Common Market Reports

EUROMARKET NEWS

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Community: EEC Loans for Member States in Distress?

The European Commission has submitted to the Council of Ministers a proposal that would enable the Community to raise loans on the international capital market to help member states experiencing acute balance of payments difficulties. The plan is seen as an attempt to recycle Arab oil revenues that are draining the member states' monetary reserves. Higher oil prices will add an estimated $17 billion to the import bill of the Nine this year.

Under the proposal, loans are to be raised in the Community's name whenever any member state applies for help and the Council accedes to the request by unanimous decision. The Council would retain overall control of the operation and would stipulate economic policy conditions to be met by the applicant state. In return for their guarantee of the Community's financial commitment, the other states would thus gain a say in economic policies pursued by deficit countries. Council unanimity on EEC loans in itself would not suffice, because several member state governments would need parliamentary approval for budgetary reasons whenever a guarantee went beyond one year, which normally would be the case.

Though it would fall to the Commission to work out the details for each individual loan, particularly on interest rates payable and economic guidelines to be followed by the borrowing state, Brussels would leave the actual borrowing

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EEC Loans *(contd.)*

to appointed agents, i.e., private and public commercial banks or other financial institutions.

There are still some technical problems to be solved, but the plan in its present form was given a good chance of being approved by the Council at its meeting later this month. Three previous attempts to agree on the legal framework for Community loans since January of this year failed due to Germany's opposition. Bonn had feared it would wind up as a principal guarantor of major parts of loans raised in the Community's name. The revised arrangement would limit the role of required financial backing.

The Treaty of Rome does not expressly empower the Community to seek loans on capital markets, but authority could be drawn from Article 235 (*Common Market Reports, Pars. 5325-5326*), which the Commission invoked in presenting the plan, couched in a broad draft regulation. The Coal and Steel Community is better off in this respect because Article 49 of the Coal and Steel Treaty expressly authorizes the High Authority (now merged with the Commission) to raise loans, and in the past this avenue has been used regularly to obtain funds that in turn were allocated as low-interest loans or grants to steel mills and coal mines to modernize production.

France: Revised Surtax Plans; Stop on Immigration

The French Council of Ministers, at its Oct. 9 session, approved the introduction of a surtax on corporate profit margins in principle, but in a modified form. The key concession in the controversial proposal, according to reports from Paris, was a decision for a standard tax rate of 33.3% instead of progressive rates ranging from 25 to 75%. Subject to this "inflation tax" would be industrial and trade companies with annual turnover in excess of FF 8 million and with more than 50 employees, all service sector companies with turnover exceeding certain set levels, and any company with annual sales of more than FF 24 million. The appropriate legislation is to be sent to the National Assembly within this month, the reports indicated.

In other action, the cabinet decided to keep in force the immigration stop for workers from non-EC countries that originally was scheduled to expire at the end of September. However, observers believed that the government would lift the ban as soon as implementation of a new immigration policy has begun. Worked out by the Employment Ministry and approved by the cabinet, the 25-point program will be aimed at overhauling the country's antiquated immigrant labor system, especially in the areas of admission, housing, and training. As a way to curb the inflow of illegal labor, the government plans to negotiate immigration agreements with a number of African states. Also, French employers

Immigration *(contd.)*

reportedly will have to pay a FF 1,000 levy for each new foreign worker hired, in addition to the FF 250 already payable to the national immigration authorities. This is to discourage such hiring in favor of employing domestic workers.

Agreement on Unemployment Pay System

Representatives of the French labor unions and the Patronat Francais, the national employers' federation, have signed an agreement providing for continued wage and salary payment of up to one year to employees laid off for "economic reasons." This covers mass dismissals as well as individual layoffs. Concluded on Oct. 14 after three months of tough negotiations and to take effect next year, the agreement would make dismissed employees eligible for 90% of gross pay, which corresponds roughly to net pay. The system, described as the "most generous" in any western country, would be administered by a special fund yet to be established.

The agreement provides that to be eligible for continued pay after being laid off, an employee would have to be below the age of 60, officially registered as seeking work, and a member of his occupational insurance fund for at least six months. Unemployment could not be of a seasonal nature, and applicants could not have refused offers of another job or retraining by the labor authorities. Special labor-management commissions would review each individual case in three-month intervals.

An agreement of this type has been encouraged by the government, after President Giscard d'Estaing in his election campaign had advocated broader worker protection against the risks of unemployment. France's present unemployment insurance system (*Doing Business in Europe, Par. 22,835*) restricts compensation to FF 10 per day and is augmented by an additional FF 6 paid out by the respective occupational funds. Establishment of the new general fund most certainly would involve public expenditure going into billions of francs: employers and employees (who so far have contributed to the occupational funds at 80 and 20% rates, respectively) are more or less in agreement that their joint unemployment insurance contributions should go up from 1% presently only to 1.1% of total wage costs. According to the terms of the future system, the employers also would pay 80% of the contributions to the new fund, with employees and the state to account for the remaining 20%. Numerous smaller trade and service establishments, which have not contributed to occupational funds, are not party to this agreement.

The extent of state participation in the plan has yet to be worked out, but the Employment Ministry reportedly has already earmarked FF 1 billion as a first contribution.

Germany: Pension Rights Safe in Case of Insolvency

After Jan. 1, 1975, approximately 12 million German employees can be reasonably certain of their company pensions even if their employers go bankrupt. The German employers' association (BDA), the federation of industry (BDI), and the national association of life insurers have now established a mutual pension insurance company that is to administer the employer contributions and satisfy pension claims in case of insolvencies. It is assumed that some 80,000 businesses will be required to contribute. Initial government estimates put the overall assessment base at some DM 50 billion. This figure reflects the total reserves employers already have accumulated for this purpose and includes pension funds and similar provisions. Employer contributions are expected to be near 0.2% of the individual assessment base.

There are still questions in Bonn on whether this private business initiative is fully compatible with the legislative aims of the Social Democrat-Free Democrat coalition government. In fact, the original government proposal (*Entwurf eines Gesetzes zur Verbesserung der betrieblichen Altersversorgung*) submitted late last year did not make any provision to ensure payment of company pensions in case of insolvency. Its major objective was to prevent forfeiture of pension rights whenever employees change jobs (*Doing Business in Europe, Par. 30,677*). But during committee debate prior to the summer recess - against the background of about 3,000 business bankruptcies during the first half of the year - the Bundestag's labor committee wrote the additional safeguard into the measure. Originally, Social Democrat members wanted a government bank to administer the plan, but they later relented to Free Democrat pressure in favor of a privately administered system. A state-owned bank has been designated, however, just in case the private mutual insurance company fails to function.

U.S. Interests Risked by Co-determination, Study Claims

Introduction of worker co-determination on a parity basis, as proposed in German government-sponsored draft legislation, would definitely encroach on the ownership rights of U.S. shareholders of German stock corporations and would be in clear violation of the 1954 German-American Treaty of Friendship, Trade, and Navigation. Thus, it would, in effect, amount to partial expropriation of U.S. business interests in Germany. These, in brief, are the conclusions of a 50-page expert opinion the American Chamber of Commerce in Germany commissioned from Prof. Wilhelm Wengler, a noted German authority on international law. The Chamber distributed copies of the analysis to the German government and leading lawmakers, but also forwarded it to the Dept. of State in Washington with the request for "support" in Bonn. This procedure was described as "scandalous" by German administration spokesmen and led to renewed charges that the Chamber is meddling in the country's internal af-

U.S. Interests *(contd.)*

fairs. (A more detailed report on the study and an Oct. 16 parliamentary hearing on the co-determination issue will be included in next week's issue of *EUROMARKET NEWS*.)

Switzerland: Parliament OKs Amendment on Economic Policy

The Swiss parliament has approved a constitutional amendment that would provide the federal government with a clear mandate for its economic policy and do away with the need to seek emergency decrees whenever it proposes measures dealing with inflation, employment, etc. (*Doing Business in Europe, Pars. 29,103 and 30,635*). The amendment still requires the voters' consent through a national referendum scheduled for the spring of 1975. It would give the government constitutional authorization to apply economic controls beyond those necessary for "the prevention of economic crises" (Article 31 *quinquies*, Swiss Constitution). During periods of economic boom, Bern thus could introduce legislation aimed at skimming off excess liquidity through surtaxes on corporate and personal incomes; in times of recession, it could propose measures to stimulate economic activity, for example, through tax cuts. These measures could be backed up by additional action of the central bank, which would acquire much broader powers than it now has.

Despite a general consensus on the need for a change in current legislation, opinions are divided on a provision in the amendment authorizing the government to take "other measures encroaching on the freedom of commerce and trade," which so far has been constitutionally guaranteed. Except for the Social Democrats and the Communists, all political parties agree that these "other measures" should be taken only when the instruments available for the three classic areas of intervention - credit, public finances, and foreign trade - fail to produce results. It is still disputed whether "other measures" could mean price and wage controls. The labor rank and file will most likely vote against the amendment because the unions fear the government's power to control wages.

AROUND THE MARKETPLACE

Major Oil Find Cheers Italy's Energy Sector

At a time of general economic gloom and the still unresolved political crisis in Rome, the news earlier this month of a major oil and natural gas find has at least provided Italy with a brief psychological lift At a "ceremony" in the Po Valley town of Casirate d'Adda, attended both by President Giovanni Leone and acting Prime Minister Mariano Rumor, the head of the state-owned Ente Nazionale Idrocarburi (ENI) oil and petrochemical concern announced minimum reserves of 50 billion cubic meters of natural gas

Oil Find *(contd.)*

and 40 million tons of crude, with indications that the final size of the field could be double these amounts. In practical terms, the find could cover up to 6% of Italy's annual energy needs and save up to $400 million in oil imports. A cracking plant to be built over the next 18 months will enable ENI to process 3 billion cbm of gas and 2.5 million tons of crude annually.

According to first projections, the new field is expected to produce about 50,000 barrels of crude a day, which is only a small share of the country's daily need of 2.4 million barrels. But the Po Valley find also means that Italy's energy self-sufficiency index will jump from 15 to 23-24% - a significant factor for a country that must cover 85% of its energy needs in the form of fuel imports. Italy's current annual output of natural gas is 14 billion cbm, roughly 4 billion short of actual needs and the reason for long-term delivery contracts with the Soviet Union, Libya, and the Netherlands. The projected 3 billion cbm from Casirate d'Adda Field would be equal to the imports from Libya which were recently cut off as a result of price disagreements between the Libyan government, Exxon, and ENI. But ENI also has a letter of intent from Algeria for delivery of 10 billion cbm of gas annually via a multimillion-dollar underwater pipeline from Tunisia.

EURO COMPANY SCENE

Aérospatiale

France's state-owned aircraft manufacturer Aérospatiale, a partner in the Anglo-French Concorde and European Airbus projects, has indicated it may have to seek additional government subsidies as a result of last year's record deficit of FF 484.7 million, based on a turnover of FF 4.255 billion (up 6% from the previous year). New infusions would probably necessitate an increase in the company's share capital. Since Concorde and Airbus orders have been lagging far behind expectations, Aérospatiale anticipates a worsening of the present situation. French labor unions, fearing layoffs of up to 6,000 of the company's 40,000 employees, have staged various strike actions and have appealed to Paris for aid.

Conoco/
Norsk Hydro

Continental Oil Co. (Conoco), New York, has concluded a reciprocal sales pact for vinyl chloride monomer (VCM) with Norway's Norsk Hydro. According to the agreement, Conoco will supply VCM to the Norwegian concern during 1975, 1976, and the first half of 1977, when Norsk Hydro's own production plant at Rafnes is expected to be completed. Conoco will then purchase VCM from Norsk Hydro for a five-year period after the new facility, with an annual capacity of 300,000 tons, goes on stream. The value of the contract has not been revealed.

Daimler-Benz

Hard on the heels of KHD's major truck deal with the Soviet Union, Germany's Daimler-Benz AG has announced conclusion of an export contract - reportedly worth over DM 1 billion - with the government of Iraq for delivery of 10,000 medium-sized and heavy Mercedes trucks in 1975. Details of the agreement, concluded with Iraq's state-owned General Automobile Co., have not been revealed.

Hobart

Hobart International, the U.S. engineering group, has announced that its Dutch subsidiary Hobart Bros. AG is doubling production facilities at its Amsterdam plant. Additions include manufacturing extensions, a new international technical center incorporating arc-welding training facilities, and new administrative and staff areas. Investments for the expansion, to be completed by next summer, have not been disclosed.

Thyssen-Bornemisza

As a direct consequence of its acquisition of some 92% of Indian Head, Inc., New York, Thyssen-Bornemisza Group NV of the Netherlands is reportedly reorganizing and forming a new parent company, Thyssen-Bornemisza, to manage and coordinate its North American and European interests with special emphasis on group strategy and finances. The present holding company will be renamed Thyssen-Bornemisza Europe and will function as a subsidiary for the group's European activities. The subdivision "Indian Head" will be responsible for operations in the United States.

Banque de Bruxelles

An internal audit by officials of Banque de Bruxelles, Belgium's second-largest bank, has disclosed the existence of "irregular, unrecorded, and unauthorized" forward exchange speculation entailing losses estimated at anywhere from BF 600 million to BF 1.5 billion. After informing the National Bank, the Finance Ministry, and the Belgian banking commission, Banque de Bruxelles announced it had taken "appropriate measures," including the dismissal of four foreign exchange dealers and the initiation of legal action through the Justice Ministry. The bank's reserves are said to be adequate to cover all possible deficits. An investigation of Banque de Bruxelles supervisory policies and a search for possible accomplices of the Belgian suspects in the foreign exchange departments of other major European banks have also been launched. While admitting parallels to incidents involving speculation at Lloyds Bank Switzerland and other institutions, officials of the Brussels bank emphatically denied any similarity to Germany's Herstatt case.

BCI

Banque de Crédit International (BCI) of Geneva, specializing in Swiss-Israeli transactions, has applied to the courts for a payments moratorium in order to halt the outflow of deposits. The move crowned a series of maneuvers

BCI
(contd.)

involving the bank's majority shareholder and general manager Tibor Rosenbaum, Germany's Hessische Landesbank-Girozentrale (Helaba), and Israel Corp., a holding company for foreign investment in Israel that is chaired by Baron Edmond de Rothschild and in which Rosenbaum has a large interest. Rosenbaum is said to have been involved in the illegal placement of Israel Corp. funds with companies in which he holds shares, including deposits allegedly amounting to $20 million with BCI. Accusing Rosenbaum of mismanagement, Helaba announced it was returning to him its 36.4% minority stake in the Swiss bank's SF 60-million capital. This step was termed "ridiculous" and "improper" by the secretary of the Swiss banking commission, a statement that "astonished and outraged" officials of the state-owned German bank, which accordingly planned to file a complaint. Meanwhile, in Tel Aviv, Israel Corp. is pressing charges against its former manager, Michael Tzour, for misappropriating company funds.

Herstatt

Major creditors of Germany's defunct Herstatt Bank are said to have reservations about the second settlement proposal submitted by former Krupp chief Günther Vogelsang, the independent mediator appointed to work out a composition deal in order to avoid long and costly bankruptcy proceedings. The revised plan involves the compensation payment of some 65% of their claims to non-banking Herstatt creditors (originally 60%), 55% to public creditors such as the City of Cologne (40%), an unchanged 55% quota for foreign banks, and 45% to domestic credit institutions (40%). To help finance the payout, Herstatt's chief stockholder (81.4%) Hans Gerling has agreed to sell off a 50% stake in his insurance holdings to a trust consortium of German banks headed by Deutsche Bank and Westdeutsche Landesbank. This would be for a provisional payment of DM 200 million toward Herstatt's losses (about DM 1.2 billion). Vogelsang's new offer is now under consideration by the insolvency committee of the Cologne Chamber of Industry and Commerce, which is to decide on the acceptability of the suggested quotas before the creditors vote on the proposal.

Hill Samuel/
Bundesbank

Hill Samuel, the major U.K. merchant bank that took a £9-million loss when Herstatt Bank was closed at the end of June, has filed charges against Germany's Federal Bank for mismanagement in connection with the shutdown. The British bank reportedly is dissatisfied with the proposed 55% settlement quota for Herstatt's foreign bank creditors and is seeking damages from the Bundesbank for ordering Herstatt to cease operations before the day's foreign exchange transactions had been completed.

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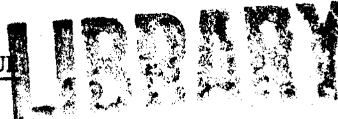

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Community: Call for More Information in Prospectuses

In a report just published, the Community's Economic and Social Committee (ESC) has endorsed in principle a Commission proposal for a directive aimed at coordinating national provisions governing content and publication of company prospectuses prior to stock exchange admission (*Common Market Reports, Par. 1405*). Still, the ESC has come up with numerous recommendations for substantive changes, most of which call for more information in prospectuses and related publicity. These Committee proposals, along with the forthcoming comments by the European Parliament, will be evaluated by Commission experts for almost certain amendment of the original draft.

The aims of the proposed directive fit the broader goal of creating a single European capital market. Its adoption would not only provide potential investors with objective, easily comparable information about the financial status of a company (no matter where incorporated in the EC) but also ease a company's access to additional capital sources through its admission to stock exchanges in other member states.

The proposed directive would not touch upon foreign exchange regulations and stock exchange rules. Although these are designed to protect savers and institutional investors, the ESC views them as additional obstacles to a

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Prospectuses *(contd.)*

uniform capital market and stresses the need for their alignment. Specifically, it is recommended that the disclosure rules applicable to issuers of securities (except for open-end investment companies and mutual funds) be extended to cover bonds issued by municipalities and other local governments. The Committee also would like to curtail a member state's right to waive publication of a prospectus under certain conditions - for instance, when a prospectus had been published earlier in connection with a previous public issue. To give member states this discretion would, in the ESC's view, be incompatible with the principle of creating standard safeguards for investors.

As to prospectus content, the Committee believes that a potential investor would benefit from the inclusion of an auditor's report on a company's financial position and business results. On the other hand, it would be considered unreasonable to require disclosure of the book value of holdings and the listing of all minor subsidiaries. On the premise that a prospectus should provide the general public in all member states with objective information on the issuer's legal and economic situation, the ESC recommends announcement of any prospectus in the Official Journal of the European Communities, together with information on where it could be obtained. It also suggests that free copies in pamphlet form should be made available by the particular stock exchange.

Britain: Pay Claims Spell Threat to 'Social Pact'

Only a few days after the British electorate had accorded the Labour government a qualified vote of confidence, the much vaunted "social contract" - which Prime Minister Harold Wilson had asserted to be the cornerstone of Labour policy - showed distinct signs of cracking. The list of companies and industries involved in disputes over pay claims seemed to be growing by the hour: Vickers, Cammell Laird, and Swan Hunter in shipbuilding; Ford and Vauxhall (GM) in the automobile sector; Hawker Siddeley in aerospace. The construction industry was confronted with demands for pay raises of up to 100%, and municipal transport and sanitation workers staged paralyzing strikes in Scotland.

Jack Jones, general secretary of the 1.9 million-member Transport and General Workers' Union, the country's largest, indicated that if the British unions do not respond to Wilson's call for moderation, an intolerable situation was likely to develop. Jones has said unequivocally that it is pointless to strike for more pay if this risks putting employers out of business.

The crucial question to be resolved within the next few weeks is whether Jones and other union leaders can persuade rank-and-file members to accept some form of volun-

Pay Claims *(contd.)*

tary wage restraint. While they have pledged to do so under the terms of the social contract, it is now evident that individual unions throughout the country are taking the line that they are all "special cases." Unless they change their tune soon, the government will be forced to break its preelection promise and introduce statutory pay controls.

Cabinet Urged to Create State Investment Bank

The U.K. Cabinet's special advisor on financial affairs, Harold Lever, has given details of a proposed "national investment bank" designed to help companies in financial difficulties due to their inability to raise medium-term and long-term fixed-interest backing. Lever noted that Britain's fixed-interest market has effectively dried up as a result of inflation, a statement confirmed by the recent problems of such firms as Ferranti and Aston Martin, which have been unable to get support from their bankers. Lever also suggested "for a starter" that not less than £1 billion be made available for the proposed bank, which would provide the money through the existing banking and finance house system. The principal advantage of such a proposal, he contended, would be that companies could secure 15-year money instead of relying on short-term credits.

Although Lever claimed that there was "a considerable appetite" among merchant and other banking institutions for such an arrangement, several leading bankers expressed misgivings. Their reservations were based mainly on a feeling that the government was using the banking industry to secure its (at least) partial "nationalization."

Germany: 'Doubts' in Bonn over Codetermination

The stormy public debate in Germany over Bonn's co-determination bill (*Doing Business in Europe, Par. 30,700*) apparently is beginning to raise questions within the government coalition. Passage of the legislation, at least in its present form, within the current parliamentary session is by no means assured. In a much noted statement, the leading spokesman on economic affairs of the Free Democrat coalition partners registered doubts over various provisions of the draft legislation, particularly the procedure pertaining to the election of supervisory board members. As now proposed, the spokesman said, the indirect election procedure would serve to "cement" union powers and leave "minorities" without representation. Furthermore, he said, the bill largely ignores the corporate structure of many enterprises by diluting the authority of top management over subsidiary-level management. In anticipation of the law, it was noted, many German companies already have converted legally independent subsidiaries into corporate divisions, precluding the need for separate supervisory boards.

'Doubts' *(contd.)*

These critical comments from within coalition ranks are coming at a time when the Schmidt administration's controversial *paritätische Mitbestimmung* concept again is under heavy attack by the business community and legal authorities. Evidently frustrated by the unanimity and severity of the opposition to the bill, both government and union spokesmen have lashed back with uncommon vituperation, and there is even the possibility that co-determination may become an issue at the U.S.-German diplomatic level.

In Parliament, meanwhile, the confrontation also continues: an Oct. 14 hearing originally scheduled as a one-day affair is to be resumed early in November to permit lawmakers to hear the testimony of some 45 experts. Earlier, Bonn tempers had flared over apparent attempts by the American Chamber of Commerce in Germany to get Washington to exert diplomatic pressure on the German government to modify the co-determination bill. Chancellor Schmidt was quoted as terming the Chamber action "insolent," and the chairman of the trades union federation DGB said that "we are not a little banana republic, and colonialism is dead in Europe. The sooner they recognize this, the better." Even the opposition Christian Democrats, who are fighting the bill tooth and nail, regarded the American Chamber move as "impermissible intervention."

The Chamber, which represents 94% of U.S. investment in Germany, commissioned a study that backs up the contention that co-determination on a parity basis would jeopardize the rights of U.S. shareholders and violate investment-protection clauses in the 1954 German-American Treaty of Friendship, Trade, and Navigation. The Chamber claims that U.S. investments in Germany this year will fall short of the $1.8 billion initially allocated, allegedly because of American apprehensions about the eventual impact of co-determination.

Switzerland: Voters Reject Anti-Foreigner Initiative

The surprisingly solid 2:1 margin by which Swiss voters have rejected a "national action" initiative to drastically reduce the number of foreign residents in the country has been termed "a victory of common sense over demagoguery and emotions." The outcome of the Oct. 20 referendum - 66% of the votes against the proposal, 34% for - contrasted with the results of a referendum on the same issue in 1970, when the similar "Schwarzenbach initiative" was only narrowly defeated (54:46%). The latest proposal was for a constitutional amendment aimed at freezing the number of foreign residents in Switzerland at 500,000, meaning that more than half of the present foreign colony would have had to leave by the end of 1977. In practical terms, this would have amounted to the removal of every eighth employed person in Switzerland - a situation that some observers likened to "economic suicide."

Sweden: Income Tax Cuts, Excess Profits Levy?

A 4-billion-kronor tax reform involving income tax reductions and other benefits for all but the top income brackets and higher social insurance contributions by employers has been proposed for next year by the Swedish finance minister, Gunnar Sträng. The government would plan to finance the program by raising employers' social insurance payments from 3.8 to 7%. The income tax reduction, also to benefit retirees and the trades sector, would come mainly through abolishment of health insurance contributions by workers and elimination of certain tax-free allowances.

In addition, the government reportedly is studying plans to introduce an anti-inflation excess profits tax on industrial and business concerns. Many of these enterprises have been reporting substantially higher sales and earnings so far this year, mostly as a result of inflation. According to reports from Stockholm, government experts expect to conclude a feasibility study on this proposal by mid-November and, if Parliament goes along, the levy could become applicable for 1975.

Norway: Oslo Continues to Keep Out [illegible]eign Banks

The Norwegian government has made it clear that it has no intention of lifting the embargo on the establishment of foreign banks in Norway. The administration reaffirmed this position in response to a question submitted by the central bank, which had received inquiries from banking institutions abroad. Norway thus will not follow the example of Denmark, where foreign bank branches will be permitted to operate as of Jan. 1, 1975, as a consequence of that country's accession to the EC. According to Oslo reports, the government would not object to the establishment of representative offices so long as their business activities do not involve operations regulated by Norwegian banking law. So far, only five major foreign banks are reported to maintain representatives in Oslo; however, this number is expected to grow in anticipation of the Norwegian oil boom.

AROUND THE MARKETPLACE

Hungary Pushes Cooperation with the West

When the Hungarian government two years ago followed the lead of Yugoslavia and Rumania by opening the country to foreign investors, business spokesmen in Western Europe were cautiously optimistic about tapping unused production capacities and labor reserves that figured prominently in Budapest's offer, which also included unrestricted repatriation of foreign capital. Since then, however, only a handful of West European companies have been allowed to become partners in joint ventures, none of them in the production sector. The much vaunted labor potential has turned out to be mostly farm workers, who cannot be retrained on short notice.

Cooperation *(contd.)*

Accordingly, the only alternative appears to be cooperation, though to a greater degree than in any other East Bloc country. In fact, the government lately has been pushing for such agreements between state enterprises and West European companies, now that higher prices for raw material and crude oil imports have turned Hungary's balance of payments surplus of 5 billion forints (1973) into an expected 2.5-billion deficit this year. International cooperation could help to improve the situation: so far, some 350 Western firms have entered into cooperation contracts with state enterprises, and emphasis is now being laid on finished products and equipment for export rather than on the manufacture of parts.

To facilitate access to Western know-how and generally widen the scope of foreign operations in Hungary, the Budapest government furthermore has enacted legislation enabling foreign firms to open their own branch or representative offices (until recently, they had no choice but to contract a state agency for representation). To do so, Western companies will still need government permission, of course, and this will be given only if "in the country's interest or (if) the foreign firm's activity serves permanent, close technological and economic cooperation."

The new rules also bring another significant change in government policy: for the first time, Hungarian state enterprises are allowed to establish subsidiaries abroad or acquire interests in foreign companies.

EURO COMPANY SCENE

Kali & Salz/ SCPA

Kali & Salz AG of Germany and France's Sté. Commerciale des Potasses et de l'Azote (SCPA), the Common Market's leading suppliers of potash, have announced their compliance with a European Commission decision of May 11, 1973, requesting them to cease selling potash products in the Netherlands and Italy through a joint distributor. SCPA was also required to end German distribution of its products through a company financially controlled by Kali & Salz. The Commission, seeking to restore freedom of competition in the potash fertilizer sector, had also ordered the two firms to eliminate exchanges of information on production and distribution. (*Common Market Reports, Par. 9569, 9688.)*

Commission/ United Fruit

Albert Borschette, the Commissioner specializing in EC competition policy, has confirmed that the European Commission is investigating charges that the European subsidiary of United Fruit Co., New York, is abusing a market-dominating position in its distribution of Chiquita-brand bananas.

Hoffmann-La Roche

Germany's Federal Cartel Office has ordered Swiss drug producer Hoffmann-La Roche & Co. AG to immediately reduce its

Hoffmann-La Roche *(contd.)*	manufacturer's prices for the tranquilizers Valium and Librium by 40 and 35%, respectively. The Cartel Office rejected the company's argument that prices of the two drugs were based on intensive competition in this sector, also pointing out that Valium and Librium cost 50% more in Germany than in Italy and France. Hoffmann-La Roche's German subsidiary has announced it will appeal the decision.
ESK	Europäische Schnellbrüter-Kernkraftwerksges. mbH (ESK), a company formed to build a fast-breeder reactor plant in Germany, has been set up in Essen by France's Electricité de France (EDF), Ente Nazionale per l'Energìa (ENEL) of Italy, and Germany's Rheinisch-Westfälisches Elektrizitätswerk (RWE) in accordance with their agreement of December 1973. ESK's share capital is held 51% by RWE, 33% by ENEL, and 16% by EDF. The site of the new plant and the construction schedule have not yet been determined. The three utilities set up a similar joint nuclear venture, NERSA, in France last summer.
GM Belgium	General Motors is said to be planning construction of a major automobile parts plant in Belgium to supply its European production. The company has still to decide on a site, although Lommel - near the Belgian-Dutch border - seems the likeliest choice. Details on the cost and size of the project have not been revealed.
Pirelli	Italy's Pirelli Rubber Co. has signed a multi-million dollar contract with the government of Poland to construct a rubber accessory and floor mat manufacturing plant in that country. The factory will supply the Polsky Fiat 125 and 126 cars produced in Poland under Fiat license. The exact value of the deal was not disclosed.
Union Carbide	Union Carbide Corp., New York, will invest $13 million to expand its graphite electrode manufacturing facility at Caserta, northeast of Naples. The plant is operated by Elettrografite Meridionale SpA, a subsidiary of Union Carbide's Italian offshoot and Union Carbide Europe of Geneva. The expansion program, scheduled for completion in 1976, will increase production capacity by 30%.
Amax/ Le Nickel	American Metal Climax, Inc. (Amax), of New York reportedly has taken a 10% interest (about 850,000 shares) in the capital of France's Sté. Le Nickel for some $21 million cash. Amax thus becomes the French company's second largest shareholder after the Rothschild holding Cie. du Nord (over 20%). For more than five years Amax and Le Nickel subsidiary Penarroya have been co-owners of a joint mining venture on New Caledonia.
Braun/ Uher	Braun AG, German subsidiary of the U.S. Gillette group, is rumored to be considering acquisition of a stake in Uher-

Braun/ Uher *(contd.)*

Werke GmbH & Co. KG, the Munich-based producer of high-quality tape recording equipment. Uher, which anticipates a turnover of about DM 110 million for the current year, has been in a liquidity squeeze, although a capital gap of DM 4.5 million reportedly has been bridged for the moment through agreements with banking associates and suppliers. For the long run, however, the owners are said to be seeking an outside buyer and Braun - for which Uher has been manufacturing components since May 1973 - is the likeliest candidate.

American Brands/ Gallaher

American Brands, Inc., which already owns 80% of the equity in the U.K. tobacco giant Gallaher, is negotiating a bid for the remaining stake in the company, said to involve 14.6 million common and 5.7 million preferred shares.

Jessel

Following the news in the U.K. that the shares of Jessel Securities and Jessel Trust had been suspended because Jessel Securities could not meet its potential commitments to its insurance offshoot London Indemnity & General, there was widespread speculation in the City that other financial institutions with insurance links would run into similar trouble. The stock market immediately reflected these fears. The longer-term implications of Jessel's apparent demise are still hard to assess; the days of the guaranteed income bond (pioneered by Jessel) seem numbered, however. This bond offered the investor a higher return for a fixed period than could be realized by his investing directly and and, at the same time, allowed him to redeem the bond for cash at any time with only a small deduction levied from its face value (as little as 5%). In Jessel's case, rising interest rates and falling share prices cut the value of policyholders' cashable guaranteed income bonds back from some £85 million to 65 million: insolvency resulted when liabilities outstripped assets.

Banco di Milano

A controller appointed by the Bank of Italy to supervise operations at Banco di Milano has declared a 30-day payments moratorium while the bank's accounts are being examined. Suffering from a liquidity shortage, the small Italian bank had requested government intervention to prevent a run on deposits. Banco di Milano's troubles are regarded as an indirect result of the collapse of the Sindona financial group, since Ugo de Luca, the bank's chief shareholder, was until May 1971 director of the Sindona-held Banca Unione, now under official investigation. Banco di Milano has a base capital of 1 billion lire and assets of 35 billion.

Common Market Reports

EUROMARKET NEWS

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Community: Commission 'Slipped' in Transocean Case

A procedural slip has caused the European Commission to lose its important antitrust case against the Transocean Marine Paint Association before the European Court of Justice. However, this setback may be only of a temporary nature, since the Commission will be allowed to correct its mistake, which involved the failure to give Transocean an opportunity to comment on a notification requirement contained in an exemption decision. The Court voided this requirement on grounds of faulty procedure, ruling that a party whose interests are appreciably affected by a decision must be given a chance to present its position.

In 1967, Transocean, an international sales cartel of 16 paint manufacturers established within and outside the EEC, had obtained a five-year exemption from Article 85(1). In October 1972 Transocean applied for an extension, but the Commission, in a notice of objections, made such an extension conditional on removal of certain restrictions and on being informed "of every change in the financial interests of the members." The latter requirement was not further explained, not even in a subsequent hearing. Transocean interpreted it to mean that the Commission wished to be kept informed about the relationships among association members.

Last December the Commission granted a five-year extension under considerably tightened conditions (*Common*

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Transocean *(contd.)*

Market Reports, Par. 9628), specifying that Transocean was to report any new links its members may have with other businesses in the paint sector through interlocking directorships and any new interest acquired in or sold to other paint firms as well as any changes in existing links and interests.

A major issue before the Court was whether the Commission could successfully stipulate this requirement without hearing the parties involved. The answer was an unequivocal "No" based on the general principle of the right to be heard as set forth in Article 19 of Regulation No. 17 and Articles 4-7 of Regulation No. 99/63 (*Common Market Reports, Pars. 2582.01 and 2639-42*). According to the Court, this rule requires that a party be clearly informed, in good time, of the essence of the conditions to which the Commission intends to subject an exemption and that it must have a chance to submit its observations to the Commission.

Another major issue was whether the Commission had the power to demand information on links with nonassociated paint firms outside the EEC. Here, Transocean had claimed a violation of Treaty Article 85 and Article 8 of Regulation No. 17, but the Court did not evaluate this claim because it apparently saw no need to do so, again for the very same procedural fault. The Court's position may be inferred from its statement that the Commission must at any time be able to ascertain whether the conditions justifying an exemption are still being met. Although granting the Commission considerable discretion in imposing conditions for exemption, the Court pointed out that the exercise of this discretionary power must be preceded by a "preliminary canvassing of objections which may be raised by the undertakings."

Proposals on Pharmaceuticals in Final Round

After nearly a decade of discussions and repeated interruptions, EC member state experts finally have completed the various proposals on pharmaceuticals and have submitted them to the Permanent Representatives to prepare for adoption by the Council of Ministers. Agreement among these representatives, the member states' ambassadors to the EC, usually makes Council action a matter of routine. The proposals mainly concern controls and testing of drugs prior to marketing and quality control thereafter. Council approval would eventually remove most obstacles to the free marketing of pharmaceuticals within the Community (*Common Market Reports, Pars. 3401-39 and 9643*). However, differences over pharmacists' right of establishment and freedom to provide services have not yet been resolved, and discussions are continuing.

Otherwise, there are no longer any substantive points of disagreement now that France, the Netherlands, and - more recently - the U.K. have relented on the issue of na-

Drug Proposals *(contd.)*

tional quality controls for drugs. Only Denmark has been holding out for domestic political reasons: its minority government does not want to prejudice current parliamentary consideration of drug legislation that would have to be amended once the EC proposals are adopted. Council observers are nevertheless confident that this minor problem will be solved soon, so that the Council could possibly approve the measures by the end of this year or early '75.

Britain: Labour Sticks to Preelection Commitments

The new U.K. Labour government's legislative program for the present parliamentary session was announced in the Queen's Speech on Oct. 29. Some 26 bills were specifically covered, and it was subsequently made known that a further 15 or so are scheduled as well. In essence, the speech constituted a "repeat" of Labour's preelection pledges and, as such, contained few surprises. However, in the ensuing debate Prime Minister Harold Wilson made the admission - later to be underlined by the party's chief whip - that the legislative program might suffer from two quarters: parliamentary time available and the amount of public money involved.

Nevertheless, Labour is now firmly committed to following through on its pledges, in spite of the fact that the electorate did not return the party with a resounding majority. It would not appear, though, that the government's plans on nationalization "with fair compensation" in regard to the shipbuilding, ship repairing, and aircraft industries can conceivably be implemented until the next session of Parliament; they might even be held over until 1975-76. On the other hand, the Industry Bill, which is to establish a National Enterprise Board and set up machinery for voluntary planning agreements, is scheduled to be introduced before Christmas.

There were two or three significant omissions from the Queen's Speech, notably the lack of reference to the nationalization of port facilities, the absence of concrete proposals to end "direct-grant" educational institutions, and, above all, the exclusion of any reference to the recent proposals for a national investment bank that would aid industries hit by liquidity problems. Parliamentary insiders were confident that the investment bank plans may have been omitted for the time being in response to pressure from Labour's left wing. In Opposition reaction to the Wilson administration proposals, the Liberals hinted that they would side with the Conservatives in opposing the government's plans for the National Enterprise Board, and the Scottish Nationalists suggested that they were not in favor of further nationalization and might oppose Labour on this issue: they have, of course, a very special axe to grind - the ownership of offshore oil.

Ireland: Monopolies, Mergers Bill in Parliament

Stricter controls on monopolies are being proposed and new provisions on mergers and takeovers introduced in draft legislation currently under debate in the Irish parliament. Powers for dealing with the abuse of a monopoly's position are already provided in the Restrictive Practices Act 1972 (*Doing Business in Europe, Par. 25,511*).

The new Mergers, Takeovers, and Monopolies (Control) Bill (No. 31 of 1974) aims to extend the 1972 Act in certain areas. It defines a monopoly as being "of two or more enterprises under common control which supply or provide... not less than one-half of goods or services of a particular kind supplied or provided in the State in one particular year." (The monopoly involved must have a turnover of at least £500,000 per year.) Upon a request by the Examiner of Restrictive Trade Practices for a monopoly inquiry, the Restrictive Practices Commission would have to inform the Minister of Industry and Commerce whether it agreed and, if so, whether there was a restriction of competition and whether it was unfair or operated against the common good. The minister would be empowered to issue an order (subsequently requiring parliamentary approval) prohibiting the monopoly except on specified conditions, or requiring the "division" of the monopoly by a sale of assets or otherwise.

The new provisions in regard to mergers and takeovers can be summarized as follows:

- The bill covers every proposed merger or takeover where gross assets or annual turnover of the enterprise to be merged or taken over are not less than £500,000 or £1 million, respectively.
- No merger or takeover bid on this order would be valid unless notified to the minister and he indicates no opposition or, alternatively, if three months (extendible to nine months) elapse without a prohibiting order.
- The minister may clear a proposal or refer it first to the examiner and, after receiving the latter's report, to the commission. The examiner would be obliged to investigate every proposal so referred, and the commission also would be obliged to hold an inquiry.
- Following a commission report, the minister would be empowered to issue an order prohibiting the proposed merger or takeover or imposing certain conditions. However, the order would have to list the reasons for the decision and would have to be passed by both houses of Parliament.

The bill does not apply to services provided under contract of employment; certain banking services and building societies; electric power, transport, harbor or pilotage services; or any local authority services within the meaning of the Local Government Act 1941.

Netherlands: Draft Law Due on Profit Redistribution

Apparently acting under heavy labor union pressure, Holland's socialist-led coalition government has revealed plans to introduce legislation seeking "redistribution of profit and wealth gains" by private industry, perhaps as of 1976. Predictably, business and industry view this proposal with open hostility, while the unions intend to make the issue a bargaining point in upcoming negotiations with the government and the employers on a new "central (wage) accord."

In his initial announcement of the plan Prime Minister Joop den Uyl provided only a vague outline of the administration's concept: the details are to be formulated as part of an interim report on incomes policy that will soon be presented to Parliament by the Social Affairs Minister. From what has emerged so far, profits redistribution would be effected by channeling "disproportionately high" corporate profits into a "collectively administered" central investment fund. The fund would finance new investments, the earnings of which would be used in turn to build up company pension funds. In principle, the law thus would give labor a considerable influence over the volume and direction of corporate investments and thereby extend union powers beyond the traditional collective bargaining sphere for the first time.

Germany: Health System Contributions to Go Up

Soaring hospital costs, drug prices, and medical fees will necessitate a substantial increase in contributions to Germany's mandatory health insurance system, according to a government report. Overall costs have doubled in the past five years and are expected to do so again in the next four years. Government experts therefore are proposing an increase from the current 9.5% to 11-11.5% of the respective wage bases. Contributions are shared by employee and employer (*Doing Business in Europe, Par. 23,454*).

Since this percentage boost still would not suffice to produce the additional DM 27 billion per year the various government-controlled health insurance funds will need, Bonn also is considering raising the ceiling of the pay assessment base from DM 1,875 to 2,850 per month. This steep increase is believed to be justified in light of rapidly rising incomes. Being self-administered, all health insurance funds may increase contribution percentages to cover costs, but a change in assessment ceilings is a matter for Parliament to decide.

Luxembourg: Closer Control of Foreign Exchange Deals

In the wake of currency speculation losses incurred by some institutions abroad, Luxembourg authorities have instructed the banks operating in the Grand Duchy to tighten supervision of their day-to-day foreign exchange business. The

Closer Control *(contd.)*

Banking Control Commission has asked the banks to designate one member of their administrative boards to assume responsibility for the daily check of such dealings. Furthermore, the commission requested that written records of verbally contracted transactions be kept and that bookkeeping and foreign exchange functions be clearly separated. (*Doing Business in Europe, Par. 26,123.*)

EURO COMPANY SCENE

German consortium/ USSR

A consortium of German companies headed by Deutsche Bank, Mannesmann, and Thyssen has concluded a third gas-for-pipeline barter deal with Soviet foreign trade authorities. The new agreement, involving a German bank credit of DM 1.5 billion to be repaid by the Russians by 1984, provides for the delivery of some 950,000 tons of pipeline to the USSR during 1975 and '76 in exchange for a supply of 2.5 billion cubic meters of natural gas annually to Ruhrgas AG, starting in 1978 and continuing until the year 2000. The earlier swap deals were made in the late '60s and in 1972.

Citroën/ Peugeot

The proposed merger of French auto makers Citroën SA and Peugeot SA, first announced early last summer, has been postponed pending further study, according to a joint announcement released by the two firms and the Michelin tire group, which controls Citroën. Citroën losses of FF 395 million for the first six months of 1974, representing a 5% drop in sales, are regarded as the immediate reason for the delay, since the company's projected shortfall for the year could reach as much as FF 800-900 million. Peugeot, which was to be the majority shareholder in the fusion, reportedly has insisted that Michelin assume Citroën's obligations before completing any merger - a step Michelin has been unwilling to take.

Burmah Oil/ Signal

The U.K.'s Burmah Oil group has remained fairly tight-lipped on the recent U.S. Senate subcommittee report indicating that Burmah's acquisition of the United States' Signal Oil & Gas group may be "anti-competitive." Burmah is, of course, concerned that Washington will now reverse the £210-million deal on the grounds that the U.K. company's interests in the United States are "over-extensive." The firm is particularly rankled by the subcommittee conclusion that Burmah's 22% stake in British Petroleum gives the company "unchallenged control" inasmuch as the U.K. government, which holds 49% of BP, has never voted against Burmah. This, Burmah spokesmen said, is an overstatement, since the company has only one voice on the BP board. The wrangle between Burmah and the U.S. authorities could well have major repercussions in the North Sea oil sector, into which American companies have poured several hundred million dollars over the last few years.

Kent/
BBC/
GE

The U.K. government has decided to swing its 24% stake in George Kent behind Switzerland's Brown Boveri (BBC) group in preference to General Electric Co., following worker representations at Kent that indicated a leaning toward the Swiss offer. GEC has thus allowed its £5.8-million offer for Kent to lapse. It now seems inevitable that BBC will be victorious in the takeover struggle. A major factor influencing the government's decision is thought to have been Brown Boveri's revised offer in early October, which reduced the stake the Swiss group would have in a new Brown Boveri Kent (BBK) group to 49% as opposed to the original offer in July, under which Boveri would have acquired a 53% stake in the restructured group. This move allowed the government to accede to Kent employee wishes without "selling out" to foreign control.

American
Brands/
Gallaher

American Brands, the U.S. tobacco group that already holds 80% of the equity of one of the U.K.'s leading tobacco companies, Gallaher, has made a bid valued at some £23 million to acquire the outstanding shares.

Reynolds
Hamburg

The Hamburg Superior Administrative Court has granted Reynolds Aluminium Hamburg GmbH, German member of the U.S. Reynolds metals group, permission to operate its DM 640-million manufacturing facilities to two-thirds of capacity while legal proceedings regarding the company's operating permit continue. The court is expected to reach a decision late next year on whether or not the company may take up the final one-third of production or whether further anti-pollution measures are in order. Experts on environmental protection testified to the court that no significant damage to people or animals could "in all probability" be anticipated from the aluminum production, although they conceded that some very sensitive plants might be harmed by fluoride emissions.

La Cellulose/
Donohue/
St. Regis

France's La Cellulose du Pin, leading paper-making subsidiary of Saint-Gobain-Pont-à-Mousson, reportedly plans to build a bleached pulp milling plant in northeastern Quebec, Canada, for $C200 million in conjunction with several Canadian partners, including its 25% holding Donohue of Quebec. The facilities, to be ready by 1978, would have an annual capacity of 250,000 tons. La Cellulose is also said to be negotiating a joint French venture with St. Regis Paper Co. of the United States to build and operate a corrugated paper plant in southwestern France. The factory, to cost $90 million, would produce 150,000 tons yearly.

Holland
America/
Bröstrom

The decision of Holland America Line Holding NV (HAL) of the Netherlands to sell off its transport division to Sweden's Bröstrom shipping group for a reported 235 million guilders is being vigorously opposed by a small group of

HAL/ Bröstrom *(contd.)*

HAL shareholders. The proposed transaction, which was recommended to the Dutch company by U.S. management consultants McKinsey & Co., has been scheduled for Jan. 1, 1975. The shareholders contend that HAL would be losing its most profitable activity by shedding the transport group, which employs 2,400 and includes a number of inland and overseas cargo and container shipping companies, a 20% interest in Atlantic Container Line Ltd., stevedore and trucking offshoots, and various foreign agencies and participations. If this sale goes through, they fear, others will follow and the Dutch firm may eventually face liquidation.

P&O/ Tidewater

The U.K.'s Peninsular & Oriental group is currently negotiating the sale of its oil supply fleet to the U.S. operator Tidewater Marine of New Orleans, La. The sale price for the 26 vessels is estimated at some $30 million. P&O spokesmen implied that the sale was prompted by insufficient rates of return on the fleet due to the fact that the North Sea was becoming "overpopulated."

Herstatt

Liquidation proceedings for Germany's collapsed Herstatt Bank have officially opened in Cologne. On Dec. 17 the bank's creditors will meet to decide on accepting the second settlement proposal drawn up by mediator Günther Vogelsang. One stumbling block has been the evident reluctance of chief shareholder (81.4%) Hans Gerling to commit himse[lf] to his previous offer of contributing DM 200 million towa[rd] a special DM 325-million "auxiliary fund" to help pay off Herstatt debts until the other parties involved (various banking groups) provide guarantees as well.

Banco di Roma/ SGI

Banco di Roma has announced that a consortium of Roman construction companies has purchased 80% of the 38% interest in the Sindona group's property company Società Generale Immobiliare (SGI) that had been put up as partial collateral for a $200-million loan made to Sindona by the Italian bank. The rest of the 230,000-share package is to remain in the hands of Banco di Roma or will be "joined in a voting bloc" with the 80%, according to the bank. Proceeds from the sale, amounting to about 138 billion lire, reportedly have gone to pay off the Sindona debt to Banco di Roma.

Chrysler Finanziaria

Chrysler Financial Corp. of Southfield, Mich., has set up an auto-financing subsidiary in Italy, Chrysler Finanziaria Italia SpA, headquartered in Milan. The establishment of the finance company is thought to reflect the growth in sales of the Chrysler-Simca autos in Italy over the past few years, with 76,000 units anticipated for 1974, and follows the opening of similar operations in Great Britain, Ireland, Germany, and Spain.

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EUROMARKET NEWS

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Community: Patents May Not Obstruct Trade, EC Court Rules

In two cases involving drug companies, the European Court of Justice has reiterated the opinion expressed in earlier rulings that patents and trademarks may not be used so as to create new obstacles to intra-Community trade and thus subdivide the Common Market into national markets. The Court, in two rulings on Oct. 31, also held that not even the three newcomers to the EC can expect a respite here, since Article 42 of the Treaty of Accession, which allows them to retain certain restrictions on Community trade until Jan. 1, 1975, does not apply to industrial property rights.

The two particular cases (*Centrafarm Corp., Rotterdam, v. Sterling Drug Corp., New York* - Case No. 15/74; and *Centrafarm Corp. v. Winthrop Corp., Haarlem* - Case No. 16/74) had held the attention of European and American drug manufacturers and Commission attorneys since March. At that time the Dutch Supreme Court, faced with complaints involving Dutch patent law, asked for preliminary rulings on the interpretation of Community rules pertaining to the free movement of goods and an interpretation of Article 42 of the Accession Treaty and Article 85 of the Treaty of Rome. Both cases, one on patents and the other on trademarks, arose originally in lower Dutch courts after Centrafarm started importing Negram (a drug to combat urinary tract infections) without obtaining a license from the patent holder. The drug was being sold in Britain at half the

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Patents
(contd.)

price of the identical Dutch product, largely because Sterling Drug had granted licenses to its Winthrop subsidiaries and branches established in several EC countries. This licensing system enabled the Sterling-Winthrop group to pursue different marketing and pricing policies in the various member states and elsewhere.

Sterling Drug and Winthrop sought to stop Centrafarm's imports and obtained injunctions against the Dutch firm that were awarded in both the court of appeals and the Supreme Court on grounds that Dutch law gives the patent holder an exclusive marketing right in the Netherlands and that this right is not exhausted by marketing the product abroad. The Dutch Supreme Court, however, thought that EEC law might change the situation and requested the preliminary rulings.

The Court of Justice ruled that EEC law does indeed shed a different light: patents and trademarks offer protection against infringement through imitation but cannot be used or abused to curtail trade, notwithstanding considerable price differences on the various markets. The Court also rejected Sterling Drug's contention that its different marketing and pricing policies were in the interest of the consumer. It held that this argument represented an intrusion into an area reserved to government alone.

After *Sirena*, *Deutsche Grammophon*, and *Hag* (*Common Market Reports, Pars. 8101, 8106, and 8230*) these latest rulings had been more or less expected, although attorneys for Sterling Drug-Winthrop had still anchored hopes on the Court's interpretation of Article 42 (*Common Market Reports, Pars. 7001 and 7096*). Paragraph 1 of this article requires the newcomers to abolish all quantitative restrictions in intra-EEC trade. With respect to measures having equivalent effect, however, paragraph 2 grants the new members a respite. The Court said that this respite does not apply to patents.

New Attempt to Start Up Regional Fund

The Commission has made a new attempt to activate the Community's stalled Regional Development Fund. In a memorandum prepared for the European summit meeting scheduled for next month in Paris, the Commission backs the German government's insistence that the financial benefits should not be sprinkled throughout the Community for minimal effect but concentrated where they are needed most - in the depressed regions of Britain, Ireland, and Italy. Some 1.4 billion units of account have been allocated for the Fund's budget over the next three years. According to the memorandum, the U.K. would be receiving about 400 million UA, and it is believed that this generous allocation could contribute to a favorable outcome for London's bid for renegotiation of accession terms, even if the projected figure falls 70 million UA short of that originally proposed.

Regional Fund *(contd.)*

The Fund's main beneficiary would be Italy, which is tentatively scheduled to receive 560 million UA - 70 million more than first proposed. Ireland's benefits would increase to 84 million UA from the originally planned 56 million. France, on the other hand, is now apparently content with 200 million UA instead of the nearly 300 million Paris had been counting on. The French refusal to accept a smaller share and Germany's insistence on concentration of benefits had been the main stumbling blocks in this issue so far.

France: Strikes Have Political Aim, Paris Charges

In the third week following the outbreak of a spontaneous strike in the postal service, thousands of workers in France's nationalized industries and public sectors were joining in walkouts and work stoppages in response to solidarity appeals by the Communist-led CGT and other leftist labor unions. With the strike actions having spread beyond the postal system to the utilities, the state railways, coal mining, and the fuel distribution and printing sectors, there were indications that country eventually could be engulfed in a crippling general strike. Although the demonstrations were purportedly directed against the government's economic policies and its alleged inability to cope with inflation, administration spokesmen labeled them "political action" aimed at embarrassing and weakening the government.

At this point, the Giscard d'Estaing administration still seems determined to maintain its tough anti-inflationary stance, which is becoming increasingly unpopular with business and industry as well. Business leaders are openly alarmed over the steep rise in company failures, the sharp investment slowdown, and the generally bleak economic climate. (In the construction and public works sector alone, the number of business failures reportedly totaled 2,800 for the first nine months of the year.) The government's only concession has been to abolish price controls for automobiles and machine tools and to provide that price restrictions will no longer apply to enterprises or industrial sectors that export more than half of their output or whose production for the first three quarters of this year did not exceed that of the comparable '73 period.

Belgium: Central Bank Eases Curbs on Credit Volume

In the face of evidence that the domestic inflation rate has somewhat slowed down and that the economy is beginning to show first signs of recession, the Belgian authorities have slightly modified the credit limitations for the country's commercial banks. Acting on government recommendations, the central bank will permit total credit volume to expand from the current 14 to 16% (at the annual rate) through January 1975. Within this margin, credits for

Credit Volume *(contd.)*

medium-term export financing will not be restricted at all, and the volume of short-term export credits through bank acceptances may expand to 24%. According to estimates from within the banking community, this move should free some BF 10-14 billion for credit financing and primarily aid small and medium-sized businesses, which have to depend on the domestic market to finance their exports.

Switzerland: Halfway Point on Tax Law Harmonization?

In assessing the comments received on two tax bills that could mark the halfway point on the long road toward national tax law harmonization, the Swiss government once more finds itself in the unenviable position of having to carefully chart a course between central and cantonal/local interests. Both proposals (*Entwurf für ein Gesetz über die direkte Bundessteuer* and *Entwurf für ein Gesetz über die direkten Steuer der Kantone und Gemeinden*) run over 200 sections each in length. They would bring significant changes in federal and cantonal income taxation of individuals and corporations and would largely equalize the fiscal burden on taxpayers no matter where they reside. Cantonal governments agree on the necessity of removing the inequities inherent in existing cantonal taxation that the 1948 Intercantonal Concordat and subsequent efforts had failed to eliminate (*Doing Business in Europe, Par. 29,303*).

The bill on federal income tax provides, among other things, for assessment of entities on an annual basis rather than every two years, which is current practice. The real innovations, however, are set forth in the bill on cantonal and local income tax. Since Switzerland is a confederation, the immediate problem is how far the federal government may go in terms of establishing principles of cantonal income tax legislation, since the cantons enjoy a large measure of constitutionally guaranteed sovereignty. The bill therefore aims for a balanced approach. Prepared by experts from the cantonal tax authorities and the Parliament, it is confined to establishing principles that the cantons and communities would have to follow in assessing their residents. Experts believe that abiding by these principles would necessarily also have an impact on cantonal rules governing assessment bases and tax rates, the two main factors responsible for the existing inequities. Consequently, the high tax rates of some cantons would have to come down, while the low tax rates of others (established to attract wealthy residents) would have to go up. The cantons that would lose revenue would have to be compensated in some way, and one solution contemplated by the federal government could be the introduction of the value-added tax. Since enactment of the cantonal/local tax bill also requires an amendment of the Swiss constitution, observers refuse to speculate on how long it might take until the measures go to Parliament.

AROUND THE MARKETPLACE

U.S. Survey: Good Climate for Investment in Community

A survey on "The Climate for Investment Abroad" (September 1974), published by the U.S. Chamber of Commerce from material provided by the Department of State, has given a generally favorable outlook for investment in the European Community and its nine member states. Specifically in regard to the EC, the survey points out that no common policy on direct foreign investment has been formulated but that several programs have been initiated in such areas as antitrust policy, regional policy, industrial standards, and company law harmonization. The report says that the EC's objective of promoting Europe-based "transnational" enterprises could "under certain circumstances" be to the advantage of European firms, even though Brussels' proposals in principle treat U.S. subsidiaries and European firms in the same way.

Following are brief highlights from the reports on the individual member states, which were compiled by the U.S. embassies or consulates in these countries:

Belgium: The "excellent climate" for U.S. investment should continue. Potential investors are offered a wide range of tax benefits, interest subsidies, and other financial aids. This is supported by "a lack of administrative, tax, and tariff obstacles to foreign direct investment. Various Belgian Government procurement practices affect the output, employment, and growth decisions of foreign investors, but they are essentially nondiscriminatory with respect to all locally established firms, regardless of the nationality of ownership."

Denmark: "Inward direct investment is administratively controlled, but practice is liberal in most areas other than finance, real estate, and building and construction. Purchase of real property by nonresidents is permitted when connected with direct investment...Generally, no legislative distinction is made between a foreign subsidiary and a local company."

France: Policy toward foreign investment continues to be characterized by a "more receptive attitude," although government approval is required on a case-to-case basis. "The overwhelming majority of applications are approved without undue delay...On the other hand, foreign investment is restricted from the nationalized sectors and is strictly controlled in such sensitive sectors as pharmaceuticals, transportation, and defense equipment. Furthermore, the French government continues to hold the view that foreign-controlled firms should not gain what it considers to be a 'dominant' position in any given industry. In recent years, these sensitivities have been noted relative to electronics, perfume, food processing, and paper."

EC Investment *(contd.)*

Germany: The investment climate is "generally favorable," although investment prospects "have lost some of their luster recently due to the sharply higher valuation of the Deutsche mark, increasing labor and material costs, and a prolonged labor shortage...Proposed government plans for co-determination by workers (*Mitbestimmung*) and worker capital formation (*Vermögensbildung*) have resulted in some uncertainty..." Although capital controls in regard to bona fide direct investment or trade transactions have been relaxed, "some other foreign inflows are still subject either to licensing or to a cash deposit requirement..."

Ireland: Conditions for direct U.S. investment are "excellent...There are no significant restrictions on foreign business and ownership, except in certain fields such as electricity and sugar production, transport, banking, insurance, and acquisition of farmland...The Northern Ireland situation is not likely to affect American investment."

Italy: Foreign investment is "welcomed. Transfer of profits and repatriation of capital are assured...The Government does not differentiate between foreign and locally owned domestic firms in procurement practices but favors domestic over foreign suppliers." Strike actions and absenteeism continue to mark the labor relations climate. This year's reform of direct taxation "has created problems in applying the 1955 U.S.-Italy double-taxation convention which are being discussed by the two governments."

Luxembourg: New economic expansion legislation places Luxembourg among the most competitive EC countries in terms of investment incentives. However, because of a continuing labor shortage, the authorities have indicated that these incentives will be used more discriminately in the future.

Netherlands: This country continues to be "an attractive place for American investment." In addition to incentives available for investment in less developed regions, "special income tax treatment for foreign employees and indefinite tax carry-over of early-year losses are available nationwide." The Government has become increasingly interested in the operations of multinational firms; "however, the Dutch have a deep appreciation of the benefits that accrue to them from foreign investment...U.S. investors can therefore expect to continue receiving the same evenhanded...treatment which they have been traditionally accorded."

United Kingdom: "Recent changes in tax policy, particularly regarding foreigners living in the U.K. and offshore oil exploration and production, have probably had an adverse effect on the investment climate." Foreign investment is welcomed, "especially if it promises to promote British exports, introduce new industrial techniques, or

EC Investment *(contd.)*

increase employment. Foreign firms...generally enjoy the same rights and privileges as U.K. firms." The Labour government's coming into office this year may lead to "higher taxation and a greater degree of governmental control" in the North Sea oil sector, "extended public ownership and control over larger sections of British industry," and repeal of the Industrial Relations Act "in the near future."

EURO COMPANY SCENE

Neogravure

The Paris Commercial Court has ordered the liquidation of France's leading printing group, Neogravure, in an action that will affect more than 3,700 employees. The concern, which was formed when Chaix-Desfosses-Neogravure took over Sté. Imprimerie Crete in June 1973, had been suffering heavy losses since last summer. It was finally forced to file for bankruptcy on Oct. 21 despite previous infusions of FF 25 million in state credits and a FF 10-million loan from the company's chief shareholder L'Hydro-Energie (31%) and the Paribas banking group. Provisions reportedly are being made for the continued operation of two Neogravure plants in Paris, probably through acquisition by one or more new owners.

[illegible]rkohle-[illegible]nes/ARC

Ruhrkohle-Stinnes Corp. of New York, a new holding subsidiary set up by Germany's Ruhrkohle AG coal-mining concern (80%) and Hugo Stinnes AG of the Veba group (20%), has made a takeover bid of $10 per share for at least 51% of the 2.5 million issued shares of Appalachian Resources Co. (ARC) of Oak Hill, W.Va. ARC, which operates five mines in West Virginia and Kentucky, expects a total yield of 1 million tons of coal for 1974 and plans to double this figure over the next few years. The Ruhrkohle move has been welcomed by German observers, including the mineworkers' unions, since it is regarded as a means to stabilize and revitalize a company that has been under severe financial strain until recently, when soaring oil prices began to revive interest in coal and coke.

Veba/Gelsenberg

German energy holding Veba AG, 40% owned by the government, has made a bid for the outstanding shares of Gelsenberg AG, the oil company in which the state acquired 51.3% last year. The offer is for an exchange of four Veba shares for every five Gelsenberg shares plus a DM 6 dividend per Gelsenberg share. In addition, Bonn will pay Veba DM 30 for each Gelsenberg DM 100 share tendered. The bid is part of the government's plan to form a giant national energy concern that can hold its own against the oil multinationals. The Gelsenberg-Veba complex employs a total of 73,000 workers and accounts for about 20% of German oil refining capacity. It also has numerous interests in the natural gas, coal, atomic energy, and hydroelectric power sectors.

Northern Electric

Northern Electric Co. Ltd. of Montreal, Canada, a leading producer of telephone equipment, has set up a new European manufacturing, marketing, and sales subsidiary in Amsterdam, Northern Electric (Europe) NV. The company, which recently concluded a five-year contract with Norway's Gustav A. Ring A/S for the joint production and sales of business communications equipment, is said to be discussing the possibility of a similar arrangement with France's Thomson-CSF group.

I-T-E/ Ermeto

The Amsterdam-based I-T-E Imperial Trans-Europe NV international industrial holding group, which includes Sweden's SKF ball bearings, Goodyear and I-T-E Imperial International Corp. of the United States, Italy's IFI, and Swiss bank holding Sté. Financière Européenne among its owners, has acquired the DM 12-million capital of Germany's Ermeto-Armaturen GmbH for an undisclosed price. By its own estimate, Ermeto is the foremost European producer of hydraulic and pneumatic tubes and tube fittings.

De Beukelaer/ Novesia

General Chocolate - De Beukelaer, one of Belgium's leading chocolate manufacturers and a subsidiary of General Biscuit Co., has taken over Novesia-P.F. Feldhaus, a family-owned German chocolate producer, through merger proceedings. The deal involves a share exchange giving Novesia's former owner 25% of General Chocolate, which has increased its share capital for the purpose. The two firms plan to utilize each other's production facilities and national sales and distribution networks in exploiting the European market, particularly in Germany, France, and the Benelux countries. General Biscuit already occupies second place after Bahlsen in Germany's packaged biscuits sector.

Pribo

Pripps AB (Pribo), Sweden's leading producer of beer and soft beverages, has proposed that the state acquire the group's brewing interests and is now conducting talks with Stockholm. The main reason for the move is said to be the government's stepped-up temperance drive, which may result in a mandatory lowering of the alcohol content of beer and, as a result, reduced sales and profitability for Sweden's breweries. Pribo's other interests include food processing and plastics manufacturing. The concern has an annual turnover of about 1.5 billion kronor.

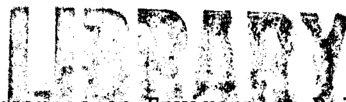
HAL/ Bröstrom

Despite opposition from certain stockholder factions, an extraordinary shareholders' meeting of Holland America Line (HAL) of the Netherlands reportedly has approved the takeover of HAL's cargo transport division by the Bröstrom shipping group of Sweden as of Jan. 1, 1975, for over 240 million guilders. The division, to be designated "Incotrans," will be converted into an autonomous Dutch company.

Common Market Reports

EUROMARKET NEWS

Issue No. 305 *Report No. 252, November 20, 1974*



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Community: Some Progress on Protection of Environment

The Council of Ministers on Nov. 7 adopted both a European Commission-proposed directive on the disposal of waste oils and a nonbinding recommendation on application of the "polluter pays" principle. While the waste oils directive passed virtually unchanged, the Council found it more difficult to agree on the recommendation. Still, its adoption represents a first step toward cost allocation in environmental protection according to uniform principles as a way of avoiding distortion of competition and deflection of trade. It will now be up to the Commission to submit draft directives or regulations that, if adopted by the Council, would be binding on the member states.

No action was taken on a compromise draft directive setting purity standards for national "surface" waters used for drinking water supplies - the measure was left in suspension pending approval by the Dutch cabinet. Although this directive would generally require member states to adopt common antipollution standards for national rivers and lakes, its adoption would be primarily aimed at cleaning up the Rhine. This river is heavily polluted by French and German industry as well as by the communities along its banks. The Dutch - who draw about 90% of their drinking water from the Rhine - have been seeking firm guarantees from both the French and the Germans on a complete cleanup

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Environment *(contd.)*

within 10 years. Neither Paris nor Bonn has committed itself because of the financial burden involved for private industry and local governments. The compromise so far worked out calls for cost sharing, but the Dutch government has yet to make a final decision on this issue.

Problems of financing, of course, pervade the entire spectrum of environmental protection and have prevented the Council from going further on these questions. In fact, the Commission proposal on limiting the lead content in gasoline did not even get onto the agenda because of an unresolved Bonn-Brussels disagreement over timing discrepancies between existing German law and the Commission draft (*Doing Business in Europe, Par. 23,544B* and *Common Market Reports, Par. 9619*).

'Free Movement' at Issue in Court Case

The European Court of Justice soon will have the opportunity to venture into an area of Community law it has not yet touched upon - free movement of workers. Its ruling in *van Duyn v. Home Office* (Case No. 41/74) should bring an answer to the question of to what extent member states may bar the entry of nationals from other EC states on grounds of public policy, security, or health. Treaty Article 48, which grants workers the right to move freely and take up employment within the EC, also entitles the member states to deny entry and employment on those grounds (*Common Market Reports, Pars. 1002.17-28 and 1031*). On the basis of Arti[illegible] 48(3), member states thus have so far been left with a great deal of discretion in denying entry. This, on occasion, has contradicted the principles of freedom of movement and nondiscrimination, although a Council directive (No. 64/221/EEC) did bring some coordination in this area.

In the case in point, Yvonne van Duyn, a Dutch secretary, has challenged the British Home Office's refusal to admit her to the U.K., where she wished to take up employment with the Church of Scientology of California, a religious sect. For years it has been British government policy to bar entry to all foreigners desiring to work for this group. The British High Court of Justice thought, however, that this policy might be contrary to Article 48(3) and EC rules that prevent national governments from denying migrant workers entry and employment on grounds other than those of personal conduct. It is the first case ever referred to the Community tribunal by a British court, and a ruling is expected prior to the Christmas recess.

Netherlands: Policy Shift; Go-Ahead for Investment Law

A worsening of the international economic situation is forcing the Dutch government to make some revisions in its economic policies and even prompted a request to the employers and labor unions for suspension of negotiations on a 1975 central wage pact until the administration could

Policy Shift *(contd.)*

complete work on a package of stimulative measures. (The Social Affairs Minister indicated that this package, which was to be submitted this week, would seek to spur consumer spending and investment activity and include aids to certain industries.)

It was reported in The Hague that the surprisingly pronounced economic downturn since last spring has invalidated key projections by the government's Central Planning Bureau that provide the basic guidelines for the policy makers. The rate of domestic inflation has accelerated considerably (the consumer price index rose 1.5% in September), and industrial investment and consumer demand are lagging. The number of business insolvencies has increased by 23% within the last 12 months. Unemployment in October went up by 10,000 to 148,000 persons, causing the jobless rate to approach a crucial 4%. A stagnation in world trade next year in combination with higher import prices would hit the Dutch economy directly and possibly bring on a negative balance of payments, it was predicted.

In other news, the government announced that the Law on Selective Investment Restrictions will finally take effect on Jan. 1, though in a somewhat diluted form. Implementation had been held up under the impact of the oil crisis (specifically the Arab oil embargo against Holland) and in the face of angry resistance by industry. Contrary to original plans, the law will be applied initially only to the Rotterdam-Rhine Delta area instead of to all of the densely industrialized western regions. Also, levies will be lower: 10% on most buildings and 3% on "open air" installations. Permits will be required for new investment projects in the restricted area and prior notification elsewhere in the western "Randstad." Under the provisions of the law the government may, however, raise the levies and duties and expand the restricted area if it considers this necessary in the future.

Luxembourg: More Controls Imposed on Local Banks

Less than two weeks after asking the local banks for closer supervision of their day-to-day foreign exchange deals, Luxembourg's Banking Control Commission has required the banks to submit monthly reports on their forward transactions in all cases in which the risk exceeds LF 25 million per currency. The new rule became effective on Nov. 1.

At the same time, Finance Minister Raymond Vouel has announced an upcoming draft law designed to protect depositors in the event of bank insolvencies. Worked out by the Banking Control Commission, the draft is now being evaluated by government experts. The legislation would lay down rules for official temporary administration and forcible liquidation of insolvent banks.

More Controls *(contd.)*

Vouel further reported that the number of banks based in the Grand Duchy has risen to 77 within the first nine months of 1974 and will probably reach 80 by the end of the year. The combined balance sheet total of all Luxembourg-based banks increased from LF 517 billion at the end of 1972 to 970 billion on Aug. 31, 1974.

Denmark: Nonresidents May Buy Bonds Next Month

In compliance with the terms of the EEC accession treaty, Denmark had been scheduled to completely open its bond market to foreign investors on Jan. 1, 1975, but will actually do so a month earlier. Sluggish domestic demand apparently persuaded the government that full liberalization on Dec. 1 will not endanger the stability of the krone. The stock market was thrown open to foreigners at the beginning of this year, while bond purchases by nonresidents have been restricted to a tight quota system since February 1971.

The volume of Danish bond issues reportedly totals a nominal 152 billion kroner, nearly all of it in mortgage bonds.

Germany: Coalition Rift over Vocational Training Levy

The financing of an ambitious vocational training program has become a matter of dispute between the German government coalition parties and two ministries, with about DM 1 billion annually at stake for business, depending on which side prevails.

A plan submitted by the Education Ministry (headed by Helmut Rohde, a Social Democrat) would require all businesses to pay an annual levy, based on payrolls, to fund the establishment of several hundred vocational training centers and the hiring of 10,000 additional instructors and teachers. The Economics Ministry would prefer the taxpayer to foot the bill, because existing and proposed vocational programs already represent a major burden on businesses.

Economics Minister Hans Friderichs, a Free Democrat, has recommended that the national business associations be asked first what financial and other shares their members would be willing to bear in the expansion of existing on-the-job training and the creation of new facilities. Friderichs fears that the proposed levy would primarily hurt small and medium-sized businesses, which often have payrolls proportionally larger than those of major enterprises. The levy in effect would force smaller companies to help subsidize vocational training in large ones.

There is little disagreement, either between the two parties or on ministerial level, on the need to promote apprentice hiring and vocational training generally. A proposed amendment to the Law on Vocational Training (*Berufsbildungsgesetz*) would expand the government's powers in

Training Levy *(contd.)*

this area still further. Enacted in 1969, the law raised considerably the technical and educational standards that employers must meet in hiring and training apprentices. However, it also has been blamed for the continuous decline in openings for apprentices since then.

Lack of Doctors Cramps New Law on Work Safety

A severe shortage of physicians has prompted the German government to go slow in issuing detailed regulations for the implementation of the 1973 Work Safety Law, which requires businesses to hire doctors for the prevention and reduction of work accidents (*Doing Business in Europe, Par. 30,723*). The legislation will take effect on Dec. 1, 1974, but Bonn finds itself in no position to force immediate compliance. In fact, the situation might worsen as future regulations broaden the categories of enterprises required to hire specially trained doctors.

The law allows businesses to hire physicians who have no special knowledge of job environment, but a draft regulation (*Betriebsärzte-Verordnung*) would empower enforcement agencies to set deadlines for doctors to acquire this expertise at company expense. The proposed rules would also enable management to meet the basic requirements by retaining doctors on a part-time basis or engaging the services of medical offices or clinics.

Although the shortage of doctors puts applicants in a strong position to demand a high salary, a recent survey has shown that more than half prefer their independence to employment and would rather work as partners in medical offices. The government would like to see a greater number of medical offices that could provide specialized services to a number of businesses simultaneously.

Britain: Third Budget Heralds Period of Austerity

The Nov. 12 Budget, the U.K.'s third in 1974, had been awaited with trepidation by the British public in general and the business community in particular and, as it turned out, many found their fears confirmed. Chancellor of the Exchequer Denis Healey presented yet another plan designed to revive the country's tottering economy. Broadly speaking, his strategy appears to be one which - it is hoped - will keep the nation's head above water until North Sea oil finally flows in quantity: until then Britain will finance its trading losses by further heavy borrowing, mainly abroad, in an attempt to bridge the gap between revenue and spending. The bleak message was that the U.K. must put up or fold up; sacrifices are required all around, the Chancellor noted, "officially" acknowledging that Britain faces a period of austerity with "no appreciable increase in living standard over the next few years."

Among the measures proposed were
- a limit on all public spending increases of 2.75% per an-

Third Budget *(contd.)*

num until 1978 as well as a nationwide "war on waste of all kinds";

- a go-ahead for the country's big banks to lend up to £1 billion to aid "healthy" industries, especially those in the export sector ("lame ducks," by contrast would have to seek aid from the National Enterprise Board in exchange for state participation);
- an easing of price controls to help companies in cash-flow and liquidity difficulties;
- a hefty 8.5p tax boost on gasoline, bringing the cost of a gallon to some 63p (about $1.50), which will rise rapidly to 75p due to increases already in the pipeline.
- labor unions' holding wage demands to a rate no higher than the rise in prices, the alternative being mass unemployment; and
- a tax on capital transfers and on wealth (*Doing Business in Europe, Pars. 30,734 and 30,736*), as previously announced.

It came as a surprise and a relief that traditional sources of revenue such as beer and tobacco were left untapped and that the Chancellor made no VAT changes other than in regard to gasoline. This, he noted, was in the spirit of the "social contract" (the unwritten understanding between the government and the Trades Union Council that the least protected sections of the worker community will be looked after in exchange for restraint in industrial wage demands). Cuts in public expenditure or increases in taxation, said the Chancellor, could lead only to "a large fall in national output and a massive increase in unemployment." In spite of this apparent concern for the general public, however, it is evident that the man in the street will be hard hit. Above all, the stunning rise in transport charges due to the massive jump in the price of gasoline will lead to price increases across the board. Moreover, the Chancellor's decision that subsidies to state-owned industries be phased out means that charges for mail and telephone service, rail fares, electric power, and domestic gas supplies will soar over the next six months.

Reactions ranged from the lukewarm to the hostile. Within the Labour Party, left wingers asserted that the decision to aid industries hit by the general economic climate was unsound: this would have been an ideal opportunity, they claimed, to nationalize cheaply. Industrialists, as represented by the Confederation of British Industry, felt that the Budget (as usual) was "too little, too late." Perhaps the most telling indication, however, came on foreign exchange markets, where sterling sagged to a 10-month low.

EURO COMPANY SCENE

ELF-Erap/
CFP/
Oil Majors

A French parliamentary commission has unleashed a storm with its publication of a lengthy report on its investigation of the "commercial, financial, and fiscal conditions under which the oil companies operating in France supply the French market." The commission, formed last June on a proposal made by Deputy Georges Marchais, who is secretary-general of the French Communist party, accused both the multinationals and the French state-controlled oil firms ELF-Erap and Cie. Française des Pétroles (CFP) of paying practically no corporate taxes, of giving false information on prices paid for imported crude oil, of entering into illicit price agreements with each other, and of collusion with various governmental supervisory bodies. The oil concerns, in turn, have thrown responsibility for many of the alleged activities on the government itself. Ever since introduction of the state monopoly on crude oil imports in 1928, Paris has periodically partitioned the domestic petroleum market among the various companies and, as a result, largely excluded free competition, they argue. The investigative commission has called for a new state oil policy to be implemented by an independent body to be set up for the purpose and to be made directly answerable to the premier.

[illegible]ne-
Poulenc

France's Rhône-Poulenc SA, the major chemicals group, has announced the partial or complete closure of 18 synthetic fiber and textile plants for a two-to four-week period between Dec. 1, 1974, and Jan. 12, 1975. Some 21,000 workers will be affected by the cutbacks. In addition, up to 1,300 employees between the ages of 57 and 65 will be retired prematurely as of Jan. 1. With sales off 25%, company stockpiles of synthetic fibers are expected to reach 50,000 tons by the end of the year, more than double the usual volume. The group had already reduced production by 25-30% in October without shortening work hours. French credit restrictions, higher prices for raw materials and energy, and the lower market cost of wool and cotton have been blamed for the slump in this sector.

Siemens/
AEG/
KWU

Germany's leading electrical concern, Siemens AG, has agreed to take over the 50% share held by the AEG-Telefunken group, No. 2 in this field, in the joint nuclear venture Kraftwerk Union AG (KWU) on "the appropriate conditions." The two companies set up KWU in 1969 to combine their respective interests in the nuclear and turbine generator sectors and to execute major atomic reactor projects. The subsidiary is now Germany's largest builder of nuclear power stations. AEG, which is trying to cope with a decline in domestic orders and sales, has reported that the "risks and obligations" involved in KWU's nuclear activi-

KWU *(contd.)*

ties have increased to such an extent that the company is reviewing its participation in the nuclear plant sector. Siemens, on the other hand, is able to inject the capital required to tide KWU over until it breaks even - presumably in 1976.

Du Pont

The Soviet authorities have granted permission to Du Pont Co. of Wilmington, Del., to open a business office in Moscow. The bureau will be headed by Peter J. Meshkoff, chief of the company's East bloc liaison office in Vienna.

GE

General Electric Co., New York, has announced it will open an information and contact bureau for eastern Europe early next year in Vienna. GE also may transfer its entire eastern trade division from Geneva to Vienna when it moves its European headquarters from Switzerland to Brussels, Belgium, as is planned.

Texas Instruments Germany

Texas Instruments Deutschland GmbH, German subsidiary of the Dallas-based Texas Instruments Corp., has announced it will close its five-year-old operation at Ingolstadt in Bavaria as of year-end. The shutdown involves the dismissal of some 350 employees, for whom a "social plan" has been worked out. The company also intends to reduce the staff at its nearby Freising plant by about 100. Overcapacities and a sales slump in the semiconductor market as well as service problems were blamed for the measures.

Hoessrich/ Uher

Germany's Hoessrich group has taken over an unspecified majority interest in Uher-Werke GmbH & Co. KG, the Munich-based manufacturer of high-grade tape recording equipment, for a reported price of "under DM 3 million." The sale, negotiated through Hoessrich's Swiss subsidiary Rekon SA, ends speculation over a possible acquisition by Braun AG of the U.S. Gillette group.

Citibank

First National City Bank of New York has announced it will take advantage of the liberalization of Danish banking regulations by opening a branch in Copenhagen early next year. Establishment of the new office, which is primarily to service major multinational corporations, must still be approved by Danish and U.S. authorities.

Puerto Rico

The Economic Development Administration of the U.S. Commonwealth of Puerto Rico has opened a new representative office in Frankfurt, Germany.

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Community: Waiting for 'Binsbergen'

Concerning the right of establishment and the freedom to provide services, the European Commission - contrary to earlier expectations - has decided not to present its initial memorandum on the implications of the *Reyners* case to the Council of Ministers this month. Instead, it will first await the Court of Justice ruling on *Binsbergen v. Centrale Raad van Beroep* (Case No. 33/74), which is expected to be handed down in December.

The latter case involves a Dutch attorney living just across the border in Belgium who was denied the right to represent a Dutch national in pension litigation before a Dutch court on grounds that he did not fulfill the statutory residence requirement. In its forthcoming ruling on this case, the European Court is expected by both Commission and Council attorneys to remove restrictions on the freedom to provide services (Treaty Articles 59-60), just as it has lifted discriminatory curbs on the right of establishment in Reyners (*Common Market Reports, Par. 9675*). Thus, as the Reyners decision rendered moot the discussions on proposed directives to extend the right of establishment in the liberal professions to nonnationals, Binsbergen may do the same for proposals designed to extend freedom of

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'Binsbergen' *(contd.)*

services. In this regard, the significance of both Reyners and Binsbergen goes beyond the legal profession.

Only after Binsbergen will the Commission be able to tell the Council which proposals are superfluous or need amendments. The upcoming ruling might require changes in the 1969 draft directive dealing specifically with attorneys' freedom to provide certain legal services in member states other than those of their residence. Article 2 of the draft directive confines this freedom to legal consultations and pleadings in court in addition to giving access to court files, visiting prisoners, and being present at pretrial hearings. Hence, it does not even touch on the right of establishment (for example, allowing a French attorney to settle in Belgium and practice law there) because this would require coordination of rules governing access and mutual recognition of diplomas. At this point, in fact, there is little hope that the member states will agree to mutual recognition of bar examinations.

The Binsbergen ruling will also be examined by Commission attorneys as to whether another discriminatory element contained in the 1969 draft directive could remain: it involves Article 6 which would, for instance, prevent a French attorney from drawing up a contract in Brussels for Belgian clients. He still would have to act with a Belgian attorney and would have to be presented to the president of the court, if this were local bar practice (*Common Market Reports, Par. 1349.09*).

Netherlands: Shot in the Arm for Employment, Ailing Economy

In an attempt to check rising unemployment and give some stimulation to the stagnating domestic economy, the Dutch government on Nov. 17 announced a 3.5-billion-guilder program for 1975. Its specific aims are to reduce unemployment by 15,000 to 20,000 next year, improve consumer purchasing power by about 3%, and cause business investments to rise by 6%. Other targets identified in the message to Parliament include a 13% ceiling on wage raises next year and an inflation rate not to exceed 9.5%.

The Hague hopes to achieve these goals by lowering income taxes by a total of 840 million guilders (with effect from April 1) and by assisting the ailing public and private construction sector to the tune of 915 million. The proposed package also includes a 500-million-guilder allocation toward children's allowances (the employer contributions here would drop by 0.5%), 400 million toward the unemployment insurance system to forestall the need to raise contributions, and 200 million for retraining programs. A further 520 million would be spent to finance creation of new jobs on local and regional levels.

Prime Minister Joop den Uyl, in announcing the program along with key members of his cabinet, said that unemploy-

New Program *(contd.)*

ment could reach at least 175,000 next year if present conditions persist - this would be 20,000 more than previously expected as the maximum. The proposed measures should help to avert this danger, he said, although another review of the situation will take place after half a year.

France: Tax Moratorium Because of Postal Strike?

Against the backdrop of a postal strike that is well into its second month and the continuing labor strife in most public service sectors, the French government intends to take precautions against a possible mass collapse of small and medium-sized businesses unable to meet their payments deadlines because of liquidity problems. Finance Minister Jean-Pierre Fourcade announced that his ministry and Justice Ministry experts are preparing draft legislation that would grant a moratorium to taxpayers who have become delinquent as a result of the postal strike. The moratorium also would cover unpaid social contributions and, according to unconfirmed reports, provide for the temporary cancellation of contractual payment periods and deadlines. The postal strike, which began in mid-October, has had a serious impact particularly on foreign trade transactions, and the moratorium would mean that foreign exporters will have no legal recourse in trying to collect outstanding accounts from their French customers.

Denmark: Government Acts to Combat Unemployment

Confronted with a jobless rate of about 8%, the Danish government has stepped in with a plan to promote public investment at the local level as well as the home building sector and to raise unemployment compensation. Expenditure next year for local public investment is to be increased by 7%, and new housing starts between Dec. 1 and May 1 would benefit from more attractive financial terms. Unemployment compensation reportedly is to be raised from 792 to 960 kroner a week.

Britain: Pound's Slump Draws Denial of Devaluation

After the fall of sterling to an all-time low on the foreign currency markets, the governor of the Bank of England has felt obliged to give formal reassurances that there will be no devaluation of the British pound. The weakness of sterling, which prompted the governor's Nov. 18 statement during a visit to Kuwait, had been directly attributed to the Chancellor of the Exchequer's Nov. 12 Budget message, which included an announcement to the effect that the "overseas sterling guarantee arrangements" would be discontinued at the end of this year. These arrangements provide that the U.K. will compensate overseas holders of sterling for part of their sterling reserves if the exchange rate falls below a predetermined level.

Pound's Slump *(contd.)*

The Chancellor's decision had been widely interpreted as part of a deliberate policy to allow the exchange rate to "float down," making British exports more competitive. Bank of England spokesmen in London stressed, however, that the governor's Kuwait trip was not for the purpose of discussing the impact of the sterling guarantee's demise.

To some commentators, the terms "devaluation," "downward float," and "depreciation" appeared to be little more than a question of semantics. Whether or not a formal devaluation is contemplated is in a sense immaterial, they said, since the effective depreciation of sterling since the end of 1971 now stands at 20.7% when measured against 10 other key currencies.

Hudson Study Warns U.K. of 'Smiling Death'

The Paris-based Hudson Institute (Europe) has prepared a report on Britain's economic prospects - "The United Kingdom in 1980?" - the conclusions of which sharply contrast with last year's Hudson report on France. The study's authors predict that Britain is heading for a total economic collapse, a "smiling death." They base this assertion on a number of factors, but principally on a key formula that measures (in)efficiency through the conversion of a unit of energy into a unit of Gross National Product. Applied to the U.K., the formula reveals that this country has one of the least efficient economies of the advanced countries of the world. The inefficiency is such, the authors claim, that the economy would still collapse even if no U.K. worker ever went on strike. Furthermore, they believe that membership or nonmembership in the EC will make little or no difference to the country's economic prospects.

The Hudson report dismisses the argument that Britain's economic weakness is more than compensated for by its much vaunted "quality of life." This, say the authors, is an illusion when applied to the country as a whole. Although a small minority may have sufficient wealth to enjoy Britain's cultural and other merits, the quality of life for the bulk of the population is in reality much lower than that in other industrialized countries. This theme is closely linked to that of inequality: in a country with a long tradition of quasi-egalitarian government, the authors say, 98% of the wealth is owned by 50% of the population, 21% by 1%, and 29% by 2%.

The apocalyptic report makes certain recommendations, all of which are regarded as explosive: a reappraisal of the monarchy, regional secession, a moratorium on North Sea oil development until the late '80s (when the U.K.'s own - as opposed to American - technology could be employed), and a possible disengagement from ties with the United States, since the link between the two countries has been postulated by the authors as a root cause of Britain's problems.

Italy: Progress on Political Talks in Rome

A solution to Italy's long-simmering political crisis seemed to be shaping up with the Nov. 18 announcement of the Christian Democrats that they had agreed with the Republicans on the formation of a minority administration. This coalition had been proposed by the would-be prime minister, Aldo Moro, and was assured of parliamentary support by the Socialists and Social Democrats. Moro was quoted as commenting that the proposed combination was "the best solution possible today to Italy's crisis" inasmuch as it avoided the danger of early elections and would not aggravate the deep rift over economic policy between the Socialists and the Social Democrats (which had been partially responsible for the collapse of Mariano Rumor's four-party government on Oct. 3).

In other developments, the Italian government has been granted another extension of a $1.56-billion loan by the finance ministers of the EC: after two previous postponements, repayment was to have been due next month but has now been deferred by another three and one-half years. The finance ministers, meeting in Brussels, approved the extension without much debate, being fully aware of Italy's continuing economic problems. Only Britain abstained from endorsing the latest arrangements in view of the unsettled issue of U.K. membership in the EC in future as well as its own balance of payments difficulties. London consented, however, to defer its own share of the Italian debt by three months, with periodic review thereafter.

Germany: Constitutional Queries on Co-Determination

The Labor Committee of the German Bundestag, in a surprise move, has decided unanimously to invite a number of experts to testify on the constitutionality of the government's controversial co-determination bill (*Doing Business in Europe, Pars. 30,695 and 30,700*). As late as Sept. 25, the committee had rejected an Opposition motion for such a hearing.

The change of mind has come in the wake of mounting doubts as to whether several provisions of the bill are compatible with the German *Grundgesetz*. Initially, the government had hoped to dispel these doubts by presenting the results of two studies it commissioned from two leading legal scholars. However, the studies were not published when it turned out that these experts, too, raised certain questions (though both believed that the Constitution does not rule out equal representation of labor on corporate supervisory boards). The two authors will now testify at the Dec. 18 hearing along with six other experts who were invited by the government and four called upon by the Opposition.

It is virtually certain that the Labor Committee will amend the bill to steer it around the constitutional reefs.

Queries *(contd.)*

On the other hand, there is the chance that the concept may be changed so as to pattern it on the model practiced in the German coal and steel sector (*Doing Business in Europe, Par. 23,441*). That system - with shareholders and labor represented equally on the supervisory board, plus a neutral chairman - has generally worked out well and caused little friction for management. Although union leaders first thought that it would not be far-reaching enough for general co-determination, at least the chairman of the national union federation (DGB) appears to have changed his mind in view of the heated debate on the constitutionality issue.

Labor Court Decision Backs Equality Rule

The German Supreme Labor Court has held that the payment of above-union scale wages to men but not to women violates the equality clause of the Constitution as well as the 1972 Works Council Act (Case No. 5 AZR 567/73). The ruling represents the latest step in the court's drive to enforce the "equal pay for equal work" principle spelled out in the Constitution's Article 3. The decision in a way also goes along with the European Commission's desire to enforce Treaty Article 119. (Brussels' draft directive providing for the approximation of member states' legislation concerning the application of the equal-pay principle is now being discussed by a Council working group.)

In the case at issue, a company had paid above-scale wages to all employees but also made an extra payment to male workers only. The court found this contrary not only to the Constitution but also to Section 75 of the 1972 Works Council Act which bars discrimination on account of sex, race, religion, nationality, political belief, or union affiliation.

EURO COMPANY SCENE

North Sea Oil

The government of Norway has awarded five new North Sea oi[l] exploration and production concessions to U.S., French, an[d] domestic oil concerns in partnership with the nationally owned Statoil company. In one concession, Statoil has a 50% share and Esso Exploration Norway the remaining half. The next block is shared by Statoil (50%), Norske Conoco (40%), and Norway's Norsk Hydro (10%), the third by Stat[oil] (50%) and the French-Norwegian group Petronord (50%). Th[e] fourth sector has been allocated to Statoil (50%), Chevr[on] Petroleum Norge (35%), and Saga Petroleum, a private Norw[e]gian consortium (15%). The fifth license involves Statoi[l] (55%), Amoco (30%), and Mobil Exploration Norway (15%). The participation of Statoil in all these blocks may be in creased up to 70-75%, depending on the volume of the find.

German Fiber Producers

The German Federal Cartel Office and nine leading manufacturers of synthetic fibers in Germany have reached an out-of-court compromise in a case dating back to April 1972. At that time the Cartel Office had charged Glanzstoff AG (Akzo), Enka-Glanzstoff GmbH, Deutsche Rhodiaceta AG (Rhône-Poulenc), Bayer AG, Hoechst AG, Phrix-Werke AG, Süddeutsche Chemiefaser AG, Lonzona GmbH, and Deutsche Zellwolle GmbH with collusion in their pricing policies on domestic, European, and international markets and imposed record fines of DM 48.4 million. Now, without altering their defense, the manufacturers have agreed to pay DM 12 million in fines and drop their appeal of the decision. To refute the accusations of unfair competition, they have also provided the Cartel Office with detailed information and figures on their operations. The German authorities have apparently accepted this settlement as an alternative to long and costly legal proceedings.

George Kent

The U.K. Secretary of State for Industry has made a surprise announcement to the effect that state aid will be made available under the Industry Act 1972 to that part of the George Kent group that is not affected by the takeover by Switzerland's Brown Boveri & Cie. (BBC). In October, the Secretary decided to put the state's 24% holding in Kent behind the BBC bid rather than behind a rival bid from General Electric. This resulted in a split of Kent into two groups, Brown Boveri Kent and Scientific & Medical Industries (SMI). It has now been reported that SMI's financial position has deteriorated to a point where it cannot commence operations.

Herbert

Alfred Herbert, Britain's leading machine tool group, has conceded that it is in difficulties following a 70% slump in domestic orders over the last three months. The company's chances of survival now appear to depend on stepped-up export orders and on the injection of government capital (in exchange for an equity stake) through the National Enterprise Board.

[illegible] & Western/ [illegible]erson

Gulf & Western, the U.S. conglomerate, is making a bid for full control of the U.K.'s John M. Henderson, the machine tool and anti-pollution equipment manufacturer. The cash offer for the 40% share of Henderson not already held by G&W values the British company at over £3 million.

[illegible]rghini

Ferruccio Lamborghini, founder of Italy's Lamborghini sports cars, reportedly has sold off a 48% stake in the company to René Leimer, owner of Leimer et Beyeler Atelier du Nord of Switzerland. Three years ago Lamborghini sold a 51% package to Georges and Willy Rossetti of Switzerland, so that he now retains only a nominal holding of 1% as well as presidency of the firm. Lamborghini's pull-out would

Lamborghini *(contd.)*	leave Ferrari as the only Italian sports car maker still exclusively under Italian control (Fiat).
Boehringer/ Bio-Dynamics	Germany's Boehringer Mannheim GmbH pharmaceuticals reportedly has made a takeover bid of $13 a share for the 1.7 million shares of Bio-Dynamics, Inc., of Indianapolis, Ind., specialists in medical technology for hospital, orthopedic, and laboratory use. If successful, Boehringer plans to make Bio-Dynamics a bridgehead for further expansion in the U.S. pharmaceuticals sector.
Rollei	Germany's Norddeutsche Landesbank-Girozentrale, controlled by the state of Lower Saxony, has appealed to the state government to underwrite a DM 250-million credit for Rollei-Werke of Braunschweig. The camera producer, in which Norddeutsche and Hessische Landesbank each hold a 38% stake, has been suffering from a liquidity shortage and may be compelled to reduce its domestic work force of 2,500 by 500-800 and the staff of its major Singapore manufacturing subsidiary from 6,000 to 3,000 in order to cut costs. According to unofficial reports, Rollei took a loss of DM 50 million on sales of about DM 200 million in 1973. Similar results are anticipated for the current year.
Goldman Sachs	Goldman Sachs & Co., the New York investment and brokerage house, has opened a new Swiss subsidiary, Goldman Sachs A[illegible] in Zurich. The company, which is also represented in London, announced it was considering the establishment of offices in other European financial centers as well. According to senior partner Gustave L. Levy, Switzerland accounted for 40% of all European sales transactions involving U.S. securities last year, and more U.S. share issues are held there than in any other European country.
Bank für Gemeinwirtschaft	Germany's labor union-controlled Bank für Gemeinwirtschaft will set up a representation in New York next year. The bank plans to convert this office to a full branch by 1976[illegible]
Bache	Bache & Co., the New York brokerage house, has opened a n[illegible] office in Vienna. The bureau also serves as an East-West contact center.

Common Market Reports

EUROMARKET NEWS

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Community: Little Progress Expected from Paris Summit

The glum mood that accompanied preparations for the European summit meeting in Paris on Dec. 9-10 has not lifted on the eve of the conference: it now appears certain that the nine government heads will have more than enough to do to try to keep the Community from disintegrating further rather than discuss any new, bold plans for the future. Despite working virtually around the clock in recent weeks in efforts to agree on an agenda, the member states' Permanent Representatives put little down on paper and thus failed dismally in providing a promising base for the high-level talks.

The No. 1 topic of the conference should be the problem of getting the national economies to converge on a more common course. Here, the recent suggestion by former German chancellor Willy Brandt to temporarily detach Italy and the U.K. from the rest of the Community to ensure better progress for the remaining states is not regarded as an acceptable alternative, although a more constructive solution has yet to be proposed. Equally in doubt is any progress on another attempt to formulate a common energy policy and ways to deal with national payments difficulties resulting from the energy crisis. The same goes for a joint attack on inflation so long as the rates of price rises continue to show an extreme spread, from a low of 7% in Germany to

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Paris Summit *(contd.)*

more than 25% in Italy. Also, for most member states, reducing unemployment has priority over fighting inflation. Germany so far has insisted that both must be done at the same time.

British opposition is expected to block any noticeable advance on improvements in the structure and power of EC institutions - primarily majority-vote rule by the Council of Ministers and direct election to the European Parliament. The U.K. is not willing to accept Council majority rule on any issue, no matter how insignificant, at least so long as the major problem of membership renegotiation has not been resolved.

Italy: After 51 Days, a New Start in Rome

If there is one encouraging aspect for Italian business and industry in the formation of the latest government in Rome, it is the fact that some of the key posts in the 23-member cabinet are occupied by men who continue to enjoy a measure of respect in the business community. They include Ugo La Malfa, the new deputy premier and a former treasury minister; Emilio Colombo, who stayed on as treasury minister; and Bruno Visentini, who takes over the Finance Ministry. Visentini is a professor of tax law and, until his new appointment, was the board chairman of Olivetti and a vice-president of the Confindustria industrial federation.

The appointment of these men has sustained hopes for reasonably realistic economic policy by the Aldo Moro administration, which was sworn in 51 days after the collapse of the Rumor government. Still, the constellations on Italy's domestic scene are such that few observers give the new Christian Democrat-Republican minority combine a life expectancy beyond next spring, when a new round of regional elections is due. In the interim, extreme steadfastness is called for on the part of the government leaders most concerned with economic and monetary policy: only through the most Draconic measures would it be possible to avert a disaster for the Italian economy, which continues to hover on the brink. The number of jobless has reached nearly one million, the national debt keeps soaring, and the inflation spiral is turning faster and faster. Strikes and demonstrations have become an everyday feature - the unions called yet another eight-hour strike for Dec. 4, even though 68 million work hours already were lost during the first nine months of the year.

Britain: Exit from EC Would Be 'Traumatic' - Callaghan

Britain's position regarding Common Market membership or nonmembership has been clarified to some degree following a televised statement by Foreign Secretary James Callaghan on Nov. 21. To the dismay of Labour Party anti-Marketeers, the secretary proclaimed that "coming out of the Market would be a very different thing from not going into it,"

Exit from EC *(contd.)*

principally because the U.K. is so enmeshed that withdrawal would be a "traumatic experience." The secretary's statements suggested an increased optimism among Labour ministers that the "concessions" that Prime Minister Harold Wilson has deemed to be necessary to sustain Britain's continued membership may yet be forthcoming. Most significantly, however, the foreign secretary tacitly endorsed at least some of the conclusions of the recent devastating Hudson Institute report on the country's economic future. Stressing that remedies "lay within the country rather than outside it," Callaghan conceded that Britain was "slipping downhill." By the end of this decade, he noted, the U.K.'s gross domestic product would be half that of Germany and France and considerably below that of Denmark, leaving Britain among the poorest of the Nine.

In spite of his otherwise frank remarks, the secretary would not commit himself on the issue of whether Community membership would be decided by a further election or by a national referendum. He did say, however, that decisions taken by the Labour Party Conference in this regard would not be binding on the government. The election/referendum decision would have to be taken by next spring: it follows, therefore, that some conclusion must be reached on whether the negotiations have been (or are likely to be) successful by next February or - at the latest - next March.

Corporate Tax to Be Doubled by Guernsey

Following the Guernsey (Channel Islands) Budget announced on Nov. 25, "corporation tax companies," i.e., those which are registered in the island but do not trade there, will face a 100% increase in their corporation tax liabilities. The boost should not deter companies from registering in Guernsey, however, since the new tax amounts to a mere £600 per company annually, effective Jan. 1, 1975. The island does not propose to change the standard rate (20%) of income tax. On the other hand, the island's appeal is somewhat diminished in that its cheaper gasoline and tobacco will be liable to increased duty. This means that top-grade gasoline will cost some 37p per gallon (as compared with some 63p in the U.K. proper). Similarly, cigarettes in the king-size range will rise by some 3p to 21p per pack (40p in the U.K.). Other features of the island's Budget included increases of some 66% in motor vehicle tax (based on weight) and more generous income tax allowances for lower-paid and middle-income workers.

Germany: Tax Officials in Talks on Banking Secrecy

Despite Finance Ministry assertions that the German fiscal authorities will continue to use restraint in querying banks on taxpayers' accounts, federal and state revenue agents did meet recently to discuss possible ways of gaining better access to such information. These discussions

Bank Secrecy *(contd.)*

were prompted mainly by parliamentary deliberations over the new government-drafted Fiscal Code (*Abgabenordnung*), which is to replace the 50-year-old *Reichsabgabenordnung* (*Doing Business in Europe, Par. 23,396*).

Current practice is based on a 1949 decree, issued before the formal establishment of the Federal Republic, which admittedly has worked well. However, with the enactment of the new code the government would commit itself to reviewing all decrees issued under the present law, not just the one protecting banking secrecy.

According to the 1949 decree, the tax authorities auditing a taxpayer's books and records may not ask financial institutions periodically or individually about the type and amount of the taxpayer's account. The taxpayer is not obliged to indicate on his return where he maintains an account, and tax authorities rarely bother to investigate, although they have this power under the decree. Banks are required, however, to notify the tax authorities on their own about the existence of accounts maintained by individuals and entities.

Section 175 of the present code allows authorities to ignore banking secrecy if the taxpayer refuses to disclose information about his account when all other methods fail to establish taxable income (for instance, through personal questioning). Even this last-resort approach is rarely used, however.

Taxpayers will know some time next spring whether present practice will change in the future.

Bonn to Combat Restrictive Trade Practices

Antitrust actions are usually directed against manufacturers and service enterprises for various forms of restrictive practices affecting the supply of goods and services, but now the German government has moved to curb abuses of marketing power by trade establishments. Government attorneys, with the help of industry and the chambers of commerce, have compiled a list of some 25 different types of abuses by chain and department stores and also individual store owners.

It is charged in Bonn that stores often pressure manufacturers into granting low-interest loans or favorable sales terms and making one-time or recurring payments for orders of certain brands and/or displaying them in favorable locations in the store. Other examples are manufacturers' contributions toward advertising costs, rebates on large purchases, and setting up displays or rearranging them at the store owner's request. The government has evidence that large manufacturers often accede to these requests in order to have an assured outlet for their product, but smaller enterprises can seldom afford to do so and as a result may ultimately be driven from the market.

Trade Practices *(contd.)*

By compiling and presenting its catalog of dubious practices, the government wants to give trade and industry a chance for voluntary curbs. Failing this, government lawyers would prepare legislation aimed at amending Section 22 GWB (Law against Restraints of Competition), which empowers the Federal Cartel Office to prohibit practices by market-dominating enterprises (*Doing Business in Europe, Par. 23,509*). Antitrust experts are very well aware of the difficulties involved in drafting legislation since, after all, there is freedom of contract and not every favorable term extracted from the manufacturer by the retailer can be labeled an abuse. On the other hand, the government is determined to crack down on the worst offenders.

Switzerland: Bern Reimposes Interest Ban, Penalty Charge

The massive inflow of foreign funds, especially "petrodollars," into Switzerland prompted the government and the central bank on Nov. 21 to reintroduce the ban on interest payments and reestablish a penalty charge (negative interest) on franc accounts maintained or opened by nonresidents. Both measures were authorized by legislation passed at the height of the 1971 international monetary upheaval (*Doing Business in Europe, Pars. 29,151 and 29,154*). The ban on payment of interest had been lifted only last month (Oct. 16) and the negative interest rule on Oct. 1, 1973. The new restrictions were put into effect retroactively to Oct. 31; that applied also to the 3% penalty charge payable quarterly. The negative-interest provision reportedly will pertain only to accounts of more than SF 100,000, however. Also, nonresidents are still free to invest in fixed-interest securities denominated in Swiss francs.

In addition to the restrictive measures, the central bank has been authorized to curb evasive practices, particularly through foreign exchange speculation and account swapping, which involves the temporary conversion into dollars of a Swiss franc account maintained by a nonresident with a Swiss bank. This method allegedly has been widely used to escape application of monetary controls.

In other developments, the government has announced its intention to abolish the curbs on "nonessential" construction projects such as luxury homes and condominium developments, administrative buildings, shopping and entertainment centers, etc., and also lifted the restrictions on the demolition of existing buildings. Applied in December 1972 to help cool off the boom in the construction sector (*Doing Business in Europe, Par. 30,629*), the curbs are to be removed on Jan. 1 because investment activity in this industry has slowed down considerably since then, according to Bern reports. This is primarily due to the problems encountered in the financing of new projects, a situation that has now prompted demands for a relaxation of credit restraints.

Spain: Revised Rules for Foreign Investors

The Spanish government, in the Law of Oct. 31, has issued modified regulations that bring a number of additional controls for foreign investments in Spain but also clarify some points previously left open to interpretation. The law and two implementing decrees, published in the *Boletin oficial del Estado* of Nov. 6, generally will not concern foreign investments transacted under the old rules, however.

Among the new provisions is the introduction of a register in which, with effect from Feb. 1, 1975, any foreign-owned holdings and equities have to be entered, regardless of whether these belong to enterprises or persons domiciled abroad or in Spain and regardless of the type of investment (industrial holdings, real property, securities, loans, etc.). The new law does not restrict the existing freedom of capital and profit remission but in future will make it dependent on proper registration of the investment.

The new legislation also contains a clear definition of what constitutes a foreign majority participation: any equity exceeding 50% will be considered 100% foreign-held and a majority is also assumed when the equity ranges only from 25 to 50% but is coupled with a "dominating influence" by the foreign partner. As a way of monitoring all foreign participations in Spanish enterprises, the latter will be required to reveal the exact size of such participations in the State Gazette.

The establishment of new branches by foreign enterprises in future will be subject to an administrative permit, while existing branches will be required to inform the Commerce Ministry in detail of their business activities. Branches may not acquire equities in domestic enterprises other than through the purchase of securities quoted on the stock market. The raising of loans by branches also will require official approval. The law furthermore provides that *residentes*, i.e., foreigners classified as permanent residents, will be covered by the foreign exchange regulations (previously they usually were exempted), although they may, under certain circumstances, effect investments with so-called *pesetas interiores*.

Real estate and residential property holdings by foreigners also fall under the provisions of the investment law, which toughens restrictions especially for developers. It is assumed, for instance, that the purchase of three or more apartment units will be considered a commercial transaction subject to the pertinent fiscal obligations.

EURO COMPANY SCENE

Thyssen/ Solmer

The European Commission has approved the acquisition by Germany's August-Thyssen-Hütte AG (ATH) of a 25% stake in

Thyssen/ Solmer *(contd.)*

Stě. Lorraine et Méridionale de Laminage Continu SA (Solmer), the French steel-plate maker that is jointly (50:50) owned by Stě. Lorraine de Laminage Continu SA (Sollac) and Union Sidérurgique du Nord et de l'Est de la France SA (Usinor). The go-ahead was given on condition that the three firms remain independent within the steel sector and that, aside from decisions affecting Solmer investments and production, they undertake no new agreements with each other or form interlocking directorates without Commission consent. In addition, Brussels' permission would be needed for any increases in Solmer production capacity. The Commission found that in spite of certain encroachments on free competition in the area of investment, the cooperation would still let each company continue to function independently as regards pricing.

Bell Belgium

ITT subsidiary Bell Telephone Manufacturing Co. Belgium has announced plans to lay off about 700 of its 14,000 employees during the course of 1975, according to Brussels reports. A shrinking order volume had already led the company to reduce work schedules several months ago. Bell is currently in the spotlight in Belgium because of bribery and collusion charges linking company manager Frank Pepermans with Germain Baudrin, the former director of the Belgian Telegraph and Telephone Administration. The Belgian attorney general has confirmed that legal proceedings have been initiated against Pepermans.

GM/ Philips/ Glaverbel

Measures to cut production surpluses are being undertaken by other major industrial groups in Belgium: General Motors is offering bonus packages for those who voluntarily quit its work force of 7,000; Philips plans temporary layoffs for some 4,000 workers this month; and glass producer Glaverbel intends to drop 660 of its 9,500 employees.

Hoffmann-La Roche Germany

The German subsidiary of Switzerland's Hoffmann-La Roche pharmaceuticals will not be forced to lower its prices for the tranquilizers Valium and Librium as of Jan. 1, as Germany's Cartel Office had ordered in October. The Berlin Court of Appeals has now upheld the company's appeal of that decision, while indicating that the final word has not yet been spoken. Although it did acknowledge the need for a review of Valium and Librium prices, the tribunal found that the legal and medical questions involved in the case were so complicated that compliance with the Cartel Office order would be an "unfair hardship" for Hoffmann-La Roche.

Merck

In other action, again citing the difficulties of the case, the Berlin court has postponed a decision on the appeal of a Cartel Office order of last spring by another drug producer, Germany's E. Merck. Claiming abuse of a market-dominating position, the antitrust authorities had required the company to lower its prices for certain vitamin B-12 compounds by 60-70%.

Hoffmann-La Roche U.K.

In the U.K., meanwhile, Hoffmann-La Roche has alleged in the High Court that the Secretary of State for Industry had acted "unfairly, partially, and unjudicially" when moving last year to order price cuts against Librium and Valium. The company made this charge on the first day of "striking out" proceedings (i.e., the procedure used by a defendant in an attempt to nullify part or all of a statement made against him). Hoffmann claims that the secretary was well aware that the move came at the instigation of the Dept. of Health and Social Security, which had an obvious interest in securing reductions, since it must pay for the drugs.

Marks & Spencer

The British retail chain Marks & Spencer, whose "St. Michael" label is a household word in the U.K., plans to open a "prestige" store in Paris early next year. The right to use the St. Michael name in France is now being challenged, however, in French courts by an independent trademarks specialist, Dr. Robert Aries. In France, brand names are registered according to the category of goods to be sold. While M&S did register the St. Michael label in some of the classes in international trademark category No. 25 (textiles), Aries has registered the same name for other classes of merchandise such as cosmetics. He now threatens to slap a writ on M&S should the company attempt to sell any St. Michael goods in France and in "his" categories. Aries has pointed out that other U.K. firms may well face similar problems because of the strictness of French trademark law, part of which specifies that a mark must be used within five years of its registration, failing which it lapses and can be reregistered by other parties (*Doing Business in Europe, Par. 22,981*).

Burroughs/ Walther

Burroughs Corp. of Detroit, Mich., has contracted to buy one of the production plants of Walther Büromaschinen GmbH, a German office machinery manufacturer now undergoing bankruptcy proceedings. No price has been revealed, although Walther indicated that the sale would enable it to pay off all remaining bank obligations. The factory has been producing printers for Burroughs computer terminals and will continue to do so after the takeover.

Pribo

The government of Sweden reportedly has agreed to pay 225 million kronor for a 60% controlling interest in Pripps AB (Pribo), the country's leading brewery, with an option to take over the remaining shares at any time. According to the terms of the deal, if Stockholm has not assumed full ownership by Jan. 1, 1985, Pribo may then require it to do so. The brewery will be managed as an autonomous concern by a joint six-man board consisting of four government representatives and two Pribo holding company appointees.

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Community: Council Adopts Statute of Limitations

With the adoption of a statute of limitations on the Commission's power to prosecute violations of EEC competition and transport rules, the Community has accepted a principle common to the law of all member states and has thus increased the legal security of the companies operating in the Common Market. Adoption of the EEC Council regulation on limitation periods for the imposition and enforcement of pecuniary sanctions in this area should also silence those antitrust lawyers who had criticized the EEC's lack of what is taken for granted in most legal orders.

Back in 1970, attorneys representing members of an international quinine cartel had challenged Commission fines for antitrust violations (*Common Market Reports, Par. 2542.74*) on grounds that the states' statutes of limitations precluded action against members of the cartel. In a series of judgments (*Common Market Reports, Pars. 2542.88-9, 8083-5, and 8161-9*), the European Court of Justice held that there was no Community statute of limitations for antitrust matters. But at the same time it called on the Community lawmakers to introduce such a statute, leaving length and terms to the Council's discretion.

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Limitations *(contd.)*

According to Article 1 of the new regulation, to take effect on Jan. 1, there will be a three-year statute of limitations on the Commission's power to impose fines or other sanctions for violations of competition and transport rules on discrimination, notification of agreements, or information to be furnished. Other violations (for example, of the cartel ban or abuse of a market-dominating position) could not be prosecuted if more than five years had elapsed from the date of violation. The statute will be tolled, i.e., barred, by any official action initiated by the Commission (or requested by a member state) that is aimed at investigating or prosecuting a violation. The statute would not be tolled but would merely stop running should a party appeal a Commission decision before the Court of Justice. The effective date will be the day on which any of the parties involved is notified of the Commission action.

The Commission's power to enforce its decisions imposing fines and penalties for infractions of competition and transport rules will be limited to five years from the date the decision becomes final. The statute of limitations on enforcement will be tolled with the announcement that the original amount of the fine or penalty has been changed (or that a petition to this end has been denied) or through any action aimed at collection of a fine or penalty. An agreement by the Commission to allow payment in installments or a stay of execution by the Court of Justice will suspend the five-year limitation.

Yielding on Renegotiation of Accession?

British officials taking part in the Brussels discussions on possible renegotiation of U.K. membership terms have quietly relented to the pressures of the other Community partners, notwithstanding the fact that their government at home keeps talking of such renegotiations. Accordingly, there will be no reconsideration of accession terms, high-placed Commission sources say. However, the U.K. can expect a large measure of good will and financial benefits in several areas, notably in connection with the Regional Development Fund, which is expected to go into operation shortly. Britain's financial contributions to the EC constitute another field in which the partners are prepared for a compromise. Community officials concede that the Wilson government has a point with its claim that basing contributions on the member states' GNP would be more equitable than the present system of rigid percentages. On the other hand, they maintain that the British can be accommodated without renegotiation of the treaties (*Common Market Reports, Par. 7001*) simply by modifying existing policies or by drawing up new ones.

Community and member state officials have convinced the British government that renegotiation of the Treaty of Accession would require ratification by all nine national

Renegotiation *(contd.)*

legislatures. Even if all governments were prepared to hold such talks (France and Luxembourg have flatly refused to consider this), it still could take up to three years until all parliaments had ratified the amendments and the instruments of ratification were deposited. Modification of the present system would represent a much quicker way of coming to terms and of providing the wanted relief.

Germany: Bonn Prepares to Aid Sagging Economy

The Schmidt administration is expected to announce soon measures to combat unemployment and prevent the German economy from slipping further into a recession. A major boost apparently would come in the form of investment grants: businesses would be entitled to a 7.5% premium on any investment made after Dec. 1, 1974, regardless of the "desirability" of such an investment or the type of industry involved. Benefits thus would be retroactive. Furthermore, grants toward payrolls would go to enterprises with short work schedules or to those that otherwise would have to lay off employees.

Revenue for the investment grants would come from the DM 9-billion "business cycle reserve" (*Konjunkturausgleichsrücklage*) skimmed off during the earlier boom period and kept frozen at the Bundesbank. This would spare the administration from seeking parliamentary allocation of funds at a time when all levels of government are running up high deficits and the private capital market is under strain.

The plan to introduce an investment premium through special legislation was conceived on the premise that the premiums could be paid out quickly and provide the economy with the necessary impulse at the right time. Originally, the government thought that the extra DM 15 billion available to consumers in 1975 as a result of this year's tax reform could provide the needed stimulant, but there are now doubts in Bonn as to whether this money actually will be spent.

The administration's assistance plan would benefit an economy that is burdened by an unemployment figure of about 700,000, a serious recession in at least three major industries (construction, automobiles, and textiles), and a decline in other sectors. Several independent research institutes and the government's Council of Economic Advisers have not ruled out one million unemployed this winter. Chancellor Schmidt's own party and the unions have been exerting strong pressure to act.

Under the Stabilization Law the government has the statutory power to offer investment credits of up to 7.5% of the cost of new depreciable fixed assets that are directly deducted from individual or corporate income taxes;

Aid Plans *(contd.)*

however, this relief could be granted only on 1974 returns and thus would come much later. (*Doing Business in Europe, Pars. 23,118; 23,123; and 23,320.*)

Special Levy to Finance Power Plants

The electrical bills of commercial and private users in Germany will go up by 3.2% as of Jan. 1 following parliamentary passage of the government's Third Electrical Power Law (*Drittes Verstromungsgesetz*). The additional money will be spent for the construction of 10 coal-fueled power plants during the next decade in order to reduce dependence on energy imports. The law also ensures that general (taxpayers') revenue will no longer be used for the construction and operation of such plants. The higher price of electrical power will provide the utilities with an estimated DM 1 billion annually for the new investments.

France: End of Strike Fails to Settle Labor Problems

At first glance the collapse of the French postal strike after six weeks appeared to confirm the wisdom of the government's policy of letting the strikers wear themselves out and not giving in to their demands. The walkouts, which had virtually stopped mail deliveries in the large cities, petered out after the administration steadfastly refused to go beyond its offer of 2.5% in pay raises as of Dec. 1 for the entire public service. This means only FF 27 for the lowest pay categories in the postal system, an increase that would have been due anyway on Jan. 1. In addition, the government promised to create about 2,000 new post office jobs next year. All this fell far short of the strikers' demands for a FF 1,700 minimum wage, a special bonus to compensate for inflation, and the opening of 6,000 additional jobs.

While the Giscard d'Estaing administration's unyielding stance undoubtedly was instrumental in ending the strike, it did provoke deep bitterness among labor ranks. The unions claimed that strike actions had been merely "suspended," and the two major federations CGT and CFDT immediately called another general strike for Dec. 12 - the second within one month's time.

The potentially explosive mood was not calmed by the revelation that unemployment, at 630,000, had set a postwar record and was expected to rise to at least 700,000 by year's end. Nor was there much reassurance in Giscard d'Estaing's solemn promise - in a television address on Nov. 26 - that the protection of employment and the fight against inflation ranked as the No. 1 goals of his administration.

That anti-inflation campaign has yet to produce spectacular results. With the annual rate of price rises still hovering around 15%, the government has remained unsuccess-

End of Strike *(contd.)*

ful in its struggles to depress the rate below 1% per month. However, not all was bleak in the economic picture - Finance Minister Jean-Pierre Fourcade was able to tell the National Assembly that this year's Budget will be readjusted to show a "very large" surplus of about FF 8.5 billion, due to the fact that inflation has boosted revenue from corporate, income, and value-added tax far beyond initial expectations. However, to avoid further aggravation of the price pressures, the government for the time being will not pump this money back into the economy.

Italy: Moro Outlines Two-Phase Stability Plan

In his inaugural address to Parliament, Italy's new prime minister, Aldo Moro, has outlined a two-phase stabilization program for the Italian economy which neutral observers have welcomed as "realistic and workable." Moro told the lawmakers that "the country's economic crisis is the most serious in 30 years. The next months will be the most painful and most difficult in our economic history."

It will be the aim of the program to erase by the end of next year that part of Italy's payments deficit not resulting from oil imports. Energy consumption in 1975 is to be cut by 10% compared to this year, mainly through rationing of heating fuels for private households and industrial rationalization. Special fiscal action is to reduce the national budget deficit to 8,000 billion lire, some 1,200 billion less than for 1974. The government will try to bring down the inflation rate from the current 25% to about 16% without being forced to choose between achieving a sounder payments position at the expense of high unemployment and the inflationary protection of jobs at the expense of dwindling exchange reserves. To escape this dilemma, efforts will be made in the coming weeks to reduce the foreign trade deficit and thereby improve Italy's international credit standing. The existing stringent credit restrictions cannot be relaxed, Moro said, until some measure of economic stability has been achieved, and further tax increases probably are unavoidable.

The second part of the government's program would be effected some time next year and consists primarily of support actions for the energy, construction, and agricultural sectors. This would be seen as a reserve plan should the economy show signs of slipping from a recession into an outright depression. The support measures are to be financed by state bond issues.

Denmark: Hartling Firm on Crisis Plan, Calls Elections

New parliamentary elections on Jan. 9 have been called by the Danish prime minister, Poul Hartling, after it became clear that a government-proposed economic crisis program would not receive the necessary support in the Folketing.

New Elections *(contd.)*

Many observers in Copenhagen believed that the new elections could well result in a broadened base for Hartling's Liberal minority administration, which operates with only 22 mandates in the 179-seat Folketing. In that case, there would still be a chance for the proposed austerity package, of which a one-year freeze of wages and profit margins is the crucial and most controversial feature. Hartling had told Parliament on Dec. 3 that the "vicious circle" in which Denmark finds itself "must be broken" and that this could be accomplished only with the belt-tightening measures worked out by the government. Hartling declared then that he would rather call for new elections than accept a compromise on the crisis program.

The proposed freeze on pay and profit margins in private industry would be accompanied by a wage stop in the civil and public services and would cancel the threshold wage increase normally due next spring. Current collective bargaining agreements that expire in March would be extended to Dec. 31, 1975. Profit margins in 1975 would have to be held at a level not exceeding that of this year's. However, the package does provide for higher depreciation allowances and would permit 120% write-offs on the purchase of capital equipment. Domestic prices for meat, fowl, milk, and dairy products are to be stopped for two months initially, during which time the government would have a chance to win European Community backing for the farm price freeze.

Denmark's perilous economic situation also is reflected in the Draft Budget for the 1975 fiscal year (April 1), which has now been submitted by the Finance Ministry. It projects public spending at 66.2 billion kroner - 4.8 billion more than in the current year - and will leave the Budget with a record deficit of 2.2 billion kroner. The rise in expenditure will be largely due to the wage indexation and the fast-rising cost of unemployment compensation. (The jobless rate for those workers covered by unemployment insurance plans presently stands at 8.9%, and some of the occupational funds already have depleted their reserves, forcing the state to take over compensation payments.)

The budget plan anticipates 1975-76 revenues on the order of 63.3 billion kroner, which is 1.8 billion less than for the current year. The shortfall will be caused not only by the income tax reductions announced in the fall as part of a fiscal reform program but also by a miscalculation of the extra revenue from the special levies imposed last May on certain imported consumer goods such as automobiles and on tobacco and alcohol. These were supposed to bring in 3 billion kroner in additional revenue, but lower consumption has invalidated these expectations.

EURO COMPANY SCENE

Daimler-Benz

The Quandt family's surprise sale of a minority interest of 14.6% in Germany's second-largest automotive producer, Daimler-Benz AG (Mercedes), to the government of Kuwait elicited mixed reactions from administration officials, market experts, and the general public. The deal, worth at least an estimated DM 800-900 million, is one of the largest since World War II, surpassing in value the Iranian acquisition of 25% in Krupp Hüttenwerke last July. When the buyer's identity finally became known, several days after the transaction was first announced, Bonn declared that it considered the Kuwaiti engagement a private business matter, although it did deplore the "accompanying circumstances": the sale was made in virtual secrecy by Dresdner Bank, which will administer the share block for its new owners. Dresdner stressed that the acquisition was to be interpreted solely as a "long-term capital investment" and not as a prelude to intervention in Daimler-Benz policy; the Arab state would not seek a seat on the firm's supervisory board. Although apparently satisfied with these assurances, Bonn indicated it would immediately step up work on a modification of the Foreign Trade Law (*Aussenwirtschaftsgesetz*) to require advance notification of all foreign purchases of German shareholdings, depending on the magnitude of the stake. The actual buyer rather than any surrogate or "straw man" would have to be named. On the plus side, officials pointed out that the sale represents a welcome "recycling" of oil dollars into Germany, bringing an improvement in the balance of payments and, possibly, an eventual reduction in energy costs.

Citroën/ Renault

A week after French president Valéry Giscard d'Estaing declared that Paris would invest hitherto unheard of sums to facilitate reorganization of the country's automobile and truck manufacturing industries, the Finance Ministry announced credits totaling FF 1.45 billion for Michelin-owned Citroën and the state's Régie Renault. The national development fund FDES will make FF 1 billion available to Citroën so that it can proceed with the proposed merger with Peugeot, while Renault will get FF 450 million to take over Citroën's truck offshoot Berliet, combining it with its own Saviem division. Both 15-year loans carry interest rates of 9.75%. Since Citroën anticipates losses of FF 800 million for the current year, most of the credit will probably go toward putting it back on its feet in preparation for the fusion. The creation of a state-owned Berliet-Saviem truck group, for its part, is intended to give France new clout in the heavy vehicle sector, where Daimler-Benz and Fiat are the market leaders.

Chrysler U.K.

Large-scale layoffs in the U.S. automobile industry are beginning to make their influence felt in the U.K., particu-

Chrysler U.K. *(contd.)*

larly at Chrysler. The company has announced that it will dismiss 10% of its 7,000-strong white-collar work force.

Fiat

The management of Italy's Fiat SpA and the engineering trade union FLM have come to terms regarding reduced work schedules and have agreed on a new plan giving labor a say in company decisions on investments, production changes, reorganization, and other policy matters directly affecting the work force. Some 71,000 Fiat employees on short hours since October will be returning to their regular schedules, while the jobs of all company workers have been guaranteed through 1975. In order to maintain production cutbacks, however, extended paid holidays are planned for Christmas and Easter time. The agreement is expected to set a precedent for labor-management negotiations throughout Italy, since Fiat chief Giovanni Agnelli also heads Confindustria, the industry association, and FLM is considered the most influential labor union.

Hahn/ Johnson & Johnson

Germany's Federal Cartel Office has banned the merger of Dr. Carl Hahn GmbH, producer of chemicals and hygiene articles, and Johnson & Johnson, Inc., of New Brunswick, N.J. The decision, which is not yet legally binding, would invalidate the U.S. company's acquisition of Hahn in the summer of 1973. The Cartel Office charged that the merger reinforced Hahn's already existing market-dominating position (80%) in the production of sanitary tampons.

GSI/ Indelec/ Datel

Génerale de Service Informatique Europe (GSI) of Brussels and Switzerland's Indelec Schweizerische Ges. für Elektrische Industrie have agreed to take over a 90% majority holding in Germany's Deutsche Datel-Ges. für Datenfernverarbeitung mbH, the country's largest EDP service firm, as of Jan. 1. Of Datel's four original owners (the Federal Post Office, AEG-Telefunken, Nixdorf-Computer, and Siemens), only two will remain - the Post Office and Siemens, with 5% each and options to increase their stakes again in the future. GSI, which is jointly owned by France's Cie. Génerale d'Electricité (52%) and the two Paris banks Crédit Commerciale and Société Génerale (24% each), holds over 50% of the 90% block, while the Swiss group holds the remainder (at least 25%). A "symbolic price" reportedly was paid for Datel, which has been operating in the red since its establishment in May 1970. As part of the deal, the former owners apparently have agreed to remain responsible for the firm's obligations "for a certain period of time."

Singer U.K.

Singer Co. (U.K.) has secured a £5.8-million contract for the supply of carpet tufting machinery to the Soviet Union. Spokesmen noted that the contract should be regarded as the culmination of a marketing investment spread over the last five years.

Special Feature

BANKING IN GERMANY:
A BRIEF APPRAISAL IN SUPPORT OF THE UNIVERSAL SYSTEM[+]

By Prof. Dr. H.E. BÜSCHGEN

University of Cologne

Dept. of Business Administration and Banking

Before examining several aspects of the German banking system and relating it to the likely evolution of a "European" system, it should be useful to briefly explain the basic characteristics that set apart the British and American "specialist" concept from the German "universal" or "full-service" concept. Stated in the simplest terms: most U.S. and U.K. banks engage in credit and deposit banking to the exclusion of the securities business or else specialize in securities along with activities other than deposit and credit banking. This original "division of labor" that underlines the Anglo-American system has become blurred almost to the vanishing point, while the German mold of universality has been partially broken by the establishment of specialist institutions.

U.S. Commercial, Investment Banking

The main distinction of the American banking system, according to its original definition, is the separation between commercial and investment banking. Commercial banks normally operate only a small number of branches - large branch networks on the German and U.K. model do not exist, or exist only within one state. More recently, within limits set by state legislation, there has been a more pronounced tendency toward branch banking, but branches distributed over more than one state are still not permitted. As some of the drawbacks of specialization have become apparent, there also has been a marked trend toward one-bank holding companies, which enable banks to extend their operations beyond the traditional banking business into stock brokerage, unit trust management, leasing, data processing, etc.

Long-term lending to the U.S. private and public sectors usually is handled by financial institutions collectively known as investment banks. The sharp distinction originally drawn by the 1933 Banking Act between them

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[+]Adapted and condensed from an article in "Studies on Economic and Monetary Problems and Banking History," Deutsche Bank AG, Frankfurt, dated December 1973 and released in summer 1974.

and the commercial banks has, however, become increasingly hazy and unrealistic. The investment banks act mainly as intermediaries between the investing public and the medium- or long-term borrowers from the public and private sectors. As underwriters, they finance the establishment and expansion of companies and assist in mergers and reorganizations. Apart from firms specializing in new issues, their ranks also include members of the New York Stock Exchange and other U.S. exchanges.

Similar 'Division of Labor' in U.K.

In Britain, the same "classical" division of labor prevails between the money and capital markets. Deposit banks (among which the clearing banks are the most important) and discount houses operate in the money market, while savings banks, unit trusts, etc., are engaged in the capital market. Only the merchant banks are active in both. The "Big Four" - Barclays, National Westminster, Midland, and Lloyds - are the principal clearing banks as well as Britain's largest financial institutions altogether. They maintain extensive branch networks (a combined total of over 14,000 branches in the U.K. alone) and full-service operations. Even so, they cannot be regarded as full-service banks in the strictest sense. They may not handle securities transactions directly, since only members of the London Stock Exchange are authorized to deal with the public as brokers. Their new issues and savings business is circumscribed; as a rule, they extend long-term loans only in special cases, although there has been some growth in such lending in recent years. Under an unwritten law, they do not go in for holdings other than in other banks and consumer finance houses, nor do they engage in speculative investment. Finally, deposit banks do not accept savings deposits as traditionally defined. The clearing banks' main business is in sight deposits (current accounts) and short-term lending, in addition to check clearings. However, they are increasingly expanding into long-term lending and the Eurocurrency market via subsidiaries and affiliates.

Discount houses are specialist institutions providing rediscounting facilities based on short-term deposits. As the only banks with direct access to the Bank of England, they assume the refinancing role for the other banks. "Merchant banks" is a generic term for a heterogeneous group of City banks, which is applied "sometimes to banks who are not merchants and sometimes to merchants who are not banks, and sometimes to houses that are neither merchants nor banks."[1] This group includes the accepting houses and issuing houses. Apart from pursuing pure financing activities, merchant banks nowadays are more and more in demand as financial consultants, notably on mergers and acquisitions, and their assignments range from company reorganizations to rights issues, standby facilities, and establishment of foreign subsidiaries. In addition, merchant banks engage in leasing, factoring, and investment management, and they function as consultants to pension funds, foundations, and to unit and investment trusts. Merchant banks are facing increasing competition from the clearing banks, notably the Big Four, and from American banks, while they themselves are going into deposit banking, if at first only by accommodating large customers.

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[1] "The British Banking System," HMSO London, 1968, page 26.

Evolution of the German System

Historically, universal banks have not always been the norm of the German banking system. They have built up their present scope of business only gradually in response to the country's industrial, economic, and social evolution and to changes in the range and pattern of their clientele. In contrast to Britain's industrial revolution, which was financed by a large class of wealthy private investors, that of Germany in the second half of the 19th century was dependent on external finance provided by banks, which were called on by industry for financing aid from the start. This frequently meant that banks took a direct stake in such companies and were required to retain it until these were firmly established or able to go public. During the economic crisis between the world wars, many banks converted outstanding credits into industrial holdings, a move to which numerous companies owed their very survival. Hence there is a close link between industry and the banks, which has remained a characteristic feature of the German economic scene to this day.

As the banks' original concentration on a certain clientele was progressively diluted, their range of business took on an increasingly universal character. While the big banks initially had concentrated mainly on large manufacturers, savings banks (and their central clearing banks) as well as credit cooperatives catered to small and medium-sized companies. Small customers are now, however, also being courted by the large banks, just as savings banks have made inroads into industrial business. Similarly, as far as the different types of business are concerned, the point has been reached where foreign trade financing, foreign exchange dealings, and stock exchange transactions are handled by all categories of financial institutions. Having discovered the value of savings deposits, German banks are now able to venture into longer-term lending, whereas previously they had concentrated on short-term credits. Even nontraditional services like leasing, consumer installment loans, home mortgages, and unit trust management are now available, sometimes via subsidiaries, from all banking groups.

The pros and cons of the principles of combination and division of labor, which underlie the German and the Anglo-American banking systems, respectively, have long been a subject of debate. Each system has come in for its share of criticism, particularly during periods of economic crisis. In Germany, the debate was resumed after World War II, with much argument on both sides. The factors triggering this renewed search for the "ideal" banking system were

- the establishment of U.S. stockbroking firms in Germany and their promotional activities;
- changes in company capital structures during the 1960s; and
- a few real or alleged "incidents" in stock market dealings, which some people were quick to generalize.

Although the hands of those who defend the German universal bank system have been strengthened by the Wall Street scandals of recent years, leading politicians and certain bankers in Germany nevertheless have been calling the system's efficiency into renewed question lately. They have pointed in particular to possible conflicts of interest and their adverse effects both on the economy at large and on individual bank customers.

These arguments, in the author's opinion, may have had some theoretical value at one time but no longer stand up to the realities of today's banking "market."

Direct Lending Favored?

It is alleged that German banks, by handling new issues and stock exchange transactions side by side with lending business, have for reasons of profitability tended to channel deposit funds less into securities than into loans. This practice is said to have helped bring about the existing undercapitalization of German industry and what some consider to be an unduly small number of private shareholders. Against this, it may be pointed out that direct lending cannot be substituted, at will, for new issues, since a certain capital base generally is a prerequisite to outside borrowing, and that the banks can influence the financing decisions of potential corporate issuers only to a limited extent.

Another charge, namely that banks encourage savers to put their money into deposits rather than securities, can be countered by the reminder that deposits have enjoyed certain tax concessions and tend to answer the liquidity needs of the investor. Also, whereas specialist institutions may feel compelled or tempted to give a one-sided account of their services and perhaps adopt an overly aggressive sales pitch, universal banks are in a position to advise a potential investor with much closer consideration of his individual circumstances by virtue of the broad range of their savings media. In fact, the active encouragement of private investment in recent years would hardly have been possible without the universal banks' extensive branch networks, since specialist banks as a rule are located at the stock exchange centers only. Besides, in comparison with other countries and in terms of gross national product, German ownership of securities is not nearly as low as critics sometimes suggest.

When it comes to the question of possible conflicts of interest with regard to stock exchange business, a number of aspects must be considered. Presumably, in the case of both types of bank, there are variances in the quality of investment advice given to large and small customers. However, critics of the universal system point to the greater heterogeneity of its clientele (which is even furthered by the issuance of credits to major customers) as well as to a qualitative differentiation on the basis of insider information (from the banks' direct industrial participations). This exploitative potential of the universal bank system - though not necessarily realized - is largely cancelled out by corrective factors such as much heavier competition and sanctions in cases of error, not to mention the new rules on insider dealings.

While universal banks are set up for peak performance, leaving at normal times a margin of spare capacity as regards the quantity or quality of their services, specialist banks are geared to a "normal" volume of business. Thus, the sudden expansion in the latters' U.S. stock market business gave rise to operational bottlenecks, which caused them to suspend or restrict their less profitable dealings on behalf of small investors. No such discrimination would be practiced by universal banks faced with a reduction in small investment orders, because this type of business is treated by them as part of a wider strategy, in which the cost of one

operation is offset by the revenue from others it helps to generate. Universal banks are, moreover, able to balance out their profits by means of risk-spreading diversification, whereas brokerage firms in some cases have been compelled by the continuous increase in operational costs to raise their own charges and cut down on the volume of small orders.

The Proxy Problem

German banks are also being called to task for exercising proxies for shares held in their own interest or in that of the companies involved, rather than in the shareholders' interest. In fact, this *Depotstimmrecht* service represents, for the great mass of small investors, an important controlling function that the banks themselves apparently would be quite happy to forego, on account of the heavy costs involved, if a better alternative could be found. Nor can conflicts of interest that might arise on this score be laid only at the door of the universal banks - they apply equally to the specialist banks, some of which maintain very large trust departments. In any case, the exercise of such proxies by banks is stringently controlled by German law.

Another conflict of interest, it is argued, arises from the possibility that banks, in combining investment advice with investment on their own account, might give their customers biased recommendations to suit their own books. But such malpractices, if they occur, could also happen under a system of specialist banks, particularly where these have unit trust affiliations. Manipulations of the kind recurrently uncovered and investigated by the U.S. Securities and Exchange Commission, though not impossible under the German system, are nevertheless most improbable. German banks generally pursue a policy of long-term profit maximization, which would be endangered by giving bad advice, perhaps resulting in the loss of a sound long-term customer for the sake of a short-term gain.

More recently, controversy in Germany has fastened on the "power of the banks," including the problem posed by their long-term engagement in non-bank sectors. In his 1973 Budget speech, Helmut Schmidt, then still finance minister, raised the question of to what degree "the government can afford to tolerate the exploitation of the universal bank principle, which is applied to the same extent in no other country, before proceeding to legislation." What evidently prompted this challenge is the practice of quite a few banks to buy and sell holdings in industrial and commercial sectors and thereby initiate mergers, many of which could be in the interest of the national economy as a whole or of particular industries. Still, this practice again and again has been subject to often intentionally one-sided representation in the media, on the premise that the purchase and ownership of corporate stock is incompatible with the original functions of the banks. However, as early as 1968, a federal Commission of Inquiry into Industrial Concentration reported that industrial holdings by banks - far from constituting anything alien to banking activity - are a useful means of stabilizing bank earnings. Mr. Schmidt's remarks probably represented not an attack on the universal bank system as such, but merely a hint that holding functions and banking operations ought to be put into separate compartments. Besides, as was noted above, the banks have acquired many of their holdings as a matter of course through capital conversions forced on companies in trouble.

The banking community itself has grown sensitive to charges that its members have been building up their holdings deliberately, and at least two major German banks suggested some time ago that they were prepared to reduce these direct investments. Such a move would, however, entail considerable industrial, fiscal, and stock market problems that so far have defied all attempts at solution. But, as experience in Britain and the United States has shown, potential situations of conflict are not confined to the universal bank system but could occur under any system.

Outlook for Universal System

In any assessment of banking systems, one advantage of the universal system should be given prime consideration: its orientation to the customer. The comprehensive range of services, geared to client demand, makes possible a flexible response to changes in financing and investment requirements as they occur. At the same time, competition demands constant improvement and extension of these services. German bank customers, perhaps more than others, demand that all essential bank services be available "under one roof" wherever possible. It is this basic situation that helps to ensure the long-term stability of the universal system.

In the last year or two it has been suggested by some authorities that the German universal bank system is likely to develop in the direction of the British specialist system. In their view, this is not because of what often are alleged to be its unavoidable conflicts of interest but rather is part of a continuing process of self-reform to avert the danger of uncontrollable competition. Following the structural changes caused by the removal of interest rate ceilings in 1967, the universal banks are now engaged in competitive battles that will, it is argued, result before long in the assimilation of the European banking system to the British system and in the breakdown of the universal banks' "department store" structure into a mosaic of specialty banks. This view, however, is shared by only a few.

A specialist bank system has little to be said for it, at least in Germany, owing to its destabilizing effects and its problems in adapting to changing economic conditions. In the absence of proof that it offers greater efficiency than the German universal system, one should not give up the latter and its proven advantages. In Britain and the United States, too, the movement of some years past toward universal banks with less clearly delineated areas of activity is gathering speed, as readers of the financial press cannot have failed to notice.

Britain's entry into the European Community is increasingly inducing the City of London to abandon the distinction between deposit and merchant banks and to adopt something like the German universal bank structure. The U.K. is afraid that its system may not stand up to European competition. The lifting of restrictions on holdings in merchant banks and the green light given to inter-bank mergers are pointers in the same direction. Britain's movement toward the European system could well have received its final impetus from a report commissioned by the Government from the Inter-Bank Research Organization, which is understood to welcome the ongoing removal of the City's inter-bank barriers and to recommend that the British banking system's division into deposit and merchant banks be gradually given up in favor of universal banks on the German model. In that event, the gulf between banks and stockbrokers could also become a thing of the past.

Common Market Reports

EUROMARKET NEWS

Issue No. 309 *Report No. 254, December 17, 1974*

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Community: Court Removes Services Curbs in 'Binsbergen'

The European Court of Justice has removed restrictions on the freedom of movement and provision of services within the EC: on Dec. 3 it ruled that Articles 59(1) and 60(1) of the Rome Treaty must be interpreted to mean that the residence requirements of one member state may not prevent an individual domiciled in another EC country from providing a service there. The Court also ruled that Articles 59(1) and 60 are directly applicable and may be invoked before the national courts at least to eliminate discrimination against a citizen of another member state on grounds of his nationality or domicile.

The case (*J.H.M. van Binsbergen v. Bestuur van de Bedrijfsvereniging voor de Metaalnijverheid*) arose when Binsbergen, a Dutch national, authorized M.G. Kortman, a Dutch attorney, to represent him in his suit involving unemployment insurance. Kortman later moved to Belgium, and after the court denied him the right to represent Binsbergen because he failed to meet the statutory residence requirement, he appealed to the Dutch supreme court on grounds that this requirement was contrary to Articles 59 and 60. The tribunal then referred the matter to the Court of Justice.

As European Commission attorneys had expected, the Court continued where it left off in *Reyners*, in which it

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'Binsbergen' *(contd.)*

guaranteed the right of establishment in other EC states without discrimination on grounds of nationality (*Common Market Reports, Par. 9675*). The Binsbergen ruling means that an EC national wishing to provide a service (for example, furnishing an auditor's report or an architect's plan) in an EC country other than his own may no longer be denied the right to render this service by national authorities on grounds of his nationality or domicile. Any national provision to the contrary is no longer applicable. But where the states require (and virtually all do for most professions) from their nationals professional qualifications for the exercise of any given activity, a person wishing to render services in those states must meet those qualifications.

Commission attorneys are well aware that despite *Binsbergen*, many hurdles remain until complete freedom has been attained in this area. A major obstacle is the absence of mutual recognition of diplomas and coordination of national rules governing access to and exercise of professions (*Common Market Reports, Pars. 1485-6 and 9690*).

Decision on Policy toward State Trading Countries

The EC Council has adopted a decision pertaining to the Community's commercial policy toward "state trading countries." The decision, plus two annexes, takes effect on Jan. 1 and lays down the rules that the member states must apply to imports subject to quota restrictions. Though the decision will replace the quota arrangements contained in bilateral agreements between individual EC member states and state trading countries, it actually will do no more than maintain the status quo as far as quantitative restrictions are concerned, albeit under official Community policy. The decision also sets down the procedure a member state must follow in order to increase quotas.

Two statements expressing the Community's intentions accompanied adoption. In the first, the EEC stresses that both sides should refrain from harming trade development and that the state trading countries are expected to show the same concern. In the second, concerning tariff questions, the Community declares that no change is being contemplated in the most-favored-nation treatment that has been accorded to the state trading countries, with a few traditional product exceptions. The state trading countries are explicitly asked to express the same concern in a formal way.

Britain: 'Pleasing' Summit Result on Membership

The British government had reason to be pleased at the outcome of the two-day Common Market summit in Paris: the central issue for the U.K. was not the go-ahead for the EC's long-delayed Regional Development Fund nor implementation of a common energy policy, but rather the question of rene-

EC Summit *(contd.)*

gotiation of Britain's Community membership. Prime Minister Harold Wilson had come to Paris hoping to get a guarantee that the U.K. would not have to contribute to the Community Budget more than its share of the EC's gross domestic product. Although he did not obtain such a commitment in express terms, the Nine agreed that the Council of Ministers and the European Commission should set up a plan for corrective mechanisms "to avoid unacceptable conditions for Britain or any other member of the Community." The decision marked a distinct concession by France and was reached only after an exercise in brinkmanship by Wilson: although the renegotiation issue was "only one of seven problems," the Prime Minister said, it now appears that the way has been cleared for him to endorse the continuation of U.K. Community membership in the national referendum scheduled for next year.

Government Plan on Conservation of Energy

The U.K. Secretary of State for Energy has introduced a complex energy conservation package designed to generate annual savings of around £700 million in imports over the next few years. Announcing the measures on Dec. 9, the Secretary stressed that stringent controls on energy consumption would be a feature of the British way of life for the foreseeable future. He also underlined that the measures were of an interim nature and would be extended and reinforced at an early date. On the other hand, it was indicated that the government did not intend to pursue a policy that would result in "unnecessary misery."

The principal features of the 12-point package include lower road speed limits, higher fuel costs for private motorists, restrictions on heating temperature levels for nonresidential buildings, stricter control of the use of electricity for outdoor display and advertising, higher insulation standards in new homes, and loans (totaling some £3 million in 1975) to industry for "energy-saving investment." In addition, companies are requested to include in their annual reports details of expenditure on fuel and energy conservation; whether this will be made a statutory requirement is still under consideration. The government will also launch a nationwide publicity campaign offering energy conservation hints.

Italy: Cabinet Said to Consider Higher VAT

Higher value-added tax rates for certain products and product categories to take effect Jan. 1 are among the economic policy measures now being discussed by the new Italian cabinet. Rome reports said that the government would seek to raise an additional 200 billion lire from the increases, corresponding to about 8% of this year's VAT revenue of 2,600 billion. Certain tax-free allowances could be abolished, according to the reports.

Switzerland: Voters Defeat Proposals for Tax Increases

Evidently frustrated by fast-growing public deficits and spending, the Swiss electorate in a national referendum on Dec. 7-8 rejected proposed legislation to raise turnover and federal income tax rates that had previously been passed by Parliament. Also defeated were a Social Democrat initiative for a reform of the health insurance system as well as a parliamentary counterproposal. At the same time, the voters did accept a proposal that would have required a two-thirds majority in both chambers whenever Parliament wished to approve extraordinary expenditure; however, this will not take effect since it was coupled to the tax bill.

The tax proposals, which were turned down by surprisingly decisive 56% margin, would have resulted in additional fiscal revenue of SF 685 million next year. The ceiling on turnover tax was to have been raised from 4.4 to 6% on retail sales and from 6.6 to 9% on wholesale transactions as of April 1, 1975. Individual income tax would have gone up from 10.45 to 12% and the corporate rate from 8.8 to 10%.

The defeat of the measures means that the projected deficit of the 1975 central Budget will grow by SF 300 million to more than 1 billion. The Finance Minister announced that Bern will now be forced to submit a revised Draft Budget along with new proposals on how to pare spending and raise revenue by other means. In doing so, the government will have to proceed with extreme caution because 1) new parliamentary elections are scheduled for fall '75 and 2) a national referendum next June seeking approval for duty increases on gasoline and heating fuel could well result in the revenue loss of another half billion francs. (*Doing Business in Europe, Par. 30,626*).

Norway: 'Windfall Tax' Plan Shocks Oil Companies

International oil concerns planning to engage in the exploration and exploitation of Norway's North Sea oil fields indicated they may be forced to pull up their stakes should the Oslo government go through with its proposal to tax oil profits up to 90%. According to unofficial reports that have "shocked" the oil industry, the government told oil company representatives of the tax plans at a secret meeting and asked them to present their reactions this month. On the other hand, corporate sources reportedly complained that details on the so-called "windfall profits tax" were too vague and they expressed serious doubt as to whether final concession contracts could be signed on Jan. 6, the proposed deadline. At issue are concessions that the government awarded last month to domestic and international oil groups, including Chevron, Conoco, Exxon, and Mobil of the United States.

According to the Oslo reports, tentative plans call for the 51% standard tax rate to apply to profits on crude

'Windfall Tax' *(contd.)*

sold at $3.73 per barrel. Earnings accruing from sales at a higher price would be subject to an additional 40% tax. This, together with the royalties payable, would amount to a prohibitive total rate of 90%.

The news of the tax scheme came only days after the Finance Minister proposed that companies with annual profits exceeding 500,000 kroner freeze 20% of that in a special account with the Bank of Norway. This money would be released at the discretion of the government in tune with the economic conditions and would probably be used for specific purposes such as antipollution investments. Again, no further details were released, except that legislation would be retroactive to cover 1974 earnings.

Sweden: Tax Reductions; Profits Freeze; Merger Controls

The Swedish Riksdag on Dec. 4 approved income tax reductions for 1975 that had been proposed last spring by the Social Democrat government with the support of the Liberals. The reform measure provides for tax cuts of up to 2,000 kronor annually, particularly for low- and medium-income groups, and also softens progression schedules. The lion's share of costs will be borne by the employers, who will face higher payroll taxes and take over the employees' share of health insurance contributions as well.

Earlier, in November, Finance Minister Gunnar Sträng submitted a draft law that provides for shareholding companies having net profits of over 1 million kronor for 1974 to deposit 15% of these profits for a five-year period in an interest-free account at the central bank. The money would remain at the companies' disposal as a reserve, although withdrawal within five years would require special authorization. The mandatory deposits would be deductible from the tax debt in the same way as present contributions to a voluntary investment reserve fund and to an environmental fund. Total contributions to all three funds would account for about 35% of after-tax profits of shareholding companies, according to Stockholm reports. The new law is assured of parliamentary passage.

In other developments, the government early next year intends to come up with a bill designed to control mergers and takeovers that could result in unemployment or create monopoly situations harmful to consumers. The law would require that the Industry Minister be notified of the intended sale of any enterprise with more than 100 employees or with share capital of more than 5 million kronor. The legislation also would cover transactions involving more than 10% of the stock of any shareholding company quoted on the stock exchange and more than 20% of the shares or voting rights of non-quoted companies. All takeover and merger plans would be subject to consultations with the labor unions involved.

EURO COMPANY SCENE

Kapal/ VAW

Germany's Federal Cartel Office is said to have reservations about Preussag AG's proposed sale of its 50% interest in Kaiser-Preussag Aluminium GmbH (Kapal) to VAW Vereinigte Aluminium-Werke AG. VAW is the leading aluminum producer in Germany and accounts for about half of the country's annual output, which is expected to total 688,000 tons for the current year. If the group replaces Preussag as partner in the joint venture set up five years ago with Kaiser Aluminum & Chemical Corp. of Oakland, Calif., it will considerably strengthen its position in this sector. The transaction was originally scheduled for the end of the year but will probably have to be postponed until the Cartel Office renders a decision.

Gerresheimer/ Kaiser Dosenwerk

In related developments, Gerresheimer Glas AG, the German packaging producer that is over 75% owned by Owens-Illinois, Inc., has acquired an unspecified majority stake in Kaiser-Aluminium Dosenwerk GmbH & Co. of Recklinghausen. Thus far, the six-year-old Kaiser subsidiary has been Germany's sole manufacturer of special two-piece aluminum cans for beer and other beverages.

PUK

France's Pechiney Ugine Kuhlmann group has signed an agreement with Soviet authorities for the construction of four aluminum production plants in the Soviet Union. The project reportedly will require investments totaling FF 6 billion, half of which is to be provided by PUK. The contract covers an alumina plant with an annual capacity of 1 million tons, to be built on the Black Sea, and three aluminum processing plants to be located in mid-Siberia.

KWU/ Iran

The Atomic Energy Commission of Iran has placed a preliminary order for two 1,200-Mw nuclear reactor stations with Germany's Kraftwerk Union AG (KWU), the joint subsidiary of Siemens and AEG-Telefunken. The installations, to cost at least DM 2.5 billion, are to be set up on the Persian Gulf. AEG, which is trying to sell off its interest in KWU, preferably to partner Siemens, is said to have incurred losses of DM 600 million from its nuclear activities so far.

Peugeot/ Citroën

Following the announcement of state subsidies totaling FF 1.45 billion for reorganization of France's automotive industry, Peugeot and Michelin, which controls Citroën, have reached an agreement on the terms of the planned merger between the two auto makers. A general secretariat is to be set up under Peugeot's supervision to act as a liaison and coordinating body for the two companies, which will continue to operate separately, with their own model lines and sales networks. Further, Michelin and Peugeot are to make a public offer to the independent shareholders who own 46.8% of Citroën stock. If it succeeds, Michelin will gain about two-thirds of Citroën instead of the 51% it currently

Peugeot *(contd.)*

holds, while Peugeot will have one-third. Within a year's time, however, Peugeot is to increase its interest to a majority stake.

British Leyland

British Leyland, the U.K.'s seventh-largest company and largest employer outside the state corporations, has been forced to appeal to the government for cash in order to underwrite its future. The company was forced into this position because of a slump in the automobile industry which has depressed its sales from about 506,000 units in the first 11 months of 1973 to 398,500 for the corresponding period this year. The government will probably move in by offering capital aid in exchange for a chunk of Leyland equity. The company is still trying to sell its Spanish plant to General Motors for £28 million, but Spanish government approval has not yet been given. On the brighter side, Leyland has negotiated a £50-million deal that involves building a plant in Cairo: this is a breakthrough for the firm, which has been blacklisted in the Arab world for some 20 years because of its supplying Israel.

Hawker Siddeley

The U.K. Secretary of State for Industry has announced that the government will not cover the entire funding of the Hawker Siddeley HS146 airliner project. Originally, the government had agreed to share costs with Hawker as an equal partner, the state's share totaling some £46 million. The cost of the entire project is put at about £120 million. The nationalized corporation which the government intends to set up to run the U.K. airline industry will, however, reconsider the viability of the project. Hawker management attempted to halt work on it in October, but the labor unions forced a continuation pending a government decision.

Eli Lilly Germany

Eli Lilly, the Indianapolis, Ind.-based chemicals group, is on the verge of canceling its DM 80-million project for new pharmaceutical production facilities at Landsberg near Munich. The opposition of various community and environmental protection groups has delayed the granting of necessary construction permits to such an extent that the company reportedly has decided to halt all planning work, although it has already invested some DM 9 million in these preparations. Bavarian authorities have expressed their regret over the company's decision and still hope to rescue the project.

Banque de Bruxelles/ Banque Lambert

The government of Belgium and the state banking commission have approved a merger between Banque de Bruxelles and Banque Lambert, the country's second- and fourth-largest banks, respectively, Shares in both institutions are to be taken over by a joint holding company, which will assume the name Cie. Bruxelles-Lambert from the firm that is now sole owner of Banque Lambert and largest single shareholder

Banks *(contd.)*

(about 10%) in Banque de Bruxelles. The banking activities of both groups are to be combined as Banque de Bruxelles, with a balance sheet total of over BF 370 billion, ranking it just after Sociétè Génèrale de Banque. The nonbanking interests will be transferred to Cie. Lambert, a financial company to be set up for the purpose.

First National of Chicago/ Banco Popular Espanol

First National Bank of Chicago has obtained an unspecified stake in First Chicago Popular, a Spanish financial operation set up in conjunction with Banco Popular Espanol of Madrid. In addition, the Chicago bank is participating indirectly in the management of Banco Popular's newly founded merchant bank in London, Popular Espanol, through equal representation on the advisory board. U.S. authorities reportedly rejected First National of Chicago's proposal to take an interest in the U.K. bank, which has a capital of £1 million.

Citibank

First National City Bank of New York has received permission from the Hungarian government to establish a branch in Budapest. The office is to open in January.

Bankers Trust

Bankers Trust Co. of New York has established a branch in Milan.

Nationale-Nederlanden/ Peerless

Nationale-Nederlanden NV, the major Dutch insurance group, has confirmed its acquisition of more than 50% of the $3. million share capital of Peerless Insurance Co. of Keene, N.H., for $10 million. Nationale-Nederlanden reportedly plans to increase its holding soon through a new share issue.

Rosenthal & Co.

Rosenthal & Co. of Chicago, a leading commodities broker, has begun to offer its services in commodities future dealings to German investors through accredited domestic brokers. The company's European headquarters are in Amsterdam.

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Community: Draft Proposal on Banking Control Rules

The European Commission has sent to the Council of Ministers its long-awaited draft directive on the coordination of banking control regulations within the EC (*Common Market Reports, Par. 3525.15*). The chief aim of the proposal is to establish a few basic principles and point up the direction of future efforts in this area.

The directive would require that any type of banking activity be made subject to licensing. Actually, this already is the practice for most banking activities within the Community, but coordination of national rules has been impeded primarily by the fact that regulations in the Continental countries are stricter than those in the U.K. The British have been reluctant to make concessions here for reasons of tradition but also for fear that London might lose its prestigious standing as an international finance center.

As regards the monitoring of banking activities, the draft calls on the member states to use at least similar criteria and recommends placing ceilings on foreign exchange speculation by banks (following the German example in the wake of several bank failures). Other provisions are designed to promote banking competition within the Community: banks licensed in one member state would be allowed

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Banking Rules *(contd.)*

to open branches or subsidiaries in another state under essentially the same conditions as domestic banks.

The Commission furthermore proposes establishment of a Community Banking Committee made up of national banking control experts to try to overcome the obstacles that have held up progress in the sector so far. It is hoped in Brussels that the exchange of experiences and ideas within this body eventually would produce common concepts that could evolve into Community rules. The committee also would assume a major role in drafting future legislation. In fact, a draft decision attached to the proposal calls on the Council to set up this committee even prior to adoption of the draft directive. This would ensure that the committee could immediately begin establishing the essential criteria that national banking control authorities would have to apply with respect to solvency and liquidity (minimum assets, deposit/asset ratios). These criteria would be worked into the next draft directive, which would also cover such aspects as qualification standards for managers.

Member States May Deny Entry, Court Rules

In its last major judgment prior to the Christmas recess, the European Court of Justice has ruled that a member state may deny entry to nationals from other EC countries if they belong to organizations the state considers to be "socially harmful" (*Yvonne van Duyn v. Home Office*, Case No. 4/74). The van Duyn case gave the Court its first opportunity to interpret Treaty Article 48, which establishes free movement of workers but nevertheless grants the right to deny entry on grounds of public policy, security, and health (*Common Market Reports, Pars. 1001-1002*). Article 3 of Directive 64/221 provides that measures taken on grounds of public policy or public security shall be based exclusively on the personal conduct of the individual concerned.

Yvonne van Duyn, a Dutch secretary who was to take up employment with the British section of the Church of Scientology, was denied entry by U.K. immigration authorities because the British government considers the Church of Scientology to be socially harmful. One of the questions submitted by the High Court to the European Court of Justice was whether membership in an organization constituted "personal conduct." The Court answered that past membership does not, but membership at the present does because, in joining an organization voluntarily, an individual identifies himself with its aims. The Court accepted the fact that the concept of public policy may vary from one state to another and from one period to another, but at the same time it emphasized that the concept must be strictly interpreted since it derogates from the principle of free movement.

Denying Entry *(contd.)*

Although the states have discretion in this area, the Court said, each country remains subject to control by the Community institutions. The Court did not elaborate on what would be considered an abuse of discretion, but it stated that a clearly defined public policy expressed in administrative measures to counteract activities of a particular organization may be grounds for refusing entry even if the activity objected to has not been declared unlawful by the particular state.

Another problem of discrimination that confronted the Court concerned the fact that, although the British government may refuse entry of EC nationals, it allows entry of British members of the Church of Scientology. Here the Court felt that the Treaty of Rome cannot be assumed to disregard a principle of international law that precludes a state from refusing its nationals the rights of entry or residence.

Germany: DM 11-Billion Program against Unemployment

A 7.5% investment grant for all businesses and generous subsidies for the retention of employees and the creation of new jobs are the Schmidt administration's basic prescription to counteract rising unemployment in Germany. At present, there are about 800,000 people out of work, equal to a 3.5% jobless rate, which is high by German standards. And the unemployment count may well go up to one million before the winter is over.

The grants and subsidies will cost the Treasury about DM 9 billion, and the government's own contribution will be in the form of a DM 1.7-billion public investment program. It is hoped in Bonn that the combined effects of all proposed measures will enable employers not only to rehire employees recently laid off and retain those in danger of being dismissed (an estimated total of 300,000) but also to create some 200,000 new jobs.

Specifically, any business making an investment between Dec. 1, 1974, and June 30, 1975, by either ordering capital equipment or manufacturing it for its own use would be entitled to a 7.5% grant based on equipment price or production cost. The government hopes to recover part of the expenditure in the form of extra tax revenue derived from stimulated economic activity.

Employers who prior to May 1, 1975, offer work to previously jobless persons over a yet to be defined "extended period of time" may qualify for six-month payroll subsidies of up to 60%, to be paid in full at the time of hiring. Unemployed single persons willing to commute long distances to a new position would receive "mobility premiums" of DM 100-600 per month; married breadwinners would get an additional DM 100. These grants and premiums

Unemployment *(contd.)*

would be expected to get some 300,000 people back into jobs.

The government's own public investment program would primarily benefit the energy sector (coal mining), transportation (expansion of urban rapid transit systems), and education (construction of vocational training centers).

The government at this point is rejecting industry's pleas for a carry-back of losses, although Finance Minister Hans Apel may consider this again in a tax amendment next year. Also, business leaders had demanded tax reductions that would have produced a long-range impact on the economy rather than what they term the "flash in the pan" effect of the present proposal.

Britain: Finance Bill Details Capital Transfer Tax

The U.K. Finance Bill published on Dec. 10 repeats and amplifies the proposals made by Chancellor of the Exchequer Denis Healey in his November Budget. The bulk of the bill relates to details of the new capital transfer tax, a cumulative tax imposed on the donor on gifts made within his lifetime and on his death. The tax will apply to gifts made as of March 26, 1974, but to "final gifts" (that is, on death) only after the proposed legislation has received Royal Assent. What has been introduced, however, is a new concept of domicile. The tax will be levied on worldwide assets of those persons domiciled or deemed to be domiciled in Britain. Clause 40 elucidates the latter concept: a person not domiciled in the U.K. shall nonetheless be treated as so domiciled at the relevant time if he resided in the U.K. at any time during the three years preceding the relevant time or was resident in no fewer than 17 of the 20 years of assessment ending with the year in which he made the gift (or died).

Another important feature of the bill relates to relief for increase in stock (inventory) values. Under Clause 16 a measure of corporation tax relief will be possible where companies have to finance an inventory increase that may result from inflation. Importantly, this relief would apply to any increase in stock value, irrespective of whether it stems from higher prices or higher physical inventory levels.

Application of these principles is easiest in the case of companies having a 12-month accounting period that ends during the 1973-74 financial year. In effect, they simply compare their closing inventory value with their opening value to arrive at the 1973 increase. After this, they would be permitted to reduce their closing value by the increase less 10% of trading income for the year. Expressed in another way, companies will, for the purpose of calculating corporation tax, be allowed to substitute a figure

Finance Bill *(contd.)*

that represents opening inventory value plus 10% of trading profits. Under the terms of Clause 16 companies are to be obliged to lodge a claim for such relief: this can be done at any point before the corporation tax assessment is made final.

Among the bill's other "innovations," mention must also be made of a proposal to alter the tax treatment of investments in building societies and pension funds, changes in tax treatment of life insurance annuities, and a new definition of "common control" (Clause 15) which will permit the Revenue to deal more readily with tax avoidance between associated companies arising from transactions at other than arm's-length prices.

Trade Deficit, Inflation Rate Set Records

Two sets of statistics released in mid-December cast a gloomy light on the U.K.'s prospects for 1975. On Dec. 12, the government announced the worst trade deficit on record: the November deficit of £534 million was up £99 million from that of October and, even allowing for a surplus of some £130 million in "invisibles," a payments deficit of £404 million was revealed for November. The second blow came from the Dept. of Employment, which reported that the cost of living in Britain had risen by an unheard-of 18.3% in the 12 months to November. Even more alarming was the fact that this figure does not, as yet, reflect cost-of-living increases bound to result from the budgetary measures introduced last month.

France: Profit Surtax Proposal Takes Final Shape

Parliamentary committee deliberations have resulted in a further modification of the proposed profit surtax legislation, which the French government would like as one of the major weapons in its inflation fighting efforts. As a result of negotiations in the National Assembly's finance committee and in the Senate, Finance Minister Jean-Pierre Fourcade made what was considered a major concession by agreeing to the full repayment of the levy upon its abolishment rather than gradual repayment. The tax, which was scheduled to take effect on Jan. 1, would be lifted as soon as the rise in the consumer price index did not exceed 0.5% for three consecutive months (corresponding to a 6% annual rate). Furthermore, the tax now is to apply to enterprises with at least 150 employees and not, as the government originally proposed, with only 50 employees. Earlier, the minimum turnover criterion already had been raised from FF 8 to 10 million. No change was made in the profit margins above which the tax would take effect with a uniform 33.3% rate, payable quarterly.

The greatest problems in the practical application of the tax are seen in the proposed exemption for those enterprises that can claim pertinent reasons for what normally

Profit Surtax *(contd.)*

would be considered "inflationary" profit margins: a special commission in the Economics and Finance Ministry in such cases would require the applicant companies to open their books and also make them assume the burden of proof in defending their pricing policies. In this context, some guidelines would be required as to what extent excessive wage demands and wage agreements could influence pricing policies in connection with the surtax.

Netherlands: Tax Climate Blamed for Capital Drain

The chillier tax and business climate in the Netherlands - already blamed for the exodus of numerous Dutch enterprises - apparently is also compelling a growing number of wealthy individuals to turn their backs on their home country. According to reports from The Hague, a Finance Ministry deputy minister has confirmed that 254 Dutch citizens with assets totaling more than 388 million guilders have resettled abroad within one year (1973). Of these, 102 relocated in neighboring Belgium, 31 in Spain, 19 in Switzerland, 11 in Italy, and the remainder in other countries. The official said that no statistics are being kept on the reasons for the departures, so that the fiscal motive might not apply in every case.

Earlier, an Opposition spokesman had declared in Parliament that Holland's mounting tax burden is beginning to cause a serious drain of investment capital. He cited figures reportedly compiled by the Belgian Economics Ministry whereby 226 Dutch-owned companies established themselves in that country in 1973 and Holland alone is shown to be the source of no less than 25% of EC investment in Belgium. According to other reports, a number of foreign companies in the Netherlands are also in the process of closing down or considering doing so.

Dutch business leaders have been complaining for some time that the government's economic policies in the fiscal, investment, and price control realm are becoming oppressive and discriminatory and are chiefly responsible for lagging industrial investments. The VNO industrial association in particular has been pressuring the Joop den Uyl administration to show a "more positive attitude" toward business and its problems.

EURO COMPANY SCENE

Montedison/ Snia

Italy's state-run chemicals group Montecatini Edison SpA has gained control of Snia Viscosa, the country's second-largest manufacturer of synthetic fibers, through its acquisition of a 4% stake from the national energy holding ENI plus additional purchases on the stock market. Together with the state industrial finance bank Mediobanca, Montedi-

Montedison/
Snia
(contd.)

son is now said to possess at least 41% of Snia's 64 billion-lire share capital, with the remainder in the hands of the company's founding family (1%) and scattered among some 50,000 small shareholders. In view of the present slump in this sector, Montedison is expected eventually to combine Snia with its Montefibre division, which accounts for 45% of the domestic synthetic fiber market. Snia and Montedison recently set up a joint venture for the production of laundry detergents and household products, Snia Casa.

Boussac/
Prouvost

Under a plan sponsored by the French government, France's "cotton king," 85-year-old Marcel Boussac, has agreed to turn over management of Comptoir de l'Industrie Textile de France - one of his group's two parent companies - to Claude-Alain Sarre, president of the rival Roubaix-Prouvost-Masurel wool and publishing group. Millionaire Boussac, who controls 30% of Christian Dior and also has publishing interests, had been facing liquidity problems in recent years and reportedly discussed a possible takeover of his group with various interested parties - including the U.K.'s Courtaulds. The government, which pressed for the present "French solution," announced it would not offer any subsidies, however. A merger of the Boussac and Prouvost interests is not yet contemplated, according to Paris reports.

C

Beleaguered U.K. auto manufacturer British Leyland (BLMC) is to receive bank guarantees totaling up to £50 million from the government. The aid, given under Section 8 of the Industry Act 1972, is designed to tide the company over pending a full analysis of its longer-term requirements by the Cabinet's new industrial adviser, Sir Don Ryder. Part of the advisory group's task will be to specify the extent of state investment vis-à-vis equity holding in BLMC.

In a related development, Leyland has delivered an ultimatum to the Spanish government stating that it requires immediate action on the sale of its Authi plant near Pamplona to General Motors. Otherwise, says the company, responsibility for the welfare of the Spanish work force will be passed on to Madrid. The extent of BLMC's difficulties in Spain can be measured by the fact that the company was obliged to make an emergency transfer of £1 million to cover the subsidiary's payroll and Christmas bonus obligations.

Aston Martin

The U.K. government also has announced its intention of providing a £600,000 loan to Aston Martin in exchange for an equity holding. Repayable over 10 years at 12.5%, the credit is designed to resolve the sports car maker's immediate cash crisis and finance further manufacture through the winter months. The capital injection will be used, among other things, to finance Aston Martin's U.S. market

Aston Martin *(contd.)*

penetration: before the company can enter the North American market for its high-powered cars, it must first complete the obligatory 50,000-mile emission tests.

Alfa Romeo

Italy's state-owned Alfa Romeo SpA and the FLM metalworkers' union have agreed on measures to curtail production by some 18,000 units over the next five months. Like the pact recently hammered out between Fiat and the union, this arrangement also includes a guarantee of no dismissals for 1975. The production cutbacks involve the elimination of 26 working days by means of extended holidays at Christmas and Easter and reduced schedules on Fridays. Alfa and the national unemployment funds are to compensate workers for the time lost at about 80% of normal pay. The agreement also provides for labor-management consultation to determine when stockpiles have dropped to the desired level of 22,000 units. Workers are also to be informed of company investment and rationalization plans.

Alcan/ PUK

Alcan Aluminium Ltd. of Canada and France's Pechiney Ugine Kuhlmann (PUK) are said to be planning to construct a $25-million alumina plant at Marseilles. The pilot facilities, to be completed over an 18-month period beginning next month, will utilize PUK's process for extracting high-grade alumina from non-bauxite sources. A test program of up to three years is to precede a decision on regular production.

Krupp/ Great West

Germany's Fried. Krupp GmbH and Great West Steel Industries of Canada are planning to take 50% each in a joint venture incorporating Great West's present Edmonton, Alberta, plant. The new company, GWS Krupp Industries, will continue to produce the Canadian firm's line of steel machinery along with Krupp excavating and conveying equipment for the mining and fuel extraction industries.

Nashua/ Pelikan/ Copygraph

Nashua Corp. of Nashua, N.H., has bought out the 55% stake held by Germany's Günther Wagner Pelikan group in the DM 4-million capital of Copygraph GmbH, a joint venture set up in 1966, for an undisclosed sum. The Hannover-based company, which distributes electrostatic photocopying equipment and produces and sells photocopy paper, had turnover of DM 34 million last year.

Ennia/ Triumph Insurance

A subsidiary of the U.K.'s Triumph Investment Trust, now in receivership, has been sold to Ennia NV, the Dutch life and general insurance group. The sum paid for the company, Triumph Insurance, was not disclosed, but it is believed to be somewhere around the £5-million mark.

Common Market Reports

EUROMARKET NEWS

Issue No. 311 *Report No. 255, January 2, 1975*

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Community: Council OKs Directive on Mass Layoffs

The Council of Ministers has adopted the European Commission's draft directive on mass layoffs, but in so doing it struck out a provision that would have given national authorities the power to veto such dismissals. The purpose of the directive is to remove some of the discrepancies in protection afforded to laid-off workers in the nine member states (*Common Market Reports, Pars. 3902.01-5*). These discrepancies, the Commission believes, are prejudicial to the balanced overall and regional development of the Community because they are apt to influence decisions of management, particularly of multinational firms. Still, the directive does not affect member states' rights to introduce or apply rules that are more favorable to employees. France and Germany already have adopted regulations that go substantially beyond the aims of the directive.

The member states will be given a two-year period to adapt national law to the directive. After that, an employer with normally 10 to 20 employees must notify the appropriate public authorities if, over a period of 30 days, he intends to lay off 10 workers for reasons not relating to individual behavior (in a company of 100-300 workers, at least 10%; of more than 300 workers, at least 30 workers).

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

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Mass Layoffs *(contd.)*

Notification is required regardless of the number of employees in a company if at least 20 are to be laid off over a period of 90 days.

The notification must contain all relevant information such as the reason for the layoffs, the number of employees affected, and the period over which the dismissals are to occur. Since the employer must consult with the workers' representatives in an effort to avoid or reduce the dismissals, notification must be accompanied by a statement on the outcome of these talks.

A planned mass layoff must be preceded by a minimum grace period of 30 days which could be extended to 60 days in order to find solutions to the problems raised by the intended layoff.

Equal Pay Rule Close to Adoption

The Community has moved forward to carry out the mandate of EEC Treaty Article 119, which calls on the member states to apply the principle of equal pay for men and women (*Common Market Reports, Pars. 3942.01 and 9599*). On Dec. 17 the Council of Ministers agreed in substance to the Commission directive approximating national rules on the equal pay principle. Council officials expect final adoption through written procedure some time in January, so that the directive could become effective as of 1976. The member states however, will have only six months to approximate their rules.

While the basic aim of the directive is to ensure observance of the equal pay principle, the member states are allowed discretion in the implementation. Article 1 calls for the elimination of all pay discrimination on grounds of sex where the work is identical or where equal value has been attributed thereto. The concept of "work to which equal value has been attributed" (Treaty Article 119, for the same work; the ILO Convention, for equivalent work) leaves some freedom in determining "equal value."

In contrast to Treaty Article 119, the directive is expected to provide the Commission with firmer legal ground in moving against noncompliant member states, since it would impose many obligations. In addition to eliminating all discrimination that may exist in national rules, the states would also have to invalidate those provisions contained in collective bargaining agreements or individual contracts that are contrary to the equal pay principle.

For enforcement of the principle the Commission is counting on those affected - a woman employee will not have to fear being fired for claiming that she is not getting equal pay. Here the states would have to make sure through legislation that women are protected against retributive dismissal or other similar actions. Those states lacking legislation that entrusts workers' representatives with the

Equal Pay *(contd.)*

task of ensuring application of the principle would be required to adopt it. Finally, national legislation will have to permit employees to take their cases to court should their complaints about nonapplication of the principle be unsuccessful.

Germany: Bankers Object to Proposed Lending Curbs

Spokesmen for the German banking community have voiced strong objections to the government's plan to control bank lending by making the size of major credits dependent on a bank's "liable assets" (*haftendes Eigenkapital*). The bill, in the form of an amendment to the Banking Law, was approved by the cabinet on Dec. 18 and aims to "restore public confidence" in the functioning of the German banking system following the collapse of the Herstatt Bank and related events. The proposal immediately encountered heavy criticism from banking representatives, who charged that the draft legislation "overshoots the mark" and would primarily hurt the credit institutions without branch networks, the central savings banks, and the private banks. This group also includes the German branches of the large foreign banks, most of which are engaged solely in the corporate lending business. The restrictions, it was claimed, would result in the transaction abroad of a growing portion of major credit business and would curtail competition at home.

The draft bill, which was worked out by the Finance Ministry and to which Bonn attached special urgency, provides basically for the following points:

- Any single bank loan may not exceed 75% of a bank's liable assets. The total of the five largest loans outstanding may at no time amount to more than 300% of liable assets, and all large loans together may not be in excess of 600% of such assets. A transition period of five years is foreseen before these restrictions would take effect.
- Banks to be licensed in the future may no longer be operated in the form of a sole proprietorship (*Einzelkaufmann*), since this is the only business form in Germany that makes no legal distinction between business and private assets. The rule would exempt already existing "one-man" banks (of which there are only 14 in Germany now).
- At least two general managers would be required for the operation of any bank.
- The Federal Banking Supervisory Office would be empowered to conduct audits without special cause and its supervisory and investigative powers would be widened considerably. A bank could lose its license if it had lost half of its liable assets or failed to operate profitably for any length of time. Reporting and auditing requirements generally would be toughened.

Bonn Moves on 'Truth in Packaging'

German government experts presently are discussing a bill (*Entwurf eines Zweiten Gesetzes zur Änderung des Eichgesetzes* - Standards Act) that would require manufacturers to live up to "truth in packaging." But Bonn does not wish to wait until enactment: to offer immediate protection to consumers, the administration has solicited support from producers of cosmetics and detergents, two industries in which large-scale deceptive practices apparently are most prevalent. Guidelines drafted by the government and the cosmetics manufacturers' association, meanwhile, have helped to alleviate the situation in that sector, and discussions with detergent producers on similar voluntary guidelines also have made progress. Until these guidelines are completed, representatives of the detergent industry have agreed to discuss complaints in cases where retail container volume is alleged to exceed actual content by more than 30%.

Originally the government had hoped that the 1969 amendment to the Standards Act would stop widespread deception in packaging, particularly with respect to the aforementioned industries. These expectations have been disappointed, since retail price levels in these sectors are so directly competitive that marketing strategists feel compelled to seek other ways to offset cost pressures. Thus, to maintain their price front toward the consumer, manufacturers often conceal increases by keeping prices and containers the same while reducing contents.

Belgium: Aid Program to Counteract Unemployment

A November unemployment rate of 4.8%, comparing to 3.8% a year ago, has prompted the Belgian government to decide on a number of measures designed to perk up the domestic economy, though on a limited scale and without compromising anti-inflation policy.

Emphasis will be on the promotion of both public and private investment in 1975. The public works program, for instance, which had been cut back to 80% in 1974, is to be fully implemented with a budget of BF 125.3 billion, 36% more than in the year past. In the private sector, state aids will favor projects that create new jobs. Small enterprises with a work force of no more than 10 persons will benefit from a BF 15,000 bonus for each newly hired employee. Other incentives are to encourage employers to schedule, if necessary, short-work plans rather than to opt for layoffs. Public administrations will be asked to double the number of hirings from the ranks of the unemployed.

In related action, the government plans to stimulate export activity by small and medium-sized firms and to grant interest subsidies for the development of new foreign markets. In the energy sector, it proposes to reduce fuel consumption and to promote investment toward the diversifi-

Aid Program *(contd.)*

cation of energy resources. Prime Minister Leo Tindemans, speaking at a party meeting in Liège, did not rule out restrictions on private fuel consumption, either.

France: Higher Interest Rates; Export Promotion

With effect from Jan. 1, the French government has taken some selective measures in the money and credit sector as part of a drive to make the nation "consume less and save and export more." The Finance Ministry announced that interest rates on savings deposits will rise by 1-1.5% annually and treasury and public bonds will carry coupons of from 8 to 10.5%. Domestic demand, on the other hand, is to be curbed through the higher cost of borrowing - the French banks will be allowed a mere 10% expansion of commercial credit volume in 1975, which would be far below the '74 growth rate of 17.5%. Export activity, however, is to be stimulated by more generous credits and credit terms - Finance Minister Jean-Pierre Fourcade said that French industry currently boasts FF 40 billion in medium- and long-term export contracts and even FF 60 billion if military orders are included. He said that France had a good chance to double from year to year its deliveries to various oil-exporting countries. (Premier Jacques Chirac himself has just returned from Iran with several major contracts, including an order for installation of the French "Secam" color television system in that country.)

The government also hopes that rising exports, especially of capital equipment, will help stabilize the labor situation. Some FF 750 million will be made available for direct aid to small and medium-size industrial companies suffering liquidity shortages so long as they are soundly managed and have good potential in their markets.

Britain: Soaring Costs of Effluent Treatment

Industrialists in Britain have registered shock at the prospect of soaring costs for effluent treatment. Following the reorganization of U.K. water management authorities into 10 new units, some of these authorities have announced massive charge increases (ranging up to 500% in some cases) in order to combat inflation generally, to equalize charges to industries in their areas, and to finance extensive capital expenditure programs to which they have already committed themselves. The Jukes Committee, which was instrumental in reorganizing water management in the U.K., had originally recommended that "equalization" should be phased in over a period of two years, but certain authorities - notably in the Midlands and the Severn-Trent regions - have called for precipitate increases.

The matter is currently under review by the Confederation of British Industry, which has warned the Dept. of Environment that such increases, if introduced suddenly, will

Effluents *(contd.)*

lead to severe escalation of industrial costs and might, in some cases, put individual companies out of business. One particular complication, especially in the northwest and northeast of England, is that industrialists were allowed to set up in "development areas" without having to meet effluent cost regulations. It would now appear that this concession will no longer be granted.

Norway: Oslo Retreats on Oil Tax; 'Alcan' Vote

Following loud protestations by the international oil groups involved, the Norwegian government has rescinded its proposal to tax up to 90% the "excess profits" to be derived from Norway's North Sea oil concessions and to apply these rates retroactively even to contracts dating back to 1965. The Finance Ministry has now agreed to work out revised tax schedules, evidently convinced that the original proposal would have resulted in a disengagement of the foreign oil concerns. In backing away from its initial position, the ministry said that the government has always awarded the concessions with the intention of offering conditions that would assure the oil companies of "reasonable profits," being well aware of the formidable risks involved in North Sea exploration and drilling. On the other hand, the ministry said, the high oil price levels also warrant a special form of tax assessment.

According to Oslo reports, those companies that were granted tentative concessions in November will now probably apply for an extension of the Jan. 6 final contract deadline in order to await the modified tax plan.

In earlier developments, the minority Labor government of Trygve Bratteli had narrowly averted its fall when it secured enough last-minute support for parliamentary approval of its controversial proposal to repurchase half of the 50% share Canada's Alcan Aluminium Ltd. has in the Norwegian aluminum producer Ardal og Sunndal Verk (ASV). The government will pay $62 million in cash for this first half, with the remainder to be purchased at a later date so that ASV again will be 100% state-owned. The political dispute was over whether Norway, on the strength of anticipated oil revenues, should simply nationalize the aluminum sector or negotiate better financial terms with Alcan. Leftist opposition forces consider the $62 million price too high - Alcan had bought its 50% interest in the company for a total of $50 million back in 1966.

Switzerland: National Bank Acts to Slow Capital Inflow

The Swiss National Bank announced on Dec. 19 that in future all capital exports will have to be switched into foreign currencies with the National Bank in the wake of vigorous demand for Swiss francs following strong inflows of foreign funds. At the same time, the bank - noting a "favorable"

Capital Inflow *(contd.)*

situation on the capital market - said that it would allow a slight increase in amounts permitted for export in January and February. A total of SF 230 million worth of foreign loans will be permitted, a 15% increase over December.

The monetary pressures from abroad and the corresponding "floating" revaluation of the Swiss franc also led to speculation (in the last week of the old year) that the government and the central bank might reintroduce the ban on nonresident investments in Switzerland and establish a two-tier exchange market. Some sources did not even discount a possible devaluation of the franc, although this would mean the end of the float.

EURO COMPANY SCENE

BLMC/ GM

British Leyland on Dec. 22 finally received approval from the Spanish government to sell its Spanish subsidiary, Authi, to General Motors. The £27.5-million deal had been bitterly opposed by Spanish automobile manufacturers, who feel that competition from the U.S. giant will cut into their own markets. According to sources in Madrid, it appears that approval of the BLMC-GM transaction has "necessitated changes in existing legislation."

Volkswagen

Rudolf Leiding, general manager of Germany's Volkswagenwerk AG for the past three years, has resigned his post, allegedly for reasons of health. He will continue with the company for another two to three years to supervise its model policy, however. Leiding and other VW officials had been at loggerheads in recent months over the question of establishing U.S. production facilities. While Leiding continued to favor the project, other executives were less than enthusiastic in view of enormous overcapacities and layoffs at home, currency fluctuations, and the general auto sales slump. The company anticipates losses of as much as DM 500 million for the year ending.

Occidental/ ELF Union

Occidental Petroleum Corp. of Los Angeles, Calif., has agreed to sell "the major part" of its European retail interests to France's ELF Union SA, a subsidiary of the state-owned ELF-Erap group. The transaction reportedly involves mainly the sale of some 700 service stations and connected operations in the U.K. and Germany. As partial payment for these assets - worth about $25 million according to Occidental - the French company will guarantee the obligations of its new holdings. ELF Union is expected to undertake a major rationalization and concentration of these operations.

Herstatt

Almost six suspense-filled months after the collapse of Germany's Herstatt Bank with losses of some DM 1.2 billion resulting from uncovered forward foreign exchange transactions, a final settlement has been reached. The eleventh-hour agreement of Hans Gerling, chairman of the bank's supervisory board and chief shareholder (81.4%), to pay a total of DM 210 million into the Herstatt "auxiliary" compensation fund came after over 90% of banking creditors and over 83% of the remaining creditors voted to accept the out-of-court composition proposal and grant Gerling immunity from retaliatory lawsuits. Three weeks after the settlement is legally approved, non-banking creditors are to receive compensation payments amounting to 65% of their claims; public creditors and foreign banks, 55%; and domestic banking institutions, 45%. To finance his contribution, Gerling will sell 25.1% of his insurance holdings to the Zurich insurance group of Switzerland and 25.9% to a consortium made up of more than 30 German industrial concerns in exchange for an advance of DM 100 million. The second 100 million will be guaranteed by a German bank consortium.

IPD

A political row of considerable proportions has followed the decision by the U.K. Secretary of State for Industry, Anthony Benn, to grant £3.9 million in aid to the ailing IPD (Industrial) cooperative, primarily in a bid to secure the jobs of 1,200 employees at the firm's Merseyside plant. The Industrial Development Advisory Board, established under the Industry Act 1972, had recommended that no such aid be given: accordingly, the board was incensed at what it considered to be the Secretary's "somewhat cavalier disregard" of its viewpoint. For the first time since the 1972 act came into force, the board has now exercised its right under Section 9 to have a statement laid before Parliament.

Common Market Reports

EUROMARKET NEWS

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Community: A Shaky Year and Modest Expectations

For all the many crises the European Community had to weather in 1974, the legal and economic bonds holding it together still proved stronger than the forces threatening to tear it apart. Most of last year's economic problems had their origin in the tripling of oil prices that pushed all but a few of the member states into heavy balance-of-payments deficits. But France's departure from the monetary "snake" in January 1974 and Italy's imposition of import curbs in May were not conceived solely to ward off the oil price impact but also to help the economies of these two countries. It was particularly Rome's action on imports that presented a tough challenge to the customs union and the common agricultural policy, still the two firmest pillars of the Community.

The most formidable threat to the survival of the enlarged EC came, however, with Britain's demand for renegotiation of the Treaty of Accession. Then, just prior to last month's Paris Summit, the U.K. quietly gave in on its demands (renegotiation and ratification procedures would have taken several years) while the other EC partners also relented by agreeing to assist Britain within the existing institutional framework and policies. The establishment of the Regional Development Fund and the budget accord should

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A Shaky Year *(contd.)*

now make it possible for the U.K. to remain in the Community.

The long-overdue activation of the Regional Fund in fact was the only tangible result of the summit meeting, the agenda of which had included such issues as direct elections to the European Parliament, renunciation of the unanimity rule in the Council of Ministers, and convergence of economic policies. But the most obvious setback came with the failure to agree on a common energy policy, largely because the French government found itself unable to overcome the nationalistic attitude of its Gaullist majority. Subsequently, however, the Council made some limited progress in this area as a result of the talks between President Ford and France's Giscard d'Estaing.

On the executive and judicial levels of the Community, two developments stood out: the growing disillusionment of the European Commission with Council inaction on vital issues and lethargic progress on less significant matters as well as the Court of Justice's expanding role as a forging element. In *Commercial Solvents* the Court gave the Commission more powers in the competition sector than many of the lawyers in Brussels had anticipated, and in *Transocean* it agreed in substance with the Commission's position even though it had to invalidate part of Brussels' decision for procedural reasons. With the *Hag* ruling and the two *Centrafarm* judgments, the Court reaffirmed and broadened its earlier case law to the effect that patent and trademark rights may not be used to hamper free interstate trade. The Court lifted the curbs on the right of establishment and the freedom to provide services in its *Reyners* and *Binsbergen* rulings.

As for this year, little progress is expected on the road toward an economic and monetary union, originally scheduled for 1980, though the will of the member state governments to achieve this object presumably has not weakened. Observers do, however, expect advancement in legislation, an area that seldom makes headlines and yet is continually strengthening the legal ties among the member states. Four sectors are singled out in which the persistence of Council and Commission officials may pay off: adoption of the pharmaceuticals directives (which would be a step toward the creation of a common market in drugs); recognition of medical diplomas (which would set a precedent for opening professions to nationals from other EC states); environmental protection; and social policy.

Belgium: Hopes for Continuation of Steady Course

In contrast to the pessimistic mood of the same time last year, when the energy crisis had reached its peak, the Belgian business community enters the new year with cautious optimism. Predictably, the economic boom of earlier days

Steady Course *(contd.)*

cooled off in '74, but it did not turn into stagflation and "zero growth" as had been feared. Whether a recession will actually materialize this year depends largely on whether the world economy suffers a sharp reversal - in that case, trade-dependent Belgium would be among the first victims.

So far, the stability measures undertaken by the Leo Tindemans administration - primarily in the form of curbs on public spending, credit, and prices - have not had an overly depressive effect on industrial output. The production index rose by between 18.7 and 23.1% in annual terms (as of September), and continued demand particularly for capital equipment has kept key industries operating at high capacities.

The satisfactory performance of the economy in general cannot detract, however, from the problems the Belgian government is facing in the areas of inflation and unemployment. The index of consumer prices again rose by some 1.4% in November, which added up to 16.3% for the past 12 months and came as a renewed shock to a country that not too long ago had held a very low rung on the European inflation ladder. Consequently, the Tindemans administration has had to defend itself against charges that it has been too soft in its fight against inflation. But the government has made some fiscal and budgetary provisions (tax reductions and price controls) in efforts to slow down price development this year.

Of even more concern in Brussels is the unemployment situation, though - at the end of November the number of jobless had gone up to 125,000, equal to 5.3% of the active work force. This trend is expected to continue for a while in view of the structural problems in some industries, notably apparel and foods. Last month, therefore, the government proposed a program to promote economic expansion, including employment subsidies for small and medium-sized businesses.

Britain: 'A Period of Uncertainty, Austerity'

The most succinct summary of Britain's economic position as the year drew to a close was contained in the Chancellor of the Exchequer's budgetary address, when he promised the nation "a period of uncertainty and austerity ahead," with no appreciable amelioration in the standard of living in the course of the next few years. As the statistics rolled in for November it became clear that these were by no means hollow threats. The U.K. registered an all-time high deficit on trade in that month - £534 million - and it seemed 1974 would surely go down as the blackest year in postwar British history in terms of balance-of-trade figures.

The frightening trade gap was paralleled by rampant inflation, with sterling at its lowest ebb for some 20

'Uncertainty' *(contd.)*

years: indeed, even without the cost increases that are bound to result from the recent Budget, the cost of living in the U.K. had risen by an unheard-of 18.3% in the 12 months to November 1974. According to another report by the National Institute of Economic and Social Research, inflation in Britain will exceed 20% this year. This alarming figure is predicated on the weakness or eventual collapse of the much vaunted "social contract" between the government and the country's labor unions. The Confederation of British Industry, echoing these fears, sees little hope for an improvement in business confidence and investment intentions until the guidelines laid down by the unions themselves are in fact adhered to by union wage negotiators.

Given sterling's weakness, the soaring cost of living, industrial unrest, waning business confidence, a burgeoning energy crisis, and a plunging stock market (the FT Index dropped to a 20-year low), there is little reason to expect a turnaround over the next 12 months. The Labour government's obvious determination to nationalize, either wholly or in part, those companies to which it extends financial aid, has further eroded confidence. Bankruptcies and enforced mergers have been the rule rather than the exception throughout 1974, particularly in the secondary banking and stockbroking sectors. There is a consensus among industrialists and financial specialists that there will be an upturn in economic growth when, and only when, wage restraint has been achieved. On the face of it, this would only prove feasible through statutory controls, a course Labour has consistently opposed.

A further source of disenchantment has been the Common Market and Britain's membership. The government has committed itself to holding a referendum in 1975 to decide the nation's future as a member: following the Paris Summit in early December it is now generally believed that Britain will retain its membership, although certain demands have still to be met.

Denmark: Another Vote on the Nation's Future

After little more than a year, the Danes once again head for the polls on Jan. 9. But this time the elections have not been brought on by a political impasse but by the dictates of sound economic policy: Prime Minister Poul Hartling and his Liberal minority administration chose to opt for a clear mandate from the electorate rather than bow to a weak compromise on the recently submitted economic crisis program.

Many observers in Copenhagen agree that this week's election should bring more political stability to the country. There is still a sour aftertaste from the December 1973 elections, which amounted to a full-scale protest by

Another Vote *(contd.)*

the voters, who put 10 parties and a couple of splinter groups into the Folketing and overnight made the anti-tax Progress Party of Mogens Glistrup the second-largest faction in Parliament. The big losers then were the Social Democrats, and this indirectly opened the way for Hartling's Liberals to take the helm, although they held only 22 seats in the 179-member Folketing. Hartling's decisive leadership - especially in the fiscal and budgetary sectors - may well result in a broadened base for the Liberals after the new elections. A public opinion poll published in mid-December held out the possibility that the party may receive 30% of the vote and even challenge the Social Democrats, the largest party so far.

In any case, the new Danish government - no matter what its make-up - will have to rush in with an incomes policy program closely patterned on that already proposed if the country is not to slide deeper into its economic problems. These are exemplified by an unemployment rate approaching 10% and an inflation rate of between 15 and 18%. Hartling's proposed prescription had been a one-year extension of existing wage agreements, temporary suspension of wage indexation (to be partially offset by tax-free cash compensation), and a freeze of profit margins and dividends as well as of agricultural prices.

France: Pessimism Clouds Outlook for 1975

Nothing better sums up the general mood in France at the turn of the year than the devastating results of a recent opinion poll according to which 77% of those questioned believed that the country's economic and social situation would get worse and 66% even predicted a repeat of the May 1968 chaos. This high degree of pessimism and uncertainty directly corresponds to the volume of bad news on mass dismissals, short-time work, strikes, and small-business failures. The Frenchmen's worries over job security have multiplied following revelation of a postwar record of nearly 700,000 unemployed, a 51% rise within 12 months, and predictions of one million jobless this winter. With these problems, even inflation is taking a back seat in the mind of the public, despite its continuing rate of about 15%.

All this has intensified pressures on the Giscard d'Estaing administration to desert its restrictive economic policy. So far the government has tried to stick to its guns, although the recently announced credit lines to ailing small and medium-sized businesses, the FF 1.5-billion shot in the arm for the automobile industry, and other support programs may indicate a softening of Paris' position. "Without admitting this in public," private banking sources have been quoted as saying, "the government already has switched its credit policy from economic stabilization to stimulation." On the other hand, Giscard has given ample

Pessimism *(contd.)*

warning that without stabilizing inflation below a "two-digit rate," France would suffer disastrous consequences.

Despite the bitterness apparent among labor ranks and growing public disillusionment with Giscard's style of leadership, the basic economic situation is not that unsound. Economic growth in real terms was still expected to be on the order of 4.5% or better in '74, and official projections were for a 3.6% rise in real GNP - figures that compare favorably with most other European countries. It also has been noted that in the relatively brief period since the Giscard administration took over, some major and progressive pieces of legislation have been enacted - an unprecedented one-year pay guarantee to the unemployed, lowering of the voting age to 18, and the legalization of contraception and abortion.

Germany: Still a Bastion of Economic Stability

The Schmidt administration's most recent program to counteract rising unemployment may have distracted from the fact that Germany continues to enjoy the greatest measure of economic stability in Europe and that Bonn's past efforts to contain inflation may be cautiously termed a success. With an inflation rate of slightly over 7%, the country's position is unique not only within the EC but among all major industrialized nations.

The government is aware, of course, that Germany's record trade surplus (expected to be near DM 50 billion for 1974) would not have been possible without the much higher inflation rates experienced by its trading partners within and outside the Community. No other country in the world except Japan depends so much on exports to maintain maximum employment and pay for raw materials, food, and energy imports. Though the 300% increase in crude oil prices has cut the payments surplus by DM 15 billion, the remaining overhang of more than DM 20 billion cannot but be a source of comfort for the Germans, since it causes envy abroad and occasionally prompts charges that the D-mark is still undervalued - a notion vehemently denied by the government and central bank authorities.

Even if the administration continues to refuse, perhaps rightfully so, to accept the role of the EC's "rich uncle," the growing awareness that its powerful economic position also carries obligations prompted Bonn's DM 5-billion standby credit to Italy and made the Germans finally relent on becoming the main contributor to the EEC's Regional Development Fund.

The coalition government's legislative balance sheet for 1974 has reflected the continuity theme stressed by Brandt's successor in the Chancellery, Helmut Schmidt. Taxes and consumer and environmental protection were the

Stability *(contd.)*

prime areas of legislation. The individual tax reform, to take effect with the beginning of 1975, may have brought more equity into the system but not the simplification aimed for by the administration and Parliament.

The top items on the legislative agenda for 1975 are the controversial co-determination bill, the corporate income tax reform, the pharmaceutical bill, several consumer protection bills, and environmental measures.

Ireland: Authorities Fear Further Deterioration

No comment on Ireland's economic prospects for 1975 is more concise than that recently offered by the country's National Economic and Social Council. Basing its prognosis on the assumption that world economic conditions will continue sluggish throughout this year and that the government will institute no totally unpremeditated measures, the Council predicts that the traditional Irish malaise - unemployment - will worsen this year to reach about 100,000, a 33% rise. As to the industrial climate, the report suggests that further deterioration might set in during 1975. This is mainly because profit margins are being squeezed, materials costs are soaring, high wage demands are proliferating, and a further adverse trade balance seems inevitable.

A government White Paper released in November stressed that the country's payments deficit in the course of '74 (£300 million as compared with £86 million in 1973) reached critical proportions, as did the inflation rate - currently running at around 18%. On the other hand, it is hoped that adjusted EEC farm prices and this year's introduction of the "green" (agricultural) pound may go quite a way toward alleviating the situation.

Italy: Sacrifices Required at All Levels

Although under formidable pressures, the new Italian coalition government led by Aldo Moro does not face an entirely hopeless task: most factions appear to be slowly awakening to the fact that serious sacrifices are indeed demanded of everyone if the nation is ever to recover from its gravest economic crisis since World War II. On the occasion of the last "general strike" last month, for instance, a number of union leaders successfully abstained from involving their sectors in order not to throw an early stumbling block before the Moro government. At a recent top-level conference of Italy's three major union federations, more than a few voices advocated moderation in labor's policy toward Rome and the employers. This climate of self-examination, should it last, may give the administration a chance to fully concentrate on a "do or die" short-term economic program designed to reverse the inflation trend and cut down on the huge payments and trade deficits. Only after success is achieved on these fronts can Moro turn his adminis-

Sacrifices *(contd.)*

tration's efforts to the more fundamental reforms of the country's agricultural structure, the energy and transportation sectors, and other vital areas.

The initial portion of a two-stage program recently outlined by the government will have to encompass a tough incomes policy. The country, moreover, will have to get along on an austerity diet of reduced domestic consumption and higher production for its export markets to make up for the higher energy costs, pay off its large foreign debt, and still finance the necessary investments at home.

Luxembourg: Forecast Is for 'Business as Usual'

Even Luxembourg's surprise turnabout last May from a basically conservative to a center-left government has done little to shake the small country's reputation for political stability and economic prosperity. In fact, the economy of the Grand Duchy managed to chalk up another good year in 1974 as the local steel industry (accounting for about 25% of the GNP and roughly 70% of total exports) benefited from a strong world demand. Furthermore, the oil price crunch did not have nearly the same damaging effects as elsewhere in the EC because local steel concerns were able to switch from oil to their own coal resources and could pass on the higher energy cost in their own prices. Luxembourg's rate of inflation, while at 10.8% (October), much over the 6.1% average of '73, nevertheless has remained well below the Community average.

Netherlands: Labor Problems Regarded as Crucial Issue

The collapse last month of the efforts toward a 1975 "social contract" at national level could well build up to an open confrontation between Dutch employers and the unions early this year. Labor is now preparing to press its demands in the upcoming bargaining talks at regional and sector level, while the employers intend to remain firm and have even agreed on joint support action for companies hit by labor strife.

The collective bargaining stand-off, spreading unemployment, and business demands for more lenient fiscal treatment highlight the Dutch economic scene at present. Otherwise, the economy remains fairly strong: Holland came through last year's oil boycott with flying colors and, sustained by income from its natural gas resources, boasted a comfortable payments surplus of nearly 3.1 billion guilders through September '74. The inflation rate of 10.7% (October) compares with an 8% rate in 1973.

Concerned at the recent unemployment statistics, the coalition government under Joop den Uyl has submitted a 3.5-billion-guilder program for 1975, aiming to prevent layoffs and create new jobs, improve consumer purchasing power, and stimulate investment.

Common Market Reports

EUROMARKET NEWS

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Community: Tax Aids for Anti-Pollution Investments

The European Commission has eased its stand on national legislation providing for accelerated depreciation of costs incurred by businesses in investing in pollution control equipment. In a letter to the German government, the Commission retreated from its earlier position that depreciation allowances for this type of investment are tantamount to state aids prohibited by Treaty Article 92 because of their distorting effect on competition (*Common Market Reports, Par. 2922.13*). It took a lot of arguing by Bonn officials as well as experts from other states contemplating similar allowances to convince Brussels that the admittedly low aid component in these allowances should be permitted to facilitate pollution control.

But the Commission has not retreated entirely from its earlier position. In fact, it has established several guidelines that member states must follow in aiding industry's environmental protection efforts. Indirect or direct state aids would be considered compatible with Article 92 in connection with new investments required on the basis of new national or Community rules. In other words, depreciation allowances for investments voluntarily made by businesses would not be within the scope of the guidelines. Furthermore, aids also must be available for enterprises required to modify their existing production facilities in

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Anti-Pollution *(contd.)*

order to meet pollution control standards. Finally, the net aid value must not exceed the following percentages: 45% of the investment made by enterprises until the end of 1976, 30% for investments made during the 1977-78 period, and 15% for investments made in 1979-80.

German rules that expired on Dec. 31 entitled businesses to claim additional depreciation of 50% (30% for buildings) besides the regular depreciation rates for pollution control investments (*Doing Business in Europe, Par. 23,548*). An extension planned as part of the 1974 tax reform failed because of the Commission's objections. The Bonn government has now submitted an amendment to Section 51 of the Income Tax Law that would extend the statutory authorization to provide accelerated depreciation rates of up to 60%. That percentage would remain well within the Commission's guidelines because the net aid component is much lower.

Survey Seeks Data from Multinationals

So far only 65% of the 9,500 companies within and outside the Common Market have responded to a European Commission questionnaire seeking to establish "who owns what" within the EC and "who is owned" by companies established outside. Sent out in mid-1974, the mail survey is part of the Commission's efforts to obtain a comprehensive picture of all companies that could be considered multinationals. From the answers given and the other information supplied by the firms (annual reports, profit-and-loss statements, etc.), the Commission expects to gather enough data - sales, profits before and after taxes, capital, number and location of subsidiaries - for its planned studies on multinationals. These facts are being computerized at the Community's data center in Luxembourg.

Commissioner Altiero Spinelli hopes that the 3,000-odd firms that have not responded as yet will do so in the near future. The Commission plans to publish the compiled facts in book form without commentary, and it is believed that any company would be glad to have the free publicity in the first edition of who's who among multinationals.

Denmark: Elections Fail to Solve the Crisis

Although they resulted in the expected major gains for the governing Liberals, Denmark's Jan. 9 parliamentary elections failed to bring clarification to the confused domestic political situation. Prime Minister Poul Hartling's Liberal Venstre Party did manage to nearly double its base in the Folketing from 22 to 42 mandates, equal to 23.3% of the vote. But this was largely at the expense of smaller parties that had been Hartling's main support in Parliament. The Social Democrats, the big losers of the December '73 elections, regained some ground and now hold 53 seats in the 179-seat Folketing. Surprisingly, the anti-tax Progress

Elections *(contd.)*

Party of Mogens Glistrup dropped only four of its previous 28 mandates and thus continues as a political force to be reckoned with.

The Social Democrats have demanded that Hartling step down, but he has refused to do so in hopes that a way can still be found to secure a majority for his controversial proposal of a one-year freeze of wages and profits. Hartling knows, of course, that the Social Democrats are hardly in a better position to form a viable government.

Italy: Credit Eased for Exports, Construction

Confronted with a marked slowdown of the domestic economy, the Italian government and the monetary authorities have implemented selective measures relaxing credit restrictions primarily for the export sector but also for the ailing construction industry. Along with a 1% cut in the bank rate (to 8%), the Treasury and the Bank of Italy removed certain curbs on the financing and refinancing of export credits and eased restrictions on bank overdrafts for major corporate clients. The construction sector specifically benefits from a modification of the rules regulating mandatory cash deposits by banks in connection with loans to that industry - deposits may now also be in the form of certain public bonds. This should assist bank liquidity to the tune of 300 billion lire, according to Rome reports.

Financial observers have noted that these concessions within the framework of the existing tight money policy have been possible only because stagnation on the national bond markets has prevented full utilization of the 15% limit on credit expansion previously agreed upon between Rome and the International Monetary Fund.

The government's special help for exporters comes at a time of renewed pressure on Italy's foreign trade balance: after a period of recovery during the summer, the trade deficit has again expanded to 6,144 billion lire (end of October), roughly two-thirds of which is attributable to the oil imports. Through the new measures Rome hopes to give the export industries the incentive to maintain their generally encouraging performance, with the goal of eliminating the non-oil trade deficit within this year. Still, this would bring only token relief to the country's overall payments position: the oil imports alone are expected to boost Italy's foreign debt from 9,000 to 12,000 billion lire in 1975, which would keep the country on the brink of insolvency and in need of continued international credit support.

France: New Year Starts on Wave of Price Rises

The advent of the new year in France has been accompanied by a series of dramatic price rises, notably for utilities and fuels. As of Jan. 1, private households will have to pay 8.9% more for their gas and 4% for electric power. For

Price Rises *(contd.)*

industrial users the cost of these utilities goes up by 20 and 19.2%, respectively. With the latest increases for gasoline and heating fuels, the price of gasoline has gone up by 31-35% within the past 12 months and that of heating fuel by 66% for private households and 157% for industrial users.

The PTT, the French post office, at the same time has doubled to FF 1,100 its charge for the installation of a telephone. Hotel room rates have gone up by 9%, and restaurants also were planning to raise their prices, except in Paris where the authorities decreed a three-month freeze because restaurateurs already had boosted prices by 16.3% in '74 although wholesale food prices had gone up only 5.2%.

At the end of last month, the National Price Commission - at the initiative of the Finance Ministry - decreed a general freeze of retail trade margins at the Dec. 2 level, excepting only a few items such as meat, milk, and fuels. Retail price changes must now strictly correspond to supplier price changes, on a percentage basis, and authorities expressed hopes that some consumer prices may actually go down as a result. On the other hand, the government did lift the price controls for certain export industries, primarily construction machinery, railroad materials, and public works equipment (price regimentation for automobiles already had been given up some time ago). Finance Minister Jean-Pierre Fourcade declared his intention to abolish price controls for all sectors subjected to intense competition and price pressures. He indicated that they will be dropped next for trucks, watches, and measuring and control equipment.

Germany: More State Control Urged for Economy

A policy-making caucus of West Germany's governing Social Democratic Party has proposed to give the government broader powers of economic intervention in order to achieve more social justice and solve social conflicts. The document (*Langzeitprogramm*), which sets some significant policy signposts for the next decade should the Social Democrats remain in power, is to be discussed at the party convention next November. The program is based on the premise that Germany's free enterprise system, for all its merits, is deficient in basically two respects: it tends to adapt to future developments only in terms of anticipated demand and, secondly, it fails to contribute to the spreading of wealth.

Only a few details of the still secret document have been published, but those known confirm the impression that the far-left members of the party have been outvoted on major issues. Though nationalization is not ruled out as a vehicle of government policy to advance social progress,

More Control *(contd.)*

the policy makers warn of the illusion that government ownership could solve problems in a way that would benefit all of society.

Instead of direct controls over investments by businesses (a demand repeatedly made by union leaders and the party's far-left youth organization), the authors favor an indirect approach to investment control through incentives or deterrents, for instance by offering or denying tax advantages or public services. It is proposed that the government adopt a long-range infrastructural investment program to "sufficiently influence the volume, direction, and quality of production of goods and services." A case is also made for requiring businesses to notify the authorities about investments of a certain amount, type, and location. While management would retain its freedom to invest, the government should have the power to prohibit certain investments or subject them to conditions.

Another controversial item in the policy document concerns reform of the civil service: the authors would grant civil servants (with only a few exceptions) the right to strike for higher wages. Most neutral observers find it strange that a party that has contributed so much to the political and economic stability of the country would not only tolerate but even favor an approach that could eventually destroy one of the foundations upon which the German state rests - a still efficient civil service. Legal experts, moreover, have expressed doubts on the constitutionality of this concept because under the Constitution's Article 33, paragraph 5, Parliament may regulate the civil service but in doing so must give "due regard to the traditional principles" that have governed the service since its Prussian beginnings and have prevented strikes until now.

Britain: Business Fears More Gloom This Year

As the U.K. moved into 1975, industrialists and business leaders were of a consensus that the year ahead would offer no respite from the gloom of 1974. Predictions that the economic climate would continue to deteriorate at an accelerated pace were reflected in surveys that revealed lower investment intentions, increased financial constraints, pressing liquidity problems, inventory cutbacks, rising unemployment, falling export sales, and declining domestic demand. Major companies - all of them "household" names - were forced to the point of liquidation and had to appeal to the government for financial aid.

The government, meanwhile, shows marked signs of divisiveness. Certain cabinet ministers have chosen to let off steam on the Common Market issue, but this - although vital to the country's economic future - takes second place to the continuing confrontation between management, labor, and - as of late - the government itself. In a Jan. 3

Business Fears *(contd.)*

speech, Prime Minister Harold Wilson stunned many factions within his own Labour party by proclaiming that Britain faced disaster if the country's workers did not show more restraint and if they persisted in strike action. At first, it appeared that Wilson was threatening to refuse financial aid to companies with an "unacceptable" record of industrial action. Later, however, it was claimed that his speech was "badly worded" and misinterpreted. In any case, it is now clear that the celebrated government-union "social contract" is in real jeopardy. Dissension within the government is also mirrored in what many consider to be the "haphazard" policy of the Secretary of State for Industry, who regularly utilizes the Industry Act 1972 of the previous Conservative government to proffer financial assistance to ailing companies, but who equally regularly makes a point of overruling the Industrial Development Advisory Board, which was established to furnish informed advice on such matters. It now seems inevitable that this body will be dissolved under the new Industry Act - which is imminent - and that the Secretary's actions will be coordinated with the functions of the proposed National Enterprise Board.

Work Safety Act Termed a Major Reform

The U.K. Health and Safety at Work Act, the first part of which came into force on Jan. 1, has been hailed as the most sweeping reform in British social legislation since the original Factory Act came into force in 1833. Throughout the new Act, emphasis is placed on a self-regulatory approach to safety at work. There is, however, nothing laissez faire about the criminal sanctions that apply in case of violations. Fines range up to £400 on summary conviction in certain cases and, in others, can be unlimited - not to mention the possibility of a term of imprisonment ranging up to two years.

The key part of the Act is Part I, which imposes a general duty on employers, employees, and individuals to promote safety, health, and welfare at work. Workers in every business including those who are self-employed are affected by the new law. These are its main features:

- Employers must draw up a written statement on safety policy and show it to the work force before April 1975. They must consult with employee "safety representatives" and must devise safety training programs. In certain circumstances employers will be obliged to establish safety committees. In cases where injury follows from a breach of the new regulations, employers will be prosecuted and will face severe penalties.
- Existing factory inspectorates will be replaced by a centralized Health and Safety Executive responsible to a Health and Safety Commission and, ultimately, to the Secretary of State. The Commission, the Executive, or local

Work Safety *(contd.)*

authorities if so delegated will employ safety inspectors with wide-ranging powers of investigation and enforcement, including the right to issue "prohibition notices" (ordering workers to stop work deemed to be dangerous) or "improvement notices," which require improvements within a specified time.

- The Secretary of State in consultation with the Commission can order new safety regulations as needed. Codes of practice will be drawn up in certain sectors: these may be used as evidence in court proceedings but are not in themselves statutorily enforceable.
- In future, directors' reports will be required to include a statement on safety, health, and welfare measures in force in the course of the report year.

Parts II and III of the Act deal with changes in the existing employment medical advisory service and specific amendments to prevailing building regulations, notably in Scotland. *(Doing Business in Europe, Par. 30,760.)*

EURO COMPANY SCENE

Burmah Oil

While the turn of the year saw many major companies in the U.K. (including British Leyland, the No. 1 auto manufacturer) facing acute financial troubles and appealing to the government for aid, the biggest crunch involved the country's third-largest oil group, Burmah Oil, and forced the government and the Bank of England into swift support action. Burmah's collapse came as a result of over-optimism in the tanker sector and its subsequent inability to meet massive borrowings in North America and on the Euromarkets. (A large share of the company's borrowings - some $420 million out of $650 million - was used to acquire Signal Corp. in the United States.) In return for government guarantees, Burmah has now been compelled to pledge its holdings in the U.K.'s top two oil companies, British Petroleum and Shell Transport and Trading. Also it has agreed in principle - i.e., even prior to passage of the Petroleum Bill - to 51% public ownership of its North Sea oil field shareholdings.

Burmah's insolvency has wiped an estimated £800 million off the stock market. Far worse, however, it prompted doubts as to the credibility of U.K. companies on international markets and over the North Sea oil "bonanza" which successive governments have claimed will revitalize Britain's economic future.

Aston Martin

In related developments, the British prestige auto maker Aston Martin has gone into receivership despite attempts by foreign banking consortia and others to mount a rescue operation that would have required, as one embittered critic

Aston Martin *(contd.)*

put it, "a paltry two million pounds." An earlier government offer to provide £600,000 in financial aid fell through when the company management was unable to meet one key condition, namely, that of a guarantee from Aston Martin's U.S. distributors that they would continue to market the cars.

VAW/ Kaiser/ Preussag/ Kapal

As was anticipated, the German Federal Cartel Office has vetoed plans for state-owned VAW Vereinigte Aluminium-Werke AG to replace Preussag AG as co-owner of Kaiser-Preussag Aluminium GmbH (Kapal). VAW, Germany's largest domestic aluminum producer and processor, was to take over 25% of the Kapal smelting plant at Voerde, while all Kapal processing interests were to be brought into VAW-Leichtmetall GmbH, in which Kaiser would hold 25%. According to the Cartel Office, however, a merger of VAW and Kaiser interests in Germany would affect the entire domestic semifinished aluminum sector, either reinforcing or creating dominant positions in several sub-markets. VAW and Kaiser, for their part, argue that a fusion of their semifinished aluminum operations is necessary in order to avoid plant closures and dismissals, a claim that is disputed by the Cartel Office. The antitrust decision is not yet legally binding, and the companies plan to apply for a special exemption from the German Economics Ministry.

Empain-Schneider/ De Wendel/ Marine-Firminy

The Franco-Belgian Empain-Schneider group and France's De Wendel steel have announced plans to combine their interests of 32% and 20%, respectively, in Marine-Firminy in efforts to gain control of the French steel holding and through it, Creusot-Loire, the country's leading nuclear contractor. A takeover bid for Marine-Firminy by the Denain/Usinor steel group and subsequent share purchases by rival De Wendel were halted through intervention by the European Commission. Now, in order to circumvent Brussels and the French government, which opposes any foreign domination of the domestic steel and nuclear industries, De Wendel and Empain-Schneider propose to set up a joint holding company in which De Wendel would have the majority. This firm would run Creusot-Loire and would undertake reorganization of the Lorraine steel industry by combining Marine-Firminy's interests in this sector with those of De Wendel's offshoot Sollac.

American Hoechst/ Foster Grant

American Hoechst Corp. of Bridgewater, N.J., subsidiary of Germany's Hoechst AG chemicals, is completing the takeover of Foster Grant Co., Inc., Boston/Leominster, Mass.-based producer of synthetics, for over $100 million. American Hoechst reportedly paid $69.9 million for the 69% interest in Foster Grant held by United Brands and $26 million for another share bloc of about 26% owned privately. It is offering $46.20 a share for the 5% that is still outstanding.

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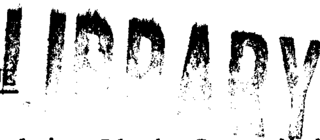

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Community: Belgium Blocks Drug, Medical Directives

Resistance from the Belgian government is holding up progress in the Community on two important issues: a common market for pharmaceuticals and the right of professionals to settle and provide services anywhere in the EC (the beginning was to be made with the mutual recognition of medical diplomas).

Adoption of the pharmaceuticals directives (*Common Market Reports, Pars. 3401 and 9643*) had been on the agenda of the Council's final December meeting, but the Belgian delegate held out against it. The Belgian government has been under pressure from domestic pharmaceuticals producers and pharmacists, who oppose the proposed system because it would permit chemists and biochemists to do the testing at the manufacturing plants. They claim that only pharmacists are qualified to conduct these tests - an argument no longer wholly subscribed to by drug makers elsewhere in the Community. Competition from the other EC states is, of course, the real reason for this position: Belgium's pharmacists fear that if the drug control qualifications of chemists and biochemists were recognized, a precedent would be set for the recognition of pharmacists' diplomas and thus open Belgium to pharmacists from other EC states.

A similar situation prevails in connection with the proposed medical directives: here, again, the Belgian government has succumbed to demands of the Belgian medical as-

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Directives *(contd.)*

sociation by making adoption of three draft directives dependent on the condition of permitting immigration curbs for foreign physicians "whenever the ratio between practitioners and specialists is disturbed or incomes of Belgian physicians are threatened." The proposed directives concern recognition of diplomas, removal of restrictions, and coordination of rules governing access to the medical profession (*Common Market Reports, Pars. 1349.15, 1486.21, and 9690*). Council officials do not recall another instance in which opposition to a proposal has been put so bluntly. Community reactions in turn have caused a dispute between the Belgian Foreign Ministry, which favors adoption, and the Health Ministry, which has objected to the measures. At the February meeting of the Council, the proposals will again be put on the agenda.

Council Asked to OK Energy Research Plans

The European Commission has called on the Council of Ministers to approve two medium-term energy research programs and allocate 75 million units of account to finance them. The object of the first four-year program is to promote research on energy conservation, the production and use of hydrogen as a new source of energy, and the use of solar and geothermal energy. The Commission also wants to support scientific efforts to develop new modes of energy supply. The second program would be devoted to research into treatment and disposal of radioactive waste, a problem that has been worrying governments and scientists as more and more nuclear power stations are being planned and constructed.

In announcing the programs, which will be followed by others within this year (among them one on the liquification of coal), Commissioner Guido Brunner stressed the need for a rational and optimal use of the member states' funds and research potential by avoiding duplication of efforts and overlapping of projects. Brunner said that the Commission does not intend to dictate research policy but would merely suggest that research be concentrated at the respective national institutes or universities that have advanced furthest in a particular field. The Commission would help in the exchange of information and coordination of efforts.

With these programs the Commission is following up on the strategy it proposed as part of a common energy policy. The Council so far has failed to adopt this policy because of resistance from France, although Paris has agreed "in principle" (*Common Market Reports, Pars. 9629 and 9682*). The primary aim of this plan was to reduce Community dependence on imported energy resources by 20% and save about $50 billion over the next decade. The strategy would be meaningless, however, without fast and effective research for new energy sources as well as for the means of conserving existing ones.

In Brief...

Once the new farm price system has been worked out in the Council of Ministers, priority will be on finding a final shape for the proposed association agreement with developing countries (including 20 Commonwealth countries and present associates)...Council and member state experts are reporting satisfactory progress on the second and fourth company law coordination directives. There is a good chance that the work will be completed by the end of the year...No such progress can be reported by the Council working group on turnover tax harmonization (Sixth Proposed Council Directive). The three big problem areas here: a "zero rate" for agricultural products, exemptions on the sale of undeveloped property (building lots), and exemption of transport in international trade. It is hoped that discussions can soon start in earnest, since the finance ministers will now be meeting once a month.

Germany: Compromise on Vocational Training Bill

The two German government coalition parties, the Social Democrats and the Free Democrats, apparently have found a compromise in their approach to the controversial bill on vocational training. Whereas the original plan sponsored by the Social Democrats would have required all businesses to pay an annual levy to finance vocational training, the compromise version would authorize the government to impose such a levy as a last-resort measure only if the current trend of fewer job openings for apprentices takes a dramatic turn for the worse. The compromise became possible when Bonn put up DM 150 million (four times the amount allocated in '74) to finance the establishment of regional vocational training centers and the hiring of additional instructors.

Many observers believe that the compromise stands on shaky ground, since it could merely postpone the financing issue that had caused the rift between the two parties. The Social Democrats thought that the needed funds should come only from the levy and not from general tax revenue; the Free Democrats claimed that the total burden of DM 1 billion would be too great for the sagging economy. However, both parties had agreed all along that a further decline in openings for apprentices must be prevented in order to assure a continued pool of skilled labor for German industry.

Netherlands: Legal Doubts over New Gas Price Law

The Dutch government's new Natural Gas Price Law has now cleared the last parliamentary hurdles, though not without misgivings on the part of some legislators. The law enables The Hague to set the price of domestically produced gas according to the prevailing price levels of oil. As an immediate consequence, gas prices were marked up by 5 cents per cubic meter as of Jan. 1. However, the Economics Ministry also has reserved the right to effect retroactive

Gas Price Law *(contd.)*

price "corrections," which would assure the Dutch state of natural gas revenue in excess of the 3 billion guilders already forecast for 1975. From what has been reported, this would mean "drastically higher" gas bills for Holland's foreign buyers.

It is this latter aspect that has raised serious doubts in Parliament, where legislators wondered whether the government's price policy would be compatible with international law. It has been pointed out that major foreign buyers such as Italy, Germany, France, and Belgium did not sign their delivery contracts with the Dutch state but with the Nederlandse Aardoli-Maatschappij (NAM), in which Esso (Exxon) and Shell hold considerable stakes. Thus, the critics say, the gas export contracts cannot be changed by a "unilateral legal act," even though some were signed long before the energy crisis became acute (and therefore provide for very low prices by current standards).

Even while approving the legislation, members of the Upper Chamber (Senate) questioned the legality of some of its provisions and warned of possible retributive action by foreign partners, who might take their case before the European Court of Justice. The Justice Ministry, in turn, has pointed to a clause in the NAM contracts that allegedly permits price increases in the event of *overmacht*, a term roughly meaning "higher powers."

The Dutch government regards the new law as the most effective way to safeguard the country's natural gas resources and to assure an equitable return. Last year's boycott by the OPEC states apparently convinced the administration that, in times of crisis, it can rely on support from Holland's Community partners to a very limited degree only.

Norway: Bank Reform Plan Moves a Step Ahead

Following two days of debate, the Norwegian parliament on Jan. 8 passed "in principle" by the narrowest of margins, 72-71, the government's controversial proposal for the "democratization of the commercial banks." The reform plan, as presented by Finance Minister Per Kleppe, does not foresee nationalization or expropriation of Norway's private banks but would provide for public majority control of the membership and functions of the banks' administrative boards. The ways and means of accomplishing this are to be studied by a royal commission that will be appointed by the government. Its findings are to be submitted by about mid-1976. Only then does the government intend to work out final draft legislation, which is not expected to be resubmitted to the Storting before the parliamentary elections in fall 1977.

Bank Reform *(contd.)*

One of the main questions to be investigated by the commission is whether it would still be feasible to have private banks operate as stock corporations. Presently, the members of the banks' administrative boards are being elected by the private shareholders, whereas under the future system the majority of board members would be political appointees. Kleppe himself would like to see the banks operate as "foundations," authorized to issue shares similar to shares of stock but without the same ownership rights.

The conservative Opposition has accused the Social Democrat labor government of aiming for a "socialization" of the country's banking system. Most of its spokesmen also favor a public representation of some kind on the supervisory levels of bank management but not on a majority basis. They have pointed to the Swedish model, which accords the public one seat on the banks' administrative board. However, Kleppe has rejected this system as being not far-reaching enough.

A recent Gallup poll, according to Oslo reports, has shown that 16% of Norwegians questioned favor the government proposal as it stands, while another 14% would favor a reform that could even lead to nationalization. Forty percent believe that the present stock corporation model should be retained; the remainder reportedly had no opinion on the issue.

<u>Sweden: Large Deficit Predicted in Draft Budget</u>

At the start of Sweden's new parliamentary session, Finance Minister Gunnar Sträng presented the 1975-76 Draft Budget and named full employment and price stability as the government's foremost aims this year. But Sträng expressed doubts on whether it would be possible to reduce the jobless rate below the current 1.7% average, since certain sectors (Gränges aluminum, Volvo automobiles, the lumber mills) are now being forced to curtail production. As a way to keep economic performance on par, the government may release as early as July 1 a total of 3.5 billion kronor accumulated from the 35% in net profits that companies had to freeze last year.

The Draft Budget provides for a deficit of 11.9 billion kronor, the largest part of which is to be covered on the international capital markets. Expenditure is to rise by about 10% to 93.2 billion kronor, most of it accounted for by earlier projections and automatic expansion (inflation); no major reforms are planned. Revenues are to go up by 11% to 81.3 billion. The largest spending items will be for social purposes (26.4 billion), education (12 billion), and defense (9.8 billion). The highest increase will be 20% for state contributions to the pension and health insurance systems.

Draft Budget *(contd.)*

Sträng predicted that industrial investment in Sweden would rise by about 10% this year and called for expanded productivity and capacities in order for the country to regain its trade and payments equilibrium. The government will continue to stimulate exports, he said. The national balance of payments - in 1973 still in the black with 5.3 billion kronor - last year slipped into a 2.7-billion deficit, which is expected to grow to 4.8 billion in '75.

EURO COMPANY SCENE

Flick/ Daimler-Benz/ Deutsche Bank

In a move that had the German financial world anxiously holding its breath, the Flick industrial group has decided to sell 29% of its 39% holding in Daimler-Benz AG to Deutsche Bank, at present owner of a 28.5% share block. The record-breaking DM 2-billion transaction was hailed by government and business spokesmen when it became clear that control of the prestigious Mercedes automotive group was not going to pass into the hands of foreign - particularly, Middle East oil - interests. The government of Kuwait had acquired a stake of about 14% in the company in a secret deal at the end of November. Deutsche Bank announced that it would not retain a majority participation in Daimler but intends to sell off a sizable portion of its new holding to suitable domestic buyers. Bank officials are urging Bonn which was informed of the sale before its conclusion, to act swiftly on establishing advance notification requirements and quotas for foreign purchases of German share holdings.

Aston Martin

The future of Aston Martin Lagonda, makers of the "James Bond special," is still undecided. One possible rescue operation may come from North America: Toronto hotelier George Minden and California financier Peter Sprague were reported to be joining forces in an effort to acquire the company. It is possible that they will have to wait their turn, however, since no fewer than seven contenders are believed to have submitted preliminary proposals, among them several individual businessmen whose names have yet to be disclosed.

Amoco (U.K.)

Amoco (U.K.) Exploration Co. has recently been advertising in the principal British dailies in order to plead the company's case for exempting North Sea gas from the provisions of the U.K.'s Oil Taxation Bill. Amoco does not dispute the U.K.'s right to take "a fair share of any excess profits from North Sea oil," or to impose an addition to normal corporation tax. It does argue, however, that - in the case of natural gas - there have not been and will not be excess profits because all gas is sold to The British Gas Corp., the state monopoly buyer, at a contracted price that

Amoco *(contd.)*

has not escalated with the price of oil. Amoco feels that the planned imposition of a petroleum revenue tax on natural gas will squeeze profit margins to the point where investment will be affected and a substantial cutback in expansion and exploration programs induced.

Iran/ Gas Consortium

The government of Iran and El Paso Co. of the United States and Distrigaz and Sopex of Belgium have signed a letter of intent covering the export of liquefied natural gas from Iran beginning in the 1980s. The giant project, reportedly requiring investments of almost $6 billion at the outset, would involve the establishment of a joint venture to be held 50% by National Iranian Gas Co. (NIGC) and 50% by the U.S.-Belgian consortium as well as the construction of appropriate facilities and the purchase of a fleet of 34 tankers. Some 2-3 billion cubic feet of gas would be transported daily from the Persian Gulf through the Suez Canal to Europe and the United States. The joint company's rights to the gas are to extend for 25 years.

Hille & Müller/ Thomas Steel

Germany's Hille & Müller oHG, a producer of cold-rolled steel strips, has contracted to acquire the Thomas steel strip division of Wheeling-Pittsburgh Steel Corp. of the United States for an unnamed price. The Warren, Ohio, facilities, employing 750, will be operated by Thomas Steel Strip Corp., a new U.S. subsidiary set up for the purpose by Hille & Müller.

Lesieur/ Salgado

Lesieur-Cotelle, a subsidiary of the French Lesieur foods group, has acquired 30% of Salgado, the fourth largest producer of edible oils in Spain and a leading exporter of olive oil. Details of the sale are not available, although it is known that Lesieur also has an option to increase its stake to 50% within the next two years.

Pernod-Ricard

Shareholders of French aperitif producers Sté. Pernod and Sté. Ricard have approved the merger of both companies into Sté. Pernod-Ricard. The deal, involving the exchange of 15 Ricard shares for 16 of Pernod, provides for the continued independent operation of both groups. The new central holding also controls almost 27% of Cinzano-Dubonnet-Byrrh and has other interests in the alcoholic beverage sector.

Swedish Match Florida

Sweden's Svenska Tändsticks AB, the industrial conglomerate, has set up a new subsidiary in Coral Gables, Fla., Swedish Match Industries Florida, Inc. The new company reportedly will furnish information on the U.S. market and products to European members of the Swedish Match group.

Neogravure

A plan to resuscitate Neogravure, the No. 1 French printing group that was forced into liquidation last fall, has been proposed by the government together with various banking

Neogravure *(contd.)*

and commercial interests. Two successor companies are to be formed to take over the defunct group's offset printing and photogravure operations. These ventures reportedly will be financed through a FF 10-million state subsidy and loans eventually totaling some FF 88 million from a group of newspaper publishers, paper manufacturers, and the Paribas banking concern and from public credit funds. Despite the rescue plan, about 800 of Neogravure's original work force of 6,000 are expected to lose their positions through early retirement or outright dismissal.

Redirack

Redirack (France) has been set up in Paris by Interlake, Inc., of Chicago for distribution of warehouse storage shelf systems to the French market. Redirack's European manufacturing facilities are located at Nivelles, Belgium, and Kilnhurst, U.K. The company also has sales offices in Germany.

Finabank

After being ordered to close by Switzerland's Federal Banking Commission on account of "overindebtedness" resulting from excessive foreign exchange speculation, Banque de Financement SA (Finabank) has applied to Geneva legal authorities for a payments moratorium. The forward exchange deals responsible for the shutdown of the bank, which is indirectly controlled by the controversial Italian financier Michele Sindona, involved Edilcentro International, Ltd., a Bahama-based subsidiary of the Sindona group's Società Generale Immobiliare. Finabank has a basic capital of SF 20 million, reserves of SF 29 million, and a balance sheet total of SF 200-250 million. A large minority stake in the bank reportedly is held by the Vatican.

Banque de Bruxelles

Banque de Bruxelles, Belgium's No. 2 bank, has announced that total losses from the illegal and unauthorized forward foreign exchange deals discovered last October are expected to reach about $40 million. The bank blamed four former employees who are now under criminal investigation as well as the recent fall in the value of the dollar for the magnitude of the losses.

No. Carolina

The U.S. state of North Carolina has opened a representative office in Düsseldorf, Germany. Steve B. Stevenson is the director.

Common Market Reports

EUROMARKET NEWS

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Community: EC, Comecon Gear Up for Direct Contact

A new era in the Common Market's trade relations may be opened when top officials of the European Commission and the Council of Mutual Economic Assistance (Comecon) meet in Moscow on Feb. 4. These first direct contacts could be a prelude to a visit in Moscow later this spring by Commission President François-Xavier Ortoli or Sir Christopher Soames, the commissioner for foreign relations. All East European states are members of Comecon except Yugoslavia, which holds observer status (*Common Market Reports, Par. 111.06*).

Both the EC and Comecon are responsible for the fact that official relations have not been established earlier. For many years the Kremlin simply refused to accept even the existence of the Community as an emerging economic power, and it took a while for the East Bloc's political leadership to realize that the EC was seriously to be reckoned with and offered a market potential that could benefit the Comecon-linked state economies. Furthermore, it was recognized that East-West detente would not progress without increased East-West trade.

As regards its own initiatives toward Comecon, the Commission had to wait until the beginning of this year before it acquired exclusive powers to negotiate trade (not cooperation) agreements with individual East Bloc countries

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EC, Comecon *(contd.)*

or with Comecon itself. But the main reason for Brussels' reluctance to respond immediately to Comecon overtures, which started in '73, was the fact that the Comecon secretariat does not have treaty-making powers comparable to those of the EC. An internal study to this effect by the Community's legal services had supported the EC member states' skepticism on the wisdom of seeking a trade accord with Comecon because such an accord would reduce even further the economic and political maneuverability of the individual Comecon members.

Still, Community officials consider Comecon's lack of treaty-making powers not an insurmountable obstacle: because of the Kremlin's dominant influence over most East European states, the lack of legal instruments could be largely eliminated through political decisions. The upcoming meeting should give some indication of the direction that future EC-Comecon relations might take.

More Proposals toward the 'Eurocar'

The European Commission has sent to the Council of Ministers four more draft directives designed to standardize national rules relating to automobile construction and the manufacture of accessories. The four proposals concern specifications for headlights and taillights, headlight bulbs, safety belts and headrests, and tow couplings and bring the total number of measures in the automotive field to 50. Eighteen of these, including those on exhaust pipes, turn signals, windshields and wipers, steering gear, horns, doors, rear-view mirrors, fuel tanks, and rear bumpers have been adopted by the Council. Several working groups are discussing 20 other proposals covering brakes, electrical systems, and safety glass, among other things.

Standardization is necessary since national rules governing technical details vary greatly and thus hamper trade within the Community (*Common Market Reports, Par. 3515.01-.05*). It also works toward greater safety, however, and some of the proposals have ramifications that are strictly environmental. In this latter area, three directives are already in force; the most important of these places limits on carbon monoxide emissions by internal combustion engines (*Common Market Reports, Par. 3515.09*).

Ultimately, national technical requirements will be identical or at least equivalent, so that car makers may take advantage of the larger European market without having to adapt export models to different national specifications. Since adoption of any proposal is often delayed by conflicting interests (French and German auto manufacturers, for instance, are still arguing over a 1972 proposal on safety glass), Commission experts do not expect the "Eurocar" to be on the road before 1977.

In Brief...

Though the Commission's draft directive providing equal opportunities in employment for women could be taken as a timely contribution to the "Year of the Woman," Commission attorneys actually had begun drafting the proposal long before the U.N. considered the matter. The draft is scheduled to go to the Council at the end of this month or in early February...The Commission is planning some steps of its own to tackle rising unemployment within the EC. One plan would provide for the allocation of some 200 million units of account from the Social Fund, with a large percentage to be spent on the retraining of employees laid off by the automobile industry...The first cases involving interpretation of the Convention on Jurisdiction of Courts and the Enforcement of Judgments have been placed on the docket of the European Court of Justice. The convention, which took force on Feb. 1, 1973, is the subject of two separate requests for interpretation from a Paris court.

Germany: Possible Curbs on Share Sales to Foreigners

It is a foregone conclusion in Bonn that the German government will seek to place some restrictions on the sale of stock of domestic companies to nonresidents whenever the "national interest" is at stake. The only question is the form and extent of such controls. Current considerations echo rising public apprehension over the "threat" to major German companies posed by recycled petrodollars following the engagements by Kuwait in Daimler-Benz, Iran's earlier stake in Krupp, and speculation on further acquisitions by oil-producing countries.

In the past, foreign investments in Germany always have been welcome and have played a major role in making the German economy what it is today. (The nominal value of holdings owned by foreign investors, corporate or individual, amounts to roughly DM 32 billion, or one quarter of the combined share capital of German companies.) But it is now generally believed in Bonn that even a country that prides itself on having one of the most liberal economies in the world cannot afford to let things get out of hand.

The Schmidt administration is studying several proposals, among them the requirement to make resident shareholders notify the government prior to any negotiations over the sale of stock to nonresidents. The other possibilities: an arrangement whereby individual and corporate shareholders would agree to inform Bonn voluntarily, a requirement for prior government authorization of any stock transaction exceeding a certain percentage of company stock, or an amendment to the Stock Corporation Law requiring that shares bought by nonresidents carry limited voting rights or none at all. At this point, the voluntary arrangement is given a good chance, since it would avoid official capital controls and preclude evasive practices.

Share Sales *(contd.)*

The other three models appear to have more drawbacks than advantages. Bonn does have the statutory powers to decree notification or authorization requirements (*Doing Business in Europe, Pars. 23,153-6*), but effectiveness remains doubtful. Since notification would have to be given prior to the start of negotiations, regardless of their outcome, the business community could feel unduly burdened and might resort to evasive action. Introduction of the authorization requirement, the most radical solution, could prompt consequences - economic and political, domestic and international - that the administration cannot afford. Evasion could not be ruled out here either, and establishing the criteria would involve intricate legal problems. An amendment to the Stock Corporation Act could take some time, since it requires an act of Parliament, and also would not be without international repercussions because of its strong discriminatory aspects.

Britain: More Controls Proposed for Capital Market

The Law Society, the U.K.'s principal organization representing the legal profession, has proposed that the government set up a statutory body to police and regulate the securities market. The proposed institution would be geared to "flexibility" but would seek to formulate a more cohesive and coherent framework for dealings in capital markets. It would be empowered to impose more effective sanctions than exist at present. The Society queries the concept of pure "self-regulation," primarily because it does not consider it proper that a regulatory body, responsible only to its own members, should have the power to impose restrictions on nonmembers without due public control.

In brief, the Society recommends the establishment of an autonomous supervisory body headed by a Director who would be an appointee of the Secretary of State. The Director's powers would be akin to those currently exercised by the Director of Fair Trading (in regard to goods and services). In other words, he would monitor securities transactions, recommend such statutory changes as deemed appropriate, and assume the legal powers presently vested in the Dept. of Trade. The Society also suggests that the Director be supported by an advisory committee composed of Secretary of State appointees from the Bank of England, the Stock Exchange, and professional investors, both private and institutional.

The Society believes that such a body is needed to give teeth to existing regulations, to promote or enforce their observance by company directors and others, and - in case of default - to facilitate and expedite investigation.

Finance Bill Crimps Isles' Low-Tax Status

Residents of the Channel Islands and the Isle of Man - not to mention tax lawyers and financial advisers around the globe - are concerned at the implications of Clause 40 of

Isles' Status *(contd.)*

the new U.K. Finance Bill. This proposes that immigrants from Britain to those traditionally low-tax jurisdictions would remain liable for the new British capital transfer tax. Clause 40 specifically states that liability extends to those "domiciled in the United Kingdom who, after November 12 last, become domiciled in the Channel Islands or the Isle of Man."

If passed in this form, repercussions for the offshore "tax havens" would be severe: the tax advantages presently offered constitute the prime attraction for wealthy immigrants, whose payments represent a major item in the islands' revenue. The inhabitants also feel that a serious constitutional issue is involved in the scheduled interference in their domestic affairs. The proposals, moreover, are considered clearly discriminatory, inasmuch as British nationals emigrating elsewhere than to the islands would incur no liability in their new domicile after three years.

Ireland: 1975 Budget Offers Boosted Welfare Aids

The Irish Minister of Finance, Richie Ryan, on Jan. 15 presented the first of what could well be a series of 1975 Budgets, characterizing it as "carefully expansionary" and stressing that much would depend on signs that the economy was on the mend and that Ireland was getting a share of recycled petrodollars. This package will be remembered as the welfare benefits budget, since it earmarks £80 million in annual terms for social welfare improvements (a staggering sum by Irish standards) and features a £15 million reserve for the contingency of higher unemployment. It also offers greater income tax relief in the form of more generous allowances, while various tax boosts are to produce revenue totaling some £35 million. Some of the highlights:

Taxes - Increases are scheduled on spirits, wine, beer, bottled waters, cigarettes, cigars, and tobacco. On- and off-track betting duty is to be raised from 5 to 10% and from 10 to 20%, respectively. Stamp duty on property transfers between £20,000 and £50,000 is to go up from 3 to 4%, escalating to 6% (from 5) for transfers above £50,000.
Income Tax - Allowances are raised for single persons (+£75 to £575), married persons (+£120 to 920), widows (+£85 to 635), and children (+£30 to 230).
Social Welfare - The personal rates of retirement pensions will be increased from £8.50 to 10.50 (for adult dependents from £14 up to 17.15). Old-age contributory pensions also go up from £8.50 to 10.50. Similar increases apply to "over 80" and widows' contributory pensions. Further, the qualifying age for old-age pensions is reduced to 67 and "means tests" are being gradually eased if not yet phased out. Children's allowances - for the second child and from the third child - are increased to £3.60 (3.30) and £4.35 (4.05), respectively.

1975 Budget *(contd.)*

Unemployment assistance goes up to £7.70 (6.35) and, for persons with adult dependents, to £13.25 (10.95).
Capital Allowances for Industry - The rate of the initial allowance for capital expenditure on industrial buildings incurred between April 1, 1975, and March 31, 1977, increases from 20 to 50%. The rate of the annual allowance goes up from 2 to 4%. Certain temporary capital allowances are extended to March 31, 1977, notably, free depreciation for new plant and machinery outside the "designated areas" and the 100% initial allowance and 20% investment allowance for such expenditure within the designated areas. Interest on overdue tax is to be increased from 1 to 1.5% per month. Finally, manufacturing companies will be granted partial deferment of income and corporation tax due for 1973-74 in order to improve their liquidity.

Switzerland: Plans to Raise Tax Rate on Capital Gains

Switzerland's withering reputation as a low-tax country could slip further should Parliament approve government draft legislation calling for an increase in the anticipatory tax imposed on income from securities (*Doing Business in Europe, Par. 29,361*) and for stricter surveillance of taxable incomes and assets generally. Submitted as part of current efforts to balance the federal budget, the legislation would become effective in 1976, providing it is passed.

The anticipatory tax (*Verrechnungssteuer*) is a capital gains tax withheld at the source from dividend and interest income. The proposed boost of the tax rate from 30 to 35% would not actually affect investors and savers who openly declare these capital gains and may therefore deduct the tax due from their income tax debt (nonresidents from countries that maintain double taxation treaties with Switzerland may also claim certain tax credits). But evidently there are many investors who benefit from capital gains but choose not to declare them to the fiscal authorities: about one-third of anticipatory tax revenues - which totaled some SF 4 billion last year - remains with the federal and cantonal governments because it is never reclaimed.

Tax authorities in Bern estimate that the raising of the anticipatory tax rate would produce additional net revenue of SF 200-300 million and at the same time cause a number of investors to reveal heretofore "hidden" capital assets and capital gains. The government, in fact, would not be too unhappy should the tax increase slow down foreign capital investment in Switzerland, since this would ease the petrodollar pressures on the domestic capital markets. (As of Jan. 23, the National Bank moved to throttle the inflow of foreign capital by raising from 3 to 10% the quarterly "negative interest" placed on Swiss franc deposits maintained by nonresidents since Oct. 31, 1974.)

Capital Gains *(contd.)*

Concerning the stiffened monitoring of incomes and assets, the government bill provides for stricter reporting requirements regarding taxpayers' income and wealth as well as claims and obligations toward third parties. These parties in future could also be required to document business and financial relationships, although the principle of professional secrecy is not to be encroached upon. Self-employed persons would be required to keep for at least five years documents, receipts, and other relevant papers pertaining to their business activities. Regular bookkeeping would be required for those whose gross income exceeded SF 100,000 annually.

EURO COMPANY SCENE

Firth Brown/ BSC/ European Court

U.K. private steelmaker Johnson & Firth Brown received a setback in its attempt to block a takeover by the state-owned British Steel Corp. (BSC): the European Court of Justice rejected Firth Brown's request for an interim injunction pending the Court's decision on the principal issue. Qualified clearance for the takeover was given by the European Commission in December, and the Court must decide whether the takeover is to go ahead. The Court threw out Firth Brown's request to stay the Commission decision and to order dealings in the company's shares to be permitted only with the Court's authorization. Firth Brown has been granted one, albeit minor, concession: BSC will not be allowed to exercise voting rights on shares acquired until the Court arrives at a final decision and, moreover, will not be permitted for the moment to divest itself of two Firth Brown subsidiaries which, it is claimed, might fail in the absence of Firth Brown group support.

Channel Tunnel

The U.K. House of Commons on Jan. 20 voted to drop the Channel Tunnel program after being told by the government that the expenditure was unwarranted in the present economic climate. It also was contended that the two "Chunnel" companies, Britain's Channel Tunnel Investments and France's Sté. Françaises du Tunnel sous la Manche, had imposed a "nonnegotiable package coupled with an unrealistic deadline." These liabilities, however, had been clearly expressed in the second agreement signed by Britain and France in November 1973. Observers noted that the U.K. decision not to provide a high-speed rail link or to ratify the Anglo-French treaty before Jan. 1, 1975 (the French did), could hardly be blamed on the companies.

Burmah Oil/ Chevron

Britain's beleaguered Burmah Oil suffered a further setback when representatives of the 11 oil companies active in the Ninian oil field development decided that the management of this project, one of the most important in the North Sea,

Burmah/Chevron *(contd.)*

should pass from Burmah to Standard Oil of California or, more properly, its Chevron Oil subsidiary. The decision was taken in view of Burmah's financial difficulties. In spite of the prestige factor, the Dept. of Energy was expected to endorse the shift in power immediately. Burmah employees contended that the company's technical ability to direct the project had been unimpaired by its financial troubles.

Imperial Typewriter

"Following a continuous history of losses since 1966, culminating in a loss of £5 million in the last two years alone," the U.K.'s Imperial Typewriter Co., a division of Litton Industries, has announced that it will cease manufacture at its two plants in Leicester and Hull. The company's managing director noted that Imperial's range was no longer competitive and that production costs were in any case excessive.

Fiat

Within the framework of the pact worked out last November, Italy's Fiat and the labor unions have agreed on new production cutbacks designed to reduce stockpiles from a record 340,000 unsold vehicles to about 280,000. During this month and next the production schedule reportedly will be pruned by 18 days. These measures are expected to set the pace for tire manufacturer Pirelli and other suppliers that have also been affected by the auto sales slump and overcapacities.

Western American

Western American Bank (Luxembourg), established in 1971, has ceased operations as of Jan. 1, transferring its activities to its parent company, Western American Bank (Europe) of London. This step, explained as a rationalization measure, is said to represent the first time that a Luxembourg subsidiary of a U.S.-controlled bank has closed its doors. Western American (Europe) is a consortial bank owned by Security Pacific (22.5%), National Bank of Detroit (22.5%), Wells Fargo Bank (22.5%), Bank of Tokyo (22.5%), and Hambros Bank of the U.K. (10%).

Bankers Trust/ Swedish Match/ Deutsche Unionbank

Bankers Trust New York has increased its participation in Deutsche Unionbank of Germany from about 68% to 75% with the purchase of a 7% share block from Svenska Tändsticks AB of Sweden for an undisclosed sum. The Swedish Match group has thus withdrawn entirely from Unionbank, in which it had held controlling and then majority interests for some 50 years, although it will retain a seat on the supervisory board. Hessische Landesbank is the bank's only other shareholder, with the remaining 25%.

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Community: Joint Action Sought within Energy Agency

The European Commission is once again engaged in an uphill battle to make the member states agree at least on common action even if the Community as such is not in a position to speak with a single voice. Brussels' latest efforts involve the EC's role in the International Energy Agency (IEA), set up within the Organization for Economic Cooperation and Development (OECD) last November. IEA members include all EC countries except France (the others are Austria, Canada, Japan, Spain, Sweden, Switzerland, Turkey, and the United States). The agency's main tasks will be to help members experiencing economic difficulties as a result of the oil crisis and to set up other forms of cooperation such as the exchange of information. The IEA also is to help establish a permanent dialogue between the oil-producing and oil-consuming countries; the first meeting is scheduled for March.

Although eligible for IEA membership on its own account, the EC has made no decision in this respect, nor is one likely to be forthcoming, even though the Commission has been supported by the European Parliament in its argument that the EC, too, should sit at the bargaining table. Therefore, the Commission has been trying to get the member states to agree at least on a common stand in the IEA's

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Energy Agency *(contd.)*

preparatory work and in the dialogue with the oil producers. It bases its argument on Treaty Article 116, which requires member states to proceed in matters of particular joint interest only by common action within the framework of international organizations devoted to economic matters (*Common Market Reports, Pars. 3892.05-.11*).

Commission officials are complaining about the fact that member state officials are preparing a variety of models for cooperation among the IEA's members as well as for the dialogue with OPEC, while nothing is being done at Community level. The Commission wants, at least prior to any IEA meeting, experts from the member states and the Commission to meet in order to define a common position. In addition, there are numerous matters under discussion within the IEA's various committees that have already been covered by Community acts. Council guidelines and decisions do exist on energy policy objectives, information policy, stockpiling, and energy research, and for the Commission it would seem logical that only a common position conforming to prior Community acts can be taken within the IEA.

So far the Commission has received support for its position only from several of the smaller member states, while the U.K. opposes giving the EC a major role in representing the members and Germany and France have reservations. This topic and others will be taken up again at th Council meeting on Feb. 10-11.

Brussels, Bonn in Predicament over EC Law

The Commission's letter to the Bonn government asking for comments on a German supreme court decision of last year (*Common Market Reports, Par. 9689*) has put both sides in an awkward position. Briefly, the German court held that it has the power to examine the constitutionality of EC law so long as the European Parliament is unable to exert the necessary controls over the other Community institutions in order to safeguard the rights of individuals.

For the Commission and many German government lawyers, the ruling constitutes an illegal encroachment on European Court of Justice jurisdiction because, previously, it had been taken for granted that only that court, not the national courts, could decide on the validity of EC norms. Since, theoretically, this ruling contains a threat to the uniform interpretation of Community law, the Commission has had no choice but to act as a guardian of the European Treaties. The letter could even, although not necessarily, be a prelude to bringing suit under Treaty Article 169 on grounds that Bonn failed in its obligations assumed under the Treaty (*Common Market Reports, Pars. 4616.01-.05*).

Taking Bonn to court would complicate the delicate situation even further. All German governments since 1958

EC Law *(contd.)*

have left no doubt about their allegiance to the principle that EC law takes precedence over national law. If EC loyalty can be demonstrated by the record of Court of Justice proceedings so far, then Germany must rank among the most faithful members of the Community. No matter what else German lawyers may come up with to back up their government in its attempt to discourage the Commission from bringing action, the basic argument cannot be much different from what German officials have already told their colleagues at the Commission: in a state based on the fundamental principle of separation of powers, the executive branch has no direct way of influencing the judicial branch. A political "solution" - packing the supreme court with justices known for their favorable stance on EC law (the terms of several judges will expire this year) - has not been suggested and would not be an acceptable alternative anyway.

In Brief...

The EC-Israel trade agreement is ready to be signed, but concern that the Arabs might consider it an affront at this time is delaying final action. Also, several details in the agreements with the Maghreb countries still have to be ironed out . . . Escaping the Council's unanimity rule is proving to be difficult if not impossible, although a cautiously phrased paragraph was included in the communiqué of the Paris summit in December. The extent of a member state's "vital interests," the determinant for unanimity or majority vote, apparently cannot be established in advance or abstractly. However, Council attorneys do see a possibility for a resolution to be taken prior to adoption of any legislation declaring that the particular measure does not affect the vital interests of any state. In such a case, a majority vote would suffice for adoption . . . Subscribers to the Community's Official Journal may be pleased to learn that a special working group is studying a proposal to divide the publication into several sections that could be subscribed to separately. This would save most readers time and money, because 90% of the Journal's contents (totaling some 30,000 pages in '74) is devoted to agricultural matters.

Britain: Official OK on EC Membership Referendum

The U.K. government has signaled its intention to hold a referendum before June 1975 to decide whether Britain will stay in the EC. What still remains to be decided, however, is the referendum procedure itself and the exact phrasing of the question(s) to be put to the electorate. Also, the Upper House still has to pronounce on the referendum as a concept, since it represents a constitutional innovation.

Prime Minister Harold Wilson said that the bill providing for the referendum would be introduced before the parliamentary Easter recess, but that it would be preceded this month by a White Paper discussing rules and arrange-

Referendum *(contd.)*

ments for the conduct of a referendum. Wilson had in fact something of a struggle to explain to the House of Commons the "uniqueness" of the issue, which would involve a clash between the "sovereign voice of the people" and the Labour Party's traditional reliance on "collective ministerial responsibility." The Opposition leader, Edward Heath, has already advanced a constitutional case that members of Parliament may not be mandated by a referendum. Wilson faces an additional problem from a source much closer at hand, the left wing of his own party, which contends that the government (or cabinet) cannot preempt the decision of Labour's special conference on the referendum issue.

Britain's EC partners welcomed the news that the referendum would be held by midyear, if only because it helped dispel the air of uncertainty surrounding U.K. intentions. The French, in particular, have shown displeasure at Britain's attitude toward the Community - and the psychological implications of the abandonment of the Channel Tunnel project have not helped matters.

Bank Rate Cuts Trigger Sharp Market Rebound

The U.K. stock market has responded with unparalleled enthusiasm to the worldwide decline in interest rates. In a remarkably sudden turnaround, the Stock Exchange surged into activity following the news that the Bank of England had cut its minimum lending rate from 11.5 to 11% on Jan. 24. As the Financial Times Index kept moving upward from previous record lows, it became clear that the City was witnessing a major scramble to clamber aboard the bandwagon, despite the uncertainty on how long the upsurge would last.

A number of factors have contributed to the upturn, aside from the declining interest rates: the reported success of the EC finance ministers meeting in London, the "pleasant" atmosphere that surrounded the talks between the Labour government and U.K. industrial leaders, and, perhaps most of all, the Chancellor of the Exchequer's promise to "sort out inflation," generally interpreted as foreshadowing a tougher line vis-à-vis the unions. Market recovery also appeared to be related to the marked improvement in the December balance-of-trade figures and, at an international level, to the agreement to recycle petrodollars.

Some factions have cautioned, however, that the basic causes of Britain's economic plight have not altered, that the boom in blue chips reflects little more than a government-"sponsored" attempt to boost its funds for the upcoming Budget, and that the upswing could be purely technical.

Italy: Industry, Unions Reach Pay Agreement

After three months of regional and national strike actions that accompanied collective bargaining talks, Italy's major labor unions and the Confindustria industrial federation finally have reached agreement on wage improvements and

Pay Agreement *(contd.)*

other benefits for some six million industrial employees. These include an across-the-board raise of 12,000 lire per month as well as a 20% boost in family allowances for low-wage-earners and those with large families.

But more important, the system of quarterly cost-of-living adjustments is to be simplified and standardized so that eventually lower wage levels will benefit from "inflation bonuses" approximating those given to earners of higher incomes. In future, the base year of the cost-of-living index will be 1975 instead of 1956. These modifications alone are estimated to cost some $2.7 billion and therefore will be effected in stages until 1977.

A few days earlier, agreement also was reached over higher unemployment compensation for workers laid off as a result of corporate reorganization or for economic reasons. The wage guarantee will be at a gross rate of 80% of current pay which, with the inclusion of all tax allowances, amounts to a net rate of 93%. Based on a 40-hour week, the layoff compensation is to be paid for three months initially but can be extended. The employers will pay 8% of compensation, while the public unemployment funds will assume 72% of the cost.

Confindustria president Giovanni Agnelli declared that the drawn-out negotiations have produced neither winners nor losers but that industry faces considerable extra burdens. These must be met through higher production and more investment, he said.

Denmark: Crisis Deepens with Hartling Resignation

Three weeks after the inconclusive outcome of the general elections, Denmark's still simmering political crisis erupted anew with the formal resignation of Prime Minister Poul Hartling, who had headed a Liberal minority government for about a year. The decision to step down followed a de facto non-confidence motion by the Social Democrats, which resulted in an 86-85 vote against the government. Hartling's defeat was sealed with the abstention of the four-member Center Democrat faction in the Folketing (joined by a Conservative), which previously had given support to the Liberals.

The political talks toward formation of a new government are expected to be exceedingly difficult and may take a long time. They will mainly evolve around the question of whether it is possible to find the basis for a majority administration capable of ensuring a viable economic policy over a longer term. This probably would mean the participation of several of the ten parties now represented in Parliament.

The first task of a new government would be to submit the 1975-76 Budget. The major problem in this area will

Hartling
(contd.)

concern how to achieve spending cuts to offset the loss of about 7 billion kroner in revenue resulting from the tax reductions that took effect as of Jan. 1. The Social Democrats, in negotiations preceding Hartling's fall, were willing to approve public expenditure cuts of up to 5 billion only.

In the interim, the country's many problems have been complicated further by the breakdown of central wage talks between the employers' federation and the labor unions. Hopes now center on the efforts of a mediator to bring both factions back to the bargaining table, but the danger of labor conflicts in the early spring cannot be discounted at this stage.

Germany:
Curbs on
Sulfur Dioxide
Emissions

Enactment of the Third Regulation Implementing the 1974 Clean Air and Noise Abatement Act brings the German government one step further in its environmental protection efforts (*Doing Business in Europe, Pars. 30,708 and 30,724*). Effective as of Jan. 23, the regulation provides for a gradual reduction of the sulfur content in heating oil and diesel fuel. Oil and fuel produced in or imported to Germany may not contain more than 0.55% sulfur after May 1, 0.50% after May 1, 1976, and 0.30% after Jan. 1, 1979. These restrictions should reduce sulfur dioxide emissions of all sorts by 40%, cutting industrial fallout by 300,00 tons annually after 1979. Taking into account increased consumption in the coming years, the government is reasonably sure that even in the cities and other densely populated areas, sulfur dioxide emissions will go down by 25 to 30%.

Even then the government cannot be satisfied, however, because tests made by the World Health Organization (WHO) call for even stricter standards. According to WHO recommendations, the annual average of sulfur dioxide per cubic meter of air should not exceed 60 micrograms. In many big cities this average has been around 100 micrograms and is not expected to attain the WHO minimum despite the coming reductions.

In related action, the Bundesrat (upper house) has given its consent to two draft regulations - one listing all types of businesses that are subject to licensing, the other enumerating those industries required to appoint environmental engineers (*Doing Business in Europe, Par. 30,708*). A third proposal establishing the qualifications of environmental engineers is awaiting action by the Bundesrat, as is a draft regulation that would ensure uniform enforcement of controls over all types of burners and furnaces. Action by the Bundesrat on two proposals that would establish maximum noise levels for lawn mowers and pile drivers is being held up by consultations with the European Commission. Adoption in the present form seems unlikely.

EURO COMPANY SCENE

Burmah Oil

The Bank of England has exhibited a drastic change of course in its handling of Britain's oil giant Burmah Oil. Originally, it was understood that Burmah would deposit with the bank as collateral its hefty stake in British Petroleum. Instead, Burmah has actually sold its stake to the bank for £179 million in a deal that has angered many Burmah shareholders, who feel that the shares were considerably undervalued. The bank has now agreed to provide Burmah with a contingency facility of £75 million and, in exchange for guaranteeing Burmah's massive ($650 million) borrowings, has taken charges on the company's North American oil assets, notably Burmah Oil & Gas, formerly Signal. It is generally expected that Signal will shortly be up for sale.

Girling/ Teves

Girling, the U.K. automobile brakes manufacturer, has run afoul of its German competitor, Alfred Teves, an ITT subsidiary. Teves - not for the first time - is alleging breach of patent on brakes being supplied to Volkswagen. Teves' virtual monopoly of the German disc brakes market was maintained the last time the two clashed: on that occasion, Girling was forced to pull out of a lucrative contract with Daimler-Benz (Mercedes). Girling has denied the infringement and registered the denial with the German courts. An intriguing adjunct to the dispute is the fact that Teves is now securing a foothold in the British market - a new plant was opened in Wales last month. Curiously enough, it is an "advance-built" government factory, which is provided rent-free for a two-year period and which will attract optimal grants for capital investment.

Bendix Germany

Deutsche Bendix-Ausrüstungs GmbH, a German offshoot of Bendix Corp., New York, has decided to halt the production of disc brakes and brake accessories at its plants in Saarbrücken and Neunkirchen over the next few months. The planned closures, affecting 600 employees, were blamed on the "auto crisis"; because of the slump in this sector the Bendix plants have been operating at only one-third of capacity. Deutsche Bendix was set up in 1970 and has invested some DM 68 million in its Saarland facilities since they were initiated two years ago. In November Bendix had announced the shutdown of another subsidiary in the area, the four-month-old Bendix Caravan Werk GmbH at Neunkirchen. The DM 9-million factory was to have had an annual output of 10,000 camping trailers.

GE/ Osram

According to German press reports, General Electric has definite plans to acquire a majority interest in Osram GmbH, the light bulb manufacturer that is currently owned by GE (21.4%), AEG-Telefunken (35.8%), and Siemens (42.8%). The three partners are said to have reached an informal

GE/Osram *(contd.)*

agreement according to which AEG (in which GE holds over 11%) will cede its stake to GE. The transaction must, however, be approved by Germany's Cartel Office, which has indicated in the past that it would interpret GE's acquisition of more than 25% of Osram as the reinforcement of a market-dominating position. If the Cartel Office vetoes the takeover, GE and AEG are thought likely to apply to the Federal Economics Ministry for a special exemption.

Glaverbel

The furor unleashed by the decision of Glaverbel, the Belgian glass producer, to shut down its operations at Gilly near Charleroi has been calmed somewhat by the government's move to conduct union-management negotiations in order to find an alternative solution. Labor spokesmen had gone so far as to demand occupation and even nationalization of the plant, which employs 600, when the intended closure was first announced. Glaverbel reportedly has had to absorb cost increases of some 30% within the past year or so, while prices have risen by just 4%. The company has been controlled by the BSN Gervais Danone group of France since 1972.

Westinghouse/ Kone

Westinghouse Electric Corp. is to take a minority holding in Finnish elevator manufacturer Kone Oy of Helsinki in exchange for Kone's assuming a controlling interest in two Westinghouse offshoots in France (Sté. Française des Asce[illegible] seurs Westinghouse) and Belgium (Westinghouse Electric Corp. SA).

Aston Martin

A formal bid has been made by a British/Canadian/American consortium for prestige U.K. car maker Aston Martin Lagonda. The British participant for the time being has chosen to remain anonymous, but the American was identified as Peter Sprague, chairman of the California-based National Semiconductor Corp., and the Canadian as hotel and restaurant owner George Minden. The bid values the company at £1.3 million and it is believed that a further capital injection of some £2 million is envisaged. Other offers for Aston are pending, so that it appears that the company will survive. In fact, anticipatory moves have been made toward restarting production.

Ahold/ MacDonald's

Albert Heijn Holding (Ahold) NV of the Netherlands reportedly has returned its 50% interest in the "Family Food" quick-service restaurant chain to co-owner MacDonald's of the United States. Ahold retains a package of preferred stock, however.

Common Market Reports

EUROMARKET NEWS

Issue No. 317 *Report No. 258, February 12, 1975*

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Community: Move to Revise Contribution System

Just in time for the Jan. 31 deadline set by the December Paris summit, the European Commission has sent to the Council a working paper with a new budgetary mechanism that the U.K. had insisted on as a major condition for remaining in the Common Market. In the document, which is expected to play a major role in the first talks of the "European Council" of government heads in Dublin on March 10-11, the Commission proposes several criteria that would entitle any EC member (not just the U.K.), depending on its economic situation, to compensation from the EC budget rather than to unilateral reduction of contributions. A member state could apply for a refund if adherence to the rigid contribution rules represented an "unacceptable situation" in view of its economy and financial standing.

Defining an "unacceptable situation" has proved difficult and has caused some disagreement among the 13 Commissioners, and this is why several additional criteria have been proposed. A member state would have to show that its per capita GNP was below Community average and that it was generally in serious balance of payments difficulties. The Commission also suggests that the GNP growth rate be taken into account. Another criterion for applying the compensation mechanism would be to compare a member state's share of the overall EC budget, in terms of its total contributions, with its share of the Community GNP. (*Common Market Reports, Par. 9714.*)

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

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Contributions *(contd.)*

There still remains a major point of disagreement, however, which will be carried over to the Council discussion: it concerns whether a member state's total contributions must be taken into account or only those of a specific kind. Since Jan. 1, the Community budget is financed not only from the agricultural levies and customs duties, as in the past, but also from a share of value-added tax revenue (*Common Market Reports, Pars. 5005-5012 and 9703*). Confining the correcting mechanism to the VAT section only, as suggested by France, would have drawbacks for the U.K. The Council will have to find a solution, and Germany is expected to mediate between France and the U.K.

ACP Agreement Marks 'New Era of Cooperation'

The Community's new Association Agreement with 46 developing countries of Africa, the Caribbean, and the Pacific marks a new era of cooperation in that it departs from the previous emphasis on unilateral development aid. The proposed development fund plus loans from the European Investment Bank (totaling some $5 billion over the next five years) will assure that these countries have stable revenue for their raw materials and will make their economies relatively independent of world market price fluctuations that often mean the difference between economic well-being and disaster. Eighteen of the ACP countries that are worst off, most in Africa, would be freed from repaying Community aid should export prices for raw materials rise.

Though the volume of aid promised by the EC falls short of what the ACP states had hoped for, the Community was generous in that it will allow duty-free entry of most industrial products from those countries without insisting on reciprocative tariff concessions for Common Market products. Also, the compromise on agricultural commodities, a touchy matter for both sides, and the solution found for sugar cane exports, reflect understanding for each other's problems.

The agreement is to be signed on Feb. 28 at Lomé, the capital of Togo. (*Common Market Reports, Par. 9715.*)

In Brief...

Commission attorneys currently are drafting rules designed to avoid contradictions between Community and national competition policies. Two major examples: a member state's antitrust agency authorizes a cartel that is later prohibited by the European Commission, or a Commission decision exempting a cartel under Treaty Article 85(3) is put in jeopardy by a national measure prohibiting the cartel. With these rules the Commission seeks to improve the flow of information on current and planned national administrative and judicial antitrust proceedings and to organize consultations with national authorities . . . The European Court of Justice's ruling last December in Case No. 36/74 (*Walrave and Koch v. Association Union Cycliste Interna-*

In Brief...
(contd.)

tionale et al) has received little attention because of the issue involved: discrimination in international sports. The judgment is significant for Council and Commission lawyers to the extent that the Treaty's ban on discrimination applies to any legal relationship - it does not matter where a contract is signed, within the EC or outside, so long as it produces discriminatory effects within the Community. Earlier this legal doctrine had been applied only in the antitrust field . . . Community officials consulting Belgian physicians these days often get a dose of professional anger along with professional advice. The draft medical directives that would allow foreign doctors to settle and provide services (as well as the Court of Justice's ruling in *Reyners* and *Binsbergen*) have caused great concern to the medical profession in Belgium. Physicians there fear that the large resident foreign populations will prefer to be treated by their own countrymen.

Britain: Industry Bill Seen as Tool of Government

The publication of the U.K. Industry Bill on Jan. 31 inevitably polarized political and economic opinion in Britain. There was general agreement on one point, namely, that the proposed legislation will offer the Labour government an instrument of state intervention in industry more formidable than the country has ever known. It follows that the Bill was greatly to the liking of left-wingers in Parliament and elsewhere and the labor unions. The City was depressed, the Confederation of British Industry expressed the view that the Bill was "dangerous," and the Opposition somewhat predictably claimed that it represented the "grasping hand of socialism" and could destroy the free enterprise system in Britain.

For all its controversial nature, the Bill is surprisingly short (30 pages): this is largely because it proposes the retention of most of the Industry Act 1972, passed by the last Conservative government. This is regarded as a rather shrewd move, inasmuch as the Secretary of State can make use of certain powers conferred on him by that piece of legislation.

The Bill does make certain crucial amendments to the 1972 Act, however, particularly by removing the safeguards concerning state shareholdings taken in private industry in exchange for government aid. Another "novelty" is the provision of a legislative framework for the introduction of planning agreements and the disclosure by companies of information to trade unions: in effect, the Dept. of Industry will be in a position to force companies to disclose information, although a right of appeal will be provided where information needs to be kept secret "in the national interest."

Industry Bill *(contd.)*

Perhaps the most controversial part of the Bill, however, relates to the proposed establishment of a new statutory public corporation, the National Enterprise Board (NEB), which is to assist the economy, promote industrial efficiency and international competitiveness, and provide or safeguard employment. The 15-member NEB will have access to finance initially totaling £700 million, a limit that may be raised by parliamentary order to £1 billion. NEB's additional key function would appear to be "to extend public ownership into profitable areas of manufacturing." This is a clear indication that healthy and profitable companies - not only ones in financial or other difficulties - will be prime targets for state participation or takeover.

The Board's wide-ranging powers pale into insignificance, however, when compared to those proposed for the new Secretary of State for Industry. He will direct NEB activities in the sense that he can exercise an option to refer matters to the Board or handle them intra-departmentally within the framework of the strengthened Industry Act. His consent would be needed where the NEB takes shares in a company equivalent to 30% or more of the voting rights, or when a Board investment involves a shareholding of more than £10 million (at present the Secretary operates on a £5-million limit, above which specific parliamentary approval is required). His discretionary powers would be further extended by the proposed removal of the present requirement that state aid can be given only where there is no appropriate alternative source of funds, by the abolition of the time limit on "special help," and by the scrapping of the restriction on any state holding in a troubled company to 50%. Further, the Secretary would no longer be required to dispose of shares or stock acquired by him (in his official capacity) "as soon as reasonably practicable."

Finally, the Secretary would have extensive powers vis-à-vis foreign companies contemplating U.K. takeovers: a transfer of assets adjudged to be contrary to the national interest would be blocked by a government "vesting order," although provision is made for compensation arrangements. Surprisingly, there is no specific provision made for compensation or arbitration in the case of domestic shareholders whose companies "fall victim" to the NEB.

Germany: Leasing Grants; Interest on Tax Overpayments

The German Bundestag's Tax Committee has voted to correct an error that slipped in during adoption of the administration's program to stimulate the economy (*Doing Business in Europe, Par. 30,757*). The program provides that all businesses making investments before July 1, 1975, are entitled to a 7.5% grant based on the purchase price or cost of manufacture (ordering suffices so long as delivery takes place no later than July 1, 1976). Leasing, however, was not included in the package. A proposed rider to another

Tax Committee *(contd.)*

bill provides that a business leasing capital goods to another domestic enterprise would also qualify for the grant. The condition that the assets remain in a domestic establishment for at least three years would not apply here.

In related news, the Tax Committee has reversed a decision by Finance Minister Hans Apel by voting to introduce interest on tax deficiencies and overpayments. The rate under discussion is 6%. This surprise move came during deliberations on the government-drafted new Fiscal Code (*Doing Business in Europe, Par. 23,396*). But the lawmakers immediately dampened the hopes of those taxpayers entitled to refunds: the new system probably could not be applied until the late '70s, when all tax offices are expected to be computerized.

Because of this work on the draft code and other matters (including an amendment on increased depreciation for investments to protect the environment), the Tax Committee has been unable to start work on the final piece of tax reform legislation - revamping the corporation tax system (*Doing Business in Europe, Pars. 23,395 and 30,680*). Committee members are confident, though, that deliberations will be concluded by the end of the year so that the law could take effect on Jan. 1, 1977, as Chancellor Schmidt promised when he took office.

France: Capital Gains Tax; Reform of Property Law

Following implementation of the controversial "inflation tax" on profit margins, the French government is getting set to combat various forms of speculation through the planned imposition of a capital gains tax and a reform of real property legislation.

The introduction of a capital gains tax within the framework of "incomes redistribution" had been among the first reform projects announced by Giscard d'Estaing upon his election to the French presidency last year. The government has now established a special commission of ministerial and legal experts and business representatives that is scheduled to submit its report by early summer, according to Paris reports. If things move as planned, the pertinent draft legislation would be sent to Parliament at the beginning of 1976. During initial talks, the commission members are said to have agreed that only "real" capital gains would be subject to the tax and not those due to devaluation (inflation). Otherwise, however, little is known about the form and extent of the proposed tax, especially whether it would apply only to "speculative" or to all capital gains.

As concerns the reform of real property legislation, work has progressed somewhat further: the cabinet is to approve the draft bill some time next month before passing it on to the National Assembly. The new legislation would es-

Property Law *(contd.)*

tablish a central building code, broaden public rights in connection with private property transactions, promote urban renewal, and provide for stiffer sanctions. It is hoped that this will help to bring down property values in the high-price range, discourage speculation, and reduce construction density.

A prime feature of the new law would be the establishment of development ceilings based on a construction/site ratio. In cases where local authorities permitted these basic limits to be exceeded, builders would have to pay the communities a levy for the additional space built up (corresponding to the value of the site). This revenue would be used to finance parks and other communal facilities. In addition, municipalities with populations of 30,000 or more would be granted certain preemptive rights in private property transactions.

Norway: Profits Freeze; Oil Taxation; Immigration

The poor international economic climate has persuaded the Norwegian government to give up its plan for a freeze of 15% of corporate profits in excess of 1 billion kronor. In explaining the surprise turnabout, Finance Minister Per Kleppe said that it was based on the latest evidence that the world recession could seriously affect the country's export industries, especially the key shipbuilding and lumber sectors. Since domestic investment activity already shows signs of slowing, Kleppe said, it will no longer be necessary to apply additional brakes in the form of a profits freeze.

Kleppe also announced that Oslo's proposal for the taxation of oil companies engaged in Norway's offshore oil fields would be resubmitted this month. According to unofficial reports, the government apparently will no longer insist on a tax ceiling of up to 90% of oil profits but instead favor a progressive schedule ranging from 50.8 to 75.8%.

In other developments, the Norwegian Labor Ministry has declared a one-year ban on immigration, excepting only citizens of the Scandinavian neighbor countries and Iceland and personnel working on oil drilling platforms, foreign seamen on Norwegian ships, and foreign workers staying up to a maximum three months. The 12-month embargo, effective as of Feb. 1, is to help improve conditions for immigrants already in Norway and those to come in the future.

EURO COMPANY SCENE

Reynolds Hamburg

The Reynolds metals group of Richmond, Va., is seeking a buyer for its DM 640-million aluminum plant in Hamburg, according to German press reports. The DM 160-million capi-

Reynolds *(contd.)*

tal of Reynolds Aluminium Hamburg GmbH is 90% held by the U.S. company and 10% by the city-state of Hamburg, which has the final word on any change of ownership. The plant has been operating to only two-thirds of capacity pending the outcome of legal proceedings involving the issue of environmental damage. Germany's state-owned VAW Vereinigte Aluminium-Werke is rumored to be the likeliest prospect for such a takeover, despite possible objections by the Federal Cartel Office.

Renault/ Creusot-Loire/ Carbex

France's state-owned Régie Renault and the Creusot-Loire steel and engineering group reportedly are establishing a joint subsidiary, Carbex, to produce tungsten-based metals for the machine tool industry. The FF 100,000 share capital of the new company will be 60% owned by Renault Industrie Equipements et Techniques (RIET) and 40% by Creusot-Loire.

Reilly Belgium

Reilly Chemicals SA, Belgian subsidiary of the Reilly Tar & Chemical Corp. of Indianapolis, Ind., is building a new plant for the production of synthetic pyridine and pyridine derivatives - used as raw materials for the agricultural, pharmaceutical, and rubber industries - near Tertre, Belgium. Chief designer and contractor for the facilities, to cost over BF 400 million, is Badger (Belgium) NV. The plant is to go on stream in 1976.

Esmil/ Envirotech

Esmil BV, an environmental engineering subsidiary of the Dutch-German Estel NV Hoesch-Hoogovens steel group, and Envirotech Corp. of Menlo Park, Calif., a U.S. leader in the field of environmental technology, have announced plans for extensive cooperation. Esmil is to acquire 25% of Envirotech's share capital and 81% of the company's European environmental activities, located in the U.K., Italy, France, Germany, and Spain. The two firms also intend to sign a technical cooperation pact that will include a basic license agreement covering the exchange of know-how and experience. For the deal, which will cost Esmil an estimated 60 million guilders, the Dutch company is offering Envirotech stockholders $14.50 per share for 668,000 common shares. In addition, Esmil is to take over a new issue of 412,000 Envirotech shares. Envirotech shareholders were asked to approve the bid by Feb. 19.

Hoechst/ Roussel/ Optrex

Hoechst U.K. Ltd., a subsidiary of Germany's Hoechst AG chemicals, and Roussel Laboratories Ltd., of France's Roussel-Uclaf group, have become joint (50:50) owners of Optrex Ltd., a British producer of eye drops and other pharmaceuticals, for a reported £2.3 million. Optrex, which had belonged to Swiss interests through a Liechtenstein holding company, anticipates turnover of about £2.4 million for the current year.

Dow Chemical/ INA

Dow Chemical Europe and INA/Industrija Nafte of Yugoslavia have signed a letter of understanding covering the establishment of a joint venture to build and operate a major petrochemical complex at Rijeka. The first units, which will include production facilities for various plastics monomers and hydrocarbons, are to be in operation by 1979. The final stage, including a 400,000-ton p.a. ethylene plant, is to be completed by 1982. The cost of the project, which will be jointly managed, has not been disclosed.

Ato/ Akzo

Sté. Ato-Chimie of France and Akzo Zout Chemie (AZC), a chemicals subsidiary of the Dutch Akzo group, have agreed to undertake several joint studies in preparation for a major chemicals project near Le Havre. The two companies plan to build a large steam-cracking plant to produce raw materials for other proposed facilities, including a vinyl chloride unit similar to Akzo's Rotterdam plant.

Akzo/ Philips

In other news, Akzo and Philips, also of the Netherlands, reportedly have dropped plans to merge their pharmaceutical and agrochemical divisions, mainly as a result of union and employee opposition.

KLM/ SAS/ Pan American

Although Swissair and TWA were able to reach agreement last month regarding their North Atlantic flight schedules, KLM of the Netherlands and the SAS Scandinavian airline group have not been so successful in their negotiations with spokesmen for the U.S. Civil Aeronautics Board and Pan American. A third round of talks between Holland and the United States concerning the reduction of KLM flights to North America has been broken off indefinitely, while similar discussions between SAS and U.S. representatives have bogged down. In both cases, Pan American has been demanding flight reductions of up to 50% on the part of the European airlines. KLM and SAS reportedly have been prepared to make lesser concessions, as in the case of Swissair, which will have curbed its U.S. transatlantic service by about 12% come this summer. Further bargaining is now anticipated, but the Europeans have been disappointed by what they consider the adamantly "unfair dealing" of their American counterparts, who seem - to them - to be acting strictly from self-interested and protectionistic motives.

Deutscher Lloyd/ Erste Augsburger/ Executive Life

Deutscher Lloyd Versicherungs-AG of Germany has obtained an option to acquire the DM 4-million share capital of Erste Augsburger Leben Versicherungs-AG from its current owner, Executive Life Insurance Co. of Beverly Hills, Calif., by Dec. 31, 1976. Deutscher Lloyd reportedly intends to operate the life insurance company as a wholly-owned subsidiary primarily responsible for its group insurance business. The price of the deal has not been disclosed.

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Community: Proposals for Studies on EDP Application

The European Commission has proposed five joint projects and studies on the application of electronic data processing in the EC, choosing areas that it believes are of common and important interest and therefore should be financed through EC funds. A "common and important interest" was a major condition specified by the Council in its July 1974 resolution establishing a Community computer policy. A major and long-term objective of this policy is to make the EC computer industry more competitive with U.S. computer giants.

One of the areas for study is the use of EDP equipment for information on imports/exports and the EEC agricultural market. Most member states have started developing computer systems of their own in order to help their customs and statistical authorities manage the glut of information that has resulted from the customs union and common agricultural policy. The Commission believes that there should be some way to coordinate and rationalize national efforts and to fit Community requirements to them. It has been estimated that the total commercial and administrative cost of information processing in international trade amounts to 7.5-10% of the value of the goods. A cost reduction of only 1% would result in annual savings to the Community of more than 100 million units of account.

The area of application and interpretation of Community law by the official authorities and by the legal profes-

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EDP Studies *(contd.)*

sion constitutes an ever greater challenge, since the volume of this law now encompasses some 25,000 regulations, directives, and decisions and keeps expanding at the rate of 3,000 a year. Rapid access to this information has become a necessity, and to this end the Commission has proposed a study to explore requirements, analyze existing technology, outline a framework linking EC and national systems, and identify common development needs.

Another study is to determine the feasibility of establishing common specifications as the states decide on replacement of EDP equipment used in air traffic control, which is anticipated for the late '80s. Still other studies are to define and assess economic benefits in computer-aided design (CAD) techniques. Subsequent proposals would cover standardization, portability, and software development.

Legal Dispute over Product Designations

Can a member state be held in breach of its Community obligations for protecting certain designations of national products while insisting on other names for practically identical, imported products? This is the crux of a case now pending before the European Court of Justice (*Commission v. Germany*, No. 12/74) and involving Germany's claim to the designation *Sekt* for sparkling wines produced in German-language countries and to *Weinbrand* for brandy originating from those countries.

Bonn bases its position on a 1971 wine statute and subsequent government regulations that provide that all sparkling wines (*Schaumwein*), whether home-produced or imported, may be designated as "quality sparkling wines" (*Qualitätsschaumwein*) if they meet certain quality standards. However, they cannot be marketed as *Sekt* unless produced in countries where German is the official language. Similar provisions apply to brandy (*Branntwein aus Wein, Qualitätsbranntwein aus Wein*) and the *Weinbrand* designation.

The Commission argues that *Sekt* and *Weinbrand* are generic terms with much more consumer appeal than the other names coined by the 1971 legislation. It claims that the German rules obstruct the import of wines and brandies and thus, in effect, constitute quantitative restrictions outlawed by Treaty Article 30 and by a 1969 Commission directive on intra-Community trade (*Common Market Reports, Pars. 322 and 336.10*). Furthermore, a 1970 Council regulation prohibits the member states from applying any quantitative restriction or similar measure to wine trade with third countries (*Common Market Reports, Par. 614M*).

The Germans concede that *Sekt* and *Weinbrand* were at one time generic terms but that their meanings have long since changed to connote essentially German products. On

Designations *(contd.)*

the other hand, they reject the notion that these designations have a greater consumer appeal. As concerns the Commission argument on the hampering of trade, Bonn lawyers point out that wine and brandy imports have actually increased. (The Commission contends, though, that this is due to the removal of other restrictions and that, at any rate, it is immaterial whether a measure actually has hampered trade or is merely apt to have this effect by its very nature.)

Legal observers give Bonn small chance of winning the case since the Court in the past has taken a strong stand against the erection or retention of any quantitative curbs.

In Brief...

Council officials are confident that by the end of 1976 a sufficient number of states will have ratified and deposited the instruments of ratification of the European Patent Convention. Thus, the Convention could become effective in 1977. Although local factions had been successful in challenging the first plan for establishment of the European Patent Office in Munich and also brought suit against a second plan, Council officials believe the second action will not succeed and that completion of the buildings will not be delayed by more than six months . . . The Commission is considering substantial outlays to foster development of new energy sources. The money would be given in the form of grants to public and private research institutes and businesses . . . The Commission's proposal concerning misleading advertising should be completed before long. This draft directive, part of the Council-approved consumer protection program, is designed to approximate existing national rules.

Britain: City Shocked by Arab Ban of 'Jewish' Banks

The pressures brought to bear on one of the U.K.'s most prominent merchant banks in conjunction with an alleged "Arab blacklist" of "Jewish" banks have caused considerable consternation in London financial circles. City observers noted that, apart from political militancy, this development has deep implications for the international loan business in general and for certain leading U.K. banks in particular: should such "Jewish" banks be squeezed out of the market in this way, the effect on Britain's "invisible earnings" and payments balance could be serious, at least in theory.

Leading British bankers have indicated that they do not intend to be "intimidated," thereby implying that such was the case with Kleinwort Benson Ltd., the bank that had confirmed having been "constrained" to block S.G. Warburg and N.M. Rothschild & Sons from participating in the loan syndication for a Japanese issue (Marubeni). But the

Bank Ban *(contd.)*

bankers do acknowledge the lure of mounting Arab petrodollar surpluses and, equally, that the Arabs can readily find an outlet elsewhere. Kleinwort's detractors, who appear to be in the majority, contend that Arab money still represents only a small percentage of the market as a whole and that it is purely "lack of backbone" that can make such a boycott operable. They point out that, while Crédit Lyonnais apparently "knuckled under" by excluding Lazard and Banque Rothschild from recent state loans in France (Air France and Cie. du Rhône), the Germans have succeeded in getting the Arabs to accept "blacklisted banks" as co-managers in the Nyk and Sandvik issues.

The "Jewish" banks have reacted by making representations to the French Ministry of Finance (Lazard) and the Bank of England (Warburg and Rothschild), but it is by no means clear what action, if any, these bodies could take. Further, the situation is riddled with inconsistencies, as evidenced by the fact that Lazard, Warburg, and Rothschild have been invited (by lead manager Merrill Lynch) to participate in underwriting the current $25-million Volvo issue, in spite of the fact that none other than the Kuwait International Investment Co. features among the co-managers.

(The French government, meanwhile, is investigating whether domestic banks did actually yield to Arab pressures. And the state utility Electricité de France postponed "indefinitely" a $40-million international bond issue, reportedly because of changed "market conditions.")

Germany: Transport of 'Dangerous Products'

The German Bundestag has passed legislation empowering the government to issue regulations on the transport of "dangerous products" and incorporating rules contained in many other laws and regulations. The 15-section bill (*Gesetz über die Beförderung gefährlicher Güter*), now under consideration by the Bundesrat, also contains rules authorizing ad hoc measures in emergencies. Strict controls would aid in discovering violations, and the heavy penalties (jail terms of up to five years and fines based on the violator's financial standing) would seem to discourage infractions.

In presenting the proposal, the government has made it clear that it does not want to unnecessarily hamper industry and international trade: both must be in a position to transport new products by new modes of transportation and at reasonable conditions. On the other hand, the government reasons that it could not ignore the risks emanating from the shipping of hazardous products. Bonn officials express hope that the measure may serve as a model for the European Commission's efforts in this field (Brussels is studying the need for harmonizing national rules to promote interstate trade).

Transport Bill *(contd.)*

The bulk of new rules is yet to come because Section 3 gives the government not only the power to issue regulations but also detailed administrative guidelines on the transport of dangerous products. The following areas would be particularly affected: products allowed for transport; containers and loading; labeling; engineering and manufacture of vehicles and containers and the licensing thereof; transport documents; information disclosure; bookkeeping and notification requirements; personnel engaged in shipment, particularly their qualifications, and measures to protect their health.

It is expected that the measure will pass the Bundesrat; the first regulations are awaited this spring.

Italy: Export Aids; Foreign Trade Improvements

The Foreign Trade Ministry in Rome has launched a three-year export promotion program mainly aimed at supporting the sales efforts abroad of small and medium-sized enterprises. The principal targets of the drive will be the European Community partners, particularly France and Germany, which run large surpluses in their trade with Italy. But at least equal attention will be given to the oil-producing countries - the ministry announced that an Italian trade center would soon be established in the Near East or Mideast. Also, special government assistance will go to the machinery and engineering sectors with the object of raising technological quality to competitive international levels.

The tough fiscal and monetary policies laid down by the government last year meanwhile appear to have had a decidedly positive impact on Italy's payments balance. It was reported that, although the overall deficit had still risen from $4.9 billion in 1973 to $7.5 billion last year, the overwhelming portion of the '74 deficit ($6.7 billion) had been incurred in the first six-month period. The surprisingly rapid improvement of the foreign trade balance played a significant role in this upturn: not counting the huge oil imports bill, the monthly average of the trade gap did shrink from 325 billion lire for the January-May period to 83 billion for the remainder of the year through November. The key factor here was the performance of exports, which rose by 34% in value and by 10% in real terms as the lira's value slumped. Should this trend continue, it is conceivable that this year could actually bring a "non-oil" trade surplus, which would help reduce the oil imports burden.

Greece: Athens Sets Series of Tax Changes

Additional revenue of almost 17 billion drachmas - equal to 12% of projected expenditure in the 1975 Ordinary Budget - is expected by the Greek government from a series of tax increases as well as new taxes. These gross gains would be

Tax Changes *(contd.)*

reduced by 2.3 billion through readjustments of the income tax system to benefit most taxpayers.

According to Finance Ministry projections, almost 12 billion drachmas will be gained from higher taxes on fuels and from increased stamp duties. Gasoline prices already have been raised with immediate effect, and prices for heating and diesel fuels will go up by 5 to 20%. Stamp duties, imposed on virtually all public administration services for private citizens, are to be increased by up to 100%.

A 15% rise in the turnover tax rate was expected to produce another 2.15 billion drachmas. Additional revenue will be forthcoming from a newly imposed real estate tax (0.50 to 1% on property valued at more than 5 million drachmas) and higher taxes on shipping, automobiles, beer, and "luxury" items (for instance, on production and import of radio and phone equipment).

All these actions are part of a broad tax and economic reform program by which the Constantine Caramanlis government hopes to effect an incomes redistribution benefiting the country's poorest sectors. These are primarily to be found in agriculture, where no less than one-third of the domestic work force is employed.

Late last month, Athens had announced measures reducing the tax burden for 95% of all taxpayers but raising it for those with annual incomes exceeding 1 million drachmas. The ceiling for nontaxable income was raised from 60,000 to 100,000 drachmas, and annual incomes below 300,000 drachmas will benefit from tax cuts of up to 14.3%. The exemption for farm income will be lifted from 140,000 to 250,000 drachmas. As part of the same package, the tax on dividends was raised from 30 to 33% for shares listed on the Athens stock exchange and from 38 to 44% for non-listed securities.

EURO COMPANY SCENE

GM/ Authi/ BLMC

Following General Motors Corp.'s rejection of the Spanish government's terms for the takeover of Authi, the British Leyland Motor Corp. subsidiary, the U.K. company indicated it would have no choice but to shut down the operation and write it off. Madrid had subjected approval of the £27.5-million deal to GM's agreement to limit domestic car sales to 10% of the Spanish market and to export at least two-thirds of production, conditions that Ford for its part - now completing its new plant at Valencia - had accepted. The financial problems facing BLMC at home have only been aggravated by the situation in Spain: last year Authi took losses of £5.9 million and reportedly absorbed £1 million more in the fall when British Leyland tried to prop it up

BLMC *(contd.)*

to counteract dwindling sales. The U.K. company has estimated that it requires £500 million to secure its own future investment program. Many in Britain think that nationalization may provide the only solution for BLMC, since the group - as it is presently constituted - has not been able to function at a profit. One source of funds could turn out to be Iran, following the Shah's "indirect" offer of aid, but the U.K. is not expected to take kindly to possible foreign domination of its ailing auto giant.

GM/ Wankel

In other news, GM has signed a revised license agreement with Germany's Audi NSU-Wankel and its 40% owner Lonrho Ltd. of the U.K. and Curtiss-Wright of the United States covering American rights to the Wankel rotary engine. The settlement ends speculation about a possible GM decision to drop the engine in view of development problems. According to the amended terms, GM will defer license fees until this June, when it will pay the licensors $3 million. Additional sums will be due the following year, depending on whether GM opts for annual payments or royalties on unit sales of the engine. The U.S. auto maker is still free to pull out of the Wankel deal at any time.

Fiat/ SEAT

Italy's Fiat SpA is seeking to increase its 36% stake in its Spanish licensee Sociedad Espanola de Automoviles de Turismo (SEAT) to a majority holding, according to Italian press reports. The other shareholders in SEAT, which was set up in 1950, are the government of Spain (38%) and seven Spanish banks. Fiat is said to be interested in coordinating and integrating SEAT's operations with its own, especially with a view toward the worldwide export market, where SEAT is said to be making inroads on Fiat sales. The current license and technical cooperation agreement between the two firms expires in 1985.

Case/ Daimler-Benz

J.I. Case of Racine, Wis., a major producer of agricultural and construction machinery and a member of the Tenneco group, has contracted to take over North American distribution of Unimog equipment from its manufacturer, Germany's Daimler-Benz. According to the agreement, Case will sell and service Unimog farm and construction vehicles and will also incorporate various Unimog units into its own equipment.

Karelias/ Reynolds Tobacco

Greek cigarette maker Karelias Bros. has been licensed by R.J. Reynolds Tobacco International to produce Winston cigarettes. Winston reportedly thus becomes the first U.S. brand to be manufactured in Greece.

Hutschenreuther

German porcelain and glass manufacturer Hutschenreuther AG has set up a new U.S. sales organization, Hutschenreuther Corp., based in North Branford, Conn.

Burston/ Texas Commerce

Burston Group, the ailing British secondary banking concern, has asked that a receiver be appointed in its Burston Finance banking subsidiary. Burston, like many other City fringe banking operations, had got into difficulties, but its troubles were seriously aggravated - according to all reports - by the size and nature of the group's advances to the property sector. Burston also found itself unable to meet its commitments following the inability of its clients to repay advances or maintain interest payments. There had been hopes that a collapse could be averted if the bank sold off its 65%-owned, fully authorized banking subsidiary Burston & Texas Commerce Bank. Conditional agreement for the sale - to Texas Commerce Bank of Houston - has been reached, but the proceeds will not be sufficient to allow the group to keep functioning.

Edward Bates

Another troubled financial group, merchant bankers Edward Bates, has been trying to stave off collapse. Bates' troubles appear to date back to October, when the bank was obliged to dispose of welfare insurance for a total loss of some £9.5 million. Bates recognized that a restructuring of the group's capital was imperative, but faced the problem of not being able (without High Court permission) to write off losses against its large share premium account - £18.09 million of a total 19.7 million in reserves. The bank is now seeking the support of a large institution prepared to inject fresh capital.

Manhattan Center

The Brussels Commercial Court has declared bankrupt six property companies owning and operating part of the Manhattan Center, a downtown office, hotel, and shopping complex. The firms are all controlled by G.L. Levy, the Swiss financier who originally promoted the project, which is one of Brussels' largest real estate developments. His group's losses reportedly amount to at least BF 500 million and could go as high as 800 million. The chief creditors are said to include Belgium's state social security agency, the Brussels borough of St. Josse ten-Noode, Sté. Génerale de Banque, two construction companies, and the Brussels hotel group that runs the Center's Lendi hotel. Both the Lendi and the Sheraton (ITT), the other hotel in the complex, are to continue operations for the time being, however.

Allstate/ Lippman & Moens

Allstate Insurance Co., a subsidiary of Sears, Roebuck & Co., Chicago, has acquired Lippman & Moens BV, a Dutch insurance company, from its former owners, the stock brokerage firm of Lippman & Moens and insurance underwriters Crone-Lippman & Moens, for an unspecified sum.

Merrill Lynch

Merrill Lynch, Pierce, Fenner & Smith, Inc., has announced it is closing its Munich branch office as of March 15.

Common Market Reports

EUROMARKET NEWS

Issue No. 319 *Report No. 259, February 26, 1975*

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Community: Basic Consent on Medical, Drug Directives

The Council of Ministers has reached basic agreement on four directives concerning physicians and drugs, paving the way for formal approval and subsequent publication in the Official Journal, probably within the first half of this year. (Denmark's consent was delayed by the political situation there, but approval by the new government was expected soon.)

The two medical directives involve mutual recognition of diplomas and the coordination of national rules governing access to and the exercise of the medical profession. Their approval means that, possibly by 1977, a physician could settle and practice anywhere in the Community (*Common Market Reports, Pars. 1349.15 and 9690*). The directives do not apply to doctors with civil service status (hospital chiefs, for instance). But, in an attached declaration, the member states have agreed to open hospital positions for foreign physicians, although they reserve rights of jurisdiction here.

In order to make the agreement possible, some concessions were necessary: thus, a special Community committee is to deal with any problems that might arise, while language training for foreign physicians will be provided at national levels. (Resistance to adoption of the directives

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Directives *(contd.)*

had been strongest from the Belgians, who feared an "invasion" of foreign doctors, and from the British, who most recently had insisted on a language test.) Most important, adoption of the medical directives sets a precedent for numerous other proposals that have been pending for years, and it is now hoped that the Council working group will make headway in extending the right of establishment and freedom to provide services for about 20 other professions. Most progress here has been made in negotiations concerning architects, engineers, nurses, veterinarians, and lawyers.

In the area of drugs, the Council action means further progress toward intra-EC trade in pharmaceuticals: a second directive is to approximate national legal and administrative rules on pharmaceuticals and a related directive will do the same for analytical, pharmaco-toxicologic, and clinical standards and protocols concerning drug testing.

The initial step toward a common drug market was taken in 1965 with the Council's adoption of a first directive that basically spelled out the main conditions for granting or denying authorization to sell drugs and the conditions for furnishing test results (*Common Market Reports, Par. 3403*). The newly approved second directive (and the related directive) seeks to harmonize national rules on application for drug production authorization, controls and tests with respect to drug safety and therapeutic effect, and the form and control of production following authorization (*Common Market Reports, Pars. 3431 and 9643*).

The new directive does not obligate a member state to automatically recognize (and admit to the domestic market) a drug permitted in another state. Here, experts are counting on the intervention of the Advisory Committee. Made up of national and Commission officials, this body may be approached by a member state on behalf of manufacturers whose drugs have been approved in that state but denied access to another.

Eventually, it is believed in Brussels, about 90% of all EC-produced drugs will be freely marketed throughout the Community.

Denmark: New Government Inherits Host of Problems

Denmark's political crisis of more than two months - climaxed by new elections on Jan. 9 - finally came to a tentative end on Feb. 13 with the installation of a Social Democratic minority government under Anker Jörgensen as prime minister. As in the case of the outgoing Liberal administration, which had lasted only one year, observers predicted a short life for the new government. The 51-year-old Jörgensen, who headed a Social Democratic government once before in 1972-73, must rely on only 53 mandates in the 179-member Folketing and cannot be certain of more than

New Government
(contd.)

sporadic support by the other left-wing parties. The non-socialist parties, in any case, constitute a "negative majority" and are thus in a position to topple the government at any time.

Neutral observers are wondering how the Social Democrats will be able to reconcile their most recent political pronouncements with the solution of the country's three most pressing problems: record unemployment (over 7%), a 16% inflation rate, and a huge finance deficit. In the unsuccessful coalition talks before their takeover, they were strongly opposed to cutting state expenditure far enough to fully make up for the revenue losses caused by the tax reductions that took effect this year. Likewise, they favor short-term measures in the form of public works orders and aids to ailing enterprises as a way of creating new jobs, whereas the Liberals had proposed a long-term stability program to lay the groundwork for more employment, shrinking foreign trade deficits, and slower inflation. Finally, the Social Democrats have refused to back any plan for a modification of the wage indexation system that many have blamed as a root cause of domestic inflation.

It has been interpreted as a bad omen for the new government that, on the eve of its inauguration, collective bargaining talks between the Danish employers' federation and the unions broke down a second time, causing labor leaders to issue their first strike warnings.

France:
Sudreau Report
Favors Worker
Co-surveillance

A reform of French company law in virtually all its aspects is to be the subject of a "national debate" of about six weeks, at the end of which the Giscard d'Estaing administration will tackle the job of drafting new legislation. The invitation to industry, labor, and the public to join this debate went out after publication on Feb. 13 of the so-called Sudreau Report, a government-sponsored study on industrial reform.

The 200-page report - prepared in the course of five months by a commission headed by Pierre Sudreau, a former education and housing minister - includes a broad variety of reform proposals pertaining to profit sharing, social obligations, shareholder protection, disclosure rules, etc. But its most fundamental recommendation is for increased worker participation in the form of "co-surveillance." This concept would offer employees a major voice in the operation of companies by granting them up to one-third of the seats on the board of directors but would not involve them in the appointment of management or in the chief executive's decision-making responsibilities. Thus, the co-surveillance would differ considerably from Germany's controversial co-determination concept, which would provide for representation in management on a parity basis. In

Co-surveillance *(contd.)*

submitting the report, Sudreau himself in fact made it clear that the German co-determination model is not suitable for France and not even desired by most trade unions.

The shortcomings of the Sudreau Report appear to be in its lack of recommendations on how employee representatives are to be elected to the board, the extent of their powers, and whether or not the system should be optional. Industry, in any case, can be expected to be wary of co-surveillance: in anticipation of the proposal, the French Patronat employers' association at the end of 1974 conducted a membership poll which revealed that the overwhelming majority prefer to leave corporate structures as they are. The unions, on the other hand, are not as supportive of the Sudreau plan as might be expected; to most labor leaders, co-surveillance can be merely an interim phase on the way toward complete industrial "democracy," although there has been no common definition of that concept either.

Germany: Bonn Forced to Explain Tax Reform

The Schmidt administration, in a nationwide advertising campaign, currently is trying to placate angry German taxpayers who feel misled by the government's earlier promises of broad tax relief and are now shocked by larger federal income tax withholdings. In the ad campaign, Bonn points out that it has indeed fulfilled the basic promise to give full relief to some 3 million low-income taxpayers and to ease the tax squeeze on medium-income brackets. But government sources concede that a proper public relations effort immediately before and after passage of the reform program could have prevented the negative publicity caused by disappointed taxpayers and exploited by the Opposition. Administration officials agree that such a PR campaign should have played up the equity theme and explained the added tax burden on higher incomes (*Doing Business in Europe, Par. 30,680*).

Much of the prevailing confusion is over the children's allowance system. Under the previous arrangement, which tended to favor higher incomes, taxpayers were able to reduce their taxable income by means of individual exemptions for each child. Now they get cash premiums paid out by the local labor exchange offices. But a divorced or separated male taxpayer paying child support no longer enjoys tax relief, since it is the mother who generally receives the cash payments for each child.

Another major misunderstanding tends to arise when both husband and wife derive income from employment but fail to apply for reclassification, winding up with higher withholdings than under the previous system. But this is not the rule - the new system generally seeks to spare taxpayers the disappointment of owing taxes at the end of the year because too little has been withheld.

Britain: Row Continues over Capital Transfer Tax

Debate still rages in the British parliament over the controversial capital transfer tax (CTT) provisions included in the U.K.'s recent Finance Bill (*Doing Business in Europe, Par. 30,734*). Although Opposition spokesmen have stated that they will indulge in any "brinkmanship" necessary to delay the Bill's passage, the Chief Secretary of the Treasury remains confident that the Bill will be on the statute book by March 14. This is in spite of the almost unprecedented number of amendments still to be discussed.

It has been charged that the Bill bears more resemblance to a patchwork quilt than to a piece of coherent legislation. Opposition spokesmen contended that it was "ill thought out and ill prepared." In the course of debate, the government has made scores of minor concessions but has also been forced to give way on some major points. In effect, a lower rate of "lifetime" CTT has been conceded, together with a significant amendment to exempt gifts to charities (except within one year of death). Further, the government has also pulled back on the issue of relief "for the protection of the national heritage" and has offered a postponement on the tax on forestry.

Significant as these concessions may be, however, the Labour government's constant need to "redefine" its position as stated in the Bill has been characterized as being indicative of "untidy" and "inept" drafting. A typical example of the government's discomfiture was the clarification that the Financial Secretary offered in respect of relief for discretionary trusts: CTT relief is now said to apply to a gift made in the donor's lifetime, a substantial difference from the original implication that CTT rates on capital distribution from a discretionary trust would be rated - or so it was interpreted - at the same percentage as for "gifts" devolving at death. The need to clarify such a "trivial" point has lent further weight to Opposition contentions that the government is forcing through major legislative reforms without due regard to the "small-print" implications. In this context, the Opposition's avowed intent to repeal such important pieces of legislation as the Industry Bill - should the Tories return to power - underscores the shortcomings in drafting rather than the contentious nature of the legislation per se.

No Plans for Import Curbs, U.K. Claims

The U.K. has now given formal reassurance to its Common Market partners that it will not institute import controls. The Paymaster General made this clear on Feb. 17 at a Council meeting of the EC finance ministers. Introduction of such controls would, of course, be in defiance of Britain's obligations; however, recent labor union "suggestions," allied to recommendations by the highly influential Cambridge Economic Policy Group, had proposed that the U.K. might impose import restrictions as the only method of ameliorating

No Curbs *(contd.)*

the country's balance of payments problems without generating serious unemployment.

Belgium: Notification of Share Sales; Bank Controls

The Belgian government has decided on measures to monitor and, possibly, prevent "undesirable" sales of holdings in major domestic enterprises. The plan for pertinent legislation concerns enterprises with share capital of at least BF 1 billion (as reported in the most recent balance sheet). The state Banking Commission in future would require notification of all plans or transactions that might lead to a transfer of more than 10% of a stock corporation's voting stock. Notification also would be required when an existing participation is to be extended beyond 10% or when an existing holding of at least 10% is to be expanded by at least 5%.

Originally, it had been reported that the bill would be directed only against foreign holdings in Belgium; subsequently, however, Finance Minister Willy de Clercq reportedly said that it would apply to both foreign and domestic interests without differentiation. De Clercq denied any intention on the part of the government to introduce blanket controls on share transfers.

Earlier, on Jan. 31, the government had approved modifications in draft legislation (dating from June 1974) that seeks to forestall liquidity problems of banking and financial institutions and would call for speedy state intervention in the event of insolvency situations. As an indirect way of safeguarding savings and deposits, it is planned to raise the capital of the national rediscount and guarantee fund from BF 1 to 5 billion. The bill also lays down stricter auditing and notification requirements for banks and provides for an assets/liabilities ratio to be determined by the government in consultation with the individual banks. Furthermore, limits would be placed on certain foreign exchange transactions and on major loans to individual enterprises.

Norway: Oslo Submits Revised Plan for Oil Tax

The Norwegian cabinet has now resubmitted its oil profits tax plan, which - although far stiffer than the present arrangement - represents a retreat from the earlier intention to tax offshore oil income by up to 90%. The revised plan foresees an excess profits tax of up to 25% at the maximum on top of the standard 50.8% corporation tax rate. However, the maximum would apply only to income from high-yield fields such as Ekofisk - the average tax would amount to 55-60% as compared to the present 40%. The new proposal also would allow exemptions equaling 10% of the purchase cost of facilities and equipment operated in the course of the preceding 15 years. Additional government "concessions" concern depreciation and deduction of losses and

Revised Plan *(contd.)*

would aim at persuading oil companies to undertake exploration and exploitation even of low-yield areas.

As a basis for assessment, Oslo is proposing a price "norm" more or less determined by the oil prices prevailing on the free markets among independent partners. A government-appointed petroleum price board would either fix the norm price itself or advise the Finance Ministry accordingly.

On the basis of the new tax proposals, state income from the Ekofisk Field alone should total about 60 billion kroner during the five-year period of 1976-80. Under the present system, the oil companies would have had to pay only 40 billion.

EURO COMPANY SCENE

Tréfimétaux/ Gutehoffnung/ Wieland-Werke

Tréfimétaux of France and two German companies - Kabel- und Metallwerke Gutehoffnungshütte AG and Wieland-Werke AG - have decided not to apply for permission from the European Commission to begin a close cooperation in the production and sales of semifinished metal products. Preliminary investigation had convinced the Commission that the proposed collaboration might conflict with EC competition rules, particularly in respect of the planned exchange of marketing and manufacturing information. Instead, the firms now are said to be seeking forms of cooperation that would not violate EC regulations.

BLMC

It now seems certain that the capital needs of ailing U.K automobile giant British Leyland (BLMC) are such that no solution to the company's problems can be found within the framework of private enterprise and that state ownership cannot be avoided. BLMC's annual general meeting was one of the stormiest on record, with chief executive Lord Stokes coming in for heavy shareholder criticism that the company had been "atrociously managed" over the past 18 months in particular. Lord Stokes led the management's defense, especially against proposals that the company be broken up and sold off. In that case, he said, shareholders could expect appreciably less for their stock than the net book value of 44p per share.

Meanwhile, 900 employees have received layoff notices at BLMC's Jaguar plant, while 1,500 at the Triumph factory in Liverpool are to go on a four-day workweek in March.

Sperry Rand/ Saab-Scania

Sperry Rand Corp., New York, and Sweden's Saab-Scania AB have concluded a basic agreement to set up a joint venture for the distribution and servicing of EDP systems in Denmark, Finland, Norway, and Sweden. The cooperation, which is to cover the Data-Saab range of intermediate and large

Sperry/Saab *(contd.)*

computers as well as Sperry-Univac EDP systems, will be implemented as of this April. A final, detailed contract for the Scandinavian project is to be signed next month.

Mosch

Hopes that Germany's hard-pressed construction sector might revive following the lowering of bank interest rates have flagged once again with the news that the country's leading private real estate developer, Heinz Mosch, has applied for a liquidation settlement for his two West German building companies. The collapse apparently was a direct result of the refusal of Mosch's banking partners to form a financing consortium to cover DM 50 million worth of obligations and unpaid construction bills and tax liabilities. On the other hand, Mosch's West Berlin real estate operations and his property investment funds were unaffected by the failures. Creditors of the two West German companies reportedly can expect a settlement quota of about 35%.

Xox-Nabisco

National Biscuit Co. (Nabisco) of New York is rumored to be considering the sale of its German subsidiary Xox-Nabisco GmbH, producer of cookies and crackers. Despite recent rationalization measures, including the transfer of headquarters to Hannover, where its sister firm Sprengel is located, and integration of the marketing departments of both companies, Xox has failed to improve its sales standing.

Western American

The international parents of the major London-based banking consortium Western American Bank (Europe) have been obliged to mount a rescue operation following a serious deterioration in consortium business. The shareholders - Hambros Bank, Bank of Tokyo, National Bank of Detroit, Security Pacific, and Wells Fargo being the most prominent - have now agreed to purchase some £190 million of Western American's loans aimed at securing support "in the form of short-term deposit line facilities." Although the consortium had posted pre-tax profits of nearly £900,000 for the past fiscal year, deposit and current accounts slumped from £475 to 102 million within a year. The balance sheet total now stands at £133 million (565 million), and Eurobonds are no longer held as investments.

Royal Bank of Canada/ Burgardt & Bröckelschen

Royal Bank of Canada, Montreal, Canada's No. 1 credit institution, has acquired a 33.5% stake in the DM 20-million share capital of Germany's Bankhaus Burgardt & Bröckelschen AG (B&B). The package had been held by Hambros Bank of London until early 1974, when it was temporarily taken over by Westdeutsche Landesbank Girozentrale (WestLB) of Germany, which remains co-owner of B&B along with France's Banque de l'Union Européenne (BUE). Last year B&B had a balance sheet total of about DM 325 million.