheless does not produce additional revenue. However, the states' aim could be attained only by linking both bills with the income tax reform bills, which would offer tax relief for individuals in the low- and medium-income brackets and would do away with double taxation of dividends. Both the inheritance and net worth tax bills would be enacted retroactively as of the beginning of 1974, while the individual income tax bill is scheduled to go into effect as of 1975 and the corporate tax bill as of 1976. (*Doing Business in Europe, Par. 30,680.*) Since this approach is also favored by the Free Democrats, the junior partner of the government coalition, a compromise would not be too difficult.

On the subject of taxing family foundations, the problem is rather a substantive and political one because under the inheritance tax bill a dozen large estates would be paying a stiff 70% every 30 years - assuming a fictitious change of hands in ownership. The Christian Democrats would favor exemption at least for foundations benefiting employees and featuring profit sharing. This approach would run counter to the government's own plans of spreading capital ownership, and here an agreement will be harder to achieve.

Sweden: Economic Deal with Temporary Cut in VAT

The Swedish Riksdag on March 13 was expected to approve an economic policy package reluctantly agreed to by the ruling Social Democrats following hard bargaining with two Opposition parties. The planned measures would amount to a shot in the arm for the economy and include a temporary reduction in value-added tax as well as extra child and old-age

Economic Deal
(contd.)

pension benefits and continued subsidies on basic foods. The entire deal, estimated to cost about 4 billion kronor within one year, would serve to relieve some of the inflationary pressures (consumer prices rose by 8.4% in 1973 and by 1.5% in January), invigorate domestic demand, and safeguard employment.

Value-added tax included in prices would be lowered from 15 to 12% effective April 1 and until Sept. 15, and this would theoretically result in general price reductions of 3.4%. In the construction sector and for hotels and restaurants, where lower VAT rates apply, the price reductions would range from 0.6 to 1.9%. The temporary VAT modification alone will cost the Treasury some 1.5 billion kronor in lost revenue.

The proposed package was seen as necessary (though not to that extent in the government's opinion) to compensate for the effects of the high cost of oil imports estimated at 4-6 billion kronor this year. However, an economic measure of this magnitude, which would boost the country's GNP by 4%, is possible only because Sweden can fall back on the comfortable balance of payments cushion of a record 4.5 billion kronor (1973).

Especially on the issue of tax reductions, Prime Minister Olof Palme's administration was forced to yield to the Opposition on a broad front in order to avoid a parliamentary defeat that almost certainly would have meant new elections. Despite the compromise, new elections in the fall are still a distinct possibility, what with the standoff situation in the Riksdag, where the socialist and nonsocialist factions each have 175 seats.

EURO COMPANY SCENE

Boots/
Fraser

A major row has erupted in the City of London following the announcement that Boots, the drug retail group, is planning to drop the £225-million takeover offer made last November for the retail chain House of Fraser. The Boots move heralds a brand new chapter in the saga of takeover practices. "In the light of entirely exceptional circumstances," Boots first informed Fraser that it wished to renegotiate the original merger terms. Fraser refused and Boots took the issue to the City Takeover Panel, which ruled that there was not sufficient change to justify a unilateral withdrawal. Boots' directors continued to claim that there had been a "cataclysmic change" and are now employing a technicality to frustrate the takeover. Since an increase in capital would be required to implement the bid, Boots can advise its shareholders not to agree to the creation of shares to be offered to Fraser shareholders, allowing its shareholders in essence to vote on the merger. It is, however, the

Boots/Fraser *(contd.)*

duty of the company's directors "to advise them whether, in the light of all the relevant circumstances, the merger would be in the best interests of Boots." Obviously, the directors will say that it is not. Earlier this year, in connection with the Thorn bid for Clarkson International Tools, the Panel ruled that it would not consent to companies' withdrawing from takeover commitments purely because of changed economic circumstances. In the Boots case, however, there appears little that the Panel can do other than register its disapproval.

BLMC/ Authi/ GM

British Leyland Motor Corp. has agreed to sell its 98.3% stake in Automoviles de Turismo Hispano Inglese (Authi) of Spain to General Motors for a reported $61.5 million cash, subject to approval by the Spanish government. Net assets of Authi, BLMC's only full manufacturing arm on the Continent, were estimated at £17.6 million as of Sept. 30, with losses amounting to £2.2 million for the year then ending. According to the agreement, the Spanish company's three plants will continue to produce certain models for BLMC under license, while another, independent firm - Metalurgica Santa Ana - will continue to manufacture Land Rovers for the U.K. auto maker. Proceeds from the sale of Authi are to be earmarked for BLMC's current £100-million investment program, mostly concentrated within Britain. British Leyland announced it would soon set up a new sales company in Spain to market domestically produced and imported vehicles.

Dow Chemical/ Lepetit

Zoltan Merszei, the president of Dow Chemical Europe, has denied reports that the company plans to sell off its 80% interest in Lepetit SpA of Milan, the No. 2 Italian drug producer, to the semi-state-controlled Montedison group. With an eye to the government's program for reorganizing the pharmaceutical industry, however, Dow Chemical is said to intend separating Lepetit from the Luxembourg-based holding for Lepetit foreign production subsidiaries, APE Administration des Participations Etrangères SA. Dow Chemical would take a direct majority interest in APE, while the remainder would be offered to the 3,000 small shareholders of Lepetit Italy, which would then be split into two domestic production companies, one for pharmaceutical raw materials and antibiotics,and the other for specialty medicines, cosmetics, and exports. Lepetit, reputed to have the best research facilities in Italy, is considered by Dow Chemical to be the country's most profitable venture after Fiat and IBM. Last year Lepetit sales totaled $220 million.

Burlington-Schappe

Burlington-Schappe GmbH, German subsidiary of Burlington Industries, Inc. of Greensboro, N.C., will close its worsted yarn spinning mill at Zell/Wiesental by midyear. The 285 employees affected will be offered new positions in

Burlington *(contd.)*

another Burlington plant. Poor market conditions, currency fluctuations, and the sharp cost increases of the past few years were blamed for the shutdown.

Beckman Instruments

High costs in Germany and an alleged climate of "hostility toward business" there were cited by Günther Rath, manager of Beckman Instruments GmbH, as reasons for a decision of Beckman Instruments Inc. to build a new process engineering plant in Geneva, Switzerland, rather than to expand present facilities in Munich. Commenting on industrial investment policy today in general, Rath said, "The trend is toward Portugal, Ireland, and East Asia, especially where production is labor-intensive." Beckman has been manufacturing in Germany since 1953.

KWU/ Ansaldo

The two-year-old dispute over who will build the new power plant for Rome's municipal electric and water works (ACEA) has finally been resolved with a compromise decision to award the contract to the German-Italian team of Kraftwerk Union AG (KWU - 30%) and Ansaldo Meccanico Nucleare SpA (70%), a subsidiary of Italy's state holding IRI. KWU had originally made the lowest bid for construction of the plant, which will now cost some 190 billion lire instead of the 100 billion first estimated. Local political and business interests favoring domestic contractors succeeded in stalemating the project, however, so that the European Commission was forced to warn Italy about possible violations of EC market rules. The thermal plant, operating on an oil and methane-gas basis, is to be completed in three to four years and will have a capacity of about 1,120 Mw.

St.-Gobain/ Emmaboda

France's Cie. Saint-Gobain-Pont-à-Mousson has received permission from the Swedish government to purchase - for a reported 23 million kronor - a majority stake in Emmaboda Glasverk glass manufacturers. The acquisition is said to mark the first time a foreign company has been allowed to gain a foothold in Sweden's closely protected glass market.

Borg-Warner

Borg-Warner Corp. of Chicago, Ill., has reorganized its German activities, converting the former Borg-Warner-Stieber GmbH subsidiary in Heidelberg to a holding company, Borg-Warner GmbH, for four automotive, industrial, and chemical product divisions: Stieber, Morse Chain Germany and Switzerland, and Borg-Warner Chemicals. Last year the German group had sales of DM 56 million.

CBS/ Grotrian-Steinweg

Columbia Broadcasting System, Inc. (CBS) of New York has reportedly made "contacts" with Germany's Grotrian-Steinweg to discuss a possible takeover of the manufacturer of high-quality pianos. The family-owned company confirmed the news without releasing any details.

Common Market Reports

EUROMARKET NEWS

Issue No. 270 *March 19, 1974*

IN THIS ISSUE

Community: Brussels Seeks to Speed Action on Diplomas

Since continuing Council of Ministers discussions on the mutual recognition of diplomas and the right of establishment so far have failed to reach a conclusive stage, the European Commission has decided to lend a helping hand. To facilitate progress on the slow-moving talks involving Brussels' proposals on physicians and pharmacists (*Common Market Reports, Pars. 1349.01 and 1422.21*), the Commission has now drafted for the Council a number of guidelines based largely on the findings of the October 1973 hearing on professional qualifications for physicians. (In all, Brussels had submitted 12 draft directives involving, among others, physicians, dentists, accountants, and attorneys.)

Despite all the differences between national curricula for the various professions, the Commission has pointed to numerous comparable standards within the EC. For that reason the guidelines recommend that specific provisions for pre- and post-graduate training should be avoided whenever possible. But at the same time they stress the importance of maintaining the quality of professional training in the Community and the need to leave EC rules and procedures flexible enough to accommodate changes necessitated by scientific and educational developments in member states.

In a related area, the Commission is about to submit a proposal on the conditions for free movement of students, teachers, and research fellows, again going beyond the Treaty rules on the preconditions for the exercise of the

COMMON MARKET REPORTS, Issue No. 270, March 19, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Diplomas *(contd.)*

right of establishment. To this end, Brussels plans to hold hearings on mutual recognition of preparatory-school diplomas. Commission officials are aware, though, that chances for success in this sector are slight unless there is more effort to improve foreign language training, promote collaboration among national institutions of higher education, and even consider extension of the idea of European schools, so far established primarily for children of Community employees.

Italy: Government Talks; Currency Controls

Immediate and concrete action to combat Italy's economic crisis, considered the worst since the postwar years, should be the most urgent task of the new government, according to a draft program submitted on March 11 to the four "left-center" parties by the Christian Democrats' Mariano Rumor. Rumor again had been asked to form a new government, after the coalition administration that he headed as prime minister had been forced to quit after only eight months in office. In preliminary negotiations, Rumor urged acceptance of the $1.2-billion World Bank credit offered to Italy and called for a number of other priority measures to conserve energy supplies, stimulate production, aid the southern regions, strengthen public transport, and give assistance to the ailing construction sector.

The previous Rumor administration fell apart on March 2 following the resignation of Treasury Minister Ugo La Malfa, a Republican, who had negotiated the IMF credit line on the explicit promise to cut Italy's payments deficit by keeping a lid on public spending. This commitment was protested by the Socialists, who demanded renegotiation of the credit terms. La Malfa refused and stepped down. Rumor's subsequent efforts were concentrated on the question of whether or not the Republicans would rejoin another coalition with the Christian Democrats, the Social Democrats, and the Socialists. But whatever the composition of the new cabinet, few political observers gave it a life expectancy beyond May 12, the day of the national divorce referendum.

In other developments, Italy on March 8 imposed tight controls on the import and export of lire, setting a limit of 20,000 lire for border crossers. However, Italian residents may export up to 500,000 lire for business purposes and tourist travel abroad on condition that the exported amounts be entered in the passport. The decree, announced by the Banca d'Italia, was directed against excessive speculation, which in the past months has taken advantage of severe fluctuation in lire currency rates.

Belgium: Only Slight Power Shifts after Election

The balance of power in the Belgian parliament will not be much different from that of the outgoing assembly as a result of the March 10 elections. The greatest gains were made by the Christian Socialists, who added 2.2% to their votes for a total of 32.6% and raised their mandates from 67 to 72. The Socialists, who under Prime Minister Edmond Leburton had led the previous coalition government, suffered slight losses and wound up with 59 seats. It was noted with interest that the more radical regional parties, which over the past 10 years or so had grown steadily stronger, also lost some ground.

The call to form a new government was expected to go to Leo Tindemans, 51, the leader of the Flemish wing of the Christian Socialists and a deputy premier in the Leburton administration. It was predicted that Tindemans would seek a coalition with the Socialists that would result in a 131-vote majority in Belgium's 212-seat lower house. This, however, would not suffice to ensure passage of any regional reform legislation requiring a two-thirds majority. Here, the government would have to bargain for the support of either the Liberals or the French-language federalists, and this is where it is bound to run into the same problems as virtually all of its predecessors.

[Bri]tain: Labor Relations Actions Head Wilson's List

Within a week of taking office, Prime Minister Harold Wilson succeeded in accomplishing the two tasks he had accorded first priority - resolving the miners' strike and bringing back the five-day workweek. The miners' return to work came, however, at the cost of settlement well above that offered by the ousted Heath government. Wilson also slapped a freeze on housing rents and, via the traditional Queen's Speech in the House of Lords, outlined a 12-month program calling for selective subsidies on foods and rents (to be detailed in a Prices Bill), higher pension and social benefits, and public purchase of development land. The Budget is to be presented on March 26.

As to legislation, the Prime Minister earlier had made it clear that, in spite of his precarious position at the head of a minority government, he would implement proposals at the earliest possible moment to restructure labor relations in Britain. These plans were not to be made officially known until late this month, but the intentions are for a three-phase package that would greatly favor the labor unions.

Step number one will be a Repeal Bill designed to remove the Industrial Relations Act 1971 from the statute books. This bill will propose to return to the unions much of the power they feel they have lost. The National Industrial Relations Court and the Commission on Industrial Re-

Wilson's List *(contd.)*

lations are to be abolished and replaced by a "Conciliation and Arbitration Service." Union legal immunity, removed by the 1971 act, would be restored and new legal protection afforded to pickets. In addition, workers' rights against "unfair dismissal" would be extended and reinforced. The U.K.'s new Employment Secretary has stated that this bill will go through Parliament faster than any legislative measure in history.

Phase two is to come in the form of a White Paper (scheduled to be published in June), followed by an Employment Protection Bill stipulating new rights for employees and unions. These would include provision for a statutory right to belong to a union, obligatory recognition of unions by management, increased powers to require commercial data from companies, and new compensation provisions in cases of unfair dismissal and layoffs. This bill would provide for the establishment of the Conciliation and Arbitration Service (CAS) and the definition of its authority. In effect, the CAS would take over the jurisdiction of the industrial arbitration tribunal.

The third phase of Labour's plan is still embryonic. A new industrial democracy act is envisaged that would accord employees a greater share in management. It is still undecided whether worker representation would take the form of "worker directors" or whether the "German" system of codetermination with joint boards would be preferred.

Netherlands: The Hague Plans to Stimulate Economy

The Dutch government is planning to inject an additional 2-2.5 billion guilders into the sluggish domestic economy. In announcing the upcoming measure to the employers' associations and the labor organizations, Prime Minister Joop den Uyl said that one-third of this allocation would be spent to ease the tax burden on wages and incomes, one-third would be used to stimulate investments (particularly in the construction sector), and the final portion would be in the form of extra public expenditure both on the state and local levels. Parliament will be informed of particulars in the near future, den Uyl said.

With the implementation of the measure, the government hopes to pave the way for a new "central accord" with the employers and unions that is to determine the basic pattern of wage and social policy this year. The new contract in turn would influence the administration's reliance on the special powers legislation that, under the impact of the oil crisis, authorized broad government intervention in times of economic emergency. The business community is now anxiously awaiting details of the stimulative measure, wondering whether the promised tax reductions would persuade the unions to scale down their demands.

Dutch Economy *(contd.)*

As regards the general economic outlook for Holland in 1974, The Hague apparently is more optimistic than it was only weeks ago. Official expectations now are for a 1-2% rise of the GNP as opposed to "zero growth," a 2-3% expansion of exports, and the maintenance of a reasonable payments balance (which closed out with a plus of 400 million guilders in 1973). Unemployment also has stabilized at 4%. Thus, the low point of the oil crisis seems to have passed, although the government continues to be worried by soaring prices, in both the production and the consumer sectors.

Germany: Bonn Submits Clean Air, Water Bills

The German government, in continuing its drive for improved environmental legislation, has submitted two water protection bills to Parliament: one would require pollutors to pay an annual levy depending on the amount of water used and the degree of effluent pollution, while the other would provide for a gradual lowering of phosphate content in detergents and cleansing agents with the ultimate object of banning phosphates altogether in the future. Government experts also are finalizing draft regulations setting forth permissible maximum levels for some 150 gaseous and other substances in the air (dust, for instance). Finally, work is proceeding on yet another bill to safeguard drinking water supplies, which are being increasingly endangered by nonbiodegradable substances.

Long committee discussions are foreseen on the clean water bills because industry is campaigning for at least one major concession: an exemption for enterprises that have invested in water treatment facilities of their own. The present version would require these enterprises to pay too, though much less (*Doing Business in Europe, Par. 23,549B*). Still, any business would have to bear a substantial portion of the investment costs, although it could deduct from taxable income the expenditures made for environmental protection.

The financial implications of the clean air draft regulations are considered even greater and of a more urgent nature, since the government hopes to submit them to the Bundesrat next month. Industry lobbyists are hoping that the Opposition-controlled upper house will eliminate what they consider an inconsistency, though chances of this are considered slim. They point out that permissible levels for sulfur dioxide, for example, would be valid only for industrial pollutors but not for households or motor traffic, which together account for some 60% of the air pollution by this substance. (*Doing Business in Europe, Pars. 23,544A and 23,549A.*)

EURO COMPANY SCENE

Plessey/ CIT-Alcatel

In what one of the partners termed "the most significant industrial venture in European telecommunications since the formation of the Common Market," the U.K.'s Plessey and France's CIT-Alcatel have agreed to collaborate in the development, production, and marketing of a fully electronic digital telephone exchange system. The system will combine existing French switching technology with Plessey's computer equipment and would be available to the post offices in France and Britain beginning in 1978. In addition, both partners see a large potential for the joint system on the world markets, estimated at about £500 million a year in the early '80s, not including the United States, Japan, and Germany.

Fiat

According to Fiat managing director Umberto Agnelli, the new wage agreement hammered out by the company with members of the engineering union FLM and the government's Labor Ministry after protracted negotiations will cost Italy's leading auto maker some 1 billion lire. Terms include an across-the-board pay increase of 11%, amounting to 18,000 lire monthly for each of the more than 200,000 Fiat workers; added lunch subsidies; commitments to heavy investment in the South, creating over 8,000 new jobs; increased social benefits, and provision for further reorganization of work methods. Claiming the pact was practically forced on him by the government as a last resort to avoid nationwide labor strife, Agnelli said it would require Fiat to borrow heavily and obtain (state) subsidies in order to remain solvent. The company is already running in the red as a result of the current industry-wide recession. "Under these conditions," Agnelli announced, "it is impossible for me to fulfill my mandate to assure the efficiency and development of the company." At his request, the Fiat board was to meet to discuss the situation.

Genesco/ San Remo/ GEPI

The Genesco textile group of the United States has now sold its Italian men's wear subsidiary Confezioni San Remo SpA to GEPI, one of Italy's state holdings, for an undisclosed price. San Remo had a turnover of 23 billion lire last year. Including proceeds from its 20 or so other clothing company interests, GEPI will now have annual sales totaling over 40 billion lire.

Nestlé/ L'Oréal/ Gesparal

Nestlé Alimentana SA, the leading Swiss foods conglomerate and reputedly Europe's second largest foods group after Unilever, will gain a substantial minority interest in Sté. L'Oréal of France, the FF 2.8-billion pharmaceuticals and cosmetics concern. Subject to French government approval, the two firms plan to set up a new holding company, Gesparal, in France to take over the 51% interest in L'Oréal

Nestlé/ L'Oréal *(contd.)*

owned by Mme. André Bettencourt, daughter of L'Oréal founder Eugene Schuller. Mme. Bettencourt will then cede 49% in the new holding company to Nestlé in exchange for a 5% stake in the Swiss group. Majority control of Gesparal thus will remain in French hands. Despite representation on each other's supervisory and management boards, L'Oréal and Nestlé are to continue to operate autonomously but will collaborate in research, particularly in the field of geriatrics.

Goodrich

Labor unions in the Netherlands have pressured International B.F. Goodrich-Europe into postponing plans to rationalize and consolidate its Dutch operations over the next three years. The company had proposed the phase-out of certain production sectors and the transfer of others. Now both sides have agreed on the appointment of an independent commission to investigate Goodrich-Europe's economic position and study the projected reorganization.

Contraves/ Kollmorgen

Contraves AG of Zurich, an electronics and weapons subsidiary of Oerlikon-Buehrle, has announced plans to purchase Kollmorgen-Goerz-Inland Systems of the United States, a branch of Kollmorgen Corp. Kollmorgen-Goerz distributes Contraves rocket detectors on the American market. The Swiss company proposes to set up a new U.S. subsidiary to take over Kollmorgen-Goerz activities, especially in the area of test simulators for diving capsules. The acquisition is subject to U.S. government approval.

Siemens/ Dickson

Germany's Siemens AG has now acquired Dickson Electronics Corp. of Scottsdale, Ariz., for a reported $8.7 million ($13 per share). The U.S. company, renamed DEC Corp., has been taken over by Siemens Capital Corp., Dover, Del.-based subsidiary of the German firm.

Degussa/ Carter Wallace

The pharmaceutical division of Germany's Degussa metallurgy and chemicals group has concluded a comprehensive license and supply agreement with Carter Wallace, Inc., New York. The agreement provides for the clinical testing and introduction of "Homburg" specialty products onto the U.S. market by Wallace Laboratories, the ethical drugs division of Carter Wallace.

Armstrong Cork

Armstrong Cork has set up Armstrong Europa SA in Brussels as headquarters for its entire European operations. General manager is Alexander H. McNaughton, former chief of the company's German subsidiary.

RWE/ Bayernwerk/ KWU/ Hochtief

Rheinisch-Westfälisches Elektrizitätswerk (RWE) and Bayernwerk of Germany have placed the largest contract ever awarded in the history of the country's electrical power sector for construction of an atomic energy plant worth

RWE, etc. *(contd.)*

over DM 2 billion with Kraftwerk Union AG (KWU) and Hochtief AG. To be built at Gundremmingen in Bavaria, the station will contain two boiling-water reactors with a capacity of 1,249 Mw each. The first unit is to go on stream by June 1, 1979, and the second a year later. RWE will have a 75% share in the nuclear plant, with Bayernwerk holding the remainder.

Pan Am/ Dassault

Pan American World Airways and Avions Marcel Dassault of France reportedly will undertake joint development of a new trimotor Falcon Jet that will have a range of about 3,700 miles plus an additional 45-minute reserve flying time. Production of this fourth, long-range version of the Falcon "business jet" should begin before the end of this year, with the first deliveries scheduled for 1977. The partners have announced nine orders for the new aircraft so far.

Chase Austria

Österreichische Kommerzialbank AG of Vienna, in which Chase Manhattan Overseas Corp. holds a 74.5% majority and Austria's Girozentrale und Bank der Österreichischen Sparkassen AG the rest, has changed its name to Chase Manhattan Bank (Austria) AG. The move is said to reflect the growing interest of the Chase group in Vienna as the base for East-West trade and financial dealings.

Citicorp Venture

Citicorp Venture Capital, an investment offshoot of First National City Corp. of New York, has opened a European office in Geneva, Switzerland.

Chemical Bank

Chemical Bank has converted its Milan representative office into a full-service branch.

Herald Tribune

The International Herald Tribune, the Paris-based English-language daily, has begun regular printing in the U.K. by means of an electronic facsimile process involving telephone transmission. The newspaper has a daily circulation of about 130,000 copies in over 70 countries, including 10,000 in Britain at present.

Avis/ Valorind/ Sogen-Avis

Avis car rentals and France's Valorind, a subsidiary of the Société Générale banking group, are setting up a new joint leasing venture, Sogen-Avis, in which each partner is to hold 50%.

Common Market Reports

EUROMARKET NEWS

Issue No. 271 *Report No. 235, March 27, 1974*

IN THIS ISSUE

Community: Harmonization of National Customs Rules

Commission experts reportedly are making good progress on several proposals that are aimed at harmonizing national customs rules and would especially benefit trade with third countries (*Common Market Reports, Pars. 206.05, 313.21, and 313.23*). They have advanced particularly on the draft directive for simplification and standardization of customs documents. For example, there would be one customs form that could be used for both imports from and exports to third countries by simply crossing out the pages or paragraphs not applicable.

Commission officials concede that even with several proposals already before the Council of Ministers, a great deal still needs to be done to establish conditions for uniform application of the Common Customs Tariff, with the ultimate objective of ensuring equal treatment by the member states' customs authorities. Commissioner Finn Olav Gundelach had hoped that his department would have all the other proposals finished on time so the Council could decide on its priorities by the end of this year. Subjects of the various proposals include duty-free reimportation of goods temporarily exported to a third country and temporary admission of goods intended for reexport without further processing. It now seems that the self-imposed deadline of Jan. 1, 1975, will not be met. From this date, all duties

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

COMMON MARKET REPORTS, Issue No. 271, March 27, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

of the Common Customs Tariff levied by member states will flow into the Community treasury.

France: Abolishment of Two-Tier Franc System

Another set of measures to combat inflation and the drain of currency reserves has been announced by French Finance Minister Giscard d'Estaing. It calls for accelerated tax payments, limitations on consumer credit but better credit terms for exporters, and abolishment of the two-tier currency system. Tax cuts were not proposed, although authorization for a lower added-value tax rate will be sought.

Last month only 92% of French imports (FF 18.4 billion) was offset by exports (FF 16.9 billion), a deficit adding to the FF 500-million shortfall recorded in January. Giscard d'Estaing said the increase in oil prices alone was expected to result in a FF 26-billion loss of purchasing power for France this year. Had oil import prices been held at the level prevailing last October, he said, the country would have shown a foreign trade surplus of FF 500 million. As it is, the 1974 deficit should now reach FF 18 billion. The minister regarded as relatively positive the fact that, from January to February, the employment situation had remained fairly stable, with the number of jobless having risen only from 138,000 to 145,000.

Still, there are indications that France will experience growing labor unrest in the near future now that the initial shock over the oil crisis and its effects on the economy has worn off. The prolonged strikes for more pay in the entire banking sector, including the Banque de France, have been accompanied by numerous walkouts, demonstrations, and plant occupations in other areas, notably in the nationalized industries. "The workers' fighting spirit is formidable and will grow stronger," said a spokesman for the Communist CGT, the largest labor union, which claimed its own cost-of-living index reflects a price increase of 14.1% for the last 12 months. Another of the major unions, the CFDT, at the same time announced a campaign to seek a monthly minimum wage of FF 1,500. (Last year around this time the unions' goal had been a FF 1,000 minimum wage, which was actually implemented throughout France at the end of 1973.)

Britain: Tories Avoid Showdown on Incomes Policy

Contrary to its earlier intentions, the U.K. Opposition has elected not to force a "possible constitutional crisis" over its amendment calling for modification of the government proposals on a prices and incomes policy. The Tories' change of heart came on grounds that the Employment Secretary's speech to the House of Commons, indicating that the existing statutory incomes machinery would remain in force until the government and Trades Union Congress could formu-

Incomes Policy *(contd.)*

late a voluntary incomes policy, had "substantially met the requirements of the Conservatives' amendment."

Actually, many Conservatives were distressed that the incomes policy issue had been selected as a possible means of forcing a governmental crisis in the first place: a statutory incomes policy is so widely opposed within the party that an embarrassing defeat in the Commons would have been inevitable. This, of course, was recognized by the shadow cabinet while there was still time. The backdown indicates that, although Prime Minister Harold Wilson's minority administration must tread warily, the Opposition also will find it difficult to unite the disparate elements in Parliament so as to bring down the government.

In practical terms, the Conservative-instituted Pay Board will continue in office for the time being, although the government will "shortly introduce legislation to give it power to abolish the Board and the associated statutory pay controls." It is significant that, as the Employment Secretary noted, the envisaged legislation will not necessarily abolish the board but will only empower the government to decide on abolishment if this is deemed necessary or feasible.

herlands: 'ough Sailing' for Tax Evaders

Holland's fiscal authorities have launched a vigorous hunt on "flying Dutchmen" in efforts to find evidence of a kind of tax evasion previously largely ignored. According to press reports, treasury agents have been tracing the ownership of privately owned motor and sailing yachts to establish how these were financed. First checks allegedly have shown that 430 out of 1,000 yachts had been purchased by persons who, according to the income they had declared for tax purposes, would never have been able to afford them. Revealing this "surprising discovery" in Parliament, Finance Minister Willem Duisenberg vowed to track down the culprits "with all the means at our disposal." He said it is estimated that hundreds of millions of guilders in undeclared income is tied up in boats alone.

Shortly after Duisenberg's announcement, tax offices reportedly began receiving statements in revision of previous returns from worried taxpayers, many of whom were said to have become particularly alarmed over reports that the authorities were examining policies and records kept by insurance companies. The purpose of the investigations - defended by Duisenberg as "reasonable, acceptable, and necessary" - was to check out not only the owners of yachts but also those of vacation homes and highly insured works of art, antiques, and stamp and coin collections.

Insurers now fear that their clients will cancel their policies and take their business to foreign competitors, Tax Evasion *(contd.)*

whose offices are inaccessible to Dutch tax agents. At least one insurance company has locked out the investigators on legal grounds. Its management claimed that the law does not permit an official inspection of bank accounts and insurance records on general grounds but only in individual cases in which fraud is actually suspected. The company reportedly has filed suit to settle the question in court.

Bonus for Returning Alien Employees?

A "farewell bonus" of about 5,000 guilders to alien workers who voluntarily return home after two or three years' employment in the Netherlands has been proposed in government-sponsored draft legislation. Other measures aimed at restricting the number of foreigners working in Holland would establish quotas on individual countries of origin, force employers to observe minimum housing standards, and raise the penalties to be incurred for violations.

The government has emphasized that these actions would not be taken to discriminate against aliens or their native countries but to improve working conditions generally in Holland. The Hague also plans to aid the so-called "recruitment countries" - mostly around the Mediterranean basin - by financing development projects as part of which returning workers could use their new skills.

Details of the proposed legislation, which has no bearing on workers from EC member states, are to be published shortly. (*Doing Business in Europe, Par. 26,965.*)

Norway: Embargo on Labor Influx from Abroad

In related action, Norway as of July 1 will close its borders to non-Scandinavians seeking employment. A Labor Ministry statement said that the national economy has only a limited capacity for imported labor. The embargo, tentatively to last one year, also should help to improve conditions for alien workers already in Norway, the ministry said. By the time the embargo expires, Oslo is expected to have prepared new guidelines for the employment of aliens that will specify work contracts of at least one year, housing guarantees, and minimum wages conforming to local standards.

Germany: More Controls on Vocational Training

The sharp decline in the number of apprentices - the reservoir from which German industry traditionally has drawn its force of skilled workers - is not likely to be reversed by the government's proposed amendment to the Law on Vocational Training. Provisions of this legislation would make it even more difficult for small businesses to hire youngsters just out of school who want to learn a trade in a three-year program.

Last year only 270,000 young people were able to sign up for such programs, compared to 600,000 in 1971. The

Training *(contd.)*

startling drop in openings is thought to be the result of the 1969 law (*Berufsbildungsgesetz*) that raised both technical and educational standards employers must meet in engaging apprentices. In addition, the proposed amendment would enable the government to control vocational training directly by having public authorities administer the journeyman's exams. This would considerably lessen the influence of the guilds, which so far have conducted these exams themselves, often applying erratic standards.

Under the changed circumstances, it is mostly the medium-sized and large companies that are still willing and able to support apprentice programs. Apprentices earn as much as DM 800 monthly in their third and final year, must attend vocational school one day a week, and are entitled to six weeks' vacation. These requirements were estimated to have cost employers a total of between DM 7.7 and 8.5 billion in 1973, a burden that many small businesses can no longer accept, particularly since employment of apprentices must be for training only and assignments such as the running of errands or shop cleaning are prohibited.

Should the number of openings decline even further, Bonn may consider introducing legislation that would either provide for mandatory hiring of apprentices or impose a 1% annual levy (based on payrolls) on all businesses and offer training grants.

EURO COMPANY SCENE

GKN/ Miles Druce

The merger battle between Britain's Guest, Keen & Nettlefolds and Miles Druce Ltd. is still undecided, even though the European Commission has approved GKN's bid to take over Miles Druce. The European Court of Justice on March 16 ruled that the merger authorization may not take effect before April 8 to prevent changes in the legal status quo until the court can give a ruling on the case.

The real issue, in terms of developing Community administrative law, thus still involves the Commission's July 1973 reply to Miles Druce's original request to block the GKN takeover bid. Miles Druce had asked that GKN be barred from acquiring any more shares and from exercising the voting rights attached to the 39.9% share capital it already holds. The Commission replied in a letter that it was not in a position to grant the request, and it is this letter Miles Druce has been attacking in court both as to form and substance.

Oral pleadings on this issue, originally scheduled for this month, were postponed to May 29 because of Miles Druce's latest and repeated plea to the court for interim

GKN/ Miles Druce *(contd.)*

measures blocking Brussels' authorization or, alternatively, preventing GKN from taking any action pending the outcome of Miles Druce's appeal against authorization.

Concorde

The U.K.'s new Secretary for Industry, Anthony Wedgwood Benn, has offered the most comprehensive "balance sheet" to date on the controversial Anglo-French supersonic airliner project Concorde. In his view, "the state of the program is much worse than has been imagined." The project may now cost the country an additional £80 to 515 million in the course of the next four years beyond the development expenditure of over £500 million so far. The spread depends on the cost of various modifications, either approved or mandatory, and on increased losses projected for British Airways as the result of Concorde operations.

The situation is complicated by the fact that 20,000-plus persons are employed on the project both directly and indirectly and that Concorde is a joint venture with France. Paris sources were quick to issue a warning: should Britain attempt to pull out of the program, the French might consider taking action in the international courts. Rough estimates put the cost to the U.K. of dropping the project (i.e., in terms of contractual losses, indemnities, and unemployment benefits) at some £80 million. While this figure would be considerably less than the overall losses projected if the venture continued, a claim for damages by the French could be crippling, it has been noted.

Fiat

In a special meeting called to weigh the consequences of the newly signed wage agreement, the board of directors of Italy's Fiat SpA has expressed full confidence in managing director Umberto Agnelli. Enumerating the problems that have plagued the company over the last fiscal year (underutilization of plants, labor union intransigence, absenteeism, short work hours, the government price freeze, inflationary costs for raw materials and wages, etc.), Fiat has appealed to Rome to develop a clear and rational economic policy that would permit the auto maker's continued viability as a private concern and relieve the car industry as a whole. Last year Fiat losses amounted to 150 billion lire, while production dropped to 1.5 million vehicles, or 75% of capacity. Stocks of unsold automobiles were expected to exceed 250,000 by the end of this month.

Montedison

In parallel developments, Italy's partly state-controlled Montecatini Edison SpA has also concluded a new wage contract that is considered highly favorable to labor. Like Fiat, the country's leading chemicals group has agreed to heavy investment in the Mezzogiorno region, creating 10,500 new jobs there, and across-the-board pay raises of 20,000 lire per month, in this case. Total new employment,

Montedison
(contd.)

including the fibers sector, would be as high as 30,000. In addition, Montedison will undertake to improve anti-pollution techniques and invest about 400 billion lire in a five-year research program.

Aquitaine/
Le Nickel

France's Sté. Nationale des Pétroles d'Aquitaine (SNPA), subsidiary of the state-controlled ELF-ERAP group, and the Rothschild-owned Sté. Le Nickel (SLN) have agreed to set up a joint subsidiary to exploit nickel deposits on New Caledonia in the South Pacific. With initial assets of FF 1.142 billion, the new company will take over all of SLN's mining and metallurgical operations on the island as well as its refinery at Le Havre, other nickel interests, and its domestic and international sales network. Aquitaine will purchase a 50% stake in the subsidiary for a reported FF 571 million cash. SLN had taken severe losses in 1972 and '73, aggravated by the pullout late last year of Kaiser Aluminum from a New Caledonian venture that it had co-owned with SLN. A major problem has been the heavy taxation of nickel exports by the New Caledonian government, but the participation of state-backed Aquitaine is expected to facilitate a new arrangement in this area.

GEC/
Creusot-Loire/
Framatome

GEC, the leading manufacturer in the U.K. electrical engineering sector, has agreed in principle to the large-scale export of reactor components for the French nuclear power program. The components will be produced at a new GEC factory somewhere in England; detailed location plans have yet to be announced. The agreement, which involves French companies Creusot-Loire and Framatome, provides that GEC will supplement Creusot-Loire's deliveries of components to nuclear contractor Framatome. In exchange, GEC will purchase certain major components, such as pressure vessels, from Framatome and will generally encourage French-British trade in the nuclear components field. GEC and the Central Electricity Generating Board (which cooperates closely with Electricité de France) are counting on British government approval for construction of Westinghouse power systems (pressurized water reactors) in the U.K.

Haindl/
Holtzmann

German newsprint manufacturers Haindl Papier GmbH and Holtzmann & Cie. AG have agreed to drop their merger plans and will not initiate legal action to appeal the Federal Cartel Office's recent decision against the fusion. Further, Haindl representatives now serving on Holtzmann supervisory and management boards will quit their posts. The cartel authority veto has thus become binding.

Remington Arms

Remington Arms Co., Inc., of Bridgeport, Conn., manufacturer of sports weapons and munitions, has announced it will set up a new German subsidiary, Remington Arms GmbH, in Würzburg to handle European distribution for the company.

Grotrian-Steinweg/ CBS	The management of Grotrian-Steinweg, piano manufacturers, has announced that it has broken off negotiations with the Columbia Broadcasting System, Inc. (CBS), New York, for a possible takeover of the German firm.
Pepsico/ Asimex	Pepsico, Inc., of Purchase, N.Y., has announced conclusion of an agreement with the Asimex import-export agency for the bottling and distribution of Pepsi Cola in East Germany. According to the company, the soft drink will become the first U.S. consumer item to be produced in the Communist country. Pepsico will supply equipment and beverage concentrate to an East German plant in Rostock on the Baltic Sea. Production is to begin by the end of the year. Pepsico has similar agreements with Czechoslovakia, Hungary, Poland, Rumania, the Soviet Union (where a new plant has just begun operations), and Yugoslavia.
Crédit Suisse/ White Weld	Switzerland's third-largest banking group, Crédit Suisse, is to expand its current 20% stake in WW Trust, the Zug-based holding company for the international interests of the White Weld investment banking group of the United States, to 40%, becoming the largest single shareholder. Following a planned capital increase to about SF 120 million from the present 75 million, WW Trust will change its name to SA Financière du Crédit Suisse et de White Weld and will take a 30% stake in a new American holding company, White Weld Corp., to be formed to take over the existing share capital of White Weld & Co., Inc., New York. The latter, in turn, will have reduced its participation in the Swiss holding from almost 50% to 30%. As part of the complicated reorganization, White Weld & Co. Ltd. of London is to be renamed Crédit Suisse White Weld and will handle the international Eurobond and investment banking activities of both groups.
Fuji Bank/ Dow Banking	Fuji Bank Ltd., of Tokyo, has acquired a 10% interest in Dow Banking Corp. of Zurich from Dow Chemical Co. of the United States for an undisclosed sum. Dow Banking Corp. is a Swiss merchant bank with branches in London and Amsterdam.
Chemical/ Mietfinanz/ Chemco-Mietfinanz	Chemical International Finance Ltd. of New York, a member of the Chemical Bank group, and Germany's Mietfinanz GmbH have set up a new German industrial leasing subsidiary, Chemco-Mietfinanz GmbH. The partners each hold 50% of the joint venture's DM 100,000 starting capital.

Common Market Reports

EUROMARKET NEWS

Issue No. 272 April 2, 19[illegible]

IN THIS ISSUE

[illegible]munity: [illegible]h Court to Deal with Trademark Suit

The damage suit brought by a Belgian coffee company against a German competitor is expected to be the No. 1 trademark case on the docket of the European Court of Justice this year. Case No. 192/73 - Van Zuylen Frères; Liège, v. Hag AG, Bremen - had been referred to the high tribunal by the Luxembourg district court and involves the question of how the exercise of trademarks and resultant obstacles to intra-Community trade can be reconciled with the principle of free movement of goods.

Van Zuylen sued Hag for alleged violation of its trademark rights after agents for the German company had started importing Hag coffee into Luxembourg. The plaintiff bases its claim on the fact that it is authorized to use the Hag trademark (a red heart symbolizing caffeine-free coffee) in Belgium and Luxembourg. The contention is that Van Zuylen has been assigned the trademark by its owner, the Belgian coffee roaster Chat Noir, which had purchased it from the government following expropriation of Hag's Belgian subsidiary after World War II.

A possible award of damages depends largely on whether Van Zuylen, as the present trademark holder, may bar Hag imports into Luxembourg. This is the first question the Luxembourg district judge has put to the European Court. The answer, however, could depend upon a second question, name-

COMMON MARKET REPORTS, Issue No. 272, April 2, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Trademark Suit *(contd.)*

ly: Could a third party, such as an importer in Luxembourg, be permitted to bring in coffee directly bought from Hag in Germany?

Attorneys for Hag are hoping that the court will go beyond its 1971 *Sirena* judgment, which sustained imports to Italy from Germany although the Italian party had bought the trademark in 1937 (*Common Market Reports, Pars. 8101, 2014.065, and 2111.10*). In that case the court had acknowledged that the exercise of trademark rights is apt to contribute to a partitioning of the market and is thus contrary to free interstate trade. This precedent position prompted the Luxembourg judge to ask for a preliminary ruling on Van Zuylen v. Hag.

In the opinion of attorneys for the European Commission, the crux of the issue and one to which the court must find an answer concerns the question of whether the trademark owned by Chat Noir may prevail over the principle of a uniform common market that the court had reemphasized in the Sirena case and over the protection of industrial property rights set forth in Treaty Article 36 (*Common Market Reports, Par. 352.07*).

Britain: Budget Termed 'Neutral'; No Major Reforms

Because of the brief period that has elapsed since the U.K. general election and, even more so, because of the government's precarious position in Parliament, the reforms proposed (or threatened) in Labour's preelection manifesto did not materialize in the Budget presented on March 26. The Chancellor of the Exchequer called it "a neutral Budget," largely designed to gain the support of the labor unions for a voluntary counter-inflation policy. The employers gave the Budget a lukewarm reception, contending that it would do nothing to lessen inflation or encourage industrial investment. The principal features are a redistribution of taxation, food subsidies, increased pension and social security benefits, and an emphasis on national savings. A further budget is scheduled for later in the year, as is a Green Paper proposing an "annual wealth tax for the rich." Details in summary:

Income tax: Rates increased by 3%, now ranging from 33 to 83% on incomes over £20,000. Personal tax allowances increased by £30 to £625 for single persons, by £90 to £865 for couples. Child allowances increased by £40 and children's investment income will be combined with parents'. No tax relief for interest on overdrafts. A "gift tax" will be charged as of March 26 on all transfers of wealth.

Value-added tax: No change in standard rate. Ten percent applies to confectionery, sweets, ice cream, etc., as of April 1. VAT also is levied on gasoline as of same date.

U.K. Budget *(contd.)*

Corporation tax: Set at 52% for financial year 1973. Small companies rate 42%, while cooperatives, building societies, and housing associations will pay 40%.

Food subsidies: £500 million in subsidies provided to reduce rise in food prices this year by some 6%.

Miscellaneous increases: Steel prices 15% higher. Rail fares increased by 12.5% and rail freight by 15%. Postage increases of 1p on first-class and 1/2p on second-class mail and of between 15 and 25% on telecommunication charges. Electric power charges up approximately 30%. Coal price up by £2.50 to £3 per ton. Cigarette and liquor prices increased by 5p per pack and 20p per bottle, respectively.

Pensions: Retirement pensions increased as of July 22 to £10 per week for single persons and £16 for married couples. Restrictions on pensioners' earnings relaxed. Supplementary pensions up by £2.25 and 3.50, respectively. Short-term (unemployment, sickness) benefits up by £1.25 or 2 weekly.

National insurance: Employers' flat-rate contributions increased to 44p per week and male employees' contributions reduced at rate of 9p per week. (Estimated total cost to companies is £450 million annually.)

In addition, savings are to be encouraged by means of new national savings certificate and savings bond issues, and defense spending is to be cut by a further £50 million (in addition to cuts of £178 million introduced by the last government). The raising of a foreign loan on the international market of £1 billion over 10 years has been authorized. There will be no provision for further expenditure on the Concorde project and London's third airport project at Maplin. The Channel Tunnel situation is still under review.

Netherlands: Details on Stimulative Program

The program now detailed by the Dutch government to stimulate the economy places the greatest emphasis on wage improvements and some tax reductions and includes measures to promote industrial investment. All employees are to receive a gross wage raise of 15 guilders and cost-of-living compensation of at least 37.50 guilders per month. These steps are part of a new wages policy introduced by The Hague as of April 1 in the absence of a new "social accord" between employers and unions and are in keeping with the authorization of special powers.

The reduction in income tax, due as of July 1, is to be effected by a 3.15% increase in annual exemptions and would cost the Treasury some 750 million guilders in revenue. Because of the tax progression, tax savings would diminish in proportion to higher income. Thus the reduction would amount to 1% on taxable incomes of 13,500 guilders (the legal minimum wage) but to only 0.5% on incomes of 70,000 guilders.

Dutch Program *(contd.)*

Furthermore, the government intends to encourage industrial investment by allowing more generous tax write-offs on buildings and reintroducing them for capital goods. Write-offs on plant buildings are to be raised from 5 to 8% for each of two consecutive years, while 4% write-offs for two years are allowed on investments in capital equipment. These allowances will be in a total equivalent of 560 million guilders, not including some 100 million the Housing Ministry will spend to alleviate unemployment in the construction sector.

In all, the program is expected to cost the government from 2 to 2.5 billion guilders. Since the Budget does not allow for these expenditures, the money for the most part will have to be raised on the capital markets. While welcoming the stimulative write-off measures, the employers' associations have voiced their disappointment over the government's failure to include a reduction in the corporate tax in the program. The Hague, however, favors such a move only for small companies unable to make a profit.

Italy: Rome Also Drops Two-Tier Exchange System

Following the French example, the Italian government as of March 22 abolished the two-tier foreign exchange market after the rate differential between the "commercial" and the "financial" lira had dwindled to as little as 2.5%. The elimination of the split-rate market came as part of the Rumor administration's latest economic "reform program" against inflation and unemployment but also was partially necessitated by the need to eventually bring Italy's exchange regulations in line with those abroad. However, the other Italian capital controls are being kept in force - mainly, the requirement for exporters of capital to freeze the equivalent of 50% of the amount exported in interest-free deposits at home as well as the more recent ceilings on lire imports and exports.

Italy's return to a uniform foreign exchange market plus the March 20 increase in the discount and Lombard rates from 6.5 to 9% are being interpreted as moves by Rome to restore some of the lost confidence in the lira. In conjunction with flanking measures in the economic sector, these steps should also make it easier for the Italians to raise credit abroad.

In related news, it was revealed by the Bank of Italy that extensive borrowing on the Eurodollar markets last year caused the country's balance-of-payments deficit to shrink dramatically from 747 billion lire (1972) to 252 billion. This improvement, however, was accompanied by a serious deterioration of the foreign trade balance and other current-account positions.

Germany: Bonn Moves to Reduce Banks' Clout

Nationalization of the private banking sector has been an on-again-off-again issue in Germany as it has been in other countries, but the Brandt administration has no intention of seriously considering such a radical step, which has been frequently demanded by the extreme left of the governing Social Democratic party. On the other hand, however, Bonn appears to be determined to reduce the power that German banks wield by virtue of their large industrial holdings and those controlled via investment funds and through the system that permits banks to represent shareholders at annual meetings.

Lately, administration spokesmen have been calling on the banks to voluntarily divest themselves of part of their large equity interests in German industries. They argue that these interests should not take the form of permanent investments and should never amount to direct business involvement, although it is conceded in Bonn that business and industry, and consequently the economy, have basically benefited from the banks' equity interests. The government in the coming months will spell out details of its own position on the issue and is prepared to follow up with legislation should its plea for voluntary disengagement go unheeded.

Meanwhile, the banks have decided on a study to ascertain whether shareholders who have deposited certificates with them and usually give them proxy to vote in annual meetings wish them to continue in this role. The banks expect a favorable response, although the propriety of this practice has been the subject of perennial discussion and now again has come under strong censure. The 1965 Stock Corporation Act brought a significant change in that banks must obtain proxies prior to annual meetings instead of having blanket authorizations (*Doing Business in Europe, Par. 23,215*). The banks can claim that the present system benefits the individual shareholder who does not have time to attend the meetings. They also argue that a better system has yet to be found.

U.S. Chamber Warning on Co-determination

The American Chamber of Commerce in Germany has announced it will commission a group of legal experts to study Bonn's proposed co-determination legislation and to analyze "whether it would be permissible within the international treaties" signed by Germany. A statement by the Chamber's board of directors said that the bill "in all probability" is not compatible with the provisions of these treaties: "It must be kept in mind that treatment of foreign investment is always done on a reciprocal basis. Legislation of this nature would give ammunition to those factions in the U.S. favoring restrictions on foreign investments there..."

Commenting on this during a foreign correspondents' meeting in Bonn, Finance Minister Helmut Schmidt, who is also a deputy chairman of the governing Social Democrats, dis-

Chamber Warns *(contd.)*

missed the Chamber statement as "so much small print" and declared that "there are no international conventions that would obstruct our progress (toward full co-determination)." During his stay in the United States last month, Schmidt said, he had been approached by American industry representatives who expressed their concern over the extent of the proposed legislation and warned him about possible consequences on foreign investment in Germany. The minister said he had taken this opportunity to explain his government's position on the issue and to point out that co-determination on a parity basis has been practiced in the German coal and steel industry for many years and with apparent success.

Switzerland: Caution Marks Debate on Labor Representation

A union-sponsored initiative for the equal representation of labor in company management has been unequivocally rejected by the lower house of the Swiss parliament, but the lawmakers were not so decisive on two less far-reaching motions. One alternative proposed by the government would still permit representation by union officials who are not employees of the enterprise. The second proposal, submitted by a legislative committee, puts the emphasis on giving employees access to information on management policies and on co-determination rights in personnel and social matters; representation by outsiders, i.e., union officials, would be barred.

Parliamentary indecision on the entire co-determinati[on] issue precludes speculation about the legislative chances for either proposal and accounts for the narrow defeat of a third measure aimed at rejecting the union initiative without offering any alternatives. Many legislators see no need for a constitutional amendment on co-determination and subsequent legislation. They point out that, even in the absence of statutory rules, co-determination in personnel and social affairs is already being practiced on a large scale in Switzerland, either in the form of individual works council-management agreements or through collective bargaining agreements. Legislators believe that the idea of partnership that has been developed at the bargaining table should prevail and that the unions have not fared badly under the present system.

EURO COMPANY SCENE

GKN/ Miles Druce

The U.K.'s Guest, Keen & Nettlefolds (GKN) has dropped its offer of £11.7 million for steel stockholder Miles Druce following the order issued by the European Commission that any action be temporarily suspended. GKN has made it clear, however, that the bid will be renewed, probably at the same price, on or after April 8, i.e., after expiration of the three-week waiting period stipulated by the Commission. The acquisition battle is being observed with unusual interest in the U.K., since Britain's takeover climate could be radically altered by the final outcome.

Salzgitter/ Korf/Krupp/ Metallurgimport

The German Salzgitter-Korf-Krupp steel consortium and the Soviet Union's Metallurgimport agency finally have reached a general agreement on construction of a major integrated steelworks at Kursk in the Ukraine, the largest industrial contract ever placed by the USSR with foreign concerns. For the first time the Soviets have agreed to pay cash - about DM 2.5 billion for the initial phase of the project - rather than insisting on preferential credit arrangements. To be completed by 1978, this stage will include an iron oxide pelletizing plant with an annual capacity of 3.5-4 million tons; "Midrex" direct reduction facilities for 2.5 million tons of sponge iron yearly; electric furnaces and continuous casting facilities for 2 million tons of semifinished steel annually; rolling mills with a 1.5 million-ton capacity, and auxiliary operating facilities. The German group will furnish equipment and technology. Negotiations for the second phase of construction, to follow in 1978-80, will be taken up later. The new agreement also calls for the large-scale supply of metallized sponge iron and semifinished products from Kursk to Germany beginning in 1976, subject to further discussion.

Philip Morris

Philip Morris Inc., New York, and the USSR's State Ministerial Committee for Science and Technology (GKNT) have signed a five-year scientific and technical cooperation agreement. According to the U.S. company, the pact provides the basis for mutual exchanges of technology covering various Philip Morris product sectors.

Jugoremedija/ Hoechst

The government of Yugoslavia has given the green light for the establishment of Jugoremedija, a new joint pharmaceutical venture to be set up by Servo Mihalj, the Yugoslav industrial-agricultural combine (51%), Farbwerke Hoechst of Germany (38%), and Hoechst's Belgrade representative, Jugohemija (11%). The project is expected to require investments of several million D-marks over the next two to three years.

Hoechst management, meanwhile, has announced the planned abbreviation of the company name to Hoechst AG and the absorption of five German operating subsidiaries into the parent concern in line with general reorganization measures begun several years ago.

Honeywell/ Agfa-Gevaert

Honeywell, Inc. has announced conclusion of an agreement with Agfa-Gevaert AG for exclusive U.S. distribution rights to certain of the German-Belgian group's amateur photographic products and its entire range of films. Honeywell has also taken over Agfa's photo laboratory in Flushing, N.Y. Financial terms of the deal have not been disclosed.

Volvo

Sweden's AB Volvo has announced plans to invest $100 million in a new automobile plant to be built at Chesapeake, W. Va. Production is to begin in 1976 with an annual output of

Volvo *(contd.)*	100,000 vehicles. The company indicated it was planning several other U.S. projects, including possible leasing operations and a sales venture for Volvo hydraulic pumps and components.
Ciba-Geigy/ Funk Seeds	Switzerland's Ciba-Geigy AG, through its U.S. subsidiary Ciba-Geigy Corp., has completed acquisition of over 50% of the outstanding shares in Funk Seeds International Corp., American producer of hybrid seed corn and other agricultural seeds. The tender offer was pegged at $17 a share.
Eurodif	Financial considerations reportedly have led Sweden to decide on withdrawal from the Eurodif nuclear energy consortium. Instead, the Swedes probably will link up with Germany, the Netherlands, and the U.K. in the rival Urenco centrifuge project. Sweden was one of the original backers of the French-led Eurodif venture. The other partners are Italy, Belgium, and Spain. Stockholm announced that the country's uranium enrichment fuel needs were being adequately supplied by agreements with the United States and the Soviet Union.
Videocolor	Videocolor of France, 51%-owned by Thomson-CSF and 49% by RCA, has begun construction of a FF 125-million color TV picture tube and component plant at Lyons. The company is also completing expansion of its Italian plant south of Rome from 370,000 to 700,000 tubes yearly.
Golden Products	Bankruptcy proceedings have been instituted by a Munich municipal court against Golden Products Vertriebsgesellschaft, the now defunct German subsidiary of the U.S. distributor of household cleaners and polishes. The case involves at least DM 17 million worth of outstanding claims against the company and a record 10-15,000 creditors. Golden Products gained notoriety in Germany through its use of discredited "pyramid" selling methods. In fact, Munich authorities are pressing separate criminal action for possible fraud and illegal advertising against three former managers of the German firm, two of whom reportedly have fled to North and South America.
Orion	The U.K. consortial banking group Orion has recorded a loss of some £1.2 million on its Eurobond dealing activities during its first year of operation as a Eurobond market-maker. This loss underscores a rapid decline in trading conditions on the market, substantiated by the fact that other former big names have reduced their activities in this sector - notably Western American Bank, which dropped out of convertibles some time ago. Orion numbers National Westminster and Chase Manhattan among its shareholders.

Common Market Reports

EUROMARKET NEWS

Issue No. 273 *Report No. 236, April 10, 1974*

IN THIS ISSUE

Community: Britain Takes Tough Stand on Renegotiation

Reaction by the other Community partners to the U.K. Labour government's blunt demands for renegotiation of its membership terms has been one of consternation and even condemnation. The Germans, through Foreign Minister Walter Scheel, contended that basic renegotiations outside the EC institutions were "hardly thinkable." France in particular rejected any revision of the treaty terms to accommodate U.K. demands. "We agreed to pay a fair price for her (Britain's) entry," said Foreign Minister Michel Jobert. "We do not see the need to pay a supplementary price to keep her in."

The strongly worded statement by U.K. Foreign Secretary James Callaghan, delivered on April 1 in the Council of Ministers ("Renegotiation of the Terms of Entry into the European Economic Community," London HMSO, Cmnd. 5593), emphasized the possibility of British withdrawal unless "certain errors were put right." The Secretary pledged that, if renegotiations were successful, the British people would be asked to register approval; if they were unsuccessful, the people would be consulted on the advisability of withdrawal. Briefly, the U.K.'s main objectives would be:

- major changes in the Common Agricultural Policy;
- "new and fairer methods" of financing the Community budget;

This issue is in two parts, consisting of 152 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 273, April 10, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois, 60646. Subscription rate $385 per year. Second class postage paid at Chicago, Illinois. Printed in U. S. A.

Renegotiation *(contd.)*

- rejection of a European economic and monetary union in favor of a "worldwide framework";
- retention by the U.K. Parliament of "those powers over the British economy needed to pursue effective regional, industrial, and fiscal policies";
- an agreement on capital movements to protect the U.K.'s balance-of-payments and full-employment policies (including safeguarding the Commonwealth and the developing countries), and
- no harmonization of value-added tax that would "require us to tax necessities."

Callaghan was particularly insistent that Britain was not getting a "fair deal" as regards the Community budget. He pointed out that in 1973, when paying only 8.5% of the budget in accordance with the transitional terms, Britain was already the second-largest net contributor. At the end of the normal transitional period, the U.K. would be paying over 19%, well above the 16.5% that would be the country's likely share of GNP at that time. (*Common Market Reports, Par. 7001.*)

Task Force on Migrant Labor; Job Training

The European Commission has set up a task force to study all aspects of migrant labor, a survey that will help Brussels to outline its overall migration policy to the Council of Ministers by the end of the year. The study also will cover the special problems pertaining to the employment of migrant workers from non-EC countries such as Spain, Greece, and Turkey.

Commission Vice-President Patrick Hillery said that the issue goes far beyond immediate manpower problems into areas of regional and competition policy as well as industrial development. He proposed that migrant labor should be financed by the industry relying on this source of manpower, a view that has been expressed before by the German government.

Regardless of what the new task force may propose, the basic premises of a European migration policy appear to be twofold: Community financing of the training of social workers and teachers for the benefit of migrant workers and their children and the coordination of national laws. Brussels has not yet evolved a firm position on financing but should have done so by the time the program is submitted to the Council. (*Common Market Reports, Par. 3906.53.*)

In a related area, Hillery announced that the Commission has asked the Council to establish a European center for vocational training, which would assemble documentation on new developments in vocational training and research, disseminate information, and help foster and coordinate re-

Job Training *(contd.)*

search. Specifically, the center would organize courses, seminars, and pilot programs, sponsor research projects, and offer grants.

The expected adoption of this proposal by the Council would constitute the first step toward a common policy on vocational training (*Common Market Reports, Pars. 3906.31 and 4072.10*). The center would be an autonomous institution, run by a Commission-appointed 15-member board (with five members each representing the Commission, industry, and the unions).

Britain: Tax Privileges Cut for Foreign Executives

The U.S. business community in Britain has been stunned by the Labour government's Budget moves that close up generous tax loopholes for non-British employees of foreign companies. The new provisions - promptly dubbed the "Yank go home" clause - are certain to result in soaring and even crippling tax bills for U.S. executives, many of whom already have been quoted as saying the choice is "leave or cheat."

So far, one of the U.K.'s most attractive features for foreign executives has been the favorable tax status, whereby British income taxes could be virtually eliminated or at least substantially reduced by the simple expedient of not bringing one's salary into Britain. In effect, tax had been levied on a remittance basis, with liability extending only to that portion of salary actually brought in (*Doing Business in Europe, Par. 23,811*). In addition, many foreign businessmen have been exploiting the fact that expenditure of capital (as opposed to salary) has not been taxable. Accordingly, many of them have been living off the proceeds of capital loans, while banking their salaries in the United States or elsewhere. The cost of these loans was offset by the interest accumulated on the deposited salaries. These loopholes have now been suddenly closed.

The first blow came when the Chancellor of the Exchequer announced in his Budget address that foreigners would be liable to U.K. tax on 50% of their earnings, whether such earnings were remitted or not. But the subsequent news was even worse: in a March 29 footnote to the Budget it was revealed that foreigners who had worked in the U.K. for five or more years would be taxed on the same basis as British subjects, i.e., they would pay full taxes (and at the high rates prevailing in the middle- and upper-income brackets). The tax on half of the earnings is operative immediately, whereas the five-year provisions will apply as of the 1976-77 tax year.

Although London tax experts were unwilling to commit themselves yet, it was generally accepted that foreigners

Tax Privileges *(contd.)*

now using accumulated salary to pay off capital loans could be liable for back taxes on that income. Some executives even estimated that they would have to take a 75% cut in income, making it impossible for them to continue living in the U.K. It was pointed out that double-taxation agreements affect only very high incomes and that benefits would apply solely in the case of salaries of $80,000-plus. A result of the government's decision could be that multinational companies pull up stakes; at least one major U.S. company (in the entertainment field) is already rumored to be making plans in this direction.

Germany: Move against VAT Evasion by Foreign Firms

A new regulation proposed by the Finance Ministry in Bonn would ensure that German fiscal authorities collect the sales tax (value-added tax) revenue due from taxable activities performed by foreign businesses in Germany. The proposed *Umsatzsteuer-Abzugsverordnung* would obligate the German trading partners and service recipients to subtract VAT included in the foreign company's invoice and pay it to the government instead. The German business would be held liable if it did not withhold VAT and if the government did not receive the tax from the foreign firm. (*Doing Business in Europe, Par. 23,372.*)

The proposed withholding system would apply not only to construction and assembly performed by foreign firms but also to other activities such as transfer of designs, blueprints, or construction plans for consideration, and the licensing of motion picture rights and of patents for exploitation in Germany.

Withholding of value-added tax would not affect the foreign company's overall VAT liability with respect to taxable activities within Germany, but the firm would be credited with the amount when filing its tax return. The withholding system also would enable the fiscal authorities to wind up a tax case regardless of whether or not the foreign firm filed a return.

Finance Ministry officials point out that the measure, scheduled for enactment by July 1, in effect would exert the same revenue hold on nonresident businesses that the government already has on resident businesses. Tax evasion by foreign companies would be easier to trace if, after the German business withheld and paid the tax, the nonresident firm failed to claim the credit by not filing a return.

Italy: Higher VAT; Advance Tax Payments

Faced with an alarmingly widening budget deficit and the continuing battle to defend the lira, the Italian government has proposed to double value-added tax rates for several non-alcoholic beverages from 6 to 12% and to raise

Italian Taxes *(contd.)*

them by one-third for luxury items. The VAT rate for furs, jewelry, perfumes, and luxury foods (caviar, for example) would be increased from 12 to 18% (*Doing Business in Europe, Pars. 25,882 and 25,886*).

Furthermore, members of the liberal professions, who up to now have enjoyed a postponement of their tax payment until after assessment, would be required to make advance payments on their income tax liability. This measure alone is expected to provide the Treasury with some 500 billion lire within three or four months, an amount that comes close to the $1.2-billion stand-by credit Rome has negotiated with the International Monetary Fund.

The budget deficit, placed at 880 billion lire, is largely due to a one-third shortfall in revenue derived from VAT. Nearly 3,000 billion lire was expected in early 1973, the first year this new tax was applied, but statistics now indicate that the tax offices collected only some 2,000 billion. Government officials believe that the shortfall is not so much the result of tax evasion but that the estimates were too optimistic in the first place. The situation is quite different with respect to revenue from direct taxes, where collections exceed estimates. According to Rome sources, the government nevertheless is considering the introduction of advance payments for corporate taxpayers, too.

<u>Sweden: Proposals on Tax Reductions for Employees</u>

The tax load on Swedish employees in the low- and medium-income brackets is to be somewhat eased as of 1975, according to proposals formulated by a special parliamentary committee. The group had been set up by the Finance Ministry last fall, following the election setback for the governing Social Democrats, which to a large degree had been interpreted as a voter protest against the enormous tax burden.

The committee's proposals, made public on March 29, call for abolishment of employee contributions to the health insurance plans, which are collected along with withholding tax. Also proposed is a basic tax exemption on the first 4,500 kronor of income. Moreover, taxpayers whose annual taxable income does not exceed 36,000 kronor could expect to benefit from a small additional exemption. Relief would be greatest for incomes ranging from 50,000 to 100,000 kronor, where the tax savings would amount to more than 2,000 kronor.

The resultant revenue losses of some 4 billion kronor would, according to the proposals, have to be made up by the employers, who would pay higher payroll taxes (5.3 instead of 4%) as well as higher social contributions (including that portion of the health insurance contributions

Tax Reductions *(contd.)*

now paid by the employees). However, according to reports from Stockholm, this does not constitute the committee's final recommendation, since the non-socialist members have spoken out against it.

Earlier last month, the government also approved establishment of a special committee composed of legislators and labor representatives that is to find ways of alleviating the country's unemployment problem. The committee has been given a deadline of year-end 1975 to submit proposals on the creation of an additional 300,000 jobs, on training programs, etc.

EURO COMPANY SCENE

EDF/ Creusot-Loire

Electricité de France (EDF), the French state electrical utility, has announced the award of a major series of contracts for construction of 12 900-Mw nuclear power stations, with options for four more, to Creusot-Loire-Framatome, the French licensee of Westinghouse Electric Corp. Investments for the project, the most ambitious ever undertaken by one engineering group in the French atomic energy sector, are expected to total about FF 20 billion. Construction is to begin this year and be completed by 1980.

Usinor/ Chessie

According to a newly signed agreement, France's Usinor steel is to invest $33 million in exploitation of a coal mine in Virginia owned by Chessie System, a U.S. mining company. The French group thus expects to secure a supply of 1 million tons of coking coal yearly from the Virginia mine, the equivalent of about one-fifth of total French coal imports last year.

ENI

The new national oil program submitted by Italy's CIPE (Interministerial Committee for Economic Planning) will accord the state-controlled ENI energy holding preferential treatment regarding the supply, processing, and marketing of petroleum and petroleum products. Further, refining companies that offer the best guarantees on oil reserves will be similarly favored. The plan also calls for the government to set annual prices for petroleum products based on crude, transport, and processing costs. To insure domestic supplies, ENI - which is estimated to command about 41.4% of the Italian oil market - will obtain increased deliveries of crude and will enlarge its tanker fleet. In case of shortages, ENI will also be empowered to procure crude on behalf of the Italian government. CIPE anticipates that national crude oil requirements will reach 166 million tons yearly by 1980 and 210 million by 1985.

Rockwell

The Rockwell group of the United States has formed Rockwell International GmbH as a holding company for its German operations, which include a number of subsidiary firms.

Burlington/ Stoffel/ Legler

Burlington Industries, Inc. of the United States has agreed to sell one of its Swiss holdings, Stoffel AG of St. Gallen, to the Legler group of Switzerland for an undisclosed price. Burlington bought Stoffel eight years ago and invested over SF 30 million in reorganization of the textile company. However, poor earnings reportedly influenced the U.S. group to pull out. Two years ago Burlington made the first move in this direction by selling off one Stoffel holding, Weberei Lichtensteig. The new agreement apparently excludes Stoffel subsidiaries in Scandinavia and France. According to Swiss reports, Stoffel and Legler together will form the country's second-largest textile group after the Schoeller concern.

Ethyl/ Thyssen-Bornemisza/ VCA

A higher offer from Ethyl Corp. of the United States apparently has led Thyssen-Bornemisza Group NV of the Netherlands to drop its bid for a capital holding in VCA Corp. of Greenwich, Conn., a packaging producer. The German-Dutch financial group had offered $16.50 a share for at least 25% and maximally 40% of the 4.7 million outstanding common shares of VCA, but Ethyl topped this with a bid of $18.50 per common share, as well as $19 per share for preferred stock up to 250,000 shares.

Raleigh/ Heidemann

Tube Investments of the U.K., holding company for Raleigh Industries Ltd., reputedly the world's leading bicycle manufacturer (2 million units yearly), has taken over the plant facilities and product line of Gebr. Heidemann KG of Germany, maker of bicycles and bicycle frames. The price of the transaction has not been disclosed, but Raleigh is said to be investing some DM 5 million in its new acquisition. Last year Heidemann sold 30,000 bicycles; a total of 50,000 is projected for the current year.

Fitch Lovell/ David Greig

The U.K. meat-producing and supermarket group Fitch Lovell has made an agreed bid for the takeover of the David Greig retailing chain. The Greig group, some 14% of which is owned by Slater Walker, had previously been the object of a £10.75-million takeover bid by Combined English Stores. Fitch Lovell's move came within hours of CES shareholders' refusing to approve the bid, even though the original £10.75-million offer had been revised downward - with the consent of the City Takeover Panel - to £8.3 million.

Legal & General/ Assubel/Ago

Legal & General, the U.K.'s second-largest life insurance group, has signed a cooperative agreement with two leading Continental insurance concerns - Assubel, Belgium's third-

Insurance Cos. *(contd.)*

largest life insurer, and Ago of the Netherlands, No. 5 insurer in that country. Last year Legal & General concluded similar pacts with France's La Paix, Germany's Colonia, and Reale Mutua of Italy.

Otto Versand/ 3 Suisses

Otto Versand, Germany's second-largest mail-order concern, and 3 Suisses International, France's No. 2 mail-order house, have concluded a cooperation pact. Otto Versand is to obtain 25% of the FF 84-million share capital of the French group following the planned merger of the two 3 Suisses holding companies for domestic and foreign subsidiaries. The German company will also have an option on an additional 10% of 3 Suisses capital. The cooperation is to include 3 Suisses subsidiaries in Austria, Belgium, Germany, and the Netherlands.

McGraw-Hill/ Spiegel

McGraw-Hill has sold the remaining 2% it held in Germany's Manager Magazin Verlagsgesellschaft (the former Management and Marketing Verlags GmbH), founded in fall 1971, to former partner Spiegel-Verlag, now the sole owner. Early last year the U.S. company had reduced its original 49% stake to 2% and transferred its DM 47,000 nominal capital holding to the Spiegel group. The company publication, "Manager Magazin," reportedly has yet to break even.

Manufacturers Hanover

Manufacturers Hanover Trust Co. has announced it will soon open a branch office in Bucharest, Rumania. According to the U.S. bank, the operation will be the first full branch of a bank from a non-socialist country to be established in Eastern Europe, including the USSR. Manufacturers Hanover recently opened a new Swiss branch in Zurich.

British Land

British Land, the U.K. property development group, has concluded the first of two £13-million deals in the Netherlands, the biggest incursion by a British developer ever. The properties involve office blocks and shopping centers in The Hague.

Crédit Lyonnais

French bank Crédit Lyonnais plans to open a representative office for Scandinavia in Copenhagen. The Danish operation reportedly will handle international financing, leasing, and oil financing and will take part in industrial associations.

Common Market Reports

EUROMARKET NEWS

Issue No. 274 *April 16, 1974*

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Community: Another Try at Aligning Export Credit Policies

The European Commission has not yet given up all hope that the Council of Ministers will adopt at least one or two proposals of a whole series designed to harmonize national policies on export credit insurance, export guarantees, and export credits. Fixing a minimum 7% rate and maximum durations (five years for industrialized countries, 8.5 years for the East Bloc, and 10 years for developing countries) for export credits is still under discussion in the Council, and the objective is to draw the United States and Japan into a broader OECD agreement. In the face of the Council's slow advance, however, Brussels presently is engaged in a basic review of the entire subject.

The Council's December 1973 decision on improved and expanded consultation and information procedures in matters of export credit insurance, guarantees, and export financing did reflect some progress over a similar decision in 1965. But these procedures are likely to be applied for a limited time only, unless member state experts can come to terms on a narrowed-down draft regulation establishing common principles and administrative measures governing the duration of guarantees and export credits to certain industrialized third countries, including the East Bloc. In the financing of their exports to these countries, member state manufacturers would be put at least partially on an equal footing as far as credit restrictions are concerned, without some of the distortions of competition (*Common Market*

COMMON MARKET REPORTS, Issue No. 274, April 16, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Export Policies *(contd.)*

Reports, Pars. 3872.01 and 3872.07). Still, adoption of this draft regulation would not touch an even more controversial Commission proposal to harmonize interest rates on exports to industrialized third countries. This proposal - submitted in 1972 as the core of some seven drafts - continues to be the chief bone of contention for member state experts.

France: Export Aid Plans Pose Predicament

The French government is considering a number of steps to promote exports, aware of the fact that the de facto devaluation of the franc resulting from its independent floating will not stimulate exports enough to make up for this year's expected $3-4 billion foreign trade deficit caused by the high-priced fuel imports. But Paris must tread warily: any direct aids would be contrary to France's obligations under GATT and the Treaty of Rome (Articles XVI and 92, respectively). Treaty Article 92 prohibits state aids if they distort or threaten to distort competition and adversely affect trade between member states (*Common Market Reports, Pars. 2922.01 and 2922.13*). Seventy percent of French foreign trade is with the other Community partners.

France's predicament is compounded by the fact that even measures amounting to indirect aid could be expected to run into Community and GATT opposition, since such action might prompt other countries with large trade defici[ts] (like Italy or the U.K.) to follow suit.

Some of the French government ideas to be incorporated into the export promotion program are

- establishment of a special fund to reduce interest rates for credits obtained to increase industrial production capacities;
- financial aid totaling FF 250 million for investments made by French firms in oil-producing countries;
- liberalization of export credit insurance terms with respect to countries that under present policies are not considered a "safe" risk (for example, Algeria, Egypt, Taiwan, Rumania, Yugoslavia).

The European Commission is expected to focus its criticism especially on the first point.

Italy: More Curbs on Expansion of Credit Volume

The Italian government is continuing on the restrictive monetary course it adopted in mid-March with the raising of the discount rate along with certain added-value tax rates: the commercial banks have now been ordered to allow their credit volume to increase by only 15% over the next 12 months (March 31, 1975). This renewed extension of a low ceiling on credit expansion exempts only a few key sectors

Credit Curbs *(contd.)*

such as the health services and the state rail system. Hardest hit by the new restrictions should be local governments and public institutions, most of which are struggling with growing deficits, whereas private industry generally has been able to finance itself through its own expansion.

As part of the same package, Rome also announced that the recent increases in rail fares and postal rates will be followed by higher utility (electric power) rates.

In related news, the government has submitted its annual report on the country's economic performance last year, showing that the GNP rose by 5.9% in real terms - the highest rate in five years - to 80,574 billion lire. However, prices also rose by 12.4% on the average as compared to 6% in 1972. The higher cost of imports was dramatically reflected in the foreign trade balance, which slipped from a 928-billion-lire surplus in 1972 to a 1,603-billion deficit last year.

Britain: Prices Bill Proposes Heavy Food Subsidies

The Prices Bill, introduced in the U.K. House of Commons on April 3, provides for payment of subsidies totaling £700 million in order to contain rising food prices - notably for milk, butter, and flour. The Secretary of State would be authorized, by order, to regulate certain prices and profit margins of foods as well as retail prices of certain other "basic household necessities." This power would be in force until March 31, 1975, and could be extended by a further 12 months. Although the bill does not affect the general administrative system for the control of prices through the Price Code and the Price Commission (under the Counter-Inflation Act 1973), the commission is to be given wider powers to initiate action to restrain particular price increases, provided that these are of an "exceptional nature." In addition to including power for the eventual abolition of the Pay Board (in line with the government's pledge to encourage a voluntary as opposed to a statutory wages policy), the bill also empowers the Secretary to require retailers to mark prices - including unit prices - or display price lists.

The bill, formally implementing measures announced by the Chancellor of the Exchequer in the Budget last month, comes at a time when wholesale prices in Britain are soaring. Output prices of manufacturing industry have registered an annual rate increase of 36% during the first quarter of 1974, a surge that should be mirrored at the retail level within weeks.

Germany:
Bonn Concedes
More Ground
on Tax Reform

To sidestep yet another confrontation on tax legislation with the upper house of Parliament, the German government has altered its plans for revamping the children's allowance system, one of several innovations set out in the third part of the tax reform (*Doing Business in Europe, Par. 30,680*). Under the original concept, the taxpayer would have been able to reduce his tax liability by the pertinent allowance (the proposal is for DM 50 per month for the first child, DM 70 for the second, and DM 120 for the third and each additional child). The revised concept calls for direct cash payments to be made to the recipients through the government's nationwide network of employment offices.

Introduction of the original proposal probably would have resulted in a defeat for the Brandt administration on the argument in the Bundesrat that the tax reduction method would have meant even more work for the understaffed tax offices. This problem would not be as crucial for the employment bureaus, although implementation of the system initially could cause delays in the actual payments.

There will be no changes in the previously proposed amendment to abolish the present system providing for exemptions and (starting with the second child) cash payments. If passed, the legislation will spare employers some of the paper work but not reduce their financial burden: children's cash allowances would continue to be met from employer contributions, normally 1% of the payroll.

The entire costs to the government of the new allowance system - including the money for the first child as well as the higher administrative costs - will be about DM 5 billion annually.

Switzerland:
Higher Taxes
to Restore
Budget Balance

The Swiss government will submit to Parliament a transitional finance program aimed at regaining a budgetary equilibrium. Last year's Budget deficit amounted to SF 783 million, and the Finance Ministry warned that it could grow to SF 1.5-1.8 billion by next year unless counteractions were taken. Bern's proposals call for the turnover tax to be raised from 4.4 to 6% on the retail level and from 6.6 to 9% on the wholesale level. Based on the budget projections for this year, this would bring in an additional SF 1 billion in revenue annually to help compensate for losses in tariff revenue caused as a result of the free-trade agreement with the European Community.

Some increases also are planned for the direct federal income tax, despite the fact that these rates had already been drastically raised about a year ago. The proposal is for an increase in the maximum rate from 10.45 to 12% for individuals, and from 8.8 to 9% for corporations. Contrary

Higher Taxes (contd.)

to earlier intentions, the government has not proposed to eliminate the income tax progression on low and medium incomes - and this is where it could encounter heavy parliamentary opposition, especially by those factions that urge even higher maximum rates as a forerunner to the proposed wealth tax. (*Doing Business in Europe, Par. 30,626.*)

In other news, attempts to obtain agreement on national wage guidelines for this year have failed following labor union rejection of a proposal by the government's price monitoring agency recommending a 10% ceiling on wage costs for a 12-month period. The 10% rate was to have been inclusive of any cost-of-living compensation, bonuses, longer vacations, and other social benefits. The unions maintained that voluntary acceptance of such broad guidelines would conflict with the collective bargaining process and that it would place the burden of stability efforts "on the backs of the workers." Instead, the unions have urged that wage guidelines should be separately negotiated according to the special situation of regions and industrial sectors.

Norway: Economic Plan Includes Some Tax Cuts

An economic stability package proposed by Norway's Social Democrat minority government includes a 2% tax reduction as well as lower social security contributions (to equal about 1% of wages) for employees. These changes would take effect as of June along with raised pension benefits and children's allowances. Additional subsidies of half a billion kroner in support of food prices in May and June would be expected to slow price inflation by about 3%.

The combination of these measures, according to Finance Minister Per Kleppe, should result in a 3.5% gain in real terms for an average four-member family with an annual income of 40,000 kroner and expected wage increases of 12-14% this year.

In order to make up the resultant deficit of more than 1 billion kroner in the current budget year, Oslo said it would borrow abroad against Norway's future royalties from North Sea oil exploitation. Private industry also will have to bear its share by paying higher rates for electric power and by meeting its tax obligations sooner.

EURO COMPANY SCENE

Bayer/ Metzeler

Germany's Bayer AG chemicals is taking over industrialist Willy Kaus' majority interest in the Metzeler rubber group, Germany's third-largest tire producer, along with Metzeler's minority stake in Wolff Walsrode AG, in which Bayer already holds 52.5%. Terms of the transaction, subject to Federal Cartel Office approval, have not been revealed.

Bayer/ Metzeler *(contd.)*

The acquisition of Metzeler plus Bayer's interests, through the Corona holding company, in rubber producers Continental (62%) and Phoenix (35%) could be interpreted as giving Bayer a market-dominating position in the tire sector. Other considerations, however - such as Bayer's acknowledged wish to set up a major German tire concern - might influence the Economics Ministry to grant a dispensation from a possible Cartel Office veto of the Metzeler deal.

BASF

Germany's BASF chemicals group plans to invest some $80-90 million annually - double the investments for 1973 - in its U.S. subsidiary operations, chief of which is the New Jersey-based BASF Wyandotte Corp. Spokesmen for the German concern stressed the need to establish production and service bases as near the customer as possible: Wyandotte already operates 15 American plants and the BASF-Dow Chemical joint (50:50) venture, Dow Badische Co., 10. Last year the U.S. subsidiaries had sales totaling $522 million, a 22% increase over the previous year and 5.1% above the growth rate of the BASF group as a whole.

Solvay/ Hercules

Belgium's Solvay & Cie. has granted Hercules, Inc. of Wilmington, Del., a U.S. license for its new propylene polymerization catalyst system and the right to sublicense other American polypropylene manufacturers. In exchange, Solvay has received a worldwide non-exclusive license for Hercules polypropylene technology.

Synthetic Tube Producers

French antitrust authorities reportedly have accused four leading manufacturers of synthetic tubing - Armosig (joint subsidiary of Rhône-Progel and Vallourec), Tréfimétaux (PUK), Eternit-Industrie, and Pont-à-Mousson (Saint-Gobain) - of participating in illegal agreements with each other. Armosig accounts for some 35% of France's FF 600 million-a-year synthetic tube market, Pont-à-Mousson 25%, Tréfimétaux 20%, and Eternit 10%. The rest is divided among some 10 smaller companies.

Zanussi

Hard on the heels of the Fiat and Montedison wage settlements, Italy's Zanussi, leading European producer of home and electrical appliances, has also concluded a new labor-management contract that it considers highly burdensome. Negotiated with the engineering union FLM, the deal offers average across-the-board pay increases of 20,000 lire monthly for the group's 25,000 employees as well as extensive social benefits, alterations in work schedules, and diversification plans. Zanussi reportedly is Italy's No. 2 private employer in the engineering sector. In January AEG-Telefunken of Germany acquired a 20% interest in Industrie A. Zanussi SpA, holding company for the group.

Norbottens

Controversy is brewing in Sweden over plans by Norbottens Järnverk Ab (NJA), subsidiary of the state industrial holding Statsföretag, to invest some 3.8 billion kronor in construction of a new semifinished-steel plant with an annual capacity of 4 million tons at Börstskär-Lulea, a port city in northeastern Sweden. The project would represent the largest single industrial outlay in the country's history. At least half of the financing must be met by public funds - from Statsföretag, regional development loans, and other state guarantees; the remainder would have to be raised on the capital market.

Opponents of "Steelworks 80" argue that the project would be capital- rather than labor-intensive and would require tremendous subsidies for improvement of the local infrastructure. They also dispute NJA estimates of the profitability of the proposed steelworks, particularly in view of anticipated competition from other semifinished-steel producers in western Europe, South Africa, and Brazil. On the other hand, the advantages of a Lulea plant would include proximity to the Kiruna and Malmberg iron mines, cheap hydroelectric power, and a plentiful labor supply. Parliament is expected to decide on the proposal next month.

DSM

A commission appointed by the Netherlands Economics Ministry has recommended closure of the country's last two remaining state coal mines in Limburg Province by Dec. 31 of this year. The study backs the plan of the government-controlled DSM mining group to shut the mines because of an inadequate labor force in the area and the major costs that continued production would entail.

Wild Heerbrugg/ Leitz

With the purchase of an additional 26% share package for an undisclosed sum, Wild Heerbrugg AG instruments of Switzerland has increased its two-year-old 25% holding in Germany's Ernst Leitz GmbH, makers of precision optical, photographic, and measuring equipment, to a majority 51%. The two firms plan a closer cooperation, with intensified rationalization and coordination of their product lines, particularly in the areas of microscopy and metrology. The Leitz family, which built the company's reputation mainly on the "Leica" camera line, explained the link-up with the Swiss partner in terms of capital requirements for future diversification and expansion. Last year Leitz boosted its turnover by 10% to DM 194 million, 62% of this from exports.

Beecham/ Spret

The U.K.'s Beecham Group confirmed on April 8 that it has taken out a writ against Spret, the drugs subsidiary of French metals and chemicals giant Pechiney-Ugine-Kuhlmann, in order to prevent Spret from marketing the antibiotic Ampicillin. The U.K. group has a French patent on the drug

Beecham/Spret *(contd.)*	that expires in 1980 and markets Ampicillin through its licensee Bristol-Myers and a French company.
Intercoop	The Intercoop group of Italy has been awarded a contract valued at about 27 billion lire for construction of a major fruit and vegetable storage and distribution center in East Berlin. Dutch and Swedish groups had also competed for the East German project.
McCain Foods	McCain Foods Ltd. of Canada has announced it will build a 26 million-guilder plant for potato processing in the Netherlands at Lewedorp. The first stage of construction is to be completed by 1975. Eventually, the plant will employ 600.
Confood/ FMS/ Ralston Purina	Confood Management Services, Dutch industrial catering specialists, has taken over Food Management Services (FMS) of the Netherlands from Ralston Purina for an unspecified price. Last fall the U.S. group sold off its 45% interest in another Dutch foods company, MCA Van Hecke canteen management.
FNCB/ Fimen	First National Overseas Investment Co., a wholly-owned subsidiary of First National City Bank of New York, has acquired Fimen SA of Belgium, a consumer and mortgage finance company, for an undisclosed sum. Fimen has total assets exceeding BF 300 million and operates 15 offices througho[ut] Belgium.
Creditanstalt	Austria's leading bank, Creditanstalt Bankverein, reportedly will become the first foreign bank to establish a permanent representation in Budapest. The office is to promote trade between Austria and Hungary and will provide access to the services of Creditanstalt's international banking partners, including the EBIC group.
Commerzbank	Commerzbank of Germany has applied to open a second U.S. branch office in Chicago, supplementing its current operation in New York.
Team-BBDO/ Böltz	German advertising group Team-BBDO, 71.5%-owned by BBDO International, New York, has taken a 43% minority stake in the Friedrich Böltz GmbH & Co. agency of Hamburg.

Common Market Reports

EUROMARKET NEWS

Issue No. 275 *Report No. 237, April 24, 1974*

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Community: Follow-up [illegible]ing in [illegible]AM Case

In a further decision involving Belgium's SABAM case, the European Court of Justice ruled on March 27 that a company holding a national monopoly on music copyrights must have a sufficiently strong market position to protect the rights of its associate composers and authors against the principal users of these copyrights, i.e., radio and TV stations and networks, recording producers, moviemakers, etc. Provided it can afford this protection, there is no objection - on the basis of EEC competition rules - to composers' signing over a large part of their rights to the copyright company on its terms. However, the Court also emphasized that a copyright company would abuse its monopoly position under Treaty Article 86 (*Common Market Reports, Pars. 2111.03 and 2111.07*) if it restricted a composer's freedom to an unjustifiable extent. This would be the case, for instance, if the company maintained a hold on the composer's rights even after he was no longer an associate. Here, the Court has followed the European Commission's view reflected in its past and current actions against national copyright companies and radio stations (*Common Market Reports, Par. 2111.37*).

These guidelines laid down by the Court may be of only limited help for the district court of Brussels, which had asked the Community tribunal for clarification on SABAM's possible abuse of its monopoly, the basis of the suit brought by BRT, Belgium's radio and TV station, in the

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

COMMON MARKET REPORTS, Issue No. 275, April 24, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

SABAM *(contd.)*

Brussels court. The Court of Justice ruled that it would not be enough for the Belgian judge to ascertain SABAM's abusive practices in both its charter and contracts with composers. He would have to determine whether there was evidence that SABAM's charter and contractual practices, if held abusive, had actually been applied to the particular SABAM-composer contract in dispute before the court. Only if this were corroborated could the district court void that contract under Treaty Article 86 and accord damages, the Court of Justice ruled.

Italy: Market Reform Alters Dividend Taxation System

As part of a "small" stock market reform, the Italian government has issued decrees changing the dividend tax system, establishing a regulating agency to be patterned on the U.S. Securities and Exchange Commission, and imposing a 3% maximum limit on interlocking corporate stock ownership. The reform law, in the form of nine articles, is subject to retroactive approval by Parliament.

The government's most immediate measure, which took effect on April 9, reintroduced the dividend withholding tax that had been applied in an experimental form in the years 1964-67 but was then scrapped. The tax rate is a flat 30% on dividends at the source and applies to all investors, individual or corporate. It subjects dividend income to virtually the same tax treatment as in other European countries, an objective sought by Treasury Minister Emilio Colombo as another way to combat the outflow of capital from Italy. The withholding tax replaces the 5% rate so far paid by Italian dividend earners as a "downpayment" toward their subsequent income tax assessment. The old system exposed these share owners to rather harsh income tax treatment as "investors" and required their registration with a central file in Rome. Pending clearance of the new measures with the European Commission, dividend earners will be given the option of the 5% rate in combination with the income tax assessment or the 30% flat rate.

Contrary to earlier reports, the reform apparently does not include plans to halve the 30% withholding tax on dividends and interest applying to nonresident investors. The provision for a 15% rate merely concerns "other" capital income, as a closer comparison of existing law and the new reform decree has shown.

The Italian version of the SEC is to involve a five-member watchdog commission that will oversee all stock market dealings and prevent illicit transactions. However, the full extent of the commission's powers is yet to be defined.

Finally, the new measures on limited cross-holdings are directed mainly at companies established before 1942

Market Reform *(contd.)*

and thus so far exempt from the civil code provisions barring such *partecipazioni incrociante*.

Along with the introduction of the stock market reform decrees, the government has tentatively suspended its announced plans to raise value-added tax rates for non-alcoholic beverages and luxury products.

Party Subsidies Bill Approved by Deputies

The Italian Chamber of Deputies on April 9 approved draft legislation providing for public financing of political parties represented in Parliament; the measure was then sent to the Senate. Calling for total subsidies of 45,000 million lire annually, the legislation was drafted to weaken the corruptive system that practically forces politicians and parties to depend on contributions (and bribes) from public organizations and industry and business lobbies.

The law is being given accelerated parliamentary treatment in view of the allegations of large payoffs by oil companies and the existence of a secret slush fund at Montedison, the chemical concern. These charges are now being investigated at both the parliamentary and the judicial levels.

France: ftists Plan r 'Some' Nationalization

With the May 5 presidential elections moving closer, much of the French business community's interest remains focused on the joint program of the country's leftist parties, which are given a distinct chance of ending 16 years of conservative Gaullist rule. It has been assumed that the Socialists, Communists, and left-wing radicals by and large would stand by their joint platform adopted in July 1972 for the 1973 parliamentary elections and which called for a sweeping nationalization drive among other severe economic measures. Thus, François Mitterand, the joint candidate of the leftists, was assured of attentive audiences when he outlined his own program upon formally accepting his candidacy on April 8 and subsequently in a press conference on April 12.

To the relief of many, Mitterand took a far more moderate position in his statements than could have been expected. Rather than demanding the blanket nationalization of all key industries and a state economy, the candidate favored total state control of "only" nine companies as well as the banking and credit sector. The companies actually named were Dassault (aerospace), Roussell-Uclaf (pharmaceuticals), Rhône-Poulenc (chemicals), ITT-France and Honeywell-Bull (electronics), Thomson-Brandt (electrical), as well as Péchiney-Ugine-Kuhlmann, Saint-Gobain-Pont-à-Mousson, and Compagnie Générale d'Electricité (CGE). These, presumably, are the "monopolies" that, according to

Leftist Plans *(contd.)*

Mitterand, have "liquidated their competition by eliminating the small and medium-sized companies" in their respective sectors. In addition, the candidate proposed state majority holdings in the large corporations engaged in the steel, oil, transport, and utility industries.

As to the short-term economic policy of a government that he would head as the President, Mitterand said it would include strict price controls, tax modifications in favor of basic necessities and against luxuries, and a FF 10-billion loan to pay for increased social benefits.

In view of these pronouncements, most observers agreed that - with the exception of the nationalization issue - the controls placed on the nation by a Mitterand government would not dramatically differ from the restrictions already imposed on the economy. In fact, the candidate explicitly came out in support of private enterprise, calling on French industry to remain competitive and to seek its chances on foreign markets. As concerns the specter of nationalization, it was believed that a Socialist-Communist administration would have to be wary of the consequences for the entire French economy that a series of expropriations would entail.

Britain: Accountants Again Reject EC's Proposal

Accountants in the U.K. have expressed dissatisfaction with the amended proposal of the European Commission for a fourth directive on the presentation and contents of the annual accounts of limited liability companies. "Accountancy," the journal of the Institute of Chartered Accountants in England and Wales, notes in this month's issue that the proposal is "regrettably, with one or two exceptions, very much the same old prescriptive German-orientated document which has already attracted so much British criticism." The draft is at *Common Market Reports, Par. 1391.*

Ostensibly, the original draft of November 1971 was to be changed to accommodate law and practice in the new member countries. In fact, the proposal does contain "one significant advance or, more aptly, concession" in respect of Britain, namely, that annual accounts should give "a true and fair view of the company's assets, liabilities, financial position, and results," instead of the stipulation that they "should conform to the principles of regular and proper accounting." However, U.K. observers continue to be dismayed by the (German-inspired) valuation rules and by the proposed standard layouts of accounts.

The valuation rules, which would require that companies write off goodwill, R&D, and formation expenses "over a maximum period of five years," are regarded by the Institute's technical director as insufficiently flexible. A partner in a major international firm of accountants went

Accountants *(contd.)*

further: he hoped that the valuation rules were "still negotiable to the extent of being removable."

The layouts, which would require two sets of accounts for the balance sheet and four for the profit and loss account, do not remotely resemble current British practice, and the Institute has stressed there is the possibility of an "intolerable situation," in that many companies would be obliged to publish two sets of accounts, "one of which would be for the sole benefit of the European Commission."

Finally, U.K. accountants are puzzled by the absence of any provision for consolidated accounts, although it is noted that a two-man commission is working on a draft directive on these that should be ready by the end of 1974.

Germany: Amendment on Contracts Aids Consumers

Consumers in Germany stand to gain significantly from an amendment to the Code of Civil Procedure (*Zivilprozessordnung*) prohibiting the seller from including in the terms of sale a clause that gives jurisdiction to the court at the seller's domicile in the event of a dispute arising out of the sales contract. Such clauses still remain permissible in sales between German companies, however.

In the area of international sales, on the other hand, the amendment to the Code of Civil Procedure leaves considerable freedom for the parties to tailor contracts to their specific needs. Both businesses and individuals have much leeway in designating a court of jurisdiction in either of the respective countries should a dispute arise out of their contractual relationship. There is just one condition: an agreement on jurisdiction must be in writing or an oral agreement must be confirmed in writing.

When an agreement has been made subsequent to a dispute, the parties have even more discretion in assigning jurisdiction to a particular court, in accordance with the 1968 EEC Convention Relating to Jurisdiction of Courts and Enforcement of Judgments in Civil and Commercial Matters, which took effect for the original six Common Market countries on Feb. 1, 1973 (*Common Market Reports, Par. 6003*).

U.S. Chamber Accused of 'Intervention'

The recent warning by the American Chamber of Commerce in Germany that the Bonn government's proposed co-determination legislation may be in violation of international treaties continues to stir resentment in Germany. The German Federation of Labor (DGB) accused the Chamber of "massive intervention" in the country's internal affairs and issued a warning of its own that the Chamber should not carry to Europe "the policies American concerns are pursuing in some Latin American countries." An official of the Ministry for Economic Cooperation in Bonn also spoke of "intervention" and rejected as "absurd" the Chamber view that the proposed law would violate the terms of German-American

U.S. Chamber *(contd.)*

trade agreements. Co-determination, according to the spokesman, would provide employees with more information and thus help avoid strikes. This would also benefit U.S. companies, which at home have to cope with 30 to 40 times as many strike actions per 1,000 work hours as in Germany.

In an April 10 reply specifically to the DGB statement, the American Chamber emphasized that it is not seeking "special treatment" for its members or U.S. companies and again objected to the proposed legislation as damaging to the trade and investment relations between the two countries.

EURO COMPANY SCENE

GM Spain

Automobile manufacturers in Spain are said to be pressuring the government to block General Motors' prospective acquisition of 98.3% of Authi from British Leyland for $61.5 million. Expansion-minded car producers Seat (owned jointly by Fiat and the Spanish government), Renault, Citroën, Chrysler, and Ford are anxious to keep GM off the market, which has showed signs of slackening this year. On the other hand, if Madrid classifies the Authi takeover as a new project, GM will have to split a 10% domestic sales quota for newcomers with Ford and perhaps other companies as well, a situation the U.S. auto makers hope to avoid. The Spanish government, for its part, is reportedly in a quandary, since GM's presence could mean investments of as much as $800 million, some $300 million above what Ford has earmarked for its approved Valencia project.

Ford France

Ford France is planning to invest FF 500 million in a second production plant at Blanquefort near Bordeaux. The factory, to be completed by the second half of 1976, will employ about 1,700 and will produce 320,000 gear boxes a year for export.

Miles Druce/ GKN

The directors of the U.K.'s Miles Druce, the industrial and steel-stockholding group that has just announced preliminary results for 1973 showing a 43% increase in sales and double pre-tax profits over 1972, has indicated "with great reluctance" that the company will not exercise its right of appeal to the European Court in respect of the controversial bid of 198p per share made by Guest, Keen and Nettlefolds.

Davy/ BRC

The U.K. Monopolies Commission has ruled that the merger proposed between Davy International's rollmaking business and British Rollmakers' Corp. would be "against the public interest." The Commission ruling is unusual in one respect: it was made on an intention and not on an actual

Davy/BRC *(contd.)*

bid. In the Commission's view, Davy would be the sole beneficiary of such a merger inasmuch as the company's export earnings would be boosted and its asset base increased. It also would be "undesirable" if Davy continued to own "a substantial shareholding" in BRC. Surprisingly, however, the Commission has not clarified this point, and there is considerable doubt as to whether Davy would be obliged to divest itself of its present 30% stake (and take a hefty loss of some £2 million) or whether it would simply be required to reduce its participation.

Crest/ Ashbourne

The limitations of the power of the U.K. Takeover Panel may well be highlighted again in the case of Crest International Securities' 46p-per-share bid for the outstanding equity of Ashbourne Investments. Crest had been obliged under the Takeover Code to make the bid once its holding in Ashbourne reached over 40%. A director of one of Crest's subsidiaries is now seeking an injunction against Crest to prohibit the offer subject to its first being approved by an extraordinary general meeting. If the injunction is secured and there is a vote against the bid at the shareholders' meeting, the Panel will be faced with a clash between its rules, which are voluntary, and the shareholders' decision, which is binding in law.

GE Europe

General Electric Co. has announced several reorganizational measures in Europe. GE's Europe Business Division will transfer from Geneva to expanded headquarters in Brussels. Under general manager Richard W. Foxen, the division will oversee company operations in western and eastern Europe, North Africa, and the Middle East. GE also has set up a new European sales organization for its power generation division. Allan E. Matlick, former president of GE-France, will head this group, which includes the company's nuclear energy, steam and gas turbine, and marine engine activities.

Philips/ Siemens

NV Philips Gloeilampenfabrieken of the Netherlands and Germany's Siemens AG have agreed to expand their cooperation in the semiconductor sector dating back to 1959. The agreement between the two firms will now cover integrated circuits as well as single semiconductors (transistors and diodes). Philips and Siemens exchange patent licenses and know-how in the areas of development and production, but their collaboration does not include manufacturing and sales.

Technip/ Procofrance/ Petrosul

Two French engineering companies, Technip and Procofrance, a subsidiary of Procon of Des Plaines, Ill., are joint (50:50) recipients of a $200-million contract to design and build an oil refinery for Petrosul of Portugal. To be lo-

Petrosul *(contd.)*

cated at Cape Sines, 85 miles south of Lisbon, the refinery will have an annual capacity of 10 million tons of crude, doubling Portugal's present refining capacity when it is completed in mid-1976.

Brown & Williamson

British-American Tobacco's U.S. subsidiary Brown & Williamson has announced plans to construct a new cigarette factory and tobacco storage facilities at Macon, Ga. The plant will be ready for operation in 1976. Total investment is estimated at $150 million.

Weber/ F.A.O. Schwarz/ W.R. Grace

Franz Carl Weber AG of Switzerland, leading European toy retailer, reportedly has acquired a majority interest in F.A.O. Schwarz, the New York-based toy store chain, from W.R. Grace & Co. for an undisclosed sum.

Kühne & Nagel/ Avis

Kühne & Nagel Reisebüro GmbH, leading German travel agents, has signed a cooperative agreement with Avis Autovermietung GmbH, subsidiary of Avis car rentals of the United States. According to Avis, the two firms will organize joint training projects and seminars and will coordinate advertising campaigns. Kühne & Nagel will also handle Avis rentals through its network of travel bureaus.

Nikko Securities

Nikko Securities Co. Ltd. of Tokyo, Japan's second-largest brokerage house after Nomura, has opened a new European subsidiary in Luxembourg. Capitalized at LF 300 million, the office will handle all normal banking activities except for short-term loans and will emphasize medium- and long-term credits for European and Japanese companies operating abroad. Nikko has other branches in Frankfurt, London, Paris, and Zurich.

Internor

Philadelphia International Investment Corp. (PIIC), 100% subsidiary of Philadelphia National Bank; Williams & Glyns Bank Ltd.; Italian International Bank Ltd. (of London), and Banco del Noroeste of Spain have set up a joint venture to operate in the Spanish financial services sector, Internor SA. Banco del Noroeste, a private investment bank, controls 50% of the new company's equity, with the remainder divided among the other three partners.

Common Market Reports

EUROMARKET NEWS

Issue No. 276 *April 30, 1974*

IN THIS ISSUE

Community: In a State of Suspension

If any more evidence was required to document the European Community's current state of suspension it was provided by the circumstances of the informal weekend get-together of the foreign ministers on April 20-21 at Gymnich Castle near Bonn. Belgium's Renaat Van Elslande was kept home by the government crisis, Ireland's Garrett FitzGerald had to leave early, and France's Michel Jobert represented a lame-duck administration. No decisions had been expected anyway, and none were taken. The affair merely afforded a gentle *tour d'horizon* of Europe's assorted ailments that carefully avoided the sorest spots, most of all British "hostility" toward the Community.

Only the most optimistic observers are now expecting any definitive action on the European scene before the end of June or early July. By that time the presidential elections in France will have resulted in a new government, the makeup of which obviously will have a crucial bearing on the EC's future progress or lack of it, in particular since the French will assume the chairmanship of the Council of Ministers for the latter half of 1974. The present constellation also virtually rules out another European Summit, which the Germans (as the incumbent head of the Council) normally would have called during their tenure.

Should the Gaullists remain in power in France, there are faint signals that Paris will yield on at least some of the issues considered vital to the European partnership. One of these could be the question of consultations with Washington on important political matters such as an EC-

COMMON MARKET REPORTS, Issue No. 276, April 30, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $385 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

EC Suspension *(contd.)*

Arab dialogue, and here Jobert reportedly had shown himself a little less rigid at the Bonn meeting. But at the same time he shrugged off all suggestions of conciliation toward the U.S. in regard to the GATT trade talks going on in Geneva. Paris' refusal to budge on certain tariff positions so far has prevented the Council from arriving at a joint decision to be presented in Geneva. Under these circumstances, Washington's motion to extend the original June 30 deadline by two months has been gratefully accepted. It grants a period of respite and reflection in more ways than one.

Britain: Wilson Opts for Referendum on EC Issue

In a letter addressed to the chairman of the Common Market Safeguards' Campaign, the British anti-EC membership group, Prime Minister Harold Wilson has stated that there will "almost certainly" be a national referendum early in 1975 to clarify the issue of the country's continued membership in the Community. No exact timetable for action has been drawn up, but the Wilson statement at least settles the question of referendum versus general elections. The Prime Minister did not indicate, however, whether the referendum would be mandatory or purely consultative. Much will depend also on the timing of the next general election which, most observers believe, will come later this year.

Domestic reaction to Wilson's statement was immediate: the country is clearly divided on the issue, and there are signs that the Safeguards' Campaign (which argues that the cost to the U.K. of EC membership has been crippling in terms of rising food prices and a widening trade deficit with the original Six) will enjoy widespread support. Reactions elsewhere within the Community were, if anything, more readily pinpointed. The Germans, who are already picking up the tab for French, Dutch, Danish, and Irish farmers, obviously will not relish the prospect of shouldering further burdens should Britain successfully negotiate a reduction in its net contribution to EC funds. The Danes, with one referendum on membership already behind them, were reportedly calling for a second. Ireland, by contrast, has no plans to withdraw. During the original membership negotiations Ireland's position had been contingent on that of the U.K. This has now changed: there has been a dramatic shift of emphasis away from dependence on Britain and, according to Foreign Minister Garrett FitzGerald, the economic advantages of membership are "very great indeed."

Netherlands: '74 Forecast for Economy; Business Angst

The Dutch government does not expect the Arab oil boycott against the Netherlands to last much longer, and Prime Minister Joop den Uyl said encouragement also has come from the fact that oil imports have been developing favorably lately. The volume for the first quarter was only 100,000 tons below that of the comparable 1973 period. Still, the high cost of oil and raw material imports will have a considerable impact on the country's foreign trade balance this year: the value of all imports should rise by about 25% (in guilder terms), whereas export prices should go up by about 18%, according to the 1974 economic forecast only recently issued by the state Central Planning Bureau (CPB). In all, Holland's trade position is expected to deteriorate by an "exceptionally large" 6%, equal to about 5 billion guilders.

Other CPB predictions for the Dutch economy this year include only slight rises in industrial production (2.5%) and investment (2%), nominal wage increases of 14.5% as compared to 15% last year, and a 10.5-11% rise in consumer prices (1973 = 8%). The CPB report indicated that Holland's balance-of-payments surplus would be halved this year, although this would still mean a comfortable cushion of between 2 and 2.5 billion guilders.

Meanwhile, representatives of small and medium-size business and industry have protested the provisions of the wage and tax legislation that the government has submitted to Parliament under the special powers authorization. As a consequence of this program, these businesses would be confronted with wage-cost increases of up to 20% and the retail sector specifically with rises of up to 30%. The dire situation of the retail trade was exemplified by the closure of some 5,000 stores and shops last year, while the construction sector alone accounts for some 32% of national unemployment.

Among the demands put to a parliamentary committee by business representatives have been speedy and effective government measures to provide some relief, including a "correction" of tax rates to allow for inflation, a relaxation of the rules requiring a mandatory delay before higher costs may be passed on in prices, better write-off terms for new investments, and various improvements in the area of social security and health insurance.

Germany: Legal Queries on Capital Ownership Plans

A number of legal scholars, whose views often have considerable influence on legislative plans in Germany, have raised questions on the constitutionality of Bonn's proposal to broaden capital ownership to benefit employees and the self-employed. The measure would subject companies' after-tax profits beyond certain limits to levies of up to

Ownership *(contd.)*

10%. The revenue, expected to total DM 4-5 billion annually, would be paid into decentralized funds and redistributed to recipients through certificates. The critics, mainly law professors, cite constitutional provisions whereby the government may expropriate but must compensate (Art. 14), may initiate legislation to impose taxes for purposes of raising revenue (Arts. 72 and 105), may regulate businesses (Art. 74.11), and may establish rules governing employment and related matters (Art. 74.12). The scholars argue that the profit-sharing plans do not fit any of these permissible categories. They maintain that the levy is not a tax introduced to yield revenue and that Bonn may not invoke Art. 74 either (which empowers the government to legislate not only labor and social security matters but also to control a broad range of business activities). The argument is that the levy would be unrelated to employment because self-employed persons would benefit as well. Furthermore, the measure would not be regulative for businesses but would aim to redistribute wealth.

These doubts over the constitutionality of the proposed *Vermögensbildungsgesetz* could be eliminated by way of an amendment to the Constitution. But it is unlikely that the Opposition parties would agree to that; they are not basically against redistribution of wealth but favor a different approach, putting the emphasis, for example, on profit sharing offered by individual enterprises.

Aside from the question of constitutionality, the Brandt administration would face several technical problems, one of which is an equitable assessment of some 20,000 companies, the shares of which are not traded. According to current proposals, companies with annual net profits ranging from DM 400,000 to 1 million would be subjected to a levy varying from 1 to 10%. Beyond that, the assessment would be a flat 10%. Payment would be either by share transfer or cash remittance.

France: Official Study on Foreign Participation

Government statistics on foreign participation in French industry traditionally have been sparse and inconclusive, and so a recently published Industry Ministry study on the subject has been welcomed as a first official attempt to offer a fairly realistic and comprehensive evaluation. The study - reflecting the situation as of Jan. 1, 1971, and not including the food and construction sectors - shows that as of 1970/71 there were 980 companies (out of a total of 42,506) in which foreign equities exceeded 10%. More important, these companies reported turnover of FF 108 billion as compared to the national total of FF 421 billion and production investments of FF 8.5 billion (FF 33 billion).

Participation *(contd.)*

These general data provide, of course, no information on the extent of equity beyond the 10% margin. Thus, the study made use of a special "interrelations index" showing that in 1970/71 French companies controlled from abroad accounted for 10.7% of employment, 16.1% of turnover, and 16.9% of investments in domestic industry. Based on turnover, the largest share of foreign participation was in the agricultural machinery sector (52.2%) and in the oil industry (51%), followed by the electrical and electronics sector (32.5), nonferrous metals (27.6), chemicals (24), precision instruments (23.3), vehicles (20.3), shipbuilding (17.8), and iron and steel (17.2). A similar order applied to employment and investments.

The fact that the employment percentage of foreign-controlled firms was much lower than both the share of turnover and investment is explained by these companies' general tendency to import more parts and semifinished products for their production as well as by their more efficient management.

On an index-adjusted basis, foreign participation in French industry as of 1970/71 was virtually divided between the United States and European Community member countries, which accounted for 7.2 and 7.4%, respectively, of the foreigners' 16.1% total. American investors held a minimum 10% equity in 370 companies and accounted for the employment of some 300,000, according to the study.

EURO COMPANY SCENE

BP/Texaco/ Esso/Shell

A running confrontation between German cartel authorities and the German subsidiaries of British Petroleum, Texaco, Esso (Exxon), and Shell over gasoline price increases has led to Bonn's considering whether to impose stricter reporting requirements on multinationals operating in Germany. The Economics Ministry is studying the possibility of an amendment to the competition law that would permit the government to disallow price increases whenever a foreign-based concern refused to open its records substantiating the validity of such rises.

Charging abuse of a market-dominating position, the Cartel Office had issued a temporary restraining order against the price increases imposed by BP and Texaco as of April 10. (The move was taken after both Esso and Shell agreed to suspend proposed 1 pfennig-per-liter increases until the cartel authorities have concluded their investigation of the oil concerns' pricing policies.) While Texaco complied with the order, BP filed a cross-complaint in the Berlin Court of Appeals, which was expected to issue its ruling shortly.

Oil Companies *(contd.)*

The price policies of the oil majors and reports of extremely high profits have led to accusations by the government, the political parties, and others that the oil concerns are endangering the free enterprise system. In the face of these attacks, the chairman of at least one of the companies, Deutsche Shell, did not rule out the possibility of reduced crude oil and gasoline imports for the German market, a remark that was interpreted as "a kind of blackmail" in some quarters.

Shell U.K.

The chairman and managing director of Shell Chemicals U.K. has announced his company's intention to halt the supply of industrial chemicals and plastics to the British market. He explained that, even though this would jeopardize production for Shell customers, the company had "no alternative but to sell in higher-return areas." The company, which earlier this year had been ordered by the Price Commission not to raise prices and to cancel increases already imposed, contends that sales in Britain do not allow it to maintain a commercially viable market. According to one report, Shell has been forced to sell polystyrene at £195 per ton, whereas BP has been allowed an increase on the same product to £290 per ton.

Schneider/ Marine-Firminy

Citing the European Court's GKN-Miles Druce judgment confirming the power of the European Commission to issue interim injunctions, the Commission has temporarily blocked merger proceedings between French steel companies Schneider SA, of the Franco-Belgian Empain-Schneider group, and Marine-Firminy SA. Last November Schneider gained a 34% shareholding in Marine, giving it virtual control of the company, but agreed to suspend its voting rights until April 15 so that the Commission could study the takeover. Marine had contested the acquisition on grounds that it violated a 1970 agreement between the two firms guaranteeing their equal participation in the joint subsidiary Créusot-Loire and preventing them from buying each other's shares to alter this relationship. The Commission must approve the proposed fusion, which is subject to the provisions of the EC Coal and Steel Treaty.

Hoffmann-La Roche

Swiss-based multinational pharmaceutical group Hoffmann-La Roche has contended that it will suffer losses totaling some £8 million (or £10,000 per day) if the U.K. government does not give an undertaking on damages should Roche win its main case against the Crown. Roche is currently appealing in the House of Lords against a Court of Appeal ruling last year that the government was entitled to an interlocutory injunction preventing Roche Products Ltd. from raising its prices to their original levels following a price-cut order on the tranquilizers Librium and Valium. This case, not to be heard until the end of the year, re-

Hoffmann-La Roche *(contd.)*	volves around Roche's attempt to have the price-cut orders thrown out. The question to be resolved is whether the government, if unsuccessful in the main case, would pay any damages that the court might deem just.
Merck	E. Merck pharmaceuticals of Germany has decided to appeal a Federal Cartel Office decision requiring it to lower its prices for certain high-potency vitamin B-12 preparations by 60-70%. The antitrust authority charged Merck with abuse of a market-dominating position in regard to these drugs. As proof, the Cartel Office cited lower prices for competing products as well as Merck's own lower charges to German hospitals and on the Swiss market.
German Breweries	In other developments, the Cartel Office has fined seven German breweries a total of DM 7 million for alleged collusion in setting price increases over a period dating back to January 1970. Nine company board members, executives, and shareholders were affected by the penalties. The breweries reportedly will not appeal.
Miller/ Löwenbräu	Miller Brewing Co., Milwaukee-based subsidiary of Philip Morris, and Löwenbräu of Munich have signed an agreement giving Miller U.S. distribution rights to the German beer. Starting in July, Miller will begin marketing Löwenbräu in the Midwest and West, an area formerly covered by the German company's San Francisco subsidiary. Later, Miller will handle sales for the rest of the country and may also start licensed production, depending on the international currency situation. As a result of this deal, Löwenbräu's longtime East Coast distributor, Hans Holterbosch Inc. of New York, has filed a $15-million damage claim for breach of contract.
GE/ Snecma/ CFM 56	General Electric and France's Snecma are setting up a joint aeronautical venture, CFM 56 International, to develop a new engine for civil aviation use. The project is expected to cost several hundred million dollars, including subsidies from the French government. The 22,000 lb.-thrust CFM 56 engine, designed for quiet and economical operation, is to be ready for service by 1978.
Dow Chemical/ Lepetit	According to press reports from Italy, Dow Chemical has decided to transfer management of its international pharmaceutical operations from Midland, Mich., to Milan, headquarters of its 80% subsidiary Lepetit SpA. Most of the U.S. chemical group's pharmaceutical R&D, production, and marketing activities are said to be concentrated in the Italian company, the country's second-largest drug concern.
Du Pont/ Rhône-Poulenc	Du Pont de Nemours (France) SA and Sté. des Usines Chimiques Rhône-Poulenc (SUCRP), of the Rhône-Poulenc chemical

Du Pont/SUCRP/ Butachimie *(contd.)*

group, have agreed to form a joint venture, Butachimie, to build and operate a plant for the production of adiponitrile, an intermediate product in the manufacture of nylon fibers and other synthetics. Investments for the new factory, to be located at the SUCRP plant site in Chalampé, northeastern France, are expected to top FF 400 million. Production is scheduled to begin in early 1977 and will total 100,000 tons annually.

Fraser/ Broadway-Hale

House of Fraser, the U.K. stores group currently the object of a takeover bid by the pharmaceutical group Boots, has reached an agreement with Broadway-Hale, whereby the American group will acquire some 20% of Fraser equity should the Boots move be blocked by the U.K. Monopolies Commission. Broadway-Hale purchased a small block of Fraser shares on April 19 for some £700,000. A 20% stake would involve some 24.3 million shares at 142.5p each.

3M Germany/ Bernsau

3M Deutschland GmbH, subsidiary of 3M Co., St. Paul, Minn., has acquired most of the assets, excluding the liabilities, of family-owned Papierfabrik F.J. Bernsau GmbH, one of Germany's top producers of thin printing paper. The Bernsau plant, with over 100 employees, will operate as an autonomous branch of 3M Deutschland.

Burmeister & Wain

Danish industrialist Bonde Nielsen has taken a 32 million-kroner stake in the 70 million-kroner share capital of Burmeister & Wain, the country's second-largest shipyard. Nielsen's acquisition should bring new financial stability to the company, which is to expand activities beyond shipbuilding to especially lucrative areas, such as the construction of oil drilling platforms, for which it has obtained a license from Livingstone of the United States.

Crédit Français/ Comco

French authorities have approved the acquisition of a 60% stake in the FF 5-million capital of Crédit Français, a private deposit bank, by Commercial Credit Co. (Comco), a subsidiary of Control Data Corp. of Minneapolis, Minn. Comco controls a number of banking and financial institutions throughout Europe, including Comco International Bank in Luxembourg and leasing companies in Belgium, France, Germany, Italy, the Netherlands, Switzerland, and the U.K.

Finter Bank/ Banque Blyth

Finter Bank Zurich International, a holding company owned by Italy's Italcementi-Italmobiliare group, has gotten approval from the French National Credit Council to acquire a majority in Banque Blyth of France, in which Blyth Eastman Dillon & Co. and Ina Corp. of the United States are principal stockholders. The bank will be renamed Finter Bank Zurich (France).

Common Market Reports

EUROMARKET NEWS

Issue No. 277 *Report No. 238, May 8, 1974*

IN THIS ISSUE

Community: U.S., Brussels Avert Deadlock in GATT Talks

The danger of a renewed trade war between the EC and the United States has lessened considerably now that both sides have retreated somewhat from their previous rigid positions. The European Commission has recommended that the Council of Ministers extend additional tariff concessions to the U.S. beyond those made last year and considered inadequate by Washington. The U.S. government in turn has extended by two months the June 30 deadline for agreement (or the start of retaliatory action). The aim of the long-drawn-out negotiations under GATT Article 24(6) is to find a way to compensate the U. S. for reduced exports to Britain, Denmark, and Ireland after the enlargement of the EC.

Brussels observers believe that the new deadline should give both sides sufficient time to produce a mutually satisfactory formula. But they also point out that presentation of the proposals by the Commission does not assure adoption by the Council. The Commission's offer is said to include additional concessions for agricultural commodities and machinery. France's unwillingness to yield on these points has been the major obstacle to an agreement, but under the threat of prejudicing some important French exports on the U.S. market Paris was expected to take a softer line after the presidential election (a run-off vote between Mitterrand and Giscard will be on May 19).

Washington's extension of the original deadline seems to have ended a purely legal war with the EC. Article 25 of GATT provides that, in the absence of an agreement, a

This issue is in two parts, consisting of 280 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 277, May 8, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $425 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

GATT Talks *(contd.)*

nation may not take retaliatory steps prior to expiration of the six-month period following the event entitling it to compensation. Community officials have agreed that the six-month period should start from the day the EC's tariff list is deposited with GATT in Geneva (this has not yet been done), while Washington considered Jan. 1 the date when the aligned common customs tariffs became applicable to U.S. imports.

Belgium: Two-Party Coalition Forms New Government

A vigorous fight against inflation at home and determination to promote the cause of continued European integration have been listed among the prime objectives of Belgium's new government, which finally took office on April 25 following weeks of fruitless negotiations among the political parties. The country's 23rd postwar administration rests on a minority coalition of the Social Christians and the Liberals headed by Prime Minister Leo Tindemans, and it succeeds the Socialist-led government of Edmond Leburton that had collapsed on Jan. 19 after one year in office. Early general elections had been held on March 10, but it took another six weeks for the formation of a government.

Tindemans, 52, a Flemish Social Christian, has come up with a 25-member cabinet in which his own party is represented with 16 ministers or deputy ministers and the Liberals with nine. Although the administration falls five seats short of a simple majority in the 212-seat lower house of Parliament, it is hopeful of the passive support of other regional parties, since it has pledged to grant more autonomy to the Flemish and Walloon parts of the country. Still, the Flemish faction outweighs the Walloons 14-9 in the cabinet (bilingual Brussels is represented by two cabinet members).

The Tindemans government is taking the helm at a time when Belgium's economy appears to be performing adequately. On the basis of the March indicators, the Economics Ministry regards the short-term outlook as encouraging, in view of record order backlogs for industry and fully utilized production capacities. The picture is not so bright on the inflation front, where the consumer price index rose by 3.7% in the first quarter as compared to 1.7% during the same period last year.

Ireland: Budget Plan Keyed to Wealth Redistribution

The Budget introduced last month by Ireland's Minister for Finance Richie Ryan places an emphasis on redistribution of wealth and has been described as "compassionate": the tax rate for the first £1,550 of taxable income is to be reduced from 35 to 26%, personal tax allowances and social welfare benefits are to be increased, no price increases are scheduled for beer and tobacco, and no restrictions are

Irish Budget *(contd.)*

due on luxury spending. For the first time some farmers are to come within the ambit of a reformed tax system.

In the course of the debate on the Budget it has emerged, however, that the new tax proposals - above all the wealth tax - are by no means to everyone's taste. The reform of the personal income tax structure was criticized by the Irish Congress of Trade Unions as being "minimal" in terms of real concessions offered to the lower paid. As regards company taxation (which is to be based on the imputation system), spokesmen for the Confederation of Irish Industry regretted that no direct tax relief has been proposed for the manufacturing industry and that the maximum tax rate has not been held to 65%. The decision to end the 20-year tax holiday on mining profits was also opposed by that sector.

Even greater opposition, from those in the higher income groups, has been registered in the case of capital taxation, i.e., a capital gains tax, an annual wealth tax, and a capital acquisitions tax on gifts and inheritances (*Doing Business in Europe, Par. 30,697*). Certain technical "defects" of the proposals have also been pointed out by leading accountants. Owners of private limited companies in particular are concerned over the valuation procedures upon which their tax liability will depend; they point to the judge's summation in the well-known Holt v. Inland Revenue case, where the valuations given by experts were acknowledged to be "simply guesswork."

The most controversial issue of all, though, is Dublin's decision to bring some of the country's farmers within the income tax net. The Irish Farmers' Association registered its misgivings at the prospect of all its members' being made liable "sooner or later."

These objections apart, most interested parties welcomed the closing of a number of tax loopholes and the removal of certain abuses: the amount of interest on loans allowed to qualify for tax relief is now to be restricted to £2,000 per year (borrowing for "genuine business activities" will continue to be unaffected); provision will be made in the Finance Bill to block "avoidance devices" as regards certificates of deposit; tax avoidance on land development profits will also be checked, as will relief falsely obtained by leasing undeveloped property at nominal rent. Finally, with effect from 1974-75, Irish residents drawing income from assets transferred abroad (especially to "tax havens") will be liable for tax on that income.

Britain: Bill Confirms Bad Tax News for Foreigners

The U.K. Finance Bill released on April 26 presents in a legal form certain of the proposals announced earlier by the Chancellor of the Exchequer in his Budget (House of Commons Bill 13, HMSO London, April 1974). The bill is in four parts and has 13 schedules. Part I provides for various customs and excise duty increases, Part II relates to income, corporation, and capital gains tax generally, Part III spells out new capital gains tax provisions in respect of the development and letting of land, and Part IV refers to such miscellaneous items as stamp duty increases and regional employment premiums.

The foreign business community was, of course, particularly interested in Sections 14-18 and Schedule 2 of the proposed legislation. As anticipated (or feared), the proposals made in the Budget speech and subsequent Treasury statements were confirmed: taxation on the "remittance basis" is to be discontinued (*Doing Business in Europe, Par. 23,811*). Depending on their period of residence in the U.K., foreigners working for foreign companies will be taxed on one-half of their income, whether remitted or not, or on 90% if they have lived in the U.K. for a period in excess of five years. Taxation of foreign income applies both to income tax and capital gains tax liabilities.

As announced in the Budget speech, the capital gains tax loophole by which assets are transferred from one company to another within the same group is to be closed with effect from March 26, 1974.

For U.K. nationals, however, the main import of the bill lies in the proposals to tax development gains from land and to treat first lettings as disposals for tax purposes. The formula for computing such gains is as follows: from the net proceeds of a "disposal," the seller will be allowed to deduct its original value marked up by 20% or its "current use" value marked up by 10%, whichever is more favorable. Exemptions may be provided in the case of small disposals, i.e., under Ł1,000, and partial relief is granted up to Ł2,000.

A second finance bill will be introduced later in the year, and one of its main features is expected to be the aggregation of a child's income with that of its parents (as formerly applied under the last Labour government).

Labor Relations Bill Heralds Reform Efforts

The publication on April 30 of the U.K. government's Trade Union and Labour Relations Bill (House of Commons Bill 31, HMSO London) marks the first step in the fulfillment of Labour's pre-election promise to reform radically labor relations in Britain. Above all, the bill is designed to repeal the Industrial Relations Act 1971, together with its concomitant institution, the National Industrial Relations Court (*Doing Business in Europe, Par. 23,921*). Certain provisions of the act in respect of unfair dismissal have, Labor Relations *(contd.)*

however, been retained and the net impact of the proposed legislation is less shattering than many had anticipated. Indeed, labor union spokesmen expressed considerable disappointment that certain of their demands had not been met - notably, stronger protection for pickets, an end to objection to union membership "on conscientious grounds," and reinstatement as an element of compensation made for unfair dismissal. The omission of these controversial items is evidently felt to be justified for the time being in the interests of expediting the bill's passage through Parliament.

The National Industrial Relations Court will be abolished as soon as the bill receives Royal Assent. This means that cases before the court up to April 30 will stand and will, if necessary, be continued in the High Court. On the other hand, cases brought after April 30 and still pending when the court is abolished will be abated. (This does not apply, however, to layoff or unfair dismissal cases.)

Generally speaking, the bill proposes to return the unions to their legal status prior to the 1971 act. Thus, the concept of "unfair industrial practice" would be abolished and unions would regain immunity against civil claims for damages. As to picketing, the bill proposes that "peaceful picketing" is to be considered legal. The bill also proposes to abolish the right to belong to a registered union, and there would no longer be a right not to belong (except on religious grounds). Further, no employee would be dismissed on the sole ground of union membership, whereas a worker would be liable to dismissal for refusal to join the appropriate union in a closed shop. In other words, the closed shop would once again be legal. The position under the 1971 act in respect of collective agreements is also reversed: Clause 14 provides that a collective agreement is not to be presumed a legally enforceable contract unless it specifically so provides. Any term in such an agreement prohibiting or restricting the right of a worker to engage in industrial action would not form part of any contract with a worker unless certain conditions (Clause 14(4) and (5)) were satisfied.

Italy: Rome Shocks Partners with Import Curbs

In a unilateral move to reduce its steadily growing balance-of-payments deficit, Italy has imposed drastic restrictions on about 40% of its imports from both the Community and third countries. Effective immediately, importers are required to make cash deposits equal to 50% of import-product value; these deposits are frozen with the Bank of Italy for a period of six months without earning interest. Exempted are imports of raw materials, fuels, Import Curbs *(contd.)*

and capital goods. A list of the products affected by the cash-deposit rule was still to be published. Further, Rome has limited the export of foreign exchange to the equivalent of 500,000 lire per person and year.

In regard to the sudden import curbs, the government based its decision specifically on Article 109 of the Rome Treaty, which allows provisional "protective measures" by a member state "where a sudden crisis in the balance of payments occurs..." (*Common Market Reports, Par. 3771*). The Rumor administration obviously believed it was left with no other alternative in the face of the lira's continuing weakness and the distinct chance of the payments deficit's doubling to 6,000-7,000 billion lire this year. Also, the cost-of-living index had risen by no less than 2.9% in March, which corresponds to an annual inflation rate of 35%.

The Italian announcement was received with shock throughout the Community, by the EC's agricultural ministers meeting in Luxembourg, and at the GATT conference in Geneva. Having been merely informed (on April 29) of the upcoming move by Italy's envoy to the EC, the European mission expressed its disappointment over Rome's failure to consult with Brussels and the other member governments prior to implementing the import curbs. This latest development, Commission officials said, served to confirm their fears that not even the viability of the customs union and free trade relations will be ensured without close coordination of national economic policies and joint anti-inflation measures. Other member state representatives in Brussels wondered why Rome had not appealed first to its EC partners for assistance under the provisions of Treaty Article 108 (*Common Market Reports, Par. 3761*) and why it had failed to take advantage of the available credit lines as one way of protecting its balance of payments.

EURO COMPANY SCENE

CII/ Unidata

Cie. Génerale d'Electricité (CGE), a major shareholder in France's semi-state-owned Compagnie Internationale pour l'Informatique (CII), has agreed to a new FF 20-million capital increase required to finance the computer company's 1974 contribution to Unidata, the joint EDP venture partnered by CII, Siemens of Germany, and Philips of the Netherlands. CGE had previously opposed such a move because of differences with its co-shareholder in CII through the holding Fininfor, Thomson-CSF. CGE's about-face and the new capital infusion should release an additional FF 60-million government credit designated for the Unidata project. Several weeks ago, in fulfillment of state planning objectives, CII shareholders had approved a FF 23-million

CII/Unidata *(contd.)*

capital boost and a FF 12-million convertible bond issue. As a consequence, the company was expected to become eligible for some FF 300 million in public loan subsidies.

CMC Italia

Computer Machinery Corp. of Los Angeles has set up an Italian subsidiary, Computer Machinery Corp. Italia SpA, with headquarters in Milan and a regional office in Rome.

MDS

Rising costs for wages, materials, and capital coupled with continual exchange-rate fluctuations reportedly have led MDS-Deutschland GmbH, subsidiary of Mohawk Data Sciences Corp., E. Herkimer, N.Y., to schedule a severe cutback in German production for spring 1975. At that time the company plans to transfer manufacture of current and new products to the United States. As a result, some 200 of the 410 employees at the firm's German plant will face dismissal.

Kaiseraugst

An engineering consortium led by the German subsidiary of Switzerland's Brown, Boveri & Cie (BBC) and General Electric Technical Services Co. (GETSCO) of the United States and including France's Sogerca (CGF group) and CEM (BBC's French offshoot) have signed a final agreement with the Swiss Kaiseraugst nuclear power station authority for the supply and assembly of the nuclear and thermal portions of the power plant. The contract, which had been stalled after first being negotiated in 1970, is currently valued at SF 870 million. The Kaiseraugst plant will require total investments of SF 1.7 billion and will have a 925-Mw capacity. It is to be completed by winter 1978-79.

Schering-Plough/Höppner

Schering-Plough Corp. of Bloomfield, N.J., has taken over Germany's Höppner-Cosmetic KG, a family-owned company, for an undisclosed price. The acquisition includes Höppner's wholly-owned subsidiary Ellocar-Cosmetic GmbH. Last year the German cosmetics group had sales totaling DM 20 million. Schering-Plough is active in the German drugs sector through its Munich holding, Byk-Essex Pharmazeutische GmbH.

International Paper/Bowater Italia

International Paper Co. of New York has taken over Bowater Italia SpA, subsidiary of Bowater Corp. Ltd. of London, to form International Paper Italia SpA. The new company, together with International Paper Co., which already operates three plants in Italy, will be one of the largest producers of cardboard cartons in Europe.

GTE Italy

GTE Telecomunicazioni SpA of Milan, a subsidiary of General Telephone & Electronics, Inc., will build a plant in Campania for the production of telephone equipment. To be completed some time in 1976, the plant will employ 400 workers and require an investment of $8 million.

McKee-CTip	Arthur McKee & Co., the international planning and industrial plant construction firm, has set up McKee-CTip Corp. in Rome to coordinate the company's activities in Brussels, Paris, Madrid, Düsseldorf, Cleveland, and Union, N.J.
Bausch & Lomb Italiana	Bausch & Lomb Inc. of Rochester, N.Y., has set up an Italian subsidiary in Rome, Bausch & Lomb Italiana SpA. Besides handling the U.S. company's optical products, the new firm will import and sell soft contact lenses.
IRI	The government of the USSR has granted Italy's IRI state holding permission to open an office in Moscow. The representation is expected mainly to benefit IRI's steel-financing subsidiary, Finsider, which has been exporting steel pipe for use in Soviet natural gas lines to western Europe since 1972.
Kinetics Technology	Kinetics Technology International (KTI) is the new name of Selas of America (Nederland) BV of The Hague. An employee group has now completely bought out the chemical and petrochemical engineering firm from its original U.S. parent after obtaining 60% of the share capital in late 1971. No figures were disclosed.
Restaura/ Greyhound	Restaura France, a French office-catering company, has been formed by Greyhound Food Management, Inc., of the U.S. Greyhound group. Starting capital is FF 600,000.
Quality Inns	Quality Inns of Germany Hotel GmbH, subsidiary of the Quality Inns chain of Silver Spring, Md., has completed the group's first European motor inn at Ratingen near Düsseldorf. The company reportedly plans to open 14 more units in Europe over the next five years, including one in Antwerp and five more in Germany.
Sotheby's/ van Waay	The U.K. auction house Sotheby's has acquired Mak van Waay of Amsterdam, one of the most important auction houses in Europe, with a turnover in the region of £4 million last year.
Lyon Group	Britain's largest privately-owned commercial property concern, Lyon Group, has been forced to seek support from the country's major clearing banks in the wake of "technical default" on the repayment of a major loan. Lyon spokesmen blamed the crisis on uncertainties in the international market. A number of other property companies in the U.K. are facing liquidity problems, and it is anticipated that a rescue operation "sponsored" by the Bank of England will be necessary.

Common Market Reports

EUROMARKET NEWS

Issue No. 278 *May 14, 1974*

IN THIS ISSUE

Community: In Search of an Italian Solution

The "understanding" expressed by the European Commission for the reasons that led to the sudden Italian import curbs indicates that the shock has been more over the form than the substance of these desperation measures. The Community partners had been aware, of course, of Italy's precarious payments situation and would have responded in some way to an urgent plea for help, if only to demonstrate that EC "unity" is not an empty phrase after all. This is why Brussels naturally would have preferred the less embarass-ing approach of prior consultations as set forth in the Rome Treaty and a recent Council of Ministers decision to Italy's invoking the emergency Article 109 (*Common Market Reports, Pars. 3762, 3772, and 9645*). Certainly there would have been some distinct rumblings but no outright threat to the one still functioning foundation of the EC, namely, the customs union and the free movement of goods it supposedly guarantees.

Another consideration that restrained Brussels from openly condemning the Italian actions was that none of the member states has really ever lived up fully to the four "ideals" of economic policy set out in Article 104 (*Common Market Reports, Par. 3651*) - a payments equilibrium, confi-dence in the national currency, full employment, and price stability.

Aside from the question of form, though, Commission economists do not have much faith anyway in the effective-ness of the remedy Rome has decreed, on grounds that it treats only the symptoms and not the disease. Still, it

COMMON MARKET REPORTS, Issue No. 278, May 14, 1974. Published weekly by Commerce Clear-ing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $425 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

EC on Italy *(contd.)*

appeared that there would be no immediate decisions by the Council of Ministers on any joint assistance program. Initial Council discussions centered on the possible consolidation of the Community's $1.8-billion short-term credits to Rome, but there was also a strong belief that Italy should first do everything in its own power to bring its house in order before asking major sacrifices of its partners.

Earlier, the Rumor government had published the list of about 400 import products subject to the 50% cash deposit as of May 7. Affected are mainly beef and foodstuffs, textiles and apparel, furs, automobiles, wood products, and a wide range of industrial items (mostly consumer products). The "temporary" restrictions are to remain in force for at least one year, according to Treasury Minister Emilio Colombo, but Brussels was still hopeful of persuading the Italians to keep the period of intervention as brief as possible.

Germany: No Major Policy Shifts Expected

Despite the shattering impact on the German political scene of Chancellor Willy Brandt's sudden resignation, few observers are expecting any major shifts of policy from the new government headed by Brandt's apparent successor, Helmut Schmidt. The same cannot be said, however, for the extremely ambitious reform programs of the outgoing administration - here, the shifting weights in party politics and the uncertain fortunes of the Social Democrats in the upcoming state elections (Lower Saxony) could force a change of directions.

Business is taking some encouragement from Schmidt's academic background in economics, his broad experience as finance minister, and his pragmatic approach to economic and monetary problems generally. Despite his deep faith in the Social Democratic cause, Schmidt is known for his strong commitment to the free market system and for his dislike of too much state intervention, particularly on prices and profits. He has not been afraid to incur the unions' wrath by taking a firm stand on what he considers excess wage demands, and in fact has rejected wage "guidelines" as a blunted economic policy instrument. Typical for his "right-wing" position within his own party are his views on any redistribution of wealth. "It is possible only to a very limited extent to take corporate earnings and put them into other people's pockets," he told a party meeting last fall. "...These earnings are needed essentially to finance new investment...Without new investment we cannot raise productivity, and without a rise in productivity a real growth of our living standard is impossible."

Generally, it is believed that Schmidt would keep a tighter grip on the running of the domestic economy than

German Policy *(contd.)*

Brandt, whose primary interest was in foreign policy. And if his performance as finance minister is any indication, the new chancellor would be expected to lean heavily on strong monetary and credit policy to control inflationary pressures, perhaps even by taking over some of the powers now exercised by the central bank.

On the other hand, Schmidt would remain fully committed to his party's stand on such issues as co-determination on a parity basis, which - he insists - can be "readily integrated" into the free enterprise system. Regardless of Schmidt's attitude toward various parts of the coalition government's reform plans, the future fate of these programs is far from certain. The tax reform probably has advanced too far into the legislative machinery for any major changes to take place, but the political battles over co-determination and incomes redistribution are far from over.

Cartel Office v. Oil Firms in Appeal Action

In considering British Petroleum's appeal against the price rollback order of Germany's Federal Cartel Office, the Court of Appeals in West Berlin has yet to go to the core of the case. (A first ruling pertained only to the costs involved in the temporary injunction issued by the cartel authorities). In the main issue the court must weigh questions of both fact and law, and the real difficulty lies in the area of economics. Under the authorization of Section 22 of the Cartel Law (GWB), the cartel agency on April 10 had ordered BP's domestic subsidiary to cancel gasoline price increases announced the day before. In the appellate action, the Cartel Office must prove that BP holds a market-dominating position - along with Texaco, Esso, Shell, and Aral - and that, in the absence of effective competition (*Doing Business in Europe, Par. 23,509*), it has abused this position by setting prices not justified by higher costs. Otherwise, the appellate court must invalidate the order.

With only a handful of companies dominating the German gasoline market and selling identical products, establishing the presence or absence of "effective competition" is a problem, since the prices for equivalent products are the same. The Cartel Office's task in court is made even harder by the impossibility of comparison with other, similar products or regional markets. Thus, the cartel authority must base its position solely on a comparison of previous market periods, the argumentation it also used for its price rollback order.

In its investigations and subsequent hearings, the Cartel Office found that the price increases implemented from mid-1973 until April 9 this year had been justified in the light of higher crude-oil costs. The increases announced since then, however, were considered abusive since

Cartel Office *(contd.)*

the oil companies' costs had remained stable. The agency has refused to accept the companies' argument that the latest price boosts were to compensate not only for higher-priced gasoline imports but also to make up for a slack in heating fuel sales. Although BP and the other oil companies offered proof by letting independent accountants examine their books, the Cartel Office believes, on the basis of last year's findings, that the records of German subsidiaries do not provide conclusive information and that only inspection of the parent companies' accounts would reveal a true picture of intra-company accounting (and possible price manipulations). This is why it has been urging an amendment of the Cartel Law.

Britain: Opening Shot on Tit-for-Tat Industry Bill

The U.K. Secretary of State for Industry, Anthony Wedgwood Benn, has intimated at a Labour Party rally that the government will adhere to its preelection pledge as concerns industrial aid. Labour's plan will be spelled out in detail in a Green Paper expected next month as a consultative document leading to a new Industry Bill. The Labour Party's earlier manifesto had stated that, "whenever we give direct aid to a company out of public funds, we shall in return reserve the right to take a share of the ownership of the company." It is now clear that the Green Paper wi[ll] be most controversial in precisely this respect - the intention of the government to accord aid to companies in return for a share of their equity.

The Confederation of British Industry, which by and large represents Britain's employers, has already indicated that it will not welcome proposals along these lines. On the other hand, Benn has adduced evidence (yet to be refuted) that "private enterprise," free from public support, may not in effect exist in Britain "in the form in which we are told it exists." According to the Secretary, who is perhaps the country's leading advocate of state interventionism, private industry in the U.K. has been receiving government assistance to the tune of £2 million *per day* over the last four years. Far from there being a "flourishing free enterprise system," large sums of taxpayers' money have been paid by successive governments to strengthen individual companies and provide more employment. This, Benn maintained, was borne out by the fact that no fewer than 16 separate financial assistance programs are in existence in the U.K., i.e., for regional development, investment support, shipbuilding, tourism, R&D, etc. Over the last four years from April 1970, said Benn, no less than £3.075 billion was paid out in the form of government subsidies: this compared with £6.375 billion paid in tax by companies over the same period. The Secretary declined to criticize the purposes for which such monies had been paid, Industry Bill *(contd.)*

the amounts themselves, or the industrialists who availed themselves of such benefits. Nevertheless, he said, "these figures throw new light" on the situation.

Benn's remarks obviously are only the first salvo in the upcoming battle to make the new Industry Bill palatable to the country as a whole. The Secretary acknowledged that, "after all this expenditure, Britain still has a weak balance of payments, inadequate investment in modern plant and equipment, serious regional employment problems, and a poor record of economic growth."

AROUND THE MARKETPLACE

A Chance for Portugal's Economy

Aside from its considerable political implications, the change of government in Portugal has given rise to hopes throughout Western Europe that the small Iberian country will now be able to emerge from its economic isolation as well. This would be considered a major step forward in itself, although no early shift in the European Community's current attitude toward Lisbon can be predicted. (The recent urging by Commissioner Altiero Spinelli that Portugal should apply for EC membership as soon as a new government is "democratically elected" found no official backing in Brussels and was considered far too premature.)

Undoubtedly, Portugal in recent years has made strides in its evolution from a wholly agricultural to a more industrialized country. Last year industrial production expanded by 15%, and the start of the Fourth Development Plan (1974-79) should provide further incentives. The interim government reportedly is prepared to seek "substantial" foreign credits, commercial assistance, and technological and management know-how for domestic industry in order to forestall an economic crisis that could interfere with the avowed democratization process.

Thus, no fundamental changes are likely in the basically liberal policy toward foreign investors that already had been practiced by the previous regime. Lured by the lowest wage levels in Europe (a skilled worker earns $160-200 a month) and by favorable tax conditions and incentives, foreign investment has been growing steadily to reach a total of 2.088 billion escudos in 1972. Last year it reportedly expanded by another 30.6%, with the Germans accounting for nearly one-third of the total, and Britain and the United States in second and third place, respectively.

This trend can be expected to accelerate appreciably if the junta makes good on recent hints of more flexibility and less bureaucracy in licensing subsidiaries of foreign companies and in authorizing capital transfers. The top

Portugal *(contd.)*

investment potential is seen in steel and metals, shipbuilding, machinery and machine tools, precision instruments, chemicals and petrochemicals, basic pharmaceuticals, and foodstuffs. As in the past, official encouragement will particularly benefit joint ventures of the type already being practiced in the petrochemical sector. Help from abroad is vitally needed to create new jobs: the domestic labor force comprises some 3 million people, but another 1.5 million are forced to earn their living abroad. About 28% of the working population is still engaged in agriculture, and unemployment is widespread and much greater than official figures would indicate.

Inflation is the No. 1 economic problem by far, however. The 1973 inflation rate was officially put at 15%, but the OECD reported it at 20.1%. The high capital remissions by Portuguese working abroad (25 billion escudos last year), tourism revenues, and increased government expenditure have left production far behind domestic demand. Fearing an economic depression, the previous Caetano government had shied away from harsh measures, and price ceilings for staple products and credit restrictions for "unproductive" purposes so far have failed to stem the price rises.

The new government has yet to specify its economic goals, but it did act to prevent a flight of capital and a reduction in liquidity through a number of interim measures in the banking and monetary sector. Private transfers abroad of foreign exchange have been limited to the equivalent of 250,000 escudos and imports to 500,000 escudos.

EURO COMPANY SCENE

German consortium/ NIOC

Five oil companies in Germany - Deutsche BP, Deutsche Shell, Gelsenberg, UK Wesseling, and Veba - and National Iranian Oil Co. (NIOC) will undertake a $1.3-billion project to build a giant oil refinery at Bushir, southern Iran. To be owned equally by NIOC and German Oil Co. (GOC), the company planned by the German consortium, the refinery will have an annual capacity of 25 million tons, making it the world's largest, and will include a cracking plant with a yearly throughput of 2.5 million tons. It is to go on stream by 1977. The "letter of understanding" signed by both sides guarantees the German partners a "reasonable profit." Germany's Thyssen-Union is expected to be chief construction contractor, utilizing know-how of the U.S. Fluor group.

Montedison

In a Leghorn trial, Eugenio Cefis, president of Italy's Montedison chemical concern, and other company executives have been convicted of polluting the Tyrrhenian Sea near

Montedison *(contd.)*

Corsica through the illegal dumping of waste chemicals from the Scarlino paint-pigment factory. The defendants were given suspended sentences of three months and 20 days; the prosecution had demanded heavy fines and longer prison terms. A private plaintiff in the case, representing fishery interests, estimated that damages resulting from the dumping (during 1972 and '73) amounted to at least $6.4 million.

ICI/ BP Chemicals

The U.K.'s Imperial Chemical Industries and BP Chemicals International are to commit some £100 million, allegedly the "largest single sum ever in the U.K. chemicals industry," to the construction of an ethylene plant at Wilton, Teesside. The plant will open in 1977 and will produce an estimated 500,000 metric tons of ethylene annually. Norsk Hydro was originally associated with this project but pulled out when the Norwegian government insisted on having a cracker built in Norway.

Cyanamid

Cyanamid GmbH, Munich-based subsidiary of American Cyanamid Co., New York, plans a major expansion of its production facilities within the next few years. The location has not yet been selected. The German company, which manufactures for the domestic, Austrian, Swiss, and Israeli markets, had turnover of about DM 100 million in 1973, over half accruing from sales of its "Lederle" pharmaceutical products.

VMF/ Bowen

VMF, the major Dutch engineering group, reportedly is acquiring Bowen Engineering of Somerville, N.J., for an undisclosed sum. Bowen, specializing in design, construction, and supply of pneumatic drying equipment, is to be integrated with VMF's Light Processing Industry Division.

Feldmühle/ Basic Ceramics

Germany's Feldmühle AG, one of Europe's leading producers of paper, cardboard, and sinter ceramics, has taken over Basic Ceramics, Inc. of Hendersonville, N.C., from its former owner, Basic, Inc. of Cleveland, Ohio.

Unidata/ CII

In indirect support of the tri-nation Unidata computer project, Cie. Générale d'Electricité (CGE) and Thomson of France, joint holders of about 59% of Cie. Internationale pour l'Informatique (CII) through the holding Fininfor, have agreed to contribute about FF 21 million to CII in the form of convertible bond issues, rather than as a capital increase, as previously reported. CGE, for its part, is still pressing for a renegotiation of French participation in Unidata, however.

Hughes Airwest

Hughes Airwest, Inc. of San Francisco, owned by the Howard Hughes investment group, has opened a German sales office at Dietzenbach near Offenbach. The company has its European headquarters in Athens.

Rodenstock — Optische Werke G. Rodenstock of Munich plans to manufacture eyeglass frames for the American market in Puerto Rico. Last year the German company set up a subsidiary in Dover, Del., to handle U.S. production and sales.

Irish Distillers/ Old Bushmills/ Seagrams — Irish Distillers has announced that, subject to shareholder approval, it will take over Northern Ireland's Old Bushmills Distillery Co., paying Canadian distilling group Seagrams £2.27 million for its 55% stake. ID had bought 25% of Bushmills from Seagrams in October 1972 for £1 million.

EDF — An international banking consortium led by Crédit Lyonnais has concluded the contract for a $500-million, 10-year loan to Electricité de France (EDF). The credit will be used primarily to finance investments in the nuclear energy sector.

Vavasseur — The crisis in the U.K.'s fringe banking sector as a whole has particularly hit J.H. Vavasseur, the finance and unit trust group. Vavasseur shares have plummeted to 18p from 246p a year ago, and trading has been suspended. It is proposed that a new company, J.H. Vavasseur Group, will be formed: the £16 million of 10% subordinated loan stock will be canceled in exchange for £8 million of a "similar" stock in the new company. Shareholders will be compensated for the cancellation of £8 million of stock by being accorded 80% of the new firm's shares. Whether such drastic surgery will be successful is still in doubt, but 40% of subordinated stockholders and the group's bankers have tentatively approved the deal.

EFIFC — The Association of Unit Trust Managers in Britain has linked with its counterparts in Belgium, France, and Germany to form the European Federation of Investment Funds and Companies. The twin aims of the new federation will be unified representation to the European Commission and increased shareholder and unitholder protection. The formation of such a group is considered timely inasmuch as the EC has now made considerable progress in respect of harmonization of mutual fund law in general and standardization of prospectuses in particular. The other EC countries that do not have equivalent organizations at national level will be invited to become associate members of the federation.

Arthur Andersen — Arthur Andersen & Co. of Chicago, the accounting and auditing firm, has been granted Soviet permission to open a representation in Moscow. The office reportedly will concentrate on international financial and management problems.

Common Market Reports

EUROMARKET NEWS

Issue No. 279 Report No. 239, May 23, 1974

IN THIS ISSUE page

Community: Danish Actions Stay within EC Rules

Initial anxiety in Brussels and elsewhere in the Community over the news of Copenhagen's plans to tighten up the Danish payments balance through import restrictions and other measures soon gave way to cooler assessment once the details became known. The European Commission had to concede that the proposals, presented to Parliament in the form of a bill, did not violate the rules of the Treaty of Rome and secondary Community legislation. It was acknowledged that they differ substantially from the recent Italian measures; the Danish actions represent a stability program, whereas Rome discriminated specifically against imports.

A major part of the package presented by the minority administration of Prime Minister Poul Hartling on May 8 involved a substantial reduction of the tax burden for people with average incomes. But this relief would have to be paid for by raising the standard value-added tax rate from 15 to 20%. This sharp VAT increase also is considered necessary to cut the country's huge balance-of-payments deficit, which is expected to reach 7 billion kroner this year.

The Danish government measures naturally are of direct concern to the Community partners, since VAT is also levied on goods imported from the other member states. However, since the tax applies to imports as well as domestic sales, there would be no discrimination of the kind prohibited by Treaty Article 95 (*Common Market Reports,*

This issue is in three parts, consisting of 184 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 279, May 23, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $425 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Danish Moves *(contd.)*

Par. 3001). Nor can Brussels object to a change in VAT rates, since Community tax harmonization plans have yet to reach the stage of actual alignment (*Common Market Reports, Pars. 3101 and 3111*). However, the proposed reduction in tax-exempt travelers' allowances would appear to conflict with a 1969 EC Council directive.

Denmark: Government Survives Vote on Tax Package

Meanwhile, in Copenhagen, it appeared for a while that the Hartling government would not survive its efforts to push the controversial tax reform package through Parliament and that new elections would be inevitable. However, after a full week of agonizing negotiations with nearly all the parties represented in the Folketing and against the background of angry strike actions across the nation, the administration on May 15 finally succeeded in securing a vote of approval for part of its program. But this was possible only at the expense of a bargain with Mogens Glistrup's anti-tax Progress Party: in return for his support of the threatened bill, Glistrup exacted the government's firm pledge that it would lower income taxes and public expenditure next year and that the Progress Party would be treated as a "respectable," equal partner by the Hartling administration and other parliamentary factions. The tax bill, which then passed by a 179:106 margin, includes sales and excise tax increases of up to 50% on such major consumer items as automobiles and household appliances as well as on tobacco products (cigarettes), liquor, and wine.

Giscard New President of France

French voters have elected Valery Giscard d'Estaing, head of the Independent Republican Party, the new President of France. The Gaullists supported Giscard whose plurality over François Mitterand, the Socialist candidate, was only about 1.61%. Giscard's election, along with that of Helmut Schmidt as the new Chancellor of Germany, places two leaders in power who are strong advocates of the European partnership.

Britain: 'Concession' on Taxation of Foreigners

The U.K.'s Conservative opposition party has intimated that it will mount strenuous opposition to the government's Finance Bill when that legislation is debated in committee, and there is little doubt that the bill will not be passed in its original form. Amendments are expected in regard to the income, corporation income, and corporation tax proposals and the new personal allowances provisions. As far as the foreign business community is concerned, the Conservatives will also demand changes in the income taxation proposals that caused such a furor when they were announced last month. Indeed, Chancellor of the Exchequer Denis Healey has now conceded that he may have bitten off more than he can comfortably chew: in response to the outcry raised particularly by U.S. businessmen working in Britain, 'Concession' *(contd.)*

his Budget proposal that foreigners should be made liable to full U.K. taxation after living in Britain for five out of six years has now been amended to the effect that this liability will be incurred after nine out of ten years.

Much of the opposition to the original proposal had come from the American Chamber of Commerce in the United Kingdom. Following the government's latest "concession," a spokesman for the Chamber's select committee on this issue has made it clear, however, that the Chamber would continue to make representations to the Treasury, dismissing the new situation as "really no less objectionable....We are concerned at the limitations being placed on foreign companies' rational decisions on whether to locate in the United Kingdom," he noted. "Companies will now tend not to do this."

Unions Push for Two-Tier Board System

The Economic Committee of Britain's Trades Union Congress has formally urged the government to introduce major commercial law reforms, particularly the institution of a two-tier board structure whereby labor union representatives would make up 50% of the top board - the "supervisory board," which would wield the effective power within a company. The lower board would be responsible for the day-to-day management of the company.

The Labour Party shows every sign of acceding to the unions' demands in line with the "social contract" on which the party and the unions have agreed. Above all, the government envisages the establishment of a Companies Commission which, according to a report in the party's journal ("Labour Weekly," May 10, 1974), would be even more powerful than the U.S. Securities and Exchange Commission. The commission would enforce "business standards" on all limited liability companies. This would include the release of extensive information to the unions and the general public on such matters as work safety, employment practices, profits, investment intentions, planned takeovers, and pollution control. The commission would also be responsible for formulating and enforcing new accounting standards.

U.K. Sets Up EC Watchdog Committees

The Labour government, which has already expressed a firm commitment to renegotiate the terms of the country's EC membership, has taken interim measures to "safeguard" British interests in Brussels by setting up two select committees, one from the House of Lords and one from the Commons. The committees are to keep under constant review the various legislative proposals formulated by the European Commission and to analyze EC decisions affecting Britain. The move is based on the belief that, by the time regulations come up for debate in the European Parliament, it is often too late for the British parliament to "intervene." The establishment of the twin watchdog groups (the European

EC Watchdogs *(contd.)*

Communities Committee and the European Secondary Legislation Committee) should result, it is hoped, in the preservation of "that sovereignty which is in danger of being lost to Brussels."

Austria: Tax Amendment Would Benefit Everyone

Business and labor organizations in Austria have just received the government's bill on the 1974 income tax amendment; it is to be presented to Parliament after these groups have had a chance to comment. The bill proposes a gentler tax treatment of Category A taxpayers (single persons), lower rates for low and medium incomes, and increased exemptions and deductions for wage-earners, the liberal professions, and businesses generally. Thus, by offering something for everyone, it might seem to have been inspired by political rather than by fiscal reasons. The plan, for instance, to do away with the inequities of the Category A status (which in effect penalizes a taxpayer for being single) could simply be interpreted as an attempt by the Socialist government to woo young voters. Actually, though, the administration can afford to be generous because of last year's cuts in government spending and those proposed for fiscal 1974-75.

Members of the liberal professions would fare better in many ways. One-time payments received from their professional organizations (for example, upon birth of a child or death of a family member) would not be treated as income, although the payments can be quite large. More business-related expenses for which receipts could not be presented could be claimed because lump-sum deductions, varied according to profession or trade, would be increased substantially.

By again proposing changes in the tax rate (following last year's modification), the government also hopes to gain the unions' cooperation at the bargaining table. Without wage discipline on the part of labor, the Kreisky administration's renewed drive for economic stability would have no chance of success. As part of these efforts, the government is seeking parliamentary authorization to set price ceilings for most goods and services whenever businesses raise prices above an "economically justifiable" level. Vienna also would have price-setting powers over nearly 300 market-dominating enterprises and for about 350,000 branded goods. Parliament would have the final say on whether the price controls would cover imported goods as well; this is not set forth in the bill, but several lawmakers with union affiliation are seeking an amendment to that effect.

AROUND THE MARKETPLACE

Luxembourg Still Lures Foreign Banks

Having so far successfully fended off all external pressures to bring its fiscal and company rules closer in line with those of its EC partners, Luxembourg continues to offer an attractive base for the unencumbered operations of foreign banks and financial institutions. The relative freedom from capital controls has enabled these banks to conduct a thriving international business (primarily in roll-over credits financed on the Euromarket and in foreign-exchange dealings) and constantly adds to the number of institutions establishing themselves in the Grand Duchy. According to a recent Finance Ministry report, this number rose from 51 to 70 within 1973 alone (compared to only 23 in 1965). Another unofficial count earlier this month put the current number at 85, with the Japanese appearing to spearhead the invasion at the moment.

The betting obviously is on the permanence of Luxembourg's special niche on the capital markets. The chance that the administrative headquarters of the European Monetary Fund will be shifted elsewhere after all is considered fairly slim, and the presence of other top Community institutions lends additional comfort here. Moreover, Luxembourg is the home of the international Eurobond clearing point Cedel and will also host Eurex, the planned computerized trading system for Eurobonds.

While the foreign banks' rush into Luxembourg has had little effect on the "domestic" banking scene or on the local economy, there are certain logistical problems to be dealt with, such as the increasing shortage of personnel as well as suitable office and housing space. Middle-management positions in particular are hard to fill. At least one major German bank has established a daily shuttle service for essential staff from Trier, some 35 miles away on the other side of the German border. And the manpower needs should increase rather than shrink - at the end of 1973, the Finance Ministry reports, 5,121 persons were employed in the banking sector, 9.5% more than a year earlier.

The demand for additional office accommodations also has set off feverish construction activity and encourages speculation. Lease rates, rents, and property prices are zooming, especially along Boulevard Royal, Luxembourg's "Wall Street," where one reinsurance company the other day reportedly acquired a site for the equivalent of $270 per square foot.

EURO COMPANY SCENE

Volkswagen

Rudolf Leiding, board chairman of Germany's Volkswagenwerk AG, has announced that a final decision on whether or not to set up production in the United States - possibly at two or three different locations - will be taken following the summer holidays. Leiding strongly favors a move to manufacture in North America, where VW sales have declined steadily over the past year and a quarter, largely because of rising transport costs and repeated dollar devaluations. The "beetle" is now said to be the most expensive small car on the U.S. market.

At home, VW is facing other problems. The Federal Cartel Office has instituted proceedings against the company for alleged abuse of a market-dominating position in decreeing new price increases of about 6% for all its models in hopes of compensating for soaring material and wage costs. VW, along with other car manufacturers, had already raised prices an average of 6.35% in March, whereupon the cartel agency warned Volkswagen, Opel (GM), and Ford - Germany's "Big Three" with an estimated 60% of the auto market - that further price increases would certainly bring antitrust action.

Demag/ Mannesmann

The final step toward the fusion of Demag AG mechanical engineering with Mannesmann AG, leading European producer of steel pipes, has been set in motion through a merger agreement to be approved by shareholders of both German companies at the general meetings scheduled for early July. After gaining the consent of the European Commission and Germany's Federal Cartel Office in June 1973 and February '74, respectively, Mannesmann had acquired 51% of Demag and now proposes to take over the rest. According to the agreement, Demag shareholders will be offered the choice of accepting a one-for-one share exchange of their Demag certificates, nominally valued at DM 100 each, for Mannesmann shares, nominally worth DM 160, plus a DM 35 cash payment or, instead of this, an adjusted annual dividend payment equal to 160% of the Mannesmann dividend. Both firms will continue to be managed on a separate basis. Combined sales of the Mannesmann-Demag group will be on the order of DM 9 billion.

General Mills/ SUCRP/ Biosynthèses

General Mills Chemical, Inc., offshoot of General Mills, Inc., Minneapolis, Minn., and a subsidiary of France's Sté. des Usines Chimiques Rhône-Poulenc (SUCRP) have set up Sté. de Biosynthèses-Melle SA. The joint venture company is to build and operate a large production plant for the polymer XB-23 xanthan gum at Melle, France, and later, another manufacturing facility in the United States. No figures have been disclosed.

Howmet

The Misco Division of Howmet Corp., which is 56% owned by France's Pechiney group, is reportedly investing $7 million in conversion of a plant in Hampton, Va., to manufacture monoshell castings for use in gas turbine engines. The factory is to be ready for operation by the summer and will employ 600.

SNPA/ Castaigne

France's state-controlled Sté. Nationale des Pétroles d'Aquitaine (SNPA) has announced that its Sanofi pharmaceuticals holding subsidiary will move to take over Laboratoires Castaigne, an important French drug producer. Sanofi reportedly has already purchased for an unspecified sum a sizable minority stake in Castaigne and will now make a public bid for the rest of the shares. If the offer succeeds, SNPA will become one of France's top pharmaceutical groups.

Telefunken/ Unidata

Germany's Telefunken Computer GmbH, joint subsidiary of AEG-Telefunken and Nixdorf computers, will probably be sold off to Unidata, the EDP venture co-owned by Siemens, Philips, and CII. According to a company spokesman, AEG-Telefunken plans to withdraw completely from the commercial computer sector - except for its subsidiary Olympia-Werke - and concentrate on the market for process-control computers. With sales totaling DM 148 million Telefunken Computer took a loss of DM 71 million last year, ascribed primarily to costs for stepped-up distribution and development programs.

Smith, Kline & French

In a case involving Smith, Kline & French Laboratories, the U.K. appeal court has ruled that colors applied to drug capsules cannot be registered as trademarks. Smith, Kline & French had been allowed (*1973, 1WLR 1534*) an appeal against the refusal of the Assistant Registrar of Trade Marks to register 10 of its trademarks. The Court of Appeal has now allowed an appeal by S,K&F's opponent, the Sterling-Winthrop group, on the ground that a trademark, to be registered under the Trade Marks Act 1938, must be something distinct from the goods in relation to which it is used and not merely a description or representation of the external appearance of the goods. In effect, the description of the trademark contained in the application was one of the capsule itself; this was not a "mark" within the meaning of the 1938 Act.

Thos. Cook/ Avis/ ITT

Speculation is rife in the City of London that U.K. travel agents Thomas Cook & Sons is contemplating a formal bid for the second-largest U.S. vehicle rental company, Avis. It is known that Cook - in common with "a number of other companies" - has made inquiries of International Telephone & Telegraph, which has until Sept. 24 of this year to dispose of its remaining 52% holding in Avis under the terms of an antitrust settlement dating back three years.

Ayer/ Chas. Barker/ Hegemann

A trio of advertising firms - N.W. Ayer & Son of the United States, Charles Barker & Sons of the U.K., and Germany's Dr. Hegemann GmbH - has set up a new international holding company in the Netherlands, Ayer Barker Hegemann International BV, to operate in the European advertising sector and on other important international markets. The new company, with a base capital of over $2 million shared equally by the partners, in turn holds minority stakes in each of the three agencies.

Nationale-Nederlanden/ Peerless

Leading Dutch insurance concern Nationale-Nederlanden reportedly is negotiating to acquire a majority in the $3.2-million share capital of Peerless general insurance of Keene, N.H. Through its U.S. subsidiary, Nationale-Nederlanden and Peerless have cooperated since 1957.

Montedison/ 'Messagero'

Italy's semi-state-controlled Montedison chemicals concern has confirmed its acquisition of half the shares in "Il Messagero," Rome's leading daily newspaper, from former owner-director Alessandro Perrone. Montedison is said to have agreed to maintain the paper's "democratic, non-church-affiliated, and antifascist" publishing policy.

Bertelsmann/ Editoriale Finanziaria

Germany's Bertelsmann group and Italy's Editoriale Finanziaria, owned by the Fiat holding Istituto Finanziario Industriale (IFI) and a member of the Agnelli family, are said to be planning to form a joint book-club operation in Turin. According to Italian reports, Bertelsmann has finally broken off the two-year-long negotiations it had been conducting with Rizzoli publishers of Milan over a similar project.

Suez/ Trinkaus

French authorities have approved the takeover by Banque de Suez et de l'Union of Marine Midland Bank's stake in the DM 15-million capital of German bank house C.G. Trinkaus & Burkhardt, increasing the Paris banking group's participation from 15.5 to 20.3%.

Citibank

First National City Bank of New York has opened a representative office in Moscow.

First National of Chicago

First National Bank of Chicago has set up a new German representation in Munich, in addition to its offices in Frankfurt and Düsseldorf.

Manufacturers Hanover

Manufacturers Hanover Trust Co., New York, has opened a new Scandinavian representation in Oslo. The Norwegian office will concentrate on financing for the shipbuilding and energy sectors. Officials of the U.S. bank estimate that the North Sea area, including Iceland, will require development investments of over $10 billion over the next decade.

Common Market Reports

EUROMARKET NEWS

Issue No. 280 *May 29, 1974*

IN THIS ISSUE

Community: Draft Directive on Co-Insurance Liberalization

Undaunted by recent setbacks in other areas, the European Commission has sent to the Council of Ministers a draft directive designed to eliminate national barriers against interstate co-insurance operations involving all types of risk, except automobile accident liability. If adopted (by mid-1975, it is hoped in Brussels), the directive would liberalize and coordinate national rules so as to put insurance carriers in different countries on similar legal footing.

Liberalization of co-insurance rules appears to be an economic necessity in view of the rapidly expanding volume and value of products, investments, and services, which have reached such proportions that insurers in many cases can no longer cover the risks on domestic insurance markets alone. But Community intervention also is necessary because several member states so far have barred foreign insurers from becoming parties to domestic co-insurance contracts. The directive would, for instance, enable a German insurance company to share jointly with a French insurer the risk inherent in the construction and operation of a nuclear power plant in either country. Companies also would have the freedom to select co-insurance partners best qualified on the basis of financial strength or specialization to share coverage of certain risks.

Brussels' draft directive represents a first step in the direction of Treaty of Rome provisions guaranteeing the freedom to render services across national frontiers

COMMON MARKET REPORTS, Issue No. 280, May 29, 1974. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $425 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Co-Insurance *(contd.)*

without having an establishment in the member state where the services are being rendered. The right of national insurers to establish themselves in other states has already been guaranteed by the Council's adoption last year of two directives relating to liability insurance (*Common Market Reports, Pars. 1335, 1502, 1542, and 9596*).

France: A President 'for All Frenchmen'?

Assurances by the French Left that the voters' verdict and the "democratic rules" will be respected give France's new president a chance to let his administration find its stride without immediate confrontations with the Socialist-Communist opposition and labor. But the hairbreadth margin of Giscard d'Estaing's May 19 "victory" - 50.8% of the vote as against 49.2% for François Mitterrand - also obliges him to fulfill his campaign pledge to be a "president for all Frenchmen." Any new economic and social policy package thus will have to encompass wage and other benefits for French workers and low-income groups, nearly all of whom had given their support to the defeated candidate, Mitterrand. Giscard will back such a program even though he knows that its costs will add more fuel to domestic inflation and will further burden French industry.

The country's political Left, in any case, will keep close tabs on the government's performance in the coming weeks and months. The leaders of the Communist CFDT union have already issued veiled threats and the most radical factions of the Communist party have predicted "a mass movement that will sweep away this government of bosses and bankers and will open the way to socialism." The administration's likely social program in combination with the upcoming vacation season should give the new government a brief grace period, but many neutral observers are convinced that Giscard's political honeymoon will be over come next fall. Furthermore, and regardless of the social issues, the country's major economic problems - galloping prices, a growing foreign-trade deficit, dwindling exchange reserves, and a weakening franc - have not evaporated with the excitement of the election and will require immediate attention.

France's European partners trust that the election of Giscard d'Estaing will bring encouragement rather than another setback to the Community. Whatever progress is possible in this area will depend heavily on French-German cooperation. Here, the outlook appears positive: the new man in the Elysée Palace and the new chancellor in Bonn, Helmut Schmidt, share a deep mutual respect for each other and recognize their responsibilities in finding a way out of the Community's current crisis.

Germany: Policy Plans Put Stress on Continuity

In his inaugural address to the parliament following his election as Germany's new chancellor, Helmut Schmidt has come up with no surprises but has instead stressed continuity in implementing the program of his predecessor. Several legislative projects, however, will be completed later than originally planned and may even be held over for the parliamentary session following the October 1976 national election. Of these, at least two bills are of significance to business. The first concerns the corporate tax reform with its tax-credit system, initially scheduled to take effect in 1976, which would be deferred for another year. Secondly, Bonn's plans for spreading capital ownership among employees and the self-employed would be postponed to 1978, although previous efforts had been for implementation in 1976. Schmidt had to admit that there are too many legal and technical problems to permit earlier enactment.

The Chancellor ruled out an increase in the turnover tax rate for the foreseeable future, i.e., until the end of next year. But he also cautioned that a tax boost might become inevitable should various groups, such as the nation's farmers, keep up their demands for additional income and should state and local governments continue to spend substantially more every year.

Business spokesmen welcomed Schmidt's assurances that his administration would not push through - against the objections of industry - the controversial bill on vocational training. Similarly favorable response to the Chancellor's rejection of price and wage controls has come from most employers as well as the unions. The fact that the new cabinet includes twice as many union-affiliated ministers as the previous one is generally regarded as an attempt to make labor share more government responsibilities and show more restraint at the bargaining table. Whether this strategy will actually work is another matter.

Schmidt's experience as finance minister in the defunct Brandt government also showed through as he appealed for moderation: wage increases on the past scale, he indicated, would defeat all attempts to regain economic stability. He intimated that excessive demands in this sector, combined with the high raw material prices and other cost pressures, could effectively threaten industrial investment.

The strengthening of competition favored by the new government was one of several items mentioned in passing in Schmidt's address; just how this would be achieved, however, was not spelled out.

Draft Rules on Disposal of Poisonous Waste

The illegal dumping of poisonous waste (mostly chemicals) is expected to become much more difficult and will be subject to heavy fines under two regulations drafted by the German government and now under consideration by the Bun-

Waste Disposal *(contd.)*

desrat, Parliament's upper house. The two draft regulations - *Abfallnachweis-Verordnung* and *Abfallbeförderungs-Verordnung* - both based on the federal Waste Disposal Act 1972 (*Doing Business in Europe, Par. 23,546*) would require businesses to account in detail for any production waste. Specifically, management would be required to indicate on special forms the type and quantity of waste produced and/or shipped for disposal elsewhere. To enable authorities to keep track of waste conveyance and disposal, businesses engaged in transporting waste or operating disposal facilities would also be obligated to keep detailed records. Violators could draw fines of up to DM 100,000.

Britain: Details on New Arbitration Service

The U.K.'s Dept. of Employment on May 17 released details of the new Conciliation and Arbitration Service (CAS), which is to be launched within the next two months. Intended to be independent of government control, the service aims at the establishment of a system of industrial relations "based on persuasion and consent rather than force or legal restrictions," according to Employment Secretary Michael Foot. The government hopes that the CAS will be introduced to coincide with the demise of the Pay Board, the National Industrial Relations Court and, of course, the Industrial Relations Act 1971.

The report emphasizes that the availability of conciliation, mediation, and arbitration facilities - which are "approved" by employers and employees alike - is essential to the solution of industrial disputes. On the other hand, such services should not be regarded as a substitute for collective bargaining, it points out, and the prime need is for agreement on and compliance with procedural arrangements without ad hoc recourse to third parties.

Initially, the service will be set up without statutory backing. It would be headed by a council comprising a chairman and nine members appointed by the government, six from the Confederation of British Industry and the Trades Union Congress, and three experts. Conciliation would be in the hands of full-time professionals seconded from the ranks of the Dept. of Employment, although there would be provision for a panel of outside arbitrators.

The document makes a clear distinction between conciliation and arbitration: the latter could follow on from conciliation when parties to a dispute agree to arbitration as a means to resolve their differences. A conciliator, although empowered to make suggestions as to how a dispute might be settled by agreement, would not pronounce on, or judge, issues. An arbitrator, by contrast, would adjudicate and make an award. It is important to note, however, that although "it would normally be expected" that parties requesting arbitration would have agreed in advance

Arbitration *(contd.)*

to accept the arbitrator's award, the new service would not insist on such a precondition.

The Dept. of Employment has invited comments on the proposed service by June 14. Opposition is expected from the CBI, which will undoubtedly argue that, since the CAS is to operate independent of government guidelines and statutory restraints, the net effect could well be seriously inflationary.

Denmark: Consumers Bear the Brunt of New Taxes

While parliamentary passage of the compromise stabilization program removed the most immediate threat to the survival of the Danish government, more crucial battles loomed ahead in the wake of massive public protest against the measures. Strikes and demonstrations, though not officially sanctioned by the unions, blanketed nearly all industrial sectors and underscored demands for renegotiation of wage contracts as a way to compensate for the loss of purchasing power caused by the new taxes. But the embattled Hartling administration obviously cannot rob Peter to pay Paul: Denmark's foreign debt already totals 25 billion kroner, and the trade deficit alone reached a record 9 billion kroner in 1973, nearly double the 1965-70 annual average.

No one denies that the modified and adopted version of the original bill has painful consequences for the Danish consumer. Drastic increases in sales and excise taxes on cigarettes, liquor, and wines have made these items prohibitively expensive. The 50% raise in "registration fees" will boost the prices of automobiles by one-fourth, not counting the additional 50% increase in regular car taxes. A new tax on household appliances equal to 20% of the wholesale value adds about 10% to the purchase costs. (Contrary to original plans, and in deference to domestic industry, it was decided to spare television sets, radios, tape and cassette recorders, and pleasure boats.) Altogether, these measures were expected to gain some 3 billion kroner for the state treasury. Some of them, particularly the higher car registration fee, are to be dropped again as of Jan. 1, 1975.

A proposed increase in the added-value tax rate from 15 to 20% is subject to further discussion in the Folketing: it would be needed to raise half of the 10 billion kroner required by Copenhagen to finance the income tax reform now planned for 1975. The remaining 5 billion would have to be raised through curtailment of state expenditures, beginning with the next fiscal year (April 1, 1975). The originally planned reduction in tax-exempt traveler's allowances from 950 to 350 kroner also has been tentatively dropped - here, the administration would like to come to a consensus with the European Commission, since the measure would conflict with an existing Council of Ministers directive.

EURO COMPANY SCENE

Borg-Warner — According to a spokesman for Borg-Warner Chemicals, the U.S. group probably will build a third major European plant in one of the Benelux countries to supplement existing production facilities in Scotland and the Netherlands. A final decision on the project should come within the next year. Meanwhile, Borg-Warner is investing about £10 million in expansion of its U.K. chemicals operations and plans to follow a similar course in Holland.

British Leyland — British Leyland has announced a revision of its investment plans to the effect that some £180 million is to be earmarked for the expansion of the company's most profitable range, the Rover/Triumph executive and sports car division, in the course of the next three years.

BP Germany — Germany's Federal Cartel Office has suffered a major setback in its efforts to stave off further fuel price rises. The Berlin Court of Appeals has now sustained BP Germany's complaint against last month's Cartel Office order blocking the company's announced gasoline price increase of 1 pfennig per liter because of "serious doubts about the legality of the (agency's) decision." However, the court did concede the probability that the proposed increases, according to the known facts, represented an abuse of a market-dominating position. Under the given circumstances, though, the court found that the terms of the Cartel Law would have empowered the authorities merely to investigate the situation - with all the legal means at their disposal - but not to issue a restraining order.

Conoco — Conoco Deutschland, subsidiary of Continental Oil Co. of New York, has announced the temporary closure of 200-250 of its "Jet"-brand self-service gas stations throughout Germany until the fuel supply situation improves. According to the company, which depends on imported gasoline bought on the open market in Rotterdam, filling station operations have become a losing proposition. Conoco's action is regarded as a protest against what it considers to be unfavorable competitive conditions on the German gasoline market.

Slater Walker — The U.K.'s Slater Walker Securities (SWS) has beaten a hasty retreat from the U.S. business scene. SWS entered the United States little more than 12 months ago when it acquired just under 50% of the equity of Slater Walker of America (SWA). As recently as last month, Jim Slater expressed confidence that SWA would provide "a sound base for future expansion in the United States," a claim that appears less than justified following the group's decision to pull out - and take a loss of some £2.2 million. In addition, SWS is obliged to leave $10 million on loan in New

Slater Walker *(contd.)*

York at a low rate of 6% per annum. Spokesmen for the group stated that the expected takeovers had not materialized. Franklin Stores Corp., Slater's initial U.S. holding, was a "very sound but unexciting company." The group's other major venture in the States, a bid for land company Horizon Corp., fell through in October 1973. Slater shares in SWA have been sold to a private investor, Sol Kittay, at $11 each (versus $21 paid in May 1973 by SWS), and Kittay has announced his intention to change the company name.

ICL/
CPI

Britain's International Computers Ltd. (ICL) plans to become an equal partner in Computer Peripherals, Inc. (CPI), taking a stake worth some $20 million in the joint venture set up in 1972 by National Cash Register Co. and Control Data Corp. According to NCR, CPI, which develops and manufactures EDP peripheral equipment for exclusive distribution by its parent companies, is then to build new production facilities in England.

Prestcold

Prestcold Ltd., a 100% subsidiary of British Leyland, and two German business partners have established Prestcold GmbH in Frankfurt to explore the German market. A majority of the new subsidiary's DM 262,000 base capital is held by its British parent. The Prestcold group is ranked among Europe's top five companies in the field of refrigeration technology.

Martinair/
GLM

Martinair charter airlines of the Netherlands, in which NSU-Netherlands Shipping Union holds a 49% stake and KLM 25%, reportedly is taking over Gelderse Luchtvaartmij (GLM), Dutch specialist in aircraft maintenance and importer of Japan's Fuji light planes, for an unspecified price.

Knoll
International

Knoll International, Inc. of New York, maker of fine designer furniture, is continuing to consolidate its European operations. Last year the firm set up Knoll Overseas Services SARL (KOS) in Nice as a holding and management company for its activities - including licensing arrangements - in 32 countries around the world. Now, to save costs and improve production quantity and range, Knoll is centralizing European manufacture in a new factory at Pontoise near Paris. By the end of the year the group's German and Italian subsidiaries will be handling only final assembly, special custom work, warehousing, and distribution.

General
Accident/
Assicurazioni
Generali

The U.K.'s General Accident Fire & Life Assurance Corp. Ltd. and Assicurazioni Generali, acknowledged to be Italy's largest private insurance concern, have signed an international cooperative agreement primarily covering the area of multinational risks and damage adjustments.

Bank of Boston

First National Bank of Boston has converted its Frankfurt representation into a full branch office capitalized at DM 10 million and concentrating on foreign trade and special financing. By its own estimate, the bank is the 193rd to be established in the German city, not counting 70 representative offices there. In view of the intense competition in this sector in Frankfurt and prevailing German monetary restrictions, spokesmen for Bank of Boston indicated they did not expect the new branch to become truly profitable within the next two years.

Loeb Rhoades/ Commerzbank/ Bank Handlowy

An international financial consortium headed by Loeb Rhoades & Co. of the United States and Germany's Commerzbank has negotiated a $30-million Eurocurrency loan for Poland's Bank Handlowy Warsawie, the foreign trade bank.

E.F. Hutton

E.F. Hutton & Co., the major U.S. brokerage house, has opened a second German branch office in Munich. The company has been established in Hamburg since last fall.

EBIC

European-American Banking Corp. (EBIC), New York, owned by Amsterdam-Rotterdam Bank of the Netherlands, Austria's Creditanstalt-Bankverein, Deutsche Bank of Germany, the U.K.'s Midland Bank, Sociėtė Gėnerale de Banque of Belgium, and France's Sociėtė Gėnerale, has opened a new U.S. branch office in San Francisco. EBIC and its affiliated European-American Bank & Trust Co. (EAB) are the largest European-held banking organizations operating in the United States.