Common Market Reports

EURORMARKET NEWS

Issue No. 421 *Report No. 311, February 11, 1977*

IN THIS ISSUE

Community: Business Fears over Patent Licensing Draft

The European Commission is going to great lengths to alleviate the concern of the European business community, especially in Germany and the U.K., over a preliminary draft regulation that would exempt en bloc from the Article 85(1) ban any licensing agreements containing certain restrictive clauses. The Commission and national experts were scheduled to discuss the document again this month, before inviting comments from national business associations. In the meantime, however, Brussels has been taken by surprise by the publication of the confidential preliminary draft in a respected German financial newspaper. Commission officials are now trying to counter criticism of business representatives, who have described the draft as being "too narrowly conceived, contradictory, and impractical."

The regulation would relieve the parties both from notifying the Commission and from applying for an exemption for a restrictive licensing agreement (as they are required to do now) if the latter meets the criteria set out in the draft regulation. A block exemption would greatly ease the Commission's work load because the applications for exemptions have been piling up by the tens of thousands. The backlog has created legal uncertainty in the business community, although the EC executive's exemption practice over

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

COMMON MARKET REPORTS, Issue No. 421, February 11, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Licensing *(cont'd)*

the past two years has given some indication as to the kind of agreement that would be subject to exemption *(Common Market Reports, Pars. 9761, 9776, 9801, and 9814).*

Businessmen have said that, in one way, the draft reflects a liberal philosophy in that it would exempt many more licensing agreements than would have been expected, such as exclusive licensing, territorial restrictions of licensing within the EEC, restrictions on the part of the licensor and other licensees to market products in the licensee's territory, restrictions on sublicensings, quality obligations, an obligation to keep business secrets, and arbitration. On the other hand, the draft indicates that the Commission would exempt such clauses only if the territory involved has a population of not more than 100 million. Export prohibitions could not last longer than 10 years. There would be curbs on continued payment of fees after the expiration of patents. The rules on arbitration are considered especially detailed and burdensome. The Commission wants arbitration clauses to provide for reasoned awards, although in many states awards are given without the grounds being stated. The parties would be entitled to take an award only to a member state court for judicial review.

Draft Proposal on Cancelling Door-to-Door Sales Deals

In its efforts to extend more protection to consumers, the Commission has proposed that a buyer have the right to cancel a contract concluded outside the seller's business premises. Under a recent draft directive submitted to the Council of Ministers, the buyer could back out within seven days after signing. If he exercises his right, he may demand the return of his down payment, and he would return the purchased item at the seller's expense and risk.

The buyer could cancel all contracts except those involving daily-use items valued at under 25 units of account, real estate contracts, contracts negotiated solely in writing, and contracts entered into exclusively on his own initiative. These exceptions are based on either the low value of the item or absence of the "surprise element" that normally works for the seller when he shows up at the house door or sells at a neutral place. It is this surprise element that often leaves the buyer without enough time to consider whether he needs the offered item and whether the price is right.

Several member states have legislation that is identical to the core of the proposal. In Belgium, France, and Germany, the buyer may cancel a contract within seven days, and for these states the proposal would not bring any new rights for the buyer, although all three states would have to amend their laws to conform to the requirements of a contract's content and other criteria. Dutch law gives the buyer eight days to cancel, and the proposal would not interfere here. The U.K., whose law grants the buyer a five-

Sales Deals *(cont'd)*

day period for cancellation, would have to raise this time limit. Ireland and Italy have no rules on the matter whatsoever and would have to start from legislative scratch.

The Commission estimates the total volume of products sold door-to-door in the Common Market at between $2.5 and $5 billion. *(Common Market Reports, Par. 9911.)*

In Brief...

The 1975 accord amending several provisions of the treaties establishing the European Communities has been ratified by all national parliaments except that of Luxembourg. The treaty provides, among other things, for the establishment of a Court of Auditors that will scrutinize revenues and expenditures of the EC and will assist the European Parliament and the Council of Ministers in applying their budget control powers + + + In a follow-up action to the Dec. 31 move setting temporary quotas for Poland, East Germany, and the Soviet Union, the Council of Ministers has established in a regulation the number of fishing licenses that may be issued for vessels of those three nations that want to fish in the Community's 200-mile zone (five for Poland, six for East Germany, and 27 for the Soviets). This measure, communicated to the three governments through diplomatic channels, is valid until March 31 in order to grant these East Bloc nations an opportunity to negotiate for reciprocal rights.

Italy: 'Social Pact' Skirts Wage Cost Issue

Union concessions on various issues not strictly involving wage cost reductions have produced what has been termed a "partial social pact" between Italy's labor syndicates and the Confindustria employers' federation. The compromise, announced on Jan. 26 after three months of stop-and-go negotiations, was clinched only after the unions and the Socialists had wrenched from the government a pledge not to interfere with the automatic wage escalator system. Rome had, in fact, considered securing wage cost cuts beyond the minimal ones provided for in the accord.

Administration acceptance of the union "dictate" had political consequences for Prime Minister Giulio Andreotti who found himself severely criticized, even by leaders of his own Christian Democrats. The head of the Republicans and ex-treasury minister Ugo La Malfa rejected the results of the employer-labor talks as "wholly insufficient" to reduce Italian wage costs and openly threatened to withhold his party's support from the government. The Christian Democrats urged Andreotti to seek a retroactive "correction" of the agreement, with the aim of limiting this year's wage cost increases to 16% rather than 22%.

(In its subsequent Jan. 31 session, the cabinet - while not touching the escalator system as such - did eliminate some of its outgrowths by placing a three-year freeze

Social Pact *(cont'd)*

on extra inflation allowances so far granted to about 1 million employees, mostly in the public services and the bank and insurance sectors. Also, the *scala mobile* no longer will have an effect on the amount of severance pay. Those individuals who collect unemployment insurance benefits while holding down another job (some 2.5 million, according to Labor Minister Tina Anselmi) will face stiff penalties in the future. Finally, the cabinet voted to raise the state railway fares and tariffs by 20% as of March 1 and to cut back the number of reduced or zero fares.)

The unions' concessions in the social contract involve limits on holiday pay in addition to the above-mentioned cuts in severance pay in cases of dismissal, more job mobility within companies, better controls on absenteeism, and more flexibility in allowing overtime work and shift work. Also, leave may be scheduled throughout the year rather than be concentrated on the traditional mid-summer vacation period. The most significant aspect of the deal, however, is seen in the fact that the Italian unions for the first time ever have agreed to accept at least some incomes restraints over a longer term.

For the employers, on the other hand, the road toward the compromise had been paved with the assurances of the government to absorb at least partially the social cost burden on industry. This extra strain on the budget, estimated at between 1,500 and 2,500 billion lire, will have to be compensated by a raising of value-added tax rates and the introduction of surtaxes on incomes. Rome must avoid additional budget deficits under any circumstances, so as not to endanger its chances of obtaining further IMF and EC credit facilities.

Ireland: Budget Raises Speculation on Election Plans

The 1977 Budget presented to the Irish Dail (parliament) last month by Finance Minister Richie Ryan was in marked contrast to last year's stringent measures which had included unprecedented tax increases on alcohol, tobacco, and gasoline. The basic inference from the "do nothing" package was that a general election is imminent, the likely date being in spring. If such indeed are the plans of Prime Minister Liam Cosgrave, then it was to be expected that the budgetary measures would be designed to be popular with the Irish electorate.

In exchange for income tax concessions totaling over £70 million annually, the government hopes to secure in the coming weeks a "moderate" national pay agreement with the country's labor unions. At the same time, there are proposals for improved welfare benefits, primarily in regard to increased allowances and deductions as well as some relief in the area of local real estate taxes.

Budget
(cont'd)

At the corporate level, the government proposes relief measures that would apply in instances where increased investment in manufacturing industry can be demonstrated. Further tax relief incentives would also be accorded in cases where employers can substantiate increases in output, efficiency, and employment. Indeed, the only sector which would suffer from tax increases appears to be farming: of Ireland's 170,000 or so farmers, a mere 9,000 are taxed at present. The Budget proposes that a further 6,500 be drawn into the net, a move which may cost a few votes but, on the other hand, will ease pressure on the government from those employed in industry who feel that they are being discriminated against when compared with the agricultural sector.

Britain: Modest Upturn Inspires Hope, Caution

At a meeting of the U.K.'s National Economic Development Council chaired by Prime Minister James Callaghan on Feb. 2, detailed reports were submitted by working parties in no less than 36 industrial sectors. Virtually every report concluded that, despite strong convictions both at home and abroad that Britain is in the economic doldrums, there were indeed clear and quantifiable opportunities for increased output and employment, improved exports, and reduced import demand. This across-the-board optimism manifests itself at a time when certain economic components appear to be stabilizing: the pound has recently rallied (although the weighted depreciation is still around 42.7%), interest rates are being lowered (although the minimum lending rate is still 12.25% and leading bank base rates at 13%), the government has taken a tighter grip on public spending, and the Financial Times Industrial Index has again broken through the 400 barrier (for the first time since May 1976).

While it would appear, therefore, that official claims "to have turned the corner" may be justified, a certain note of caution has been sounded by economic experts. First of all, the economic "rally" is clearly linked to a sense of security provided by Britain's massive international borrowing. However, it can well be, the argument goes, that this "cushion" is not necessarily in the country's best long-term interest. The cost of servicing the huge ($20 billion-plus) overseas indebtedness will eventually be considerable, all the more so since the terms Britain has been forced to accept are far from favorable. Also, despite assertions that "everything will work out with the advent of North Sea oil," a reminder has been served that since most of the North Sea development has been financed by foreign capital, a hefty portion of the yield will accrue to outside interests.

For its part, the Confederation of British Industry has already given notice to the government and the labor unions that a genuine economic upturn can be achieved only

Upturn
(cont'd)

if industry's current profitability is at least doubled by 1979: if this is not the case, insufficient internal financing capability will preclude the implementation of investment programs. The answer (or part of it), according to the CBI, is for the government to introduce major tax cuts to restore incentives, both individual and corporate, and to avoid as far as possible any confrontation with the labor unions. How difficult it is to achieve the latter should be demonstrated by the government's official, and statutory, response to the proposals of the Bullock Committee on industrial democracy which have generated pronounced hostility between management and unions.

France: Employers Want Shift in Social Cost Burden

The question of seeking a redistribution of the cost burden of social welfare came up as a major topic last month at the annual meeting of the French employers' federation, the Patronat. Federation spokesmen argued that a French employer at present is bearing an average 67.6% of total outlay for social security compared with the state's 10.8%, placing him in the worst position vis-à-vis his counterparts in the other Community countries. The Patronat cited statistics for Germany where employers bear only 51.6% of this expenditure because the state assumes 20.7% of the total cost. It was proposed that, under a reformed social security system, the French employers would cover the risks of work accidents and pensions, the state would take over full responsibility for family allowances, while health insurance costs would be fairly shared among employers, employees, and the state. Family benefits contributions, amounting to 9% of the assessment ceilings, are now solely paid by the employers *(Doing Business in Europe, Par. 22,831)*.

The government has been reacting cautiously to such proposals, promising no more than to "study" the problems involved. The chances for a serious discussion of a social insurance reform during this session are virtually nil, not least because of the national elections in early '78. No one, however, is disputing the fundamental need for such a reform: the deficits of the social insurance system have doubled each year since 1974, reaching more than FF 9 billion in '76.

France's social insurance system covers all of the 17.5 million employees in industry, commerce, and public service. The system is basically divided into three sectors - health insurance, family allowances, and retirement benefits. Accident and unemployment insurance, even though obligatory, do not fall directly under this system. Total contributions under the system average 38.1% of employment incomes, of which the employer contributes 30.15% and the employee, 7.95%.

Germany: Labor Costs Now Higher Than in USA

Of the western world's six leading export nations, West Germany had the highest industrial labor costs in 1976, according to a recently published study of the Institute of the German Economy. This means that, despite only moderate wage cost increases last year, Germany passed the United States for the first time ever. The institute listed supplemental labor costs and the revaluation of the D-mark as the principal reasons for this development. Hourly industrial wage costs in Germany averaged DM 17 last year, followed by the equivalent of DM 16 in the USA, DM 10.50 in France, DM 9.50 in Italy, DM 8.50 in Japan, and DM 7.50 in Britain.

EURO COMPANY SCENE

General Dynamics

Defense officials of the four NATO countries involved in the so-called "arms deal of the century" have expressed anxiety over co-production with the USA of the General Dynamics F-16 jet fighter the four nations have pledged to buy. Under the agreement, Belgium, Holland, Denmark, and Norway would purchase a total of 348 aircraft. The maximum price agreed upon was $6.09 million per unit, though the estimated probable price is $5.69 million.

After a Brussels meeting last month, the Danish defense minister said that before signing the final agreement all four countries needed to examine further both price and co-production aspects. The agreement of principle provided that the Europeans would have a 40% share in the F-16 construction. This was to be subjected to a test of the relative competitiveness of U.S. and European component manufacturers. The Europeans are now afraid of losing out because of higher inflation rates (and thus costs) in Europe. There has been no official comment from either Belgium or Holland.

Milgo/ Racal/ ADDS

In the protracted tug-of-war for control over Florida's Milgo Electronics Corp., the British manufacturer of radio communications equipment Racal Electronics Ltd. has now extended its takeover bid for Milgo to $53.65 million - $7 million above its previous bid. The reason for the new offer was a counter bid entered by a U.S. competitor, Applied Digital Data Systems (ADDS) of Happage, N.Y., which valued Miami-based Milgo at $51 million.

Weyburn/ Carborundum

Britain's Weyburn Engineering, reputedly the world's largest independent producer of diesel engine camshafts, has been taken over (on Jan. 31) by the U.S. abrasives, engineering, and pollution control group Carborundum Co. in a £16.6-million cash deal. Following acceptance of Carborundum's offer of 425p per share by Weyburn's directors and other shareholders, 43.45% of the equity was immediately secured by the U.S. group. A further 6.7% bought in the market on Jan. 31 gave Carborundum voting control of the U.K. company.

Thomas Tilling/ Intermedco

The U.K.'s Thomas Tilling Group has offered to buy for some £9 million Intermedco, Inc., the medical supplies company located in Houston, Texas. Tilling, which had 1976 sales in the medical sector of £26 million, would substantially boost the size of its international medical interests with the proposed takeover. Intermedco had '76 sales of $53.5 million.

Alcoa

The U.S. aluminum producer Alcoa is reported to be considering a $15-million expansion of its new (but not yet on-stream) rolling mill complex at Waunarlwydd near Swansea, South Wales. Alcoa spokesman Robert Hughes claims that the mill represents the most advanced "hot and cold" rolling facilities in the European industry and predicts that aluminum will continue to capture a growing share of the U.K. and European container markets.

Harmon Colors/ Allied Chemicals

A subsidiary of Germany's Bayer AG, Harmon Colors Corp. of Haledon, N.J., has taken over the organic pigments division of the Allied Chemicals Corp. The deal, for an undisclosed price, had been signed last September but still required the approval of the U.S. antitrust authorities, which has now been given in principle. The actual transaction will be effected through Bayer's Rhinechem Corp., New York, which holds all U.S. participations of the German chemicals giant. Harmon Colors, only recently established, produces organic pigments for plastics, paints, and printing inks.

Campbell/ Gringoire

The proposed takeover by the United States' Campbell Soup of biscuit manufacturer Gringoire-Brossard, a French subsidiary of Pillsbury, apparently has fallen through even though the French authorities had already approved the deal in principle. According to reports from Paris, Campbell decided to withdraw its offer after being unable to guarantee the continued employment of some 1,100 Gringoire workers.

Fiat/ Allis-Chalmers

The international holding of Italy's Fiat group has raised from 65 to 77% its interest in the Fiat-Allis joint venture company it had established in 1974 with the United States' Allis-Chalmers Corp. Accordingly, Allis-Chalmer's participation in the earth-moving equipment company has dropped from 35 to 23%. The transaction was effected through a share exchange between the two partners. Operating with a current net capital of $270 million, Fiat-Allis last year sold 10,700 units and had sales of 495 billion lire. The company employs more than 11,300 in its plants in Italy, Britain, and the USA.

Common Market Reports

EUROMARKET NEWS

Issue No. 422 February 16, 1977

IN THIS ISSUE

Community: More Rights for Commercial Agents

The European Commission's recent proposal to coordinate national rules governing the relationship of commercial agents with their principals was submitted to the Council of Ministers with two objectives in mind *(Common Market Reports, Par. 9907)*: first, the measure would largely equalize the differences among national laws that distort competition and, secondly, it would strengthen an agent's legal position in those states that lack rules on such matters as indemnity compensation, commission rights, and protection in case of bankruptcy of the agent's principal.

There are some 800,000 commercial agents in the Community who negotiate contracts in the name of firms in their home state or abroad. Although self-employed, most agents are in a weak position economically when it comes to negotiating contracts with their principals. Several member states have established mandatory standards regarding the rights and obligations of the parties, especially with respect to noncompetition clauses, termination of contract, and goodwill indemnity. Others have enacted rules that, while not mandatory, have to be observed if a respective clause has been negotiated for an individual contract. Again, some states have no rules on goodwill indemnity.

COMMON MARKET REPORTS, Issue No. 422, February 16, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Agents
(cont'd)

Adoption of the proposal would also ensure that the agent, in the event of bankruptcy of his principal, gets commissions owed to him. (Last year an estimated 20,000 businesses went bankrupt in the Community.)

The Commission points out that uniform rules governing conflicts of law would not remove the national differences existing in substantive law. (A Council working group is now discussing a draft regulation on conflicts of law involving employees transferred to a company subsidiary in another member state. This regulation also would cover salaried representatives selling in another state.) Uniform rules on the conflict of laws would not ensure that the very same substantive law becomes applicable to all commercial agents carrying on business in one member state. Commercial agents would operate under unequal conditions if some were subject to substantially differing legal systems - either that of the state where they operate or that of another state.

An additional aspect of competition affects the economic position of companies. Differences in law are detrimental to a genuine common market in that they create unequal operating conditions and considerable legal uncertainty. For instance, a principal who is not required to pay his commercial agent a goodwill indemnity after contract termination has an advantage over another who is required by domestic law to pay.

Final Push for Automotive Harmonization

The Commission is optimistic that the Council of Ministers will adopt 11 proposals in the automotive field by June. These draft directives provide for alignment of national rules setting forth technical specifications and certifications for automotive parts such as windshield wipers and washers, defrosting and defogging systems, interior control devices (for example, a light indicating a brake defect), tires, maximum dimensions of passenger cars, and maximum permissible weight per axle.

Last year's adoption of seven directives, all on lighting and signaling devices *(Common Market Reports, Par. 9856)*, brought the Community considerably closer to the intended comprehensive EEC approval procedure and thus to completely free inter-member state trade. A total of 28 directives in the automotive sector have been adopted so far *(Common Market Reports, Par. 3371)*. The trade barriers result not only from different technical requirements but also from the duplication of inspections upon entry into the importing state. Approximation of national specification provisions and mutual recognition of inspections also contributes to traffic safety because safety considerations are another major factor in the drive for uniform standards. The ultimate goal is for the roadworthiness certificate granted under Community rules in one member state for a

Harmonization *(cont'd)*

specific car model to be recognized by all other member states. The foundation for this ultimate objective was laid in a 1970 Council directive calling not only for the approximation of national type-approval rules on prototypes but also for mutual recognition of member states' approval certificates *(Common Market Reports, Par. 3371.03)*.

Commission officials do not expect great difficulties in the Council working group discussions on the proposal calling for an alignment of technical requirements for the design and testing of rear fog lights, backup lights, and parking lights. Last year the Council agreed to make installation of these lights mandatory for all automotive vehicles. Lights meeting the requirements set forth in the annex to the draft directive and bearing the EEC type-approval mark could be marketed throughout the Common Market.

The proposal on tires may not move so fast. Also, the Commission's draft calling for laminated glass in windshields has been before the Council since 1972 without visible progress because of heavy opposition from German and French auto manufacturers who favor plate glass, which costs only one-third as much as laminated glass.

In Brief...

The Soviet Union's response to the EEC's temporary fishing quotas and the licensing of Polish, East German, and Russian trawlers fishing in the Community's 200-mile zone has not removed the uncertainty surrounding the East Bloc's refusal to recognize the EC as a legal entity. Moscow did indicate its willingness to discuss the fishing problems. But several Community officials questioned whether the Kremlin's approach - the note was communicated to the U.K., which at present holds the Council presidency - sufficiently acknowledged the Community's legal status: it is the Commission alone that has negotiating powers. Moreover, Council attorneys say that the Soviet Union's reply is not expected to make the Council suspend the recently decreed licensing system + + + The Commission will shortly present its fourth version of a preliminary draft directive on consumer credit designed to broadly harmonize national rules and practices concerning the general conditions of consumer credit, including those on installment contracts. Several governments have offered suggestions during the drafting and redrafting. Denmark, considered to be the leading member state in terms of consumer protection, reportedly was the most active.

Italy: VAT Increases to Absorb Shift in Social Costs

The Italian Council of Ministers on Feb. 4 followed a predicted course in approving value-added tax increases totaling 1,400 billion lire. The action, which will cost each taxpayer an extra 30,000 lire annually on the average,

VAT Increases *(cont'd)*

entails the lifting of the standard VAT rate applicable to nearly all consumer goods (with the exception of foodstuffs) from 12 to 14%, for textiles from 6 to 9%, and for luxury-type products (including, for instance, cameras, jewelry, furs, high-priced automobiles, etc.) from 30 to 35%. Taxes on heating fuels and other petroleum products as well as on natural gas also are being raised, while gasoline is not affected.

With the VAT increases, the government intends to pay for the state's partial "fiscalization" of employer contributions to the social insurance system. The employers' share of the total contributions so far amounted to 48% of payroll, and Rome has agreed to absorb 7% of this in the budget. Thus, employers may deduct 14,000 lire each month from their share of the social welfare contributions for each employee. As of May, this amount rises to 14,500 lire. Before the conclusion late last month of the social "mini-accord" between the employers' federation and the union syndicates and prior to the announcement of the latest VAT measures, labor costs in Italy had been expected to go up by 28% in 1977. Now, according to Labor Minister Tina Anselmi, there is a good chance of keeping this increase down to 16%, the official target.

In its Feb. 4 actions concerning VAT, the Andreotti cabinet did, however, go beyond the provisions of the social accord by deciding that the VAT rate increases shall not be reflected in the *scala mobile*, the automatic wage index mechanism. (It was officially estimated that the higher VAT rates will cause the cost of living to go up by slightly more than 1%.) This immediately incurred the protests of the labor unions, which had agreed to the social accord compromise only on the condition that the scala mobile would not be subjected to direct intervention.

Many politicians and economic experts in Italy are convinced that Rome's latest measures will be only partially successful at best, and Republican leader Ugo La Malfa described the operations as "shifting the load from one side of the mule's back to the other."

Britain: Unions List Terms for Expanded 'Pact'

Chapter VI of the U.K. Trades Union Congress's annual economic review, omitted from review versions given earlier to TUC leaders, is now being debated by the TUC economic committee. The chapter sets out in some detail the unions' "terms" for further cooperation with the government under the expanded social contract. Specifically, the document calls for a lowering of interest rates, an early increase in pensions, a cutback in the "extremely damaging" 15% rate of inflation officially predicted for the rest of 1977 and, perhaps most significantly, for a reduction in income tax by £1.7 billion for 1977-78.

Union Terms
(cont'd)

Although some commentators feel that the TUC package can be best described as "wishful thinking," there can be little doubt that the TUC will exert severe pressure for implementation of its proposals, even though the unions offer in exchange no guarantees on reciprocal pay restraints. From the government's point of view, a suitable "defense" would appear to be that the TUC proposals would inevitably result in an attendant expansion of the public sector borrowing requirement (PSBR), which would conflict directly with the letter of intent to the International Monetary Fund.

At present, there appear to be two factors which some suggest would keep union demands from infringing on the agreed PSBR limits. First of all, it is now generally considered likely that PSBR in 1977 will be "substantially less than originally thought" and "at least of the order of Ŀ1 billion less." The unions argue that a reduction in taxation in the amount by which the PSBR is less than originally extrapolated would, therefore, not infringe on the pledge to the IMF. Secondly, the government itself, whether intentionally or not, has paved the way for reduced taxation in that it has announced new plans calculated to encourage a shift to export credit finance in foreign currencies for capital projects and plant exports. Such a transfer of buyer credit business by the Export Credit Guarantee Dept. to foreign currency financing will result in cuts in public expenditure.

The reasoning is as follows: finance for this fixed-rate credit was originally provided by the nation's banks but, as a result of spiraling interest rates in recent years, the government has been subsidizing (i.e., supplementing) these funds by as much as Ŀ140 million annually and also has been putting up some of the cash from the public purse. Informal estimates for 1977 suggest that these subsidies and direct "grants" would total around Ŀ1 billion. However, if this money were to be raised in foreign currency, it would not be deemed to count against the IMF limits imposed on PSBR (Ŀ8.7 billion in '77) nor, for that matter, on domestic credit expansion. What is more, there would be no necessity for the government to subsidize export loans since these would carry OECD guideline rates of 7-7.5%.

Thus, observers say that, in theory at least, the TUC demands could conceivably be met. Whether the government will be forced to accede to them is, for the moment, a moot point.

<u>U.K. Legal Aid Covers European Court Action</u>

"Legal aid" - i.e., the payment of trial costs by the state - granted to a defendant appearing before an English magistrate's court also extends to the costs of taking the case to the European Court of Justice in Luxembourg. This clarification comes as a result of a Queen's Bench Divi-

Legal Aid *(cont'd)*

sional Court decision last month in the case of a French citizen, Roger Bouchereau, who was convicted on a drugs charge last year.

After Bouchereau's conviction, the trial magistrate had ruled that he had no power to grant legal aid and also asked for a deportation order. When the defendant's counsel argued that the latter would be contrary to European Community rules on freedom of movement within the EC, the magistrate asked that the case be referred to the European Court for interpretation. Instead, it was referred to the Queen's Bench Divisional Court which decided on Jan. 17 that legal aid could be granted if the case were taken to the European Court.

Netherlands: Wave of Strikes over Automatic Pay Indexation

Fundamental disagreements over what Dutch workers consider their "vested rights" to automatic cost-of-living increases are at the root of a strike wave that started in Holland on Feb. 7 and could become one of the most severe in postwar history. The automatic pay adjustments had been suspended last year as part of the general wage freeze, and the employers are now balking at the system's reintroduction within the framework of a new central wage accord. Keeping in mind the advent of parliamentary elections next May, the government so far has tried to avoid being drawn into the conflict, even though it stands accused of having contributed to the renewed inflation pressures via tax and rate increases, etc.

The unions' strategy is based on "surprise actions" aimed at paralyzing companies in selected sectors. Initially, walkouts were scheduled for about 80 enterprises with a total of 35,000 workers. Affected were companies in the Rotterdam and Amsterdam ports, in the construction sectors, and in certain other areas such as the printing industry (where a number of regional newspapers could not be published). Go-slow actions were planned for the Rotterdam transit system. Strikes in the dairy sector had to be cancelled, though, after an Utrecht court issued a temporary injunction ordering a 20-day cooling-off period.

While the unions demand full reinstatement of wage indexation, the employers appear only willing to pay adjustments retroactive to Jan. 1 but refuse to incur any automatic obligations for the future because of the poor economic situation. Last November, their national federation had offered pay increases of 4.5% in '77, with 2.5% due on Jan. 1 and another 2% on July 1. The unions are asking for 4.5% as of Jan. 1, with 2.5% of this as inflation compensation. Another adjustment is demanded for July 1 in accordance with price expansion as of that date. Wim Kok, chief of the FNV labor federation, declared that the unions were in a financial position to "hold out" for a long time.

Germany: Complaints on Handling of Pension Issue

The German government's handling of the old-age pension situation is becoming more confused than ever, critics say, as Bonn continues on what many independent experts and Opposition leaders label a "patchwork" approach. The main criticism centers on the failure to tell the public that only an increase in contribution rates would help relieve the financial plight of the social security system - one alternative that had been recommended by the government's advisory council. However, such a proposal would be politically damaging in view of the administration's pre-election assurances that "the pensions are safe" and also because of the heavy burden on the economy (higher employer-employee contributions).

The critics claim that Bonn's most recently proposed solution avoids facing the issue squarely, even though it will affect everyone eventually. In order to close the deficits in the pension system (DM 7 billion this year, 11 billion in '78, and 20 billion in '79), the government suggests tapping the health insurance and unemployment insurance funds, restricting soaring hospital and doctors' bills, and having the pensioners share some of the health costs. However, the plan to relieve the old-age pension funds from paying some DM 10 billion annually to the health funds for pensioners' medical bills is eventually bound to put a squeeze on the health funds, too. The proposed raising of the assessment ceilings from the present DM 2,325 monthly to DM 2,890 may give some temporary relief, but several health insurance funds have already indicated that they will be forced to raise contribution rates, which they may do as semiautonomous bodies.

The problem would be similar with the still-healthy unemployment insurance fund (UIF), which is expected to accumulate substantial reserves in the coming years. Many experts concede that making the UIF contribute to the old-age pension system for the unemployed is logical, but they believe that it should only be a matter of years until the UIF will have to raise unemployment insurance contributions (at present 3%, shared by employee and employer), not only because of this newest plan but also because the UIF would be required to pay for the rehabilitation of injured employees as well.

The final outcome of the proposed legislation is still uncertain in the face of heavy criticism from the Opposition and even from within the coalition.

Greece: Foreign Trade Law Proposal; Price Controls

A bill drafted by the Trade Ministry and practically seeking a sweeping revision of Greek foreign trade law has caused considerable dismay within the country's business community. The draft is said to abound with numerous prohibitions, limits, controls, penal sanctions, etc., and thus

Foreign Trade *(cont'd)*

would add to the long list of existing foreign trade controls at a time when Athens should begin to adapt its rules to those of the EC, according to its critics.

The main feature of the proposal is the establishment of a "price research council" which would seek to combat price manipulations. This council would in effect rank as a superior agency to the price control commissions already operating under the aegis of the chambers of commerce. It would have powers to employ the fiscal authorities in the auditing of books and records of suspected violators. Penalties listed in the draft law include fines up to double the value of the transactions involved as well as imprisonment of up to two years.

The proposed regulations evidently are designed to prevent the illegal outflow of foreign exchange, a purpose not specifically challenged by the business community. However, there are questions on whether these rules should be made the very nucleus of foreign trade law, since stiff competition in this sector tends to act as a natural price-regulating factor anyway and the number of violators is considered relatively small. Other obstacles to a more liberalized foreign trade policy are seen in the proposal to broaden the Trade Minister's powers in limiting imports and exports in terms of both volume and value (so long as this does not interfere with international agreements), requiring import and export permits, and imposing special terms (e.g., payments conditions) on individual deals.

Outside of the foreign trade sector, the government is undertaking new initiatives in the area of general price controls, shifting emphasis to consumer goods "in the interest of protecting the purchasing power of the working population." The number of products (so far mostly foodstuffs) for which fixed or maximum prices and profit margins have been decreed will be raised from 150 to 250, to include apparel, footwear, plastic products, automotive spare parts, canned goods, construction materials, etc. Further, it is planned to cut wholesale margins by 30% and to ask producers and importers to make price recommendations to the trade. All retail items are to be price-labeled. "Speculators" would face the closure of their businesses.

These announcements have generated some consternation, since the government until recently had given assurances that further price intervention was not deemed necessary. However, with the 1976 inflation rate of 11.7% having fallen short of the official target of 10%, Athens apparently believes that additional controls are unavoidable if this year's goal of 9.5% is to be met.

Common Market Reports

EURОMARKET NEWS

Issue No. 423 *Report No. 312, February 25, 1977*

IN THIS ISSUE

Community: [illegible]st Action [illegible]inst Japan Exporters

The European Commission's decision to impose a provisional 20% duty on imports of Japanese ball bearings may not be the last action against what is described in Brussels as a series of unfair trade practices by Japanese exporters. Warnings had been sent to Japan in previous years, the last one in November when the Commission threatened import restrictions if Japanese automakers, shipbuilders, and steel producers failed to slow their exports to the Common Market. But Brussels, always hoping for an amicable agreement, was reluctant to "use muscle." This approach has worked until now, though never entirely satisfactorily, and the Commission's call for voluntary curbs may partially succeed at least with respect to shipbuilding, a field where the OECD-sponsored negotiations in Paris seem to be making progress.

The steel and automobile sectors may be a different matter. Europe's steelmakers also have been demanding curbs on imports, but here the complaint is not one of alleged dumping but of lack of understanding for the plight of this industry which for two years has been in a slump, with no major relief in sight. The Commission most recently has had some success in getting Japanese steelmakers to show export restraint, while talks are continuing in the automobile sector.

This issue is in two parts, consisting of 136 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 423, February 25, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Action
(cont'd)

In imposing an anti-dumping duty against Japan's ball bearing exporters, the Commission merely did what is required of it under Community rules; the action is also in line with Article VI of GATT. Under Article 2 of Council Reg. No. 459/68, such a duty may be imposed on products that are dumped in the Common Market and that cause, or threaten to cause, material injury to an established Community industry *(Common Market Reports, Pars. 3821, 3821B)*. Last November, after receiving complaints from the Federation of European Ball Bearing Manufacturers, the Commission opened anti-dumping proceedings, hoping that the Japanese would voluntarily adjust prices. No positive reaction was forthcoming from the Japanese manufacturers, and now the Commission's preliminary investigation, also using data supplied by the Japanese, has revealed that dumping had indeed taken place and that the complaints of British, French, and German producers were justified.

The Commission's action does not shut the door to negotiations. The duty will be in force for three months, until May 7, and in the meantime the Commission will continue its investigation. Then the Council of Ministers will have to decide whether the duty should be imposed for a longer period or if other action should be taken.

The Japanese government, meanwhile, has decided to take its case before the International Court of Justice at The Hague, claiming violation of international law.

Court Opinion Due on Laid-Up Rhine Vessels

The European Court of Justice is expected to give its second opinion soon under Article 228(1) of the EEC Treaty, this time on the legality of the proposed fund for laid-up Community and Swiss barges and vessels that formerly operated on the Rhine River and its tributaries. Under Article 228(1), the Council of Ministers, or the Commission, or a member state may ask for the Court's view on a planned agreement with a third country or international organization *(Common Market Reports, Par. 5291)*. In mid-1976 the Commission did just that with respect to the plan to lay up the river vessels, the objective being to reduce excess shipping capacity. (A Swiss judge would join the European Court of Justice whenever a Swiss party is involved.) In approaching the Court, the Commission appeared to be seeking a way to avoid binding the Community in an agreement with Switzerland that later on might be declared invalid on grounds that it was contrary to EEC law.

This is the second time that the Commission has availed itself of this consultation procedure, thus appearing to refute those who criticized the Treaty's drafters for creating something that could be legally unviable. Treaty Article 228 had been virtually dormant for 18 years, but in September 1975 the Commission asked the Court for an opinion to the effect that the Community has the sole power

Vessels *(cont'd)*

under Treaty Article 113 to negotiate export credit terms with third countries (Opinion No. 1/75, *Common Market Reports, Par. 5292.32)*. Once it had the Court's unequivocal backing, the Commission initiated proceedings (under Treaty Article 163) against France, Germany, Italy, and the U.K. These states had reached a gentlemen's agreement on export credit rates and other terms with the United States, Canada, and Japan.

In Brief...

Commission attorneys are saying privately that they would not mind if the current negotiations with Greece over that country's EC membership continue for some time so as to allow Spain and Portugal to join in these talks eventually. A membership application from Portugal is expected in the near future and one from Spain after free elections have been held there. Conducting and concluding the negotiations with all three would save time and energy and make it easier for all concerned, the attorneys believe + + + Israeli and Community officials have signed two additional protocols - one that broadens the field of cooperation described in the 1975 free trade agreement and the other giving Israel access to the European Investment Bank.

Belgium: 'Egmont Plan' Sets VAT Boost, estment Aids

Stimulation of investments, measures designed to lead to the immediate creation of jobs, and increases for a number of indirect taxes - these are the main features of an economic program drawn up by the Belgian government coalition partners at a Feb. 12-13 special session at Egmont Castle. With the proposals, the Leo Tindemans administration plans to adapt the current budget to the chillier economic climate: last summer, when the 1977 budget was drafted, the economy seemed on the verge of a true recovery, which then failed to materialize. Reduced fiscal revenues and higher expenditure for unemployment and other social welfare benefits probably would have caused this year's deficit to swell to BF 60 billion. The latest program is expected to reduce this shortfall to BF 28.6 billion.

The most unpopular portion of the "Egmont Plan" undoubtedly involves the raising of value-added tax to produce additional revenues of BF 14.2 billion. The rates are to rise from 6 to 14% for such items and services as hotels, restaurants, theaters, cosmetics, and soaps and detergents; from 14 to 25% for wines and aperitifs; and from 18 to 25% for auto tires, motorcycles, and leather goods. The tax on automobile insurance is to go up from 6 to 7%. International telephone calls in the future will be subject to the same VAT rate as domestic ones, i.e., 14%. The retail price of a standard pack of cigarettes, already boosted to BF 35 at the end of last year, is to be raised further to BF 41. Premium gasoline would be subject to a BF 1 increase per liter.

Egmont Plan *(cont'd)*

To spur economic activity, the government plans to allocate for the first half year BF 89 billion for public works projects, which would mainly aid the construction and steel sectors. More generous write-offs (110%) would be offered to private investments effected within this year. Investments leading to a work force expansion of at least 20% within 18 months are to benefit from interest subsidies.

All enterprises with more than 50 employees would have to hire apprentices, and those companies that employ more trainees than legally required would be granted a BF 30,000 bonus for each trainee. Also eligible for bonuses would be unemployed individuals who accept jobs that pay less than their previous ones and those who accept part-time work. Mandatory school attendance would be extended from age 14 to 15 as of Sept. 1, and another extension to age 16 is foreseen later. The additional school year may be spent in training facilities other than the public schools. The government hopes to create an additional 50,000 jobs through these measures, thus easing the dismal situation on the labor market where a record 265,000, or 6.8%, are currently out of work.

Germany: No Change in Income Tax Rate Structure

Essentially for budgetary reasons, the German government has ruled out a revamping of the tax rate structure that was to remove inequities and benefit taxpayers in the low-income brackets. Germany's income tax system provides for both proportionate and progressive tax rates. Single taxpayers with annual incomes of between DM 8,000 and DM 16,000 (married taxpayers filing jointly, DM 16,000 to DM 32,000) pay taxes in the same proportion, at a rate of 22%. This rate jumps to 30.8% for single taxpayers earning more than DM 16,000 (married taxpayers, more than DM 32,000) and then rises progressively to the maximum of 56% for incomes of DM 130,000 (DM 260,000).

There are some advantages to the current system: it covers 62% of all taxpayers, and it is easy to apply by the taxpayer as well as by employers, who must withhold income tax from wages and salaries. Still, a system that takes the same proportionate tax bite from a taxpayer earning DM 8,000 and one earning DM 16,000 a year has been termed inequitable, and so the 1974 Individual Income Tax Reform Act *(Doing Business in Europe, Par. 30,680)* contained a clause calling for enactment by Jan. 1, 1978, of a genuine progressive tax rate structure ranging from zero to 56%. But this idea was conceived when the economy was booming and the treasury had ample revenue, whereas now the economy is still far from being back in full swing and revenue is short.

In its latest report to Parliament, the Schmidt administration concedes that introduction of a progressive rate

Tax Rates
(cont'd)

system would be feasible in administrative terms but cannot be recommended, largely for budgetary reasons. According to the report, even a minor reform would shortchange the treasury by some DM 3.6 billion annually. An example of another undesirable result: a single taxpayer with an annual income of DM 13,800 would pay only DM 150 less in tax yearly under the suggested system. If his income rose by a mere DM 1,200, the tax rate would be not 22% but 28%. This, the government says, cannot be done to taxpayers already overburdened with taxes and social security contributions. Thus, the government recommends some modifications in the present system by cushioning and delaying the jump from the 22 to the 30.8% rate by increasing the allowances for special expenses such as insurance premiums and contributions to building and loan associations. Legislation to this effect would probably be introduced during the current legislative session.

Italy:
Rome Expects Passage of Stability Plan

The Italian labor unions, the Communists, and the Socialists have served notice on the Andreotti administration that its continued survival could be at stake unless it agrees to amend some provisions of the latest economic stability package. The most outspoken warning came from Enrico Berlinguer, the Communist party boss, who complained of the government's failure to consult his party over the proposed austerity measures, specifically those providing for the exclusion from pay indexation of cost-of-living increases expected as a result of value-added tax boosts totaling 1,400 billion lire. Still, it was generally agreed that the unions and the left-wingers in Parliament were not looking for an all-out confrontation at this time, and this appeared to be supported by the unions' decision not to call for a general strike but instead schedule worker meetings in plants and, in the provinces, two-hour warning strikes.

Prime Minister Giulio Andreotti reportedly took a calm view of the protests, confident that at least the essential elements of the program will have to be approved by Parliament if Italy is to have a chance of regaining some economic stability and obtaining continued financial support from its foreign allies. Thus, the premier emphasized the positive aspects of the latest developments, saying that the so-called "mini-accord" between employers and unions as well as Rome's additional fiscal and incomes policy actions have put his administration in a position to resume negotiations with the International Monetary Fund over a further $530-million loan. Among the IMF conditions for such a credit was an appreciable reduction of Italy's current 21% inflation rate as well as corresponding cuts in wage costs - terms that could now possibly be achieved. However, it was reported that Andreotti wants to hold off

Stability (cont'd)

on these discussions until he can be certain of parliamentary passage of the austerity program, or at least of its key elements.

Britain: Trade Deficit; Bullock Report; Pay Issue

In the third week of February, the U.K. Labour government's aspirations were dealt major blows by the latest trade statistics, the Confederation of British Industry, and leading labor unions.

First of all, the foreign trade figures for January revealed a deficit of £545 million, the highest monthly total on record. Although the figures were distorted to some extent by the effects of the Christmas vacation, the deficit stunned the City and caused the Financial Times share index to drop a solid 15 points. At the same time, sterling closed 1.5 cents down against the U.S. dollar at $1.6970, i.e., just below the "magic" figure of $1.70.

Secondly, the Confederation of British Industry restated unequivocally its opposition to the proposals set out in the controversial Bullock report on industrial democracy and made it clear that it would be reluctant to participate in the government's future economic recovery strategies if (a) there is to be imposition by law of union-nominated directors on company boards, (b) parity of representation for union-nominated and shareholder-elected directors, and (c) union monopoly in the election of worker directors. It was then reported from Westminster on Feb. that Prime Minister James Callaghan and CBI delegates had "agreed on the possibility of putting aside temporarily the Bullock proposals" and initiating discussions on "participation below board level." Such a move was, predictably, not welcomed by the labor leaders who regard the introduction of worker democracy as one of their principal goals and who were quick to remind the government that an undertaking in this direction had been central to its election platform. In the absence of "realistic" government efforts to put some such machinery into operation, it was argued, the administration cannot expect that the Trades Union Congress will adopt a sympathetic attitude to the continuation of the "social contract," and neither can it expect that the unions will give any undertaking on pay limits when the next "stage" of pay policy is debated.

This leads to the third problem facing the government: mounting pressure by the TUC rank-and-file to return to free collective bargaining. Although it has been calculated, by the CBI, that Britain cannot afford pay increases of more than about 3% in the next stage, the powerful Amalgamated Union of Engineering Workers has voted for an end to wage controls, saying (in a thinly disguised allusion to the worker-director issue) that it does not wish a "one-sided social contract." Similarly, the National and Local

Deficit
(cont'd)

Government Officers' Association has stated that the extent to which the government is prepared to act to restore cuts in "constructive public spending" will affect that union's attitude to Stage Three of the social contract.

France:
'Buy French'
Drive by Paris,
Industry

Both the Paris government and domestic industry are currently pushing a "buy French" campaign aimed at consumers and at public and private procurement. President Valéry Giscard d'Estaing declared that "whenever Frenchmen buy an imported product instead of a domestic one, they are making a decision against (domestic) employment." The same message was spread by François Ceyrac, head of the Patronat Français employers' federation, who urged his countrymen to practice "commercial patriotism" and called for a fight against all practices that "unreasonably persuade French buyers to purchase foreign products."

For his part, Prime Minister (and Economics Minister) Raymond Barre reportedly has already instructed public administrations and state industries to favor domestic capital equipment in their procurement policies "whenever possible." Foreign Trade Minister Rossi asserted that French industry must regain its position on the inland markets and be more aggressive and determined in the foreign markets, particularly in the export of consumer goods to other industrialized countries.

Some commentators recalled, however, that only last December the Minister had denied any intention of inaugurating a "buy French" campaign, since this allegedly would not reflect very favorably on the world's fourth-largest export nation. Instead, Rossi declared then, it would be up to domestic industry itself to check the advance of the foreign competition. In the meantime, however, it has become apparent that the devaluation of the franc has not helped to return the balance of payments to an equilibrium, thus forcing Paris "to do something."

As part of the latest campaign, complaints also are directed against alleged dumping practices on the part of Japan and other "low-wage" countries. But, as was pointed out, of France's FF 20-billion foreign trade deficit last year, 60% alone stemmed from trade with West Germany, which is anything but a low-wage country. Thus, some critics charge, the dumping methods of foreign competitors are not to blame for the French deficits but rather "the inclination of French industrialists to mobilize not so much their own resources but (the help of) the domestic authorities."

Government officials insist that the appeals to the consumers and the directives to the public administrations do not violate basic Community rules, although it is pri-

Drive *(cont'd)*

vately conceded that "procurement nationalism" is not conducive to a fair-trade policy. But the alternative, the argument goes, would be for Paris to introduce, sooner or later, import restrictions to prevent the build-up of huge deficits.

Denmark: Social Demos Score Gains in Elections

The Social Democrats, which so far have operated a minority government in Denmark, have emerged with a strengthened mandate from the Feb. 15 national elections: they won an additional 12 seats for a total of 65 and are now in a better position to negotiate a coalition administration that could even have a majority in the 179-seat Folketing. The biggest setback in the vote was suffered by Poul Hartling's liberal Venstre, so far the strongest Opposition party, which lost exactly half of its previous 42 seats. As a result, the anti-tax Progress Party of controversial lawyer Mogens Glistrup took over as the second-largest party in Parliament, gaining two mandates for a total of 26.

Prime Minister Anker Jörgensen, who had called the early elections without submitting his resignation, said he would immediately explore possibilities "for broader cooperation and a broadened government" in order to have a better chance of tackling the "uncomfortable" economic issues facing the country. Although Jörgensen's Social Democrats did score some gains, they will still have to work with the four non-socialist center parties in the Folketing, among which the Conservatives count themselves, too. They are the Radical Liberals and the Christian People's Party with six seats each, the Center Democrats (11), and the Conservatives (15). Together, the five parties of the 1976 "August compromise" - which want to reduce unemployment and the foreign debt by way of some budget cuts, higher indirect taxes, work procurement programs, and pay rise limits - have now gained a solid majority of 103 mandates. It is expected, however, that Jörgensen will initially continue with a minority government in order to give himself sufficient time for the difficult coalition talks.

Common Market Reports

EUROMARKET NEWS

Issue No. 424 March 3, 1977

IN THIS ISSUE

Community: Talks Continue on Lawyers Directive

A working group of the Council of Ministers is attempting to wind up its discussions on the European Commission proposal that would permit an attorney admitted to the bar in one member state to represent a client in civil proceedings or defend an accused in criminal trials in another state. After years of discussions the proposal was submitted last November to the Permanent Representatives, who settled all outstanding issues except one: whether an attorney, in the exercise of activities other than representing clients in court, should be bound by the professional rules of conduct of his home state only or whether he should also have to observe the bar association rules of the host state.

All member states except Italy have agreed on an amended version of the Commission's original proposal *(Common Market Reports, Pars. 9765 and 9782)* which calls for observance of the fundamental rules governing professional standards of the host state bar association. The Italian government wants the guest attorney to satisfy all conditions and abide by the same professional rules of conduct that the domestic attorney must observe. Four fundamental rules are listed in the proposal: professional secrecy, the confidential nature of the relationship between attorneys, a ban preventing an attorney from giving advice to

COMMON MARKET REPORTS, Issue No. 424, March 3, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Lawyers *(cont'd)*

parties with conflicting interests, and a ban on self-promotion in a manner not in keeping with the dignity of the profession.

Council attorneys are optimistic that Italy will give in, thus clearing the way for Council adoption. Several member state governments insist on entering statements in the Council minutes at the time of adoption, but these would have no binding character and would merely reflect an interpretation that a government wants to give to a particular provision. For example, the German government (which had "negative experiences" with some members of the German bar who maintained links with left-wing radicals and actively took part in criminal acts) is reserving the right to bar an out-of-state attorney from representing clients in court when his exclusion is deemed necessary in the interest of national security. An express reservation is not necessary, however, because EEC Treaty Article 56 and secondary Community law allow the member states to implement measures in the interest of public policy, security, and health *(Common Market Reports, Pars. 1481-82)*.

Some Progress on Common Fishing Policy

The Community's fishing policy is still lacking a common denominator, with Ireland now having carried out its threat to extend its national fishing limits to 50 miles and having moved to either ban the presence or restrict the size of foreign fishing boats. However, the Council of Ministers has agreed in principle on a number of interim and permanent measures for the conservation and management of fishing resources. Also, confrontation with the Kremlin has been avoided because the Soviet government has agreed to discuss fishing rights with the Community, even though that does not mean recognition of the EC as a legal entity. To do so would require a formal step: accreditation of a Soviet ambassador with the Community.

Interim measures include a ban on direct fishing of herring in the North Sea (with the exception of unavoidable and limited by-catches) until the end of April and a 20% reduction of by-catches as of April 1. Another measure restricts fishing of Norway pout, which is used for the manufacture of fish meal, within specific longitudes and latitudes until the end of this month. Definite action is to be taken in May and August when the Commission plans to present its proposals based on the advice of a group of scientists.

Among the permanent measures is a ban on the use of vessels that carry out processing operations in addition to those of salting, boiling shrimp, filleting, and freezing. Fishing boats must reduce their unavoidable by-catches to a certain, not-yet-stated maximum. There would also be a ban on direct fishing of herring stocks in the Irish Sea until December 31.

Fishing *(cont'd)*

The Permanent Representatives are now putting the various texts into final editorial and legal form, and Community officials hope that Ireland will withdraw its reservations so that the Council of Ministers can take formal action.

In Brief...

After having reached a basic agreement in December, the Council on Feb. 14 formally adopted the directive that will approximate member state laws to protect employee rights in case of transfer of enterprises, businesses, and parts of businesses. The member states have two years within which to introduce new regulations or amend existing legislation + + + Advocate General Jean-Pierre Warner has strongly supported the Commission in its fight to make nine European sugar companies pay antitrust fines in their national currencies and not in Italian lire, which had sharply declined in value, thus saving the firms some 45%. The European Court of Justice is expected to hand down its ruling shortly with an interpretation of its 1975 judgments as requested by several companies.

Netherlands: Parliament Gets Investment Promotion Law

The Dutch government has now presented to Parliament the draft of an investment promotion law which, among other things, is intended to help reduce unemployment from currently 210,000 to 150,000 by 1980. The Hague plans to allocate direct subsidies in the total amount of 13 billion guilders for this purpose. Originally, the new aids were to have replaced existing investment allowances and accelerated depreciation *(Doing Business in Europe, Par. 30,831)* as of April 1; however, it is doubtful whether the law will pass Parliament prior to the May 25 general elections.

The draft legislation provides for all investments a basic bonus of 11% for buildings and of 7% for other installations. In addition, there would be five extra bonuses available, which would be cumulative but together could not exceed a fixed percentage of the total investment:

(1) The first 200,000 guilders of any investment would benefit from a 2% bonus, which should particularly help small and medium-sized enterprises.

(2) For projects valued in excess of 15 million guilders, the investor could receive an extra 15,000 guilders per newly created job, up to a maximum of 4% of the total investment.

(3) To promote regional development, investments in areas located away from the industrialized centers between Amsterdam and Rotterdam would benefit from bonuses of 12% for buildings and of 6% for other investments.

(4) An additional 20% for buildings and 10% for other installations would be granted to investors locating their projects in designated development areas.

(5) These same percentages would apply to three particular "problem regions" in the north and east of the country.

Investments *(cont'd)*

Thus, under optimal circumstances, the basic bonus and the additional grants could total 50% of invested funds for buildings and 25% for other installations, reports said.

The new law would have the dual purpose of stimulating investment activity as well as channeling investments in the desired direction, both in economic and "social" terms. This has given rise to business fears over too much government intervention in this area. Economic Affairs Minister Ruud Lubbers has insisted, however, that the aids would be provided according to "strictly objective criteria" and in no way would encroach on private investment decisions.

The 13 billion guilders to be set aside until 1980 for the investment subsidies would enlarge the Dutch budget deficit by 8 billion guilders, and the government expects to finance 5 billion guilders of this shortfall by eliminating the existing tax credits. Another, political problem involves the European Commission's objections to some of the proposed regional investment incentives which allegedly would be in violation of Treaty of Rome rules prohibiting aids that could distort competition. However, the draft law provides for implementation of the challenged aids only after an agreement with Brussels has been reached, and the government hopes to clear up these problems in talks with the EC partners or, if necessary, in proceedings before the European Court of Justice.

Belgium: Strike Wave in Protest of Economic Plan

Despite lower-house approval on Feb. 17 of the Belgian government's most recent economic stimulation program, the measures remained controversial enough to trigger massive social unrest and a series of potentially crippling strikes. The two leading trade union organizations, the Confederation of Christian Unions (CSC) and the General Federation of Belgian Workers (FGTB), described the government moves as "the last straw" and "reactionary," with FGTB secretary-general Georges Debunne charging that the proposed value-added tax increases would boost inflation by between 1 and 1.5%. Debunne announced a schedule of 24-hour general strikes on the Fridays of five successive weeks, beginning on Feb. 25 with the two provinces of Hainaut and West Flanders and concluding on March 25 with Brabant and Brussels.

At the same time, union leaders representing some 733,000 workers in the public sector announced another series of walkouts, partly aimed at the new budgetary measures, but also in protest of the government's refusal to have last year's 8.5% rise in the cost of living applied to their holiday pay and year-end bonuses. (The unions claimed that the indexing of the bonuses would cost only BF 1,750 per employee.) The state railways and local town halls were hit by strikes on Feb. 25, municipal transit systems were to be the target of a 24-hour stoppage on March 4, and all other public-sector employees were scheduled to strike

Strikes *(cont'd)*

on March 11. Post office workers earlier, on Feb. 17, had also walked off their jobs when their own pay talks broke down.

The series of strikes has noticeably worsened the already chilly labor climate in Belgium: union leaders for some time have been concerned about the deteriorating relations with the government and employers, annoyed over the deadlock in talks aimed at reducing the workweek, and disturbed by the government's apparent failure to ease unemployment.

Industry reception of the measures, on the other hand, has been generally favorable. On the day of parliamentary approval of the government plan, on Feb. 17, the National Bank reacted also by lowering both the discount rate and the Lombard rate from 8 to 7%. The Bank announced that domestic inflation was currently at 8% (the government's measures had been based on a projected rate of 8.1%).

Germany: Tax Relief for Purchases of Older Houses

Government attorneys are drafting amendments to Germany's Income Tax Law (EStG) and other tax statutes that would accord buyers of older houses essentially the same tax relief granted to buyers of new houses. Under Section 7b EStG, a taxpayer buying or building a one-family home or condominium may over a period of 8 years deduct from his income tax liability 5% annually of the purchase price or construction cost up to a maximum of DM 150,000 (DM 200,000 for two-family houses). This tax benefit has been one of the most effective instruments used to date to stimulate construction of private housing in Germany, since tax savings for the homeowner in the middle-income bracket range between DM 2,000 and DM 3,000 yearly.

Government officials have indicated that the new measure would be retroactive to Jan. 1, 1977. In addition, the administration has now indicated that it would propose legislation to free buyers of older houses from the real estate acquisition tax *(Grunderwerbsteuer)*, which varies from state to state but generally amounts to 6 or 7% of the purchase price.

Bonn wants to attain several objectives with the measures. One ties in with its current program to stimulate labor mobility: Germans tend to be reluctant to sell their homes and to relocate in order to accept a job elsewhere. It has been estimated that perhaps as many as 150,000 openings could be filled if the unemployed, many of them homeowners, could be induced to move.

There are also hopes of boosting urban renewal with the measures. It is believed that the proposed rules, together with modernization grants available since the beginning of this year, would prompt more individuals to buy

Tax Relief *(cont'd)*

older buildings in the inner cities (also as a form of investment) and help save them from decay and eventual destruction. Many of these houses were built before the turn of the century and are being neglected by the present owners, though many of them are worth saving and modernizing. Such modernization and renewal projects would also help architects, draftsmen, and small building firms to weather the current slump in the construction industry.

Although the communities already have done a great deal by offering limited grants for modernization and improvement and by sponsoring house beautification competitions, local government officials welcome the planned tax measures, saying that the present system of favoring only owners of new homes has contributed to the establishment of sprawling housing projects on the fringes of the cities, with subsequent, high infrastructure costs.

Italy: Double Taxation of Dividends to End?

Recognition in Rome that a fundamental recovery of the domestic economy hinges to a great extent also on strengthened capital resources of Italian companies reportedly has speeded government plans for an elimination of double taxation of corporate dividends. The reports said that the coupon tax on dividends *(cedolare secca)*, which was raised from 30 to 50% last fall, is to be replaced by a tax credit system as exists in such countries as France and Belgium and, more recently, Germany. Details are yet to be made public, however.

The rumor over an impending tax break for domestic dividend distributions immediately caused a rally on the Milan Bourse, where demand picked up for shares of companies that are still able to pay dividends despite the poor economic situation. Fiat, Pirelli, and cements and insurance shares led the action. The market also benefited from unconfirmed reports according to which numerous leading export companies have been enjoying a healthy boost in their foreign order volumes since the beginning of the year.

Britain: Government Plans to Retain Price Controls

Despite pressure from various sectors of industry, the U.K. government is determined not to abandon price controls when its powers to enforce the present Price Code expire on July 31, 1977. This was made clear in a consultative document released on Feb. 22 in which the government proposes that the Price Commission (established in 1973) continue to be responsible for price policy which, as the document notes, at present consists of two elements, namely, the Price Code proper and investigations undertaken by the Price Commission on issues referred to it by the Secretary of State.

Price Controls *(cont'd)*

The government now proposes to ask Parliament to enact legislation to retain the powers to make and enforce a Price Code, these powers being used to maintain "control over the net profit margins of manufacturing and service firms and the growth and net margins of distributors" (i.e., retailers). The present system, which allows price increases in line with increased costs, is to be dropped and, instead, the Price Commission would acquire broad investigative authority and powers to make recommendations concerning individual companies. Investigations would be limited to a maximum of three months, during which time prices might be "frozen." In addition, the Commission would also study individual sectors, product groups, and pricing practices generally; in such instances, however, there would be no price freeze during the investigation.

No Chance for Devolution Bill in This Session

The Scotland and Wales Bill, which provides for U.K. devolution legislation involving the establishment of separate legislative assemblies in Edinburgh and Cardiff, respectively, will remain unenacted in the current parliamentary session. The government suffered a heavy defeat in the Commons on Feb. 22 when its "guillotine resolution" (i.e., a motion to impose a time limit on the debate of the Bill) was rejected by a vote of 312-283. Although there has been no decision as yet to kill the proposed law and despite official claims that the setback was only "temporary," observers said that the defeat on this key item of legislation introduced in this session (essentially along the lines of the earlier consultative White Paper - *Doing Business in Europe, Par. 30,738*) could well jeopardize the Labour government's chances in the next general elections.

The defeat of the guillotine resolution means that 12 of the Bill's 15 clauses and all 16 schedules have yet to be debated. It also means that the government's program is somewhat in disarray: not only may the devolution legislation be lost, but there also is serious concern over the future of yet another controversial bill on the nationalization of the aircraft and shipbuilding industries *(Doing Business in Europe, Par. 30,798)* and, in the European context, the projected bill on direct election to the European Parliament.

EURO COMPANY SCENE

Cummins

The United States' Cummins Engine Co. has announced a five-year, £30-million investment program for the expansion of its Scottish diesel plant at Shotts, Lanarkshire, where the output of heavy six-cylinder engines is to be doubled. The investment would make the plant Cummins's No. 1 production center in Europe in anticipation of stronger demand for diesel engines in Europe, the Middle East, and Africa. The

Cummins *(cont'd)*	plant would turn out 90 units per day by 1980-81, which will mean 1,200 new jobs in addition to the 1,450 now existing. The expansion project is benefiting from major financing aid provided by the Scottish Development Agency and the U.K. government.
Joseph Terry/ Colgate	The U.K.'s Joseph Terry & Sons, the confectionary products subsidiary of Trust Houses Forte Ltd., has been valued at some $30 million by the Colgate Palmolive Co. which is currently negotiating a takeover.
ADDS/ Racal/ Milgo	Applied Digital Data Systems (ADDS), the U.S. electronics company, has now formally conceded defeat in its protracted struggle with Britain's Racal Electronics over the acquisition of the Miami-based communications group Milgo Electronic and has accepted Racal's $36 per-share offer for the 47% equity in Milgo that it had succeeded in acquiring.
Gallaher	U.S.-owned tobacco manufacturer Gallaher has announced a $20-million reequipment plan for its plants in Manchester, England, and Belfast and Ballymena, Northern Ireland. The program will run over four years and will result in the layoff of several hundred workers, mainly through attrition. Gallaher's move is seen as a step to hold prices at competitive levels after the introduction of the new U.K. tobacco tax structure scheduled to come into effect in January 1978.
Hoffmann-La Roche	Denmark's Monopolies Appeal Board has now definitely invalidated a June 1976 decision by the country's monopolies authority ordering price cuts of 20% for the Valium and Librium tranquilizers produced by Switzerland's Hoffmann-La Roche as well as for four similar competitor products. The companies involved - Roche's Danish subsidiary, two other domestic companies, and a Norwegian firm - had appealed the authority's order on the grounds that it referred merely to the pricing of individual drugs rather than the price policies of the companies and the pharmaceutical sector as a whole. In an interim ruling last year, the Appeal Board had stayed the order pending a closer study of the case.
Nationale-Nederlanden/ Security Life	Agreement in principle has been reached on the bid of Holland's Nationale-Nederlanden insurance group to take over Security Life & Accident Co., Denver, Colo. The Dutch company is aiming for at least 51% of Security's outstanding stock (Series A common) at $25 per share. The same terms have been offered and accepted for the privately held shares of Series B stock. Security Life reportedly has a policy volume of about $2.8 billion, a net premium income of $35 million, and assets of about $160 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 425 *Report No. 313, March 8, 1977*

IN THIS ISSUE

Community: Use of Coal by Electric Power Plants

The European Commission has asked the Council of Ministers to allocate 500 million units of account (roughly $600 million) over the next 15 years for promoting the use of coal in the generation of electric power. Community grants would be made available to utilities investing in the costly conversion from oil to coal fueling, regardless of whether the coal comes from Community mines or not. The grants, which could amount to as much as 30% of investment costs, would also be given for the construction of new coal-fueled plants. Commission officials stress that the action is necessary in order to reduce the Community's dependence on oil imports and to secure the energy requirements for the 1980s.

In 1974, under the impact of the oil crisis, the Council of Ministers had established several energy objectives. One of them was to boost annual consumption of coal in power plants to around 150 million tons by 1985 (as compared with some 120 million tons last year). Another was to reduce the EC's dependence on oil imports, which made up 52% of total energy needs in '75. This target can no longer be attained, according to the Commission which in fact fears that without immediate action, annual coal consumption in the future might drop to 90 million tons as many existing

This issue is in two parts, consisting of 104 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 425, March 8, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Coal Usage *(cont'd)*

power plants will be forced to replace obsolete equipment. It points out that despite national government efforts, there are simply not enough economic incentives for utility companies to continue using coal or convert to coal because the investment costs for such installations are about 20% higher than for those using oil fuel. Similarly, operating costs are also higher.

Another reason for putting more emphasis on coal, the Commission believes, is the slowed development of nuclear-powered energy because of reduced economic growth rates, high fuel prices, energy conservation measures, and the successful blocking or delaying of plant construction by environmentalists. Therefore, nuclear energy will not attain the rank projected by the Council of Ministers in its 1975 resolution, which called for the expansion of nuclear energy resources with coal as a main alternative.

The Council has not yet responded to the plan and will not do so until opinions are received, probably toward the end of this month, from both the European Parliament and the Economic and Social Committee.

Automotive Noise Levels; Foreign Nurses

The Council of Ministers has approved amendments to a 1970 directive that will require automakers to reduce automotive noise levels even further after April 1, 1980. The directive established decibel limits for passenger cars, trucks and buses and also set down the standards and methods of measuring engine noise *(Common Market Reports, Par. 3371.05)* The present maximum levels, ranging from 82 to 91 decibels according to the type of vehicle, will be lowered to 80-86 decibels. The biggest reduction, amounting to 9 decibels, will affect buses: since they are the most frequently used means of mass transportation in congested areas, they also are considered the most annoying.

In another area, only one major problem is preventing the Council from adopting the directive that would grant nurses the right to settle and provide their services anywhere in the Community: the language requirement *(Common Market Reports, Par. 1349.56)*. The Danes maintain that a foreign nurse dispensing drugs in a hospital should have a reasonable command of Danish. The other member states and the European Commission have answered this argument by saying that, although some knowledge of the native language would be desirable, nurses generally are familiar with the names or Latin designations of many drugs. Also, Copenhagen's demands for a language requirement would mean that an otherwise highly qualified foreign nurse would be denied employment in a Danish hospital.

In the physicians directives, the Council solved the issue created by Belgium's resistance to the prospect of a foreign doctors' "invasion" by allowing the member states

Directives *(cont'd)*

to offer and promote language courses but at the same time refrain from subjecting non-nationals to mandatory language tests.

Germany: Progress on Antitrust Amendments

Although legislation to tighten merger control criteria will not go to the German parliament prior to the summer recess, the amendments to the Law against Restraints on Competition (GWB) are taking shape, and a major change would concern Section 24 GWB. According to that provision, the parties to a planned merger need not notify the Federal Cartel Office thereof if the absorbed enterprise had sales of DM 50 million or less the previous year *(Doing Business in Europe, Par. 23,510B)*. Last year the Monopoly Commission recommended repeal of the DM 50-million rule in light of the growing trend of large companies to acquire firms with annual sales just below the DM 50-million mark. (In one instance a large corporation acquired 19 smaller firms with sales of less than DM 50 million.) The government became worried about the extent of such practices because the original rationale behind the provision had been to ease mergers between small and medium-sized businesses and not to permit large entities to swallow up small enterprises *(Doing Business in Europe, Par. 30,890)*. Since repeal of the rule would mean substantial work for the Cartel Office, government lawyers are talking about a DM 10-million or DM 20-million threshold.

Another amendment, this time to Section 23 GWB, would stop yet another practice that the government finds reproachable. According to that rule, if an enterprise acquires 25% or more of the stock of another firm, both are required to notify the Cartel Office *(Doing Business in Europe, Par. 23,510A)*. In the past, parties often evaded this requirement by coming to an arrangement by which the enterprise bought only 24.9% of the stock, yet effectively gained 25% control by reaching an understanding with one or several shareholders. The experts so far have not decided just what change would be proposed.

In yet another area, Bonn has decided to act against the growing practice among chain and department stores of demanding money or other favors from manufacturers in return for prominent display of their products. Many businesses apparently have failed to adhere to the voluntary code established last year by business associations which had urged a halt to these practices. A recent Supreme Court ruling outlawed fees demanded by stores from manufacturers to include the latter's products in a store's stock. In the case at issue, a store had demanded DM 1,000 from a coffee-roasting company in return for stocking that company's brand.

Antitrust
(cont'd)

A decision on whether non-binding price recommendations should be outlawed will be reached after the government's report on the system is published, which is expected for June. It is certain, though, that no attempt will be made to legislate the Monopoly Commission's recommendations for the energy and banking sectors. It had suggested price and investment controls for the largely government-owned utilities and a 5% limit on banks' equity holdings.

Denmark:
Continuation of
Minority Rule;
Economic Plan

As had been forecast in some quarters, Prime Minister Anker Jörgensen for the time being will continue with a Social Democratic minority administration after his party had scored some gains in Denmark's Feb. 15 general elections. After 10 days of vainly trying to form a coalition with the non-socialist center parties, Jörgensen presented his new cabinet with only slight changes, though without precluding the possibility of again aiming for a majority coalition later this year. Still, the premier was successful in obtaining the necessary support for a four-point package of economic measures which was introduced at the first session of the new Folketing, on March 1.

The new program involves an employment procurement plan for the construction sector, with subsidy allocations of 800 million kroner. This plan would be expected to trigger demand in the equivalent of 2.8 billion kroner, or about 1% of GNP, and to create some 20,000 new jobs. If successful, it would reduce unemployment by one point to about 7%. Financing would be obtained through surcharges on electric power consumption and on mortgage bonds, with revenues expected to total 1 billion kroner. The electricity surcharge in effect would be another form of the energy tax that the government originally wanted to impose on crude oil but for which it could not get the political backing. In fact, it was disagreement over this specific issue that led to the failure of the coalition talks.

The economic program further provides for curbs on the rise in housing costs in the form of ceilings on real property tax and rent increases. With this action, the government hopes to prepare the ground for labor union acceptance of pay rise limits of 6% each this year and next. The Jörgensen administration also succeeded in gaining the support of the center parties for a four-year defense budget, which now makes up about 6.3% of government spending and is to remain at that level through regular inflation adjustments.

The most significant change in the new cabinet, which was expanded from 15 to 18 members, involved the transfer of Ivar Nörgaard from the "market ministry" to the trade ministry. Thus, Foreign Minister Knud Andersen in the future will also have jurisdiction for economic policy nego-

Minority Rule *(cont'd)*

tiations with the European Community. Other key posts remained in the same hands, with Per Häkkerup continuing as economics minister and Knud Heinesen as finance minister.

France: Paris Unveils Aid Plan for Steel Industry

Pending detailed agreements between managements and unions, the French cabinet has approved an assistance and rescue program for the domestic steel sector which would impose partial and temporary government control on this crisis-stricken industry. Once again, Paris has agreed to step in with financial aid, though this supposedly will amount to "less than FF 3 billion" and be made subject to the proviso that a "substantial" part of the rationalization and modernization investments be financed out of the industry's own resources. The state is to have a direct influence on how the credits are utilized and would require the companies involved to deposit part of their shares as a quasi collateral. A more intriguing element of the plan is the government's demand for participation in "profits," though this would be merely on a temporary basis.

A major aspect of industry rationalization involves the acknowledged need to close down outdated production facilities and reduce work forces by 10,000-20,000 employees until 1980. Here, Paris is willing to help ease the transition by providing funds for the creation of substitute employment, retraining programs, and early retirement of elderly steelworkers. The Lorraine region - with 81,000 of the country's 150,000 steelworkers - is to receive FF 100 million in credits and FF 20 million in subsidies for this purpose. The necessary social plans are to be worked out by the companies and the unions by mid-April. The Communist-led CGT, which favors blanket nationalization of the steel sector, has already vowed to block the program on the argument that it would mean continued subsidization of steel producers at the expense of mass dismissals.

The French steel sector is saddled with FF 33 billion in medium- and long-term debts (FF 7 billion of this in state loans), which amounts to 104% of last year's turnover. This compares to a 45% indebtedness of Britain's steel industry and 15% of Germany's. Also, productivity is vastly lower than in other countries: the French steelmakers require 11 work hours to produce one ton of steel as compared with 7.5 in Germany and 6 in Japan.

Netherlands: Pay Agreements Mark End of Strike Wave

By the beginning of this month, labor peace had been generally restored in Holland following a three-week series of selective, but damaging strikes affecting mainly the Rotterdam and Amsterdam ports, the building and metals industries, and several other sectors and enterprises. The 18,000 port employees returned to work on Feb. 28 after having negotiated real wage increases of 1.8% retroactive

Strikes *(cont'd)*

to Jan. 1 plus a cost-of-living adjustment of 2.5%. Earlier, agreements also were signed for the construction industry where the increases were fixed at 1.25% (Jan. 1) and 0.50% (July 1) plus automatic inflation adjustments. Still continuing were the talks in other sectors and companies (Akzo, Philips).

The government, meanwhile, has expressed apprehension about the strikes' impact on the domestic economy, fearing that the modest gains recorded last year may now be wiped out. Within the business community, the results of the wage talks so far were considered a severe disappointment, particularly in view of the fact that the employers at first had been strenuously opposed to the inclusion in the contracts of automatic inflation adjustments. Wage costs are now expected to rise by 7% this year, thus exceeding the official target of 6% and despite the government's promise to lower employer social contributions and provide wage cost subsidies for small and medium-sized businesses.

Britain: Leyland Crisis Triggers Attack on Government

U.K. Prime Minister James Callaghan has come under strong attack in the House of Commons following a report to the National Enterprise Board in which major automobile manufacturer British Leyland spelled out its severe financial plight (primarily in terms of cash flow) in the wake of serious, strike-induced production stoppages. The total number of workers idled was given as 28,000 on March 2, and a total of 40,000 was predicted for the end of that week. Industry observers considered these figures "remarkable," given the fact that there were only 3,000 actual strikers, i.e., the toolmakers who were demanding restoration of "wage differentials" and whose walkout was in defiance of return-to-work instructions issued by the Amalgamated Union of Engineering Workers.

Grave as the dispute was for the economic viability of British Leyland and the entire U.K. automotive industry, it also reflected on the role of the company's principal shareholder, the National Enterprise Board, and raised questions about the government-backed investment program that had been designed to put the company "on the road to recovery." It is now conceded that the "recovery strategy" has been completely disrupted and that there will have to be a revision of the planned £2.8-billion, 10-year investment program, 50% of which is to be financed out of state funds. Above all, there was a growing conviction in government circles that companies that are allocated funds from the NEB must be seen to "have the right resources" not only in terms of balance sheets and profit forecasts but also in terms of "the human factor."

Callaghan's immediate reaction to the Commons uproar was to suggest that the government's overall economic and

Leyland *(cont'd)*

industrial strategy is justified, Leyland notwithstanding, and that the wage differential problems could be ironed out in the course of the pending negotiations on the next phase of the administration's pay policy. However, Opposition leader Margaret Thatcher argued that the social contract and the industrial strategy to which the government appears committed are "mutually incompatible."

Portugal: Devaluation of Escudo in Crisis Program

Devaluation of the escudo by 15%, a bank rate boost from 6.5 to 8%, a one-year price freeze for staple foodstuffs, and further restrictions on the import of nonessential products - these are the main ingredients of the most encompassing economic austerity program so far announced by the Portuguese government following the return of Prime Minister Mario Soares from his tour of several European capitals. Many observers believed that at least three reasons finally forced Soares's Socialist administration to take decisive action: mounting pressures by Portugal's military leadership in the face of the deepening economic crisis, the need to secure the postponed international consortium loan of up to $1.5 billion, and the country's upcoming application for membership in the European Community.

In connection with the announcement of the anti-crisis package on Feb. 25-26, Soares declared on television that the significance of the escudo devaluation should not be overrated since it was only one step in the defense of Portugal's export viability and toward improved domestic output. The Bank of Portugal temporarily suspended foreign exchange market dealings for one day, on Feb. 28, and then fixed the new exchange rate at 38.726 escudos for the U.S. dollar as compared with 32.916 just prior to devaluation. Also, the Lisbon Bourse reopened on that day after having been closed for nearly three years; trading was virtually nonexistant, however.

The latest economic program followed on the heels of another measure last month which set a 15% ceiling on pay increases this year based on pay levels prevailing last December. (Exempted from this limit are pay raises negotiated as part of collective bargaining contracts, according to the Labor Ministry directive.) The 15% limit was deemed reasonable in view of unabated price expansion; the 1976 inflation rate, according to the OECD, stood at 19.3%.

EURO COMPANY SCENE

Beecham/ Calgon/ Merck

The U.K.'s Beecham, one of the country's leading pharmaceutical and consumer products companies, is bidding to acquire the Calgon consumer products division of the United States' Merck group. Despite a drop in Calgon profits in

Beecham *(cont'd)*

1976, Beecham is convinced that the U.S. group is "very healthy" and sees the proposed acquisition, at a cost of some $82 million, as central to its plans to acquire a "solid and sizeable" marketing foothold in the U.S.

BanCal/ Standard Chartered

The Standard Chartered Bank of London has confirmed that its attempted takeover of California-based BanCal Tri-State Corp. has been allowed to lapse following a BanCal board decision that "the offer was adverse to the best interests" of the company shareholders. At the same time, however, Standard Chartered reiterated its intention of expanding its operations in California. The U.K. bank's $130-million merger bid, at $30 per share, had been termed one of the largest ever for a U.S. bank by a foreign concern. BanCal's main subsidiary is the Bank of California with 77 branches in the western United States.

Bowater/ Mercantile

In line with what appears to be a gradual withdrawal from the financial sector, British holding company Bowater Corp. Ltd. has announced it will dispose of its 71% equity in the U.S. financing concern Mercantile Industries. A potential buyer for the Bowater interest has not yet been located, according to reports.

Control Data

Control Data Europe, Inc., Belgian-based subsidiary of Control Data Corp., Minneapolis, Minn., is scheduled to shut down by midsummer its European administrative headquarters in Brussels. Control Data said that the closure, involving some 100 employees, would not affect the company's Belgian marketing program and that the organization's European operations would henceforth be administered directly from Minneapolis. A spokesman insisted that the move was "definitely not" connected with the new U.S. income tax reform provisions that expose American citizens abroad to partial double taxation. Control Data's European companies are now "mature enough," a company statement said, not to require the presence of about 40 American specialists in Brussels.

Beckman

According to Swiss reports, Beckman Instruments Process SA, a Geneva subsidiary of the U.S. company, will be closed down at the end of August to be relocated in Amsterdam. The subsidiary, which produces measuring instruments for environmental control, employs 62 workers, some of which are to be transferred either to another Beckman company in Geneva or to Amsterdam.

Common Market Reports

EUROMARKET NEWS

Issue No. 426 *March 16, 1977*

IN THIS ISSUE

Community: Butter Deal Again Points Up Farm 'Mess'

The European Commission's decision to ban the sale of subsidized butter to the Soviet Union and other East Bloc countries for the foreseeable future may have calmed outraged consumers, but it does not in any way help the Community out of what critics describe as an "agricultural mess marked by subsidized prices and overproduction." What caused the most recent uproar was not so much that a French Communist businessman and millionaire obtained a license for shipping 36,000 tons of butter to the Soviet Union but that the butter will cost the Soviets only 30 cents a pound, whereas the retail price in the Common Market is about $1.80. (The French agency acted entirely within the EEC law - *Common Market Reports, Pars. 641-45.*)

Storage of surplus butter (about 300,000 tons at present) costs Community taxpayers roughly $1 billion annually. Furthermore, with EEC butter prices considerably above world market levels, exporters benefit from a subsidy that amounts to approximately $2,300 per ton.

Annoying as it may have been to the public, the most recent sale of butter to the Soviet Union does not amount to much in terms of the overall problems afflicting the Community's agricultural system, which has surpluses in a number of commodities. Butter does present the biggest

COMMON MARKET REPORTS, Issue No. 426, March 16, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Butter Deal *(cont'd)*

problem, however. For instance, the Community is committed to import butter from New Zealand via the United Kingdom under the Treaty of Accession rules (in 1975, these imports amounted to 120,000 tons; total imports came to 137,000).

A change might come in the next few weeks when the Council of Ministers plans to set farm prices for the 1977-78 period. At that time, the Council will also decide on the extent to which farmers should be held responsible for surpluses by having to pay a levy for overproduction of milk. Commissioner Finn Olav Gundelach has further announced that there would be additional steps taken to get rid of surplus butter, but he did not specify what these measures would be (aside from costly alternatives such as giving butter to the poor or to developing countries).

Declaration on Protection of Basic Rights

The European Parliament, the Council of Ministers, and the Commission will shortly reaffirm in a joint declaration their determination to respect fundamental rights in the exercise of their powers. This statement, consisting of two paragraphs of one sentence each (the shortest Community pronouncement so far), was originally conceived as a response to a May 1974 German Supreme Court judgment *(Common Market Reports, Par. 9689)*. In that ruling, much to the regret of the Commission and the European Court of Justice, the *Bundesverfassungsgericht*, Germany's highest court, held that it has the power to examine the constitutionality of EEC law. The ruling also caused considerable embarrassment for the Bonn government, even though the court had added that it would use this power only until the EC's integration reaches the point where the European Parliament becomes a genuine lawmaking body and enacts laws protecting individual rights similar to those provided by the German constitution.

Since then, Commission and German government officials have met a number of times to discuss possible implications of the ruling. Bonn has repeatedly given assurances that there are no immediate or even remote dangers of EEC law not prevailing over German law, including constitutional law *(Common Market Reports, Par. 9816)*. There has been substantial agreement between the Commission and Germany as well as among other member states that the legal remedies available under the three treaties and case law of the Court of Justice provide adequate protection of fundamental rights. The Court of Justice is seen to have a good record of upholding individual rights, a fact that was substantiated by a Commission report a year ago *(Common Market Reports, Par. 9831)*. Also, every measure proposed by the Commission is scrutinized for its implications for fundamental rights. Still, the Commission believed that a formal declaration would reemphasize the EC institutions' concern for individual rights, since the chances of the European

Rights *(cont'd)*

Parliament's becoming a full-fledged legislature are nil for the foreseeable future.

Although Council attorneys expect no immediate political consequences from the adoption of the declaration, its timing has taken on an international dimension in light of the civil rights movement in Eastern Europe, especially that instituted by the signers of the "Charter 77" in Czechoslovakia.

In Brief...

The Community and Greece have signed a new financial protocol providing more than 280 million units of account for the development of the Greek economy. Some 225 million UA in European Investment Bank loans will be made available over the next four years to help boost productivity and industrial diversification. Also allocated are farm modernization loans and 45 million UA in direct grants + + + The language issue that had held up the nurses proposal has now been solved: Denmark no longer is insisting that an out-of-state nurse would have to attend language courses in the country where she is working. However, the Council working group still has to deal with yet another Danish objection involving recognition of a nurse's training. Copenhagen wants the other eight states to adopt legislation similar to Danish rules, whereby a nurse's training is two-thirds theoretical and one-third practical. Council attorneys maintain that the curricula of most states are not that different, so a compromise probably will be found in the coming weeks.

Belgium: New Elections; Revision of VAT Timetable

In what the political Opposition described as an "undemocratic" surprise maneuver, Prime Minister Leo Tindemans on March 9 dissolved the Belgian parliament and called new general elections for April 17 but did not resign. The decision followed political disagreements over a constitutional reform and the dismissal on March 3 of two members of the French-language Rassemblement Walloon from the Tindemans cabinet. The small federalist party had refused to support the other coalition partners in a lower-house budget vote. The expulsion of the RW from the government had left the coalition with only 105 seats in the 212-member lower house.

Originally, it had been expected that Tindemans would try to continue with a minority coalition, at least until the constitutional reform for the country's final "regionalization" was completed. But it then became evident that an agreement on this reform would not be possible on a short-term basis.

In other developments, the cabinet earlier elected to modify its controversial "Egmont" budget plan by proposing to stagger the scheduled value-added tax increases, thereby

Elections
(cont'd)

cutting additional expected revenues by BF 400 million to BF 13.8 billion. The first of the VAT increases could come into effect on April 1. Raised to 14% would be the tax on services provided by restaurants and cafés, hotels, and beauty parlors and to 25% the tax on wine, motorcycles, tires, leather goods, and photographic films. Gasoline prices are to be boosted by BF 1 per liter. Also, a new 14% tax is to apply to international telephone calls and telegrams. (Local telephone rates and charges were raised on March 1.) The other increases proposed in the government's Egmont Plan are to be introduced in stages throughout the summer.

The proposed VAT modifications came in the face of stiffening union resistance. In addition to scheduling a month-long program of pre-announced strikes, the unions have been calling other walkouts without warning. For instance, the chaos caused on March 4 by the national transport strike and the general strike in Flanders and Luxembourg provinces was further compounded by a surprise strike of the country's cab drivers. Other surprise actions thought to be on schedule this month could involve newspapers, hotels, and small businesses.

Britain: Industry, Labor Ideas for Healey's Budget

With Budget Day having been scheduled for March 29, employer and employee groups in Britain are redoubling their efforts to persuade Chancellor of the Exchequer Denis Healey that their respective ideas of optimal budgetary strategy be adopted. Both groups, as represented by the Confederation of British Industry and the Trades Union Congress, have seized on recent prognoses that the country's public-sector borrowing requirement in 1977-78 will run to approximately £1 billion less than the £8.7-billion "limit" imposed by the International Monetary Fund last December as a precondition of the IMF support loan granted to the U.K. On the question of how this unexpected "breathing space" should be utilized, however, the views of the CBI and the TUC are totally at variance. The former is anxious that the Chancellor restore "incentives" at both the corporate and individual levels, i.e., introduce a range of tax concessions that would conceivably boost profit margins and create investment finance potential. The TUC views the reduction of unemployment coupled with a continuance of strict controls on prices and dividends as the principal priority.

Specifically, the CBI is proposing a reduction in basic-rate tax from 35 to 33% and a cut in the maximum tax rate on earned income from 83 to 60% (with a temporary graduated levy up to a limit of 15% on incomes in excess of £30,000). Also sought are increased personal allowances, particularly in respect of children: this, the CBI be-

Budget
(cont'd)

lieves, would constitute a genuine attempt to relieve cost-of-living increase pressures on the lower paid. (Observers did point out, however, that the latter would run counter to the government's plans for sharp cuts in child allowances and the substitution of modest but nonetheless tax-free child benefits.)

The TUC, by contrast, staunchly opposes the CBI recommendation that public expenditure be cut even further. Although continued monetary restraint is explicitly provided for in the IMF letter of intent, it argues, so too is a commitment that the "social contract" be honored. This, of course, has immediate implications in the area of wage restraint, the restoration of "differentials," and, not least, industrial democracy. Like the CBI, the TUC does not want any action on indirect taxes (which, presumably, means that no reduction is expected), but its proposals on direct taxation hinge on the reintroduction of a reduced-rate tax band at the lowest end of the earnings scale. This, the TUC contends, would largely eliminate the "poverty trap," i.e., the area in which means-tested benefits and taxation overlap to the point where no actual improvement is registered in the taxpayer's overall position. The reduced-rate band would be coupled with raised allowances. To offset the concomitant benefits to higher-rate taxpayers, the TUC further suggests that tax relief on mortgage interest and life insurance be abolished in the higher-rate bands.

On the surface, the TUC proposals appear to involve less draconian action than do those advanced by the CBI. However, what the Chancellor must take into account, observers say, is that the unions are also insisting on the introduction of an expansionary, job-creating public spending package (estimated at some £2.3 billion) and that they regard such a program as central to their acquiescence in any subsequent wage-restraint deal.

Netherlands: OECD Report Cautions on Outlook for '77

The latest annual survey on the Netherlands issued by the Organization for Economic Cooperation and Development has described Holland's economic progress in 1976 as "disappointing" and envisions only modest growth rates for this year as well. Investment activity has hardly recovered after its decline in early '76, the report noted, and most recent labor market conditions have not been indicative of an easing of the unemployment problem. On the other hand, the organization did acknowledge the improvements in the area of price expansion, with the rate of inflation having "decelerated significantly" during the year (from 10.2 to 8.8% in annual terms). While the OECD agrees that there should be a continuing recovery from the 1975 recession, it differs with The Hague over the forecasts for Holland's future export performance, describing its expectations as "somewhat more reserved" than those of the government.

OECD Report
(cont'd)

The Paris-based organization concedes that the Dutch government's economic policy task is "not easy in present conditions," given a strong payments position that could be used to fuel demand and thereby boost employment, yet having to be cautious in order to further reduce inflation. "While the measures recently taken or announced by the Government should help to encourage business fixed investment," the report said, "it remains to be seen whether they will be sufficient to move the economy back to full employment levels by the end of this decade as presently envisaged by the authorities."

In this connection, the OECD also alluded to the poor labor relations climate that most recently has produced a series of crippling strikes in numerous industrial sectors, mostly in support of pay demands. Thus, success or failure of the government's latest policy approach, the study noted, will largely depend "on the degree of social willingness to accept nominal income adjustments compatible with continued reduction of inflation."

France:
Endorsement of Economic Policy Stance

As in the case of the Netherlands, the OECD also does not quite share the optimism of official French forecasts on the short-term performance of the domestic economy. In its most recent survey on France, issued March 4, the OECD predicts, for instance, a GNP growth rate of only 3% this year as compared with the 4.6% rate officially projected. Similarly different figures apply to a number of other data such as for inflation, which the OECD expects to be at an annual rate of 8.75% against the government's 8%; private consumption, 3% (4%); private investment, minus 1% (+3%); hourly wages, 12.5% (10%), etc.

Despite these variances, the OECD experts have endorsed the government's current economic policies, particularly the stabilization program announced last September and based on tax increases and a temporary price freeze. These policies, the report said, should have some success, subject to the "partial development of adverse trends." The latter could emerge especially in the realm of private investment because of continued lack of business confidence and still-existing spare capacities. In the report, special attention was focused on price expansion, "the biggest problem area," where "deep-reaching action should be taken to help bring down the rate of inflation durably," beyond any short-term measures.

Italy:
Cabinet Passes Health Reform Draft Law

In approving draft legislation for a reform of the nation's deficit-ridden and antiquated health insurance system, the Italian Council of Ministers has expressed hopes for the plan's parliamentary passage within the first half of this

Health Reform *(cont'd)*

year so that it can take effect on July 1. Actual implementation of the reform is to commence on Jan. 1, 1979, and would be completed within the following three and one-half years.

The bill provides for the dissolution and liquidation of the existing state, occupational and other health insurance funds beginning on July 1 and for the subsequent establishment of a National Health Service. The funds would be replaced by 500-600 "local health centers" serving from 50,000 to 200,000 people each. The centers would be administered by the regional governments, which already operate part of the hospital system. Health care coverage would be extended to the entire population, and each individual would be issued a health insurance "passport." To contain the rising cost of health care and prevent excessive use and misuse of drugs, each patient would be required to pay for part of his prescription drugs (which so far have been dispensed free of charge). This contribution could amount to 10-20%, depending on retail price.

The five-year reorganization period is designed to spread the start-up costs of the National Health Service over a longer term. Extra costs this year have been subjected to a limit of 585 million lire as compared with 10,600 billion lire, or 6.2% of gross national product, in estimated total public health service costs. For future years, the upper limit in terms of GNP has been set at 7%.

The most difficult problem of the health care reform *(riforma sanitaria)* is not so much NHS financing and extended coverage, according to the experts in Rome, but the reduction and eventual elimination of the accumulated deficits of the health insurance funds and hospitals. The Treasury Ministry predicted that these deficits will rise to at least 6,500 billion lire by the end of the year. Of this total, 2,000 billion lire will have to be covered "under all circumstances" in order to avoid new burdens for the capital market. For this reason, the ministry was successful in insisting that the reform not take effect immediately.

Germany: Bonn Moves to Reduce Drug Prices

Several years behind schedule, the German government has finally moved to reduce drug prices by proposing corresponding draft regulations to the upper house of Parliament. Lower-house approval is not needed because the administration already has been granted statutory powers. If the Bundesrat consents to the measure, overall drug prices would be around 3.5% below current levels as of 1978. This reduction would be achieved through several steps, among them a cut in pharmacy markups, a ceiling on wholesale markups, and a reduction in the rebate granted to the health insurance funds upon paying for prescribed drugs.

Drug Prices
(cont'd)

The measure was planned several years ago but was delayed because of questions on the need for additional government intervention in an otherwise free economic system and also because of opposition from the drug industry, pharmacists, and the health insurance funds. Though the measure has nothing to do with the two bills recently introduced in Parliament to help the financially battered social security system and to slow rising costs in the public health sector, it ties in with Bonn's high-priority efforts to put a damper on soaring health costs.

Enactment of the measure would subject some 87% of total German drug sales to price regulations. So far, there are no government price controls on drugs other than limitations on pharmacy markups (which range from 35% to 74%). This would change in that a wholesaler could not raise his prices by more than 19.5% over those of the manufacturer, and pharmacy markups could not exceed 56%. But there would be some compensation for a pharmacist's loss in income. He would have to grant the health insurance funds only a 5% rebate instead of the present 7% for prescribed drugs.

The proposed measure would, on the other hand, liberalize the market for nonprescription drugs to the extent that drugs sold in retail stores and specialty shops would be exempt from price controls. It would also legalize the current practice of the pharmacies of adhering to manufacturer price recommendations. Selling below recommended prices, though legal, is considered unethical. Thus, prices for prescription drugs would remain uniform, but drug manufacturers would be required to register their price recommendations.

Common Market Reports

EUROMARKET NEWS

Issue No. 427 *Report No. 314, March 23, 1977*

IN THIS ISSUE

page

Community: More Liberal Insurance Regulations

The Council of Ministers is expected to speed up work on several insurance proposals if it adopts a U.K.-sponsored resolution to this effect in the coming weeks. The proposals would remove barriers confronting national insurance carriers wanting to establish subsidiaries in other member states or provide insurance services across intra-Community borders. British insurers in particular would benefit from liberalization of insurance rules on the Continent. In contrast to British law, the law of most member states on the Continent subjects insurance companies to tight scrutiny by national authorities. An alignment would supposedly lead to less stringent operating conditions for insurance carriers throughout the Common Market.

Creating a common market in the insurance sector so far has been an arduous process, and the Council of Ministers has continually been behind schedule on the matter. Originally liberalization was to have been realized by the end of 1970, but by 1973 the Council had managed only to adopt a directive enabling liability insurance companies to establish subsidiaries in other member states (*Common Market Reports, Par. 1349.35*). However, this measure does not

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

COMMON MARKET REPORTS, Issue No. 427, March 23, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Insurance *(cont'd)*

permit, for example, a French company to sell damage or fire insurance policies in Germany without having a subsidiary there. To change this, a proposal is now pending before the Council, but discussions have not started because the European Parliament has yet to give its opinion.

There are two other draft directives in the insurance sector before the Council. One would entitle *life insurance* companies to set up subsidiaries in any of the other eight member states *(Common Market Reports, Par. 1349.354)*, and the other would permit insurance carriers incorporated in different states to engage in co-insurance operations *(Common Market Reports, Pars. 1349.343 and 9660)*. Council attorneys are optimistic about adoption of the co-insurance proposal prior to the summer recess or shortly thereafter. (Automobile liability insurance is expressly excluded for practical as well as legal reasons.)

One problem remains: the Germans, supported by most other member states, also want air transport insurance and liability insurance for damage caused by drugs to be excluded from the measure because of existing special insurance arrangements. The British are against the exclusion because it would bar U.K. insurers from this growing area of liability coverage on the Continent.

Standing By for Portugal's Membership Bid

With Portuguese Prime Minister Mario Soares this month having wound up his second mission to the EC countries to present his country's case, it is the general opinion in the Community capitals and at Commission headquarters that Portugal eventually will be assured admission to the Common Market. A formal request for membership was expected at the end of this month, but there remained the question of the EC's conditions: Soares's exploratory talks appear to have confirmed that the response to Portugal's bid will be cautious at best and certainly not enthusiastic.

Nevertheless, with democracy having been restored in Portugal (the major condition for admission), it is felt this country should be given the same opportunity as Greece, which is already negotiating for membership, and Spain, which would be expected to gain admission when it makes its application. Generally, it is accepted that economic "backwardness" should never be used as an excuse for denying admission, though the Commission, which carries the administrative burden as the EC executive, always tends to take a more reserved position than the Council of Ministers.

On the economic side, Lisbon's recent austerity measures, including a 15% devaluation of the escudo, have softened remaining opposition from France and the Netherlands. Soares told his colleagues in the various member states that his country wants the same treatment that might be given to Greece. The EC partners, however, cannot ig-

Portugal *(cont'd)*

nore the fact that Portugal's economy - with 14% unemployment, a 1976 inflation rate of 26.9%, and a 15% decline in industrial production in 1975 - has serious problems and that the country is generally underdeveloped. A long period of transition with heavy Community financial infusions would be needed at a time when the Community is seeking to keep its burdens, financial and otherwise, within manageable bounds.

Portugal's membership status probably would grow out of existing EEC-Portuguese links created by a 1972 trade agreement, which differed from other pacts with EFTA members in that it included agricultural commodities and gave Portuguese industry more time to adapt by prolonging the period for removal of tariffs *(Common Market Reports, Par. 3863.29)*. The Community made additional concessions in a 1976 protocol which, among other things, guaranteed that Portuguese working in the EEC are to be accorded the same treatment in terms of working conditions, wages, and social security as nationals of any member state. A finance protocol also provided for 200 million units of account to be given in the form of low-interest loans *(Common Market Reports, Pars. 3863.291-2)*.

In Brief...

The Commission has initiated proceedings under Treaty Article 169 against Denmark, charging that Copenhagen violated several Treaty provisions by subjecting Akvavit, the well-known brand of domestic schnapps, to a lower tax than other types of hard liquor, including imports + + + Interpreting its December 1975 judgment, the European Court of Justice has given its final verdict in the "sugar cases" by ruling that the companies must pay the fines in their respective national currencies. The companies had tried to reduce the amount of the Commission-imposed fines (lowered by the Court) by paying them in devalued lire, thus saving some $1.6 million. The companies claimed they could do this because the Court had quoted the fines first in units of account and only then in the particular national currencies.

Denmark: Folketing OKs Tax Package; Discount Rate

The Danish parliament on March 8 gave approval to the most recent economic support measures of the Social Democrat minority government, thus clearing the way for the imposition of a tax on electric power consumption (0.02 kroner per kwh) and higher stamp duties on private mortgage deeds and certain real property transactions. The package is to raise an additional 900 million kroner in revenues within this budget year, mainly for the financing of a job procurement program.

Earlier, with effect on March 3, the Bank of Denmark lowered the discount rate by one point to 9%, referring to more stable conditions on the foreign exchange markets and

Folketing *(cont'd)*

calmer price expansion at home. The discount rate had reached a record peak of 11% last fall and was subsequently (Dec. 7) reduced to 10%. Renewed inflationary pressures are not ruled out, however, since the temporary price stop announced last December expired on March 1, causing an immediate price jump for a number of products, mainly foods.

Belgium: Some Tax Items in Doubt; End of Strikes

While most of the value-added tax increases proposed by the Belgian government in its "Egmont Plan" had been passed by Parliament just prior to its dissolution and will take effect on April 1, other tax items remain suspended pending the outcome of the general elections on April 17. Thus, the new parliament will still have to vote on taxes and tax increases scheduled to come into force in June, August, and October (among them the BF 6 rise per pack of cigarettes, a new tax on travel agencies, and a boost in VAT levied on insurance policies). Also affected is the proposed 0.4% "solidarity tax" on wages and salaries. If, as seems likely, the Socialists, who have been in opposition for the last three years, join a new coalition government after April 17, the outstanding fiscal proposals probably would have to undergo considerable modification before they could gain approval.

Meanwhile, Belgium's trade union leaders have abandoned their national strike program because "the government is no longer a valid power" following its decision to call for new elections. Georges Debunne, secretary-general of the socialist General Federation of Belgian Workers (FGTB), said that, for the moment, there was no body with which the unions could negotiate.

France: Government Submits New Maternity Law

The French government has sent to the National Assembly the draft of a new maternity law to benefit working women and is also planning the introduction of supplemental family allowances for 1978. In addition, the Giscard d'Estaing administration is seeking to raise the purchasing power this year of existing family allowances.

The maternity legislation would extend from one to two years leaves of absence granted upon childbirth and would obligate employers to re-hire these mothers for the same or equivalent jobs without loss of seniority. The proposed family allowance supplements would be subject to certain incomes limits, reportedly would benefit up to 75% of all French families, and would replace certain existing benefits. Under the new system, the standard monthly allowance would be FF 340 (FF 510 for one-parent families) and would be paid to households with one child below the age of three years or to those with three children, irrespective of their ages. The various incomes ceilings would be determined also by whether one or both parents were working.

Maternity Law *(cont'd)*

The proposed legislation, which would be estimated to cost the state an additional FF 2.6 billion annually, is part of President Giscard d'Estaing's social reform program announced for this year and next.

Germany: More Rights for Automobile Buyers

Car buyers will gain more rights after April 1 if Germany's Federal Cartel Office approves new sales conditions negotiated between the country's largest national automobile association (ADAC) and the national organization of car manufacturers, importers, and car dealers.

According to the revised conditions, a buyer could get his money back if a car with serious defects cannot be repaired satisfactorily, and the dealer would be liable, except in certain cases, for damage caused by a defective model if the buyer can prove that the seller ought to have known about the defect. The owner of a new car that breaks down on the road could demand reimbursement from the dealer for the towing cost. A dealer would have to pay for car rental by a prospective buyer if his new car is not delivered within six weeks from the promised delivery date and the delay is due to misrepresentation or gross negligence on the part of the dealer. The one-year warranty with unlimited mileage, offered by all German car makers since 1975, would remain valid even if the first buyer sells the car. A dealer could not unilaterally raise the sales price within four months from the date the contract was signed even if the manufacturer increases prices during that period.

ADAC representatives count on help from the courts and the government in seeking still further improvements for the buyer, and they will also press for further negotiations on unsolved issues. For instance, the government might compel automakers to indicate the date of manufacture on each car. Other issues involve the refusal of car makers and dealers to meet demands for a binding delivery date and to grant price rebates for new cars that are difficult to sell. Also, dealers continue to refuse to provide substitute transportation for new cars in for warranty repairs.

Britain: Equality in Occupational Pension Plans

The U.K. government plans to introduce "in the near future" legislation ensuring equal treatment for both sexes in regard to occupational pension programs. Detailed proposals for such legislation, deemed preferable to "voluntary improvement" action, are contained in a consultative document issued on March 15 by the Dept. of Health and Social Security which calls for recommendations and opinions as to how private pension programs for men and women could best be implemented. At the same time, the document suggests that, where the Occupational Pensions Board recommends voluntary

Equality *(cont'd)*

action, this should be facilitated and encouraged by the adoption of a general code of conduct.

Specifically, the proposals call for sexual discrimination to be outlawed in all respects, i.e., covering contributions, benefits, the exercise of options, and the mechanism for the preservation and transfer of benefits. (There is, however, no proposal for an alignment of retirement ages - at present 60 years for women and 65 for men.) In two vital areas the proposals remain fluid - options (i.e., where one spouse can elect whether or not to make provision for the other) and pensions for divorced or separated wives. Original government thinking suggested that pension program trustees should exercise their discretion: now, however, the trend is toward general legislation to be implemented at the discretion of individual companies. So far as divorced or separated wives are concerned, the document proposes that the courts be empowered to provide for them only after the death of a program member. Evidence on these and other points will be taken until the end of June; there is, however, some likelihood that a bill will be introduced prior to that date.

Switzerland: Anti-Foreigner Initiatives Again Rejected

The Swiss electorate on March 12-13 followed the recommendations of both government and Parliament by resoundingly defeating two more "anti-foreignization" *(Überfremdung)* proposals, the "fourth" and the "fifth." The fourth initiative backed by the Republican Schwarzenbach Movement sought a constitutional amendment that would have reduced the share of the country's foreign population to 12.5% within 10 years and which would have forced the exodus of 260,000 more foreigners within that period. The fifth initiative, proposed by the National Movement for People and Country, would have limited the number of naturalizations *(Einbürgerungen)* to 4,000 a year, about half the current rate.

The margin of the vote against the fourth initiative was 1.183 million to 492,000, the one against the fifth, 1.115 million to 568,000. At 47% of the eligible vote, participation in the referendum was lower than in June 1970 and October 1974 when similar issues had to be decided. In the meantime, though, the number of foreigners in Switzerland has dropped below one million for the first time in many years. The effects of both stricter federal regulations *(Doing Business in Europe, Par. 30,731)* and the economic recession have caused 250,000-300,000 foreigners to leave the country within the past four years.

In the same balloting, the voters also killed a proposal to require a referendum for the ratification of international treaties and instead backed Bern's alternative to seek the electorate's approval only for treaties of unlimited duration.

Foreigners
(cont'd)

In other developments, the Bundesrat has formally accepted the final results of the 1976 Budget, which closed out with a deficit of SF 1.573 billion as compared with a budgeted surplus of SF 1.478 billion. The shortfall resulted not only from the need to provide extra credits for the stimulation of employment but also from unsatisfactory fiscal revenues. The largest deficits here were reported for the turnover tax (minus SF 726 million) and the tobacco tax (minus SF 31 million). Turnover tax revenues, for example, rose by only SF 318 million or about 10%, even though the retail/wholesale rates had been raised from 4.4 to 5.6% and from 6.6 to 8.4%, respectively *(Doing Business in Europe, Par. 30,802)*.

Norway:
Public Control
of Banks;
Food Labeling

The Norwegian government has decided to accept the main proposals contained in the Cappelen Committee report on the "democratization" of the country's commercial banks. Draft legislation to this effect has been sent to Parliament for adoption, if possible, before Jan. 1, 1978, the target date for implementation.

It is proposed that the board of representatives become the banks' top authority, empowered to lay down general guidelines for the management and administration of the banks. The boards would have between 18 and 45 members, of which Parliament - or in the case of the regional banks, the regional council - would choose five-ninths, the general assembly (shareholders) three-ninths, and the employees one-ninth. The banks' management board would be appointed by the board of representatives, except for one member who would be chosen by the employees.

The reform law effectively would put Norway's private banking sector under public and decentralized control, and shareholders would be free to sell their stock to the state for a reasonable return on their investment. Late last year, when the controversial Cappelen Committee recommendations were made public, the political Opposition threatened a repeal of the legislation should it pass the Storting and should the incumbent Labor government lose the elections this coming fall.

In other news, producers and importers as of next month will have to abide by the strict provisions of the new Food Labeling Act issued by the Ministry of Consumer Affairs. Effective April 1, subject to certain exceptions, all prepackaged foods and beverages will have to bear an expiration date and meet labeling rules prescribing such information as contents and ingredients, weight or volume, additives and preservatives, name and address of producer, importer or packer, etc. Reports from Oslo said that the new labeling rules will cost the public about 500 million kroner annually, presumably in higher prices.

EURO COMPANY SCENE

U.S. Debenture/ London Scottish/ Brown Shipley

A major investment trust merger is being planned between United States Debenture Corp. and London Scottish American Trust, two groups with heavy North American commitments. A merger, on the basis of a share exchange, would create a group valued at some $120 million. At the same time, it might also pave the way for an eventual bid for the merged interest from U.K. merchant bank Brown Shipley, which already has strong ties with the two trusts.

Scott Paper/ Cartiere Burgo

According to reports emanating from the Milan stock exchange, the United States' Scott Paper Co. has been negotiating for a takeover of Cartiere Burgo, one of Italy's leading paper producers. Burgo was said to have run into serious liquidity problems after having financed extensive investments. The unconfirmed reports said that Scott had made an offer of 20 billion lire to gain majority control via a capital increase, whereas Burgo's principal shareholders (Adler, Assicurazioni Generali, and Pesenti) are said to have asked 28 billion lire. Through Cartiere Burgo Holding, the Italian group also controls Austria's Pölser paper and cellulose company. The reports provided no information on Burgo's current turnover and earnings status.

GKN/ Fichtel & Sachs

Germany's Federal Cartel Office has filed an appeal with the country's Supreme Court against the appellate court ruling approving the proposed acquisition by Britain's Guest, Keen & Nettlefolds of a 74.9% equity in Fichtel & Sachs. The Berlin Court of Appeals on Dec. 1 had invalidated the Cartel Office's earlier ban of the proposed deal, contending that although the GKN takeover could strengthen F&S's dominating position on the German automotive clutch market, there was no imminent danger that F&S would use newly acquired financial resources to keep any newcomers out of the market. The Cartel Office has concluded that the implications of the case on German antitrust policy and on merger control practices should now be tested by the country's highest civil court. It was hopeful that the case would come before the Court before it recesses in July.

Degussa

With the recent dedication of the first stage of its new chemicals plant in Mobile, Ala., Germany's metals and chemicals giant Degussa AG has, after a 60-year "pause," again taken up production in the United States. When the final stage of the project is completed, in one or two years, total investment costs are expected to reach $150 million. The U.S. venture - Degussa's second-largest foreign investment after its Antwerp, Belgium, plant - will employ some 400 in the production of Aerosil, methionine, cyanuric chloride, and cyanuric acid.

Common Market Reports

EUROMARKET NEWS

Issue No. 428 March 29, 1977

IN THIS ISSUE

Community: Draft Proposal on Financial Statements

The Council of Ministers working group that for several years has been discussing the fourth draft directive on financial statements has wound up its deliberations for all practical purposes and is now preparing a report to be sent next month to the Permanent Representatives of the nine member states. The report will point out the differences, mostly of a technical nature, that the national experts in the working group were not able to reconcile and for which the Permanent Representatives would have to find solutions.

The proposal, patterned heavily after German law, would introduce detailed requirements on the makeup and preparation of financial statements and annual reports *(Common Market Reports, Par. 1391)*. In several instances, the working group even went beyond the Commission's amended proposal, which reflected changes demanded by the European Parliament, the Economic and Social Committee, and the national professional accounting organizations. Britain's national accounting body succeeded in several instances in making the Commission accept its recommendations *(Common Market Reports, Par. 9642)*.

COMMON MARKET REPORTS, Issue No. 428, March 29, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Statements *(cont'd)*

The Representatives will be aiming for an agreement on the directive's scope of application. As it now stands, the measure would apply to all stock corporations and to some extent to limited liability companies as well. However, several member states want to exempt small companies, though there is disagreement on the application of such criteria as sales, profit-and-loss statement, and number of employees.

One of the most controversial issues concerns inflation accounting, on which the U.K. and Germany differ widely. As the proposal now reads, companies that have adopted inflation accounting systems would also have to publish detailed historic-cost figures. The U.K. is pressing for as little supplementary information in this regard as possible, and it wants the requirement of historic-cost figure accounting to be dropped after five years. The Germans, who have opposed inflation accounting all along, maintain that if that system is allowed at all, it should be backed up by additional information in the form of historic-cost figures.

Another difference of opinion concerns the content of annual reports. The Danes and the British insist on a breakdown reflecting both a company's domestic sales and activities as well as foreign activities. Most of the other states are against making this requirement mandatory because it would, among other things, interfere with the proposal on group or consolidated accounts which is pending before the Council *(Common Market Reports, Par. 1407)*.

Export Credit Accord Given EEC Status

The Council has given Community status to the gentlemen's agreement on export credits signed last year by four member states, the United States, and Japan. In doing so, the Council not only included in the accord those five member states that were left out by the action of France, Germany, Italy, and the U.K. but also confirmed the Commission's position that export credit is a Community matter, as reaffirmed by the European Court of Justice (Opinion No. 1/75, *Common Market Reports, Par. 3810.25)*. The step further removed the grounds for the Commission's legal proceedings against the four states under Treaty Article 169.

The agreement contains guidelines on interest rates and credit periods that the contracting states are required to follow for their export industries. Interest rates and credit periods are geared to three categories of recipient countries based on GNP (industrialized, intermediate, and less developed). Minimum interest rates of 7.25% for export credits running between two and five years must be charged regardless of the importing country's stage of economic development. If credits are extended for periods of more than five years, the interest rates may not be less than 7.5% for less developed, 7.75% for intermediate, and

Export Credits *(cont'd)*

8% for industrialized countries. There are also rules on the duration of credits: credits extended to buyers in industrialized countries should run between five and 10 years, in intermediate countries, 8.5 years, and in less developed countries, no more than 10 years.

The Council's action gains added significance through its establishment of two consultation procedures - one for intra-EEC purposes and the other for dealings between the Community and the other parties to the agreement. The member state governments twice a year will verify compliance or discuss changes in credit practices that a member state may want. Commission officials will meet once a year with representatives of third-country governments to check compliance.

Though the agreement is due to expire on June 30 of this year, it is expected to be renewed. This could be done by the Commission on behalf of the Community either with the U.S. and Japan or within the OECD, which is in the process of reviewing export credits. But Commission officials fear that the discussions in this large organization, comprising 24 members *(Common Market Reports, Par. 101.22)*, not only could be dragged out but also might dilute the agreement.

Brief...

The Permanent Representatives have considerably trimmed that part of the Commission's environmental program 1977-81 which covers cooperation with the third world. They believe that it was "highly undiplomatic" of the Commission to tell third countries that they should avoid the kind of mistakes that the Europeans made in the process of industrialization. The Representatives also refused to give Brussels carte blanche in approaching and negotiating with third countries. The Council was expected to adopt the program in about a month + + + The European Parliament has overwhelmingly backed the Commission's plan to call a halt to what have become known as "butter ship" cruises. In these excursions beyond member-state territorial waters, skippers sell butter and subsequently receive export subsidies, with passengers then reimporting the cheap butter duty-free within the official allowances. The Commission's plan, put to the Council of Ministers in a draft regulation, would repeal subsidies for all agricultural commodities taken outside territorial waters, sold there, and reimported thereafter.

Netherlands: Cabinet Quits over Land Reform Rift

About two months prior to the scheduled national elections on May 25, Holland's five-party coalition government has broken up following internal disagreements over the proposed land reform law and other short-term legislative plans. Prime Minister Joop den Uyl decided to dissolve his cabinet on March 22 after the six ministers of the "confes-

Cabinet
(cont'd)

sional" parties had offered their resignations and the 10 "progressive" ministers agreed to follow suit. The possibility of such a crisis gradually emerged as Den Uyl's own Socialists and the Radicals pushed hard to get four major pieces of legislation (changes in co-determination rules, employee profit-sharing, introduction of investment bonuses, and the land reform) before Parliament prior to the expiration of the current session at the end of April.

The critical point apparently was reached when the cabinet was unable to achieve a consensus over certain modalities of the land reform bill. The law would grant the communities a preemptive right in the purchase of real property located in expansion areas. One cabinet argument was over whether, in order to minimize speculation, expropriations and compensations should be based on the land's "use value" at the time of expropriation or its "going (market) value." The draft also foresaw certain "corrections" to prevent inequities for farmers and gardeners. But these corrections were considered not far-reaching enough by the Christian Democrats (who traditionally can count on a large percentage of the farm vote), despite the fact that the bill was drafted under the auspices of their own man in the cabinet, Justice Minister Van Agt.

Following difficult negotiations between the cabinet and the floor leaders of the five coalition parties, it was tentatively agreed to base compensation on "use value," though by allowing for "negative-development damage." The latter term describes the loss in income or assets incurred by a property owner who withholds upkeep or investments from the property in anticipation of expropriation. However, the Socialists said they would back this solution only if many of the corrections proposed for the farmers were eliminated. This, in turn, had been unacceptable to the Christian Democrat coalition partners and caused the bill to be stalled.

Belgium: Poll Results Support Drive to Cut Workweek

Labor leaders campaigning for a shorter workweek and early retirement as a means of reducing Belgium's high unemployment rate have received powerful support in the form of a public opinion poll. The poll was carried out for the Federation of Metallurgic Industries, which published the results in the March issue of its review "Fabrimetal." The poll found that 90% of those questioned were in favor of lowering the retirement age. In addition, 25% of working Belgians and 45% of those unemployed recommended the creation of more part-time jobs to ease the unemployment situation. (The Federation estimates that if only 6% of the three million jobs in Belgium were reduced to part-time, almost 100,000 new full-time positions would be created.) On general economic policies, more than 80% believed that

Poll Results *(cont'd)*

stricter controls were necessary in the fight against inflation, the same percentage supported cuts in government spending, and a similar majority favored a general lowering of taxes. Fifty-four percent recommended that wages be tied to the retail price index.

Britain: Labour Wins No-Confidence Vote in Commons

The U.K. Labour government under the premiership of James Callaghan on March 23 defeated a no-confidence motion introduced by the Conservative opposition in the House of Commons and thereby avoided its resignation and an early general election. The government's victory was viewed by commentators as something of a personal triumph for the Prime Minister and as a distinct blow to the political aspirations of Opposition leader Margaret Thatcher.

Labour's majority of 24 votes (by 322 to 298) was registered with the help of the Liberal Party which lent its support to the government in exchange for certain concessions which, it was generally agreed, were of token value. The agreement between the two parties - which will extend to the end of the parliamentary session, i.e., to the summer recess - cannot be seen as a coalition. As both parties immediately stressed, it is merely an expedient, but nonetheless one that will allow Callaghan and his party to select a general election date to suit Labour's convenience.

Specifically, the agreement calls for the two parties to "work together in the pursuit of economic recovery." Accordingly, a joint consultative committee is to be set up under the chairmanship of the Leader of the House. This committee will meet "regularly" and will examine government policy and other issues prior to their coming before the House. What is significant, however, is that the existence of this committee will not oblige the government to accept the views of the Liberal Party, nor will it commit the Liberals to supporting the government on any issue. The "concession" that the Liberal Party has exacted in the course of what Mrs. Thatcher called "shabby, devious manipulations" would appear to relate solely to the early introduction of legislation for direct elections to the European Parliament in 1978, legislation on devolution, and agreement to provide the extra time necessary to secure the passage of two measures sponsored by the Liberals - the Housing (Homeless) Persons Bill and the Local Authorities Works Bill.

Ireland: Transfer Tax Treaty Sought with Britain

Treasury officials of the Republic of Ireland have conferred with their British counterparts as to the negotiation of a double-taxation treaty between Ireland and the U.K. in regard to capital transfer tax and capital acquisi-

Transfer Tax *(cont'd)*

tions tax. According to Treasury and Revenue Authority sources, a wide measure of agreement has already been reached. A U.K.-Ireland double-taxation convention covering income taxes was signed in draft form on June 2, 1976 (a protocol on rents and dividends being added on Oct. 28, 1976). Ratification of this treaty, which is closely patterned after the OECD model convention, is not expected, however, until enactment of the U.K. Finance Act 1977.

Italy: Rome Attacked for Accepting IMF 'Dictate'

The Italian government's acceptance via a letter of intent of the 19 separate terms imposed by the International Monetary Fund in return for a $530-million standby credit has by no means finalized the loan arrangement: the cabinet's agreement was vehemently attacked by the union federations and the other political parties, especially the Communists and Socialists, and there were again fears for the continued viability of the Christian Democrat minority government. Prime Minister Giulio Andreotti explained his administration's position in a series of talks with party and union leaders, but it was not immediately apparent whether a compromise formula would be possible concerning the economic measures thought necessary to fulfill the IMF demands.

Negotiations for the loan, which had been initiated in May '76, finally were concluded on March 17 when both sides agreed on the contents of the letter of intent. As had been expected, the IMF imposed stringent conditions and provided for regular checks and controls. The loan would be drawn in three separate installments - on Aug. 1, 1977, and Feb. 1 and Aug. 1, 1978 - and the IMF would verify compliance on a quarterly basis. Under the terms listed, Rome would be required to slow wage cost expansion to a rate of 16% (the proposed partial "fiscalization" of employer contributions would be deemed a minimum effort), neutralize the proposed value-added tax increases in the wage indexation system, reduce the inflation rate to 9-10% within two years, and limit the treasury deficit to 9,800 billion lire, the entire public-sector deficit to 15,000 billion lire, and total credit expansion to 30,300 billion lire.

While Andreotti has confirmed "full conformity" of the loan terms with the government's stabilization program, the union leaders complained of a "regular political dictate" and caustically questioned whether the Italian economy over the next two years would be controlled from Rome or from IMF headquarters in Washington. Their arguments were backed up by the eruption of sporadic strikes in several Italian cities, with millions of workers protesting Rome's austerity policies and demanding more support for the underdeveloped southern regions, the Mezzogiorno. The unions are particularly angered by the government's proposal to neutralize the VAT increases in the wage escalator system.

Germany: Court Decision Deals Blow to Energy Policy

An administrative court's decision revoking a construction license for a nuclear power plant at Wyhl, on the upper Rhine, has taken German government and business leaders by total surprise. The decision is not yet final since the state government of Baden-Württemberg, which issued the license, has vowed to appeal. Nonetheless, the judgment has dealt a severe blow to Bonn's energy policy and has brought it to a critical crossroads.

In reviewing the safety aspects of the Whyl project, the court could not rule out the possibility of an accident that could have catastrophic consequences for millions living within a 16-mile radius of the plant. It said that an armored-concrete structure several meters thick would be necessary (in addition to the steel and concrete shell over the reactor) to meet the safety requirements demanded by Section 7 of the Atomic Law. If the court's view is upheld, suits may be brought not only to halt other planned projects but also to force the shutdown of nuclear plants already operating.

Several administration physicists criticized the decision, saying that the judges overstated the danger of the thinner reactor shell's cracking - the odds against this are one in 10 million, they claimed. Furthermore, it was argued that none of the several hundred nuclear power plants throughout the world has an additional over-structure, and the cost of providing one would be about DM 250 million for each plant.

The court decision is seen as yet another success for environmental groups, neighborhood initiatives, and communities. Although it is acknowledged in Bonn that the efforts of these factions in many instances have helped prevent environmental deterioration, it is nevertheless feared that such successful campaigns will jeopardize the country's future energy supplies and that the environmentalists often are losing their perspective of this problem. For this reason, the government coalition parties have proposed a full-scale Bundestag debate of the issue, expected to take place in May. Such a debate also is favored by the business community which has to have guarantees of energy supplies before planning major investments.

Environmental and other groups in Germany are not only campaigning against 10 nuclear power plants now under construction or on the drawing boards (12 are in operation, 26 more planned) but so far have also blocked construction of five out of seven coal-fueled plants.

France: Shares Plunge after Leftists Score Gains

The impressive victory scored by the political Left in the French municipal elections of March 13 and 20 has triggered an instant reaction on the Paris Bourse where a flood of selling orders was registered and share prices dropped by

Shares *(cont'd)*

an average of 4-5% following the second round of balloting. The shares of a few companies that would face nationalization upon the takeover of a leftist government plummeted by as much as 9%. Financial observers reported a veritable "panic," especially among small investors, and blamed this on "exaggerated" statements by right-wing politicians who had warned of the nationalization of thousands of enterprises should the Socialist-Communist-Radical alliance win the national elections next spring. So far, however, the leaders of the Left have publicly confined their targets for state control to the banking and financial sector and to nine of France's largest industrial enterprises.

The results of the second round of balloting on March 20 put more than two-thirds of the country's medium-sized and large cities under the majority control of the Left (159 of 221 cities with at least 30,000 inhabitants). One exception was Paris where, as had been expected, the leader of the Gaullist RPR and ex-premier Jacques Chirac emerged as the top candidate for the mayor's post. But even in the capital, the leftists increased the number of their city council seats from 31 to 40 on the basis of garnering 45% of the vote, a 2% gain.

The outcome of the communal elections has been interpreted as a further polarization of the country's political forces and as an alarm signal for the government, which now has only one year within which to regain some of its lost territory. For President Giscard d'Estaing and his weakened *majorité*, much will depend on the effectiveness this year of Prime Minister Raymond Barre's austerity program and its acceptance by the broad public.

Common Market Reports

EUROMARKET NEWS

Issue No. 429 *Report No. 315, April 7, 1977*

IN THIS ISSUE

Community: Rome Treaties Were Signed 20 Years Ago

It was with mixed feelings that the heads of the nine member state governments met on March 25 in Rome to commemorate the 20th anniversary of the signing of the Treaties of Rome. Although the Community's development so far has been anything but smooth and the member states view the future far more soberly than did the six founder nations in 1957, the EC nevertheless can look back on many respectable accomplishments.

The removal of tariffs and quotas leading to the customs union, a main pillar of the Common Market along with the common agricultural policy, has contributed considerably to the fact that intra-Community trade increased from $11 billion in 1958 to $97.5 billion in 1976. The remaining barriers arising from differing technical standards are gradually being removed through harmonization of national rules. The Community's regional development policy is bearing its first fruits as substantial, though still insufficient, funds are being channeled into underdeveloped regions, especially in Ireland and southern Italy. Many of the institutionalized ties have enabled the states to better weather the recession following the oil crisis. Examples are the massive credits granted or backed by the EEC to Italy and the U.K., but also the fact that protectionist

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

COMMON MARKET REPORTS, Issue No. 429, April 7, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Treaties *(cont'd)*

measures could be kept to a minimum. There is now even some coordination in foreign policies, which was not called for at all in the Treaty.

One of the principal difficulties in the EEC's 20-year history was the Council of Ministers' failure to adopt majority voting, which had been provided for in the EEC Treaty as a major device to accelerate integration. Instead, the 1966 Luxembourg compromise, which introduced unanimity on all matters that a state considers essential, has slowed progress considerably.

The Community's present situation, from any member state's view, is not reassuring. The EEC was thrown off its projected course by the quadrupling of oil prices and the monetary crisis, and it is far from attaining the goal of harmonious economic development both internally and in terms of world trade. According to the latest statistics, unemployment in the EEC remains at 5.7 million. Inflation stands at a modest 4.4% in Germany, but at 24% in Italy. France, Germany, and the Benelux countries have been moving ahead faster in terms of economic growth, thus widening the gap between the strong and weak member states. The economic and monetary union, conceived in 1970 when all nine economies were flourishing, is no longer seen as a realistic goal for the foreseeable future. The crisis of the international monetary system has even split the EEC, with Germany and the Benelux countries joined in the "snake," an embryonic monetary union.

Changes for Group Accounts Proposal?

The Economic and Social Committee (ESC) has recommended a number of changes in the Commission's proposal on consolidated group accounts, and it is objecting outright to the wording or content of particular provisions. Separate from but supplementary to the fourth draft directive on companies' annual financial statements *(Common Market Reports, Par. 1391)*, the proposal lays down definitions for different types of company groups as well as criteria for controlling and controlled companies that comprise a group. Most important, it contains rules on the makeup and presentation of a group's accounts - i.e., consolidated balance sheet, profit-and-loss statement, and notes to the accounts. Article 9(2) contains the key rule: the accounts must give a true and fair picture of the group's assets, liabilities, financial standing, and results *(Common Market Reports, Par. 1407)*.

The prime objective of the proposal is to make groups' consolidated statements largely uniform and thus comparable throughout the Community. Shareholders and creditors would be the main beneficiaries, but employees of any firms belonging to a group also stand to gain in that they would be better informed of the group's size and activities.

Group Accounts *(cont'd)*

Noting that several international organizations such as the U.N. and the OECD have been considering the question of group accounts, the ESC is calling on the Commission to keep an eye on developments to ensure maximum conformity between international and EEC standards. The committee proposes that group accounts be supplemented by a breakdown of capital allocation, furnishing details on the origin and allocation of financial resources and thus indicating the place where the capital is located within the group. The Commission's proposal does not go that far. On the other hand, the ESC objects to Article 20(7), which would require disclosure of the net amount of the group's sales by product, activity, and geographical region. It believes that publication of this information might prejudice the competitive standing of small groups. The committee does not believe that group accounts should be published in their entirety in the member state's official gazette. It recommends simplification of the formalities involving the publication of accounts, with the proviso that firms would have to send a copy of the complete group accounts to interested parties upon request.

The Commission will now study the recommended changes and the criticism but will not decide until the European Parliament has given its opinion on the proposal, expected for June or July.

In Brief...

On March 22 the Council of Ministers adopted the directive that permits lawyers admitted to the bar in one member state to represent parties in litigation before civil courts and defend individuals before criminal courts in other member states. Italy withdrew its remaining reservation on the extent to which lawyers would have to abide by the ethics rules of the host-state bar association + + + The European Court of Justice has held that France violated its obligations assumed under Treaty Article 34 by demanding an export statement from businesses shipping potatoes abroad. Article 34 prohibits quantitative restrictions on exports and measures having equivalent effects. Paris maintained that the statement was merely used for statistical purposes, but the Commission referred to a French government publication which quoted the farm minister as saying that it was designed "to put a brake on and to control potato exports." The Court shared the EC executive's view (*Commission v. France,* Case No. 68/76) + + + Portugal on March 28 formally applied for EC membership. The Lisbon government stated that it wants full membership after a 10-year transition period - a condition that was supported by several national governments during Prime Minister Mario Soares's recent tour of Community capitals + + + The EC's agricultural ministers must meet again on April 25-26 after the U.K. on March 29 blocked a compromise on the fixing of farm price levels for 1977-78.

Britain: Healey's Budget Termed 'Sparse, Cautious'

The Budget presented in the House of Commons on March 29 by U.K. Chancellor of the Exchequer Denis Healey began in traditional fashion with an economic review, including salient references to worldwide unemployment levels, the continuing need to curb inflation, the prospects of a balance-of-payments surplus in 1978 with the help of North Sea oil, and the necessity of "consolidating the gains we have made so far." In the course of this preamble, the Chancellor claimed that the government's program for economic recovery (initiated last December following the negotiation of a massive loan from the International Monetary Fund) had achieved its principal aim, namely, the restoration of financial stability. This, said Healey, was accomplished by the "rise in the exchange rate," by the "increase in the reserves," and by various other developments.

Healey - and the rest of the House - was aware, of course, that this "restoration of financial stability" was directly attributable to the IMF loan and, moreover, might not have been possible without it. Further, there also was a general awareness that the Budget proposals necessarily had to be within the guidelines imposed as a condition of the IMF loan and accepted by Britain in the "letter of intent" lodged with the Fund.

The specific measures therefore were predictably sparse and cautious. As in his previous annual message, Healey divided the Budget into two parts - "conditional" and "unconditional." The second category increased income tax threshholds in the higher-rate "bands" by between £1,000 and 2,000. At the same time, the Chancellor freed some 850,000 earners from the tax "net" by raising single persons' allowances to £805 (from £735) and married couples' allowances to £1,225 (from £1,085). These unconditional measures were designed to offset the impact of inflation, although the latitude accorded Healey under the IMF agreement (limiting the borrowing requirement to an £8.7-billion ceiling) was not sufficient to do more than cushion the impact. (Official statistics released earlier in March indicated that a proper provision for the effects of inflation would result in allowances of £845 and £1,248, respectively.)

Corporation tax remains unchanged for 1976, and value-added tax rates are unaltered at 8 and 12.5%. Stock (inventory) relief will be continued for a further two years, and exporters and small companies are to be granted "additional tax relief." Cigarette and gasoline taxes are increased by 4p per pack and 5.5p per gallon, respectively, and automobile tax has been raised from £40 to £50 annually.

Certain other tax changes are conditional on the negotiation of an acceptable pay deal with the labor unions later this year. Healey carefully refrained from specify-

Budget *(cont'd)*

ing what would constitute a fair agreement. Instead, he proposed that an "acceptable" agreement would be "rewarded" by a 2% cut (from 35 to 33%) in basic rate tax.

Among the other Budget highlights were firm undertakings on a clampdown on tax avoidance and evasion (particularly as practiced by means of artificial pricing arrangements) and a 25% tax exemption on foreign earnings, provided that the taxpayer spends more than 30 days on an aggregate basis outside the U.K. in any given tax year.

Denmark: Agreement on Pay Contract; Bond Sales

Following months of negotiations interrupted by several breakdowns and the February national elections, Denmark's employer and union federations finally have signed a pay agreement that is to apply until the spring of 1979. The bargaining recently had been resumed only after Prime Minister Anker Jörgensen personally intervened. The terms of the two-year deal, worked out by a state mediator, still have to be approved by the rank and file. In the event of their rejection, the government would submit them to Parliament in the form of draft legislation and could almost certainly count on passage.

Overall, the pay increases negotiated will remain within the annual 6% limit insisted upon by the government, amounting to about 2% in direct improvements and to 4% in inflation adjustments. The agreement provides for hourly wages to be raised in four installments by a total of 8% but foresees no increases for employees paid on a piecework basis. Minimum pay, however, was raised sharply by up to 17% and will now come to 29 kroner per hour.

In other developments, the National Bank in its latest quarterly report has commented on a brisk foreign demand for Danish bond issues following the readjustments within the European currency snake last October. In the last quarter of '76, the Bank said, bonds valued at 218 million kroner were sold to nonresidents as compared with 86 million for all of 1975. Foreign investors apparently are now banking on the longer-term stability of the kroner after having been discouraged by the exchange risk in the past. Danish bonds are considered attractive because of their high interest rates, generally around 15% and more. Copenhagen is hoping that the positive trend will continue: based on the results of the fourth quarter 1976, the inflow of foreign exchange from this source would top 1 billion kroner this year and thus help cover "discreetly" a small part of the deficits.

Belgium: Tax Status of Certain Foreigners

Government tax offices in Belgium are currently sending out questionnaires to selected corporate taxpayers in order to establish whether these qualify, for tax purposes, as coordination or research centers, according to the American

Tax Status *(cont'd)*

Chamber of Commerce in Belgium. In the March issue of its monthly magazine, the Chamber reported that its Legislative-Legal Committee had met with Belgian tax officials in the latter part of '76 to discuss the special tax status of foreign executives and research personnel "temporarily assigned to coordination units of foreign companies and research centers" in Belgium. Such employees will benefit from a special tax status for a period of eight years rather than "the normal five-year period."

The Chamber advised members affected to review their situation with their professional advisors and, in case no questionnaire is received, to consider whether the tax authorities should be contacted or not. It was pointed out that 1980 will be the first year "for which the status will produce practical impact," being the start of the sixth year after the reference date of Jan. 1, 1975.

Employees enjoying the special tax status are taxed on their worldwide income from employment but not on unearned income (dividends, interest, etc.) derived from foreign sources. Such individuals are eligible either for a special deduction in addition to their standard deductions and allowances for business expenses and business income or for tax exemption on that part of employment income that is in remuneration of activities performed abroad.

France: Cabinet Shift; Investments; Amended Budget

Under the banner of "continuity and change," French Premier Raymond Barre submitted his cabinet's resignation on March 28, only to be immediately reappointed to form a new government. The move by the administration of President Valéry Giscard d'Estaing was designed to regroup and tighten up the leadership team following the government parties' losses in the national municipal elections on March 13 and 20. The new cabinet has only 15 instead of 18 members and is to be less dependent on party politics in its efforts to push through Giscard's reform program, particularly in the social area, and to regain economic stability for the country.

Just prior to the cabinet *revirement*, Barre announced a FF 4-billion investment stimulation plan, which thus turned out to be somewhat larger than the FF 3 billion originally anticipated. In a speech opening the annual Lyon trade fair, the Premier said that half of the allocated funds will be made available to small and medium-sized businesses, while the remainder would go to larger enterprises. Businesses will have to apply for the low-interest credits by June 30 at the latest and effect investment outlays prior to Sept. 30. By setting these deadlines, Barre said, the government is looking for these investments to have an immediate impact on the economy. (It was reported that Paris would give preference to investments in areas with the most serious employment problems.) With the

Cabinet *(cont'd)*

latest plan, the administration so far has allocated investment credits totaling FF 11.5 billion within its stability program.

A few days earlier, the cabinet had approved a supplemental budget for 1977, providing for FF 19.25 billion in additional expenditures and FF 9.25 billion in additional revenues. As a result, the original regular budget - which was to have been balanced at FF 355 billion - will show a FF 10-billion deficit. An additional FF 5 billion will be allocated for the state enterprises to make up revenue losses caused by limits placed on rate increases, FF 8 billion will go toward social and unemployment benefits, among other purposes, and an extra FF 3 billion is required to service the public debt. The additional revenues are expected from turnover and income taxes and from lower equalization payments to the social insurance system.

Germany: New Standards for Heating, Insulation

Using its powers granted under the 1976 energy conservation law, the German government has proposed three sets of new regulations. The first would considerably tighten insulation standards for new houses and commercially used buildings. Secondly, heating equipment installed in new and existing buildings would have to be designed to curb energy losses through the escape of gases. The proposal is essentially addressed to manufacturers. Additional rules, finally, would establish strict standards for the operation and maintenance of heating equipment, and here the responsibility would fall on both the manufacturer and the owner.

All of the proposed regulations need the approval of the Bundesrat only. Consent of the lower house is no longer needed under the 1976 law, which grants the government broad regulatory powers *(Doing Business in Europe, Par. 30,851)*. The government counts on enactment by Nov. 1.

If the proposals are approved, government officials predict that energy savings over the next seven years would amount to the equivalent of 150 million tons of hard coal, or half of the country's annual energy needs. They estimate that the prescribed insulation standards may increase overall construction costs of new buildings between 1 and 3%, but that this would be expected to pay off in lower heating bills.

Specifically, double-pane insulating glass would be mandatory for windows and for doors with glass insets. Radiators under windows and window-walls would have to be insulated toward the outside to keep energy loss as low as if the radiator were located behind a solid wall. Furnaces would have to be designed and operated to attain a higher degree of efficiency by lowering the escape of energy through exhaust. Chimney sweeps, who in Germany are

Heating *(cont'd)*

professionals with semi-official status, would be granted additional control functions.

EURO COMPANY SCENE

General Dynamics

The "arms deal of the century," under which four European NATO partners would purchase a total of 348 General Dynamics F-16 fighters, has still not been finalized. The defense ministers of Belgium, Holland, Denmark, and Norway met in Brussels on March 24 prior to the scheduled signing of the contract, which was then postponed for at least another month following disagreements over compensatory co-production deals. The Scandinavian partners were said to be concerned that Belgian companies have been awarded the lion's share of compensatory contracts, though Belgium's defense minister insisted that his country merely received what it was promised.

The F-16 deal was to involve the construction of 1,000 aircraft (650 for the U.S. Air Force), with Belgium to receive compensation contracts worth 58% of the value of its order. In the meantime, it was reported that Washington has raised the F-16 order to a total of 1,800 units, and the other European partners are said to be worried that Belgium may receive offset contracts worth at least 100% its F-16 order value at the expense of their own industries.

Bayer/ Mobay/ Cutter/ Kabi

Germany's Bayer AG has outlined plans for expansion of its U.S. activities. One of its subsidiaries, the Mobay Chemical Corp., Pittsburgh, is to erect in West Virginia a $50-million plant for the production of iron oxide. This facility's output would be expected to reach some 91 million lbs. by 1980. Another subsidiary, Cutter Laboratories, Inc., is to cooperate with Sweden's Kabi group to set up a company for the marketing of intravenous feeding products. Bayer, one of the world's largest chemicals groups, said it plans to invest around $500 million in the United States over the next five years. At present its U.S. commitments total around $1 billion, or some 40% of its foreign investments.

American Cyanamid/ Formica/ De La Rue

American Cyanamid Co., parent of the United States' Formica Corp. and holding a 40% equity in U.K.-based Formica International, plans to acquire the remaining 60% from Britain's De La Rue for £9.6 million. The announcement by De La Rue was preceded by considerable speculation on the London stock exchange, where the price of FI shares moved from 320 to 373p within two weeks.

Common Market Reports

EUROMARKET NEWS

Issue No. 431 *Report No. 316, April 21, 1977*

IN THIS ISSUE

Community: Opposition to Commission's Borrowing Plan

The European Commission has suffered a severe setback with its tentative plans to increase the Community's budgetary resources through additional borrowing on the international capital market. The governments of France, Germany, and the Netherlands have expressed opposition to the idea, which was outlined in a recent communication to the Council of Ministers. The major objection is that the Commission's resources are already sufficient. The plan was to be part of the new Commission's efforts to stimulate economic activity and foresaw the tapping of international money markets to secure funds for combating unemployment, channeling more funds into backward regions, and helping industries in financial trouble.

The Commission made it clear that it was not seeking general borrowing powers but merely authorization for specific purposes. Still, the German government maintains that the Commission already has plenty to spend and all that is needed is better coordination and more efficient use of the resources. As the major contributor to the EC budget and thus the principal underwriter of any financial commitment, Germany believes that funds for regional devel-

This issue is in two parts, consisting of 136 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 431, April 21, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Borrowing Plan *(cont'd)*

opment should be used to create new jobs rather than to improve the economic infrastructure.

Using existing financial resources is the topic of yet another Commission plan for changes in the rules governing the Social Fund in order to improve assistance to the unemployed. So far assistance has been concentrated essentially on vocational training grants and subsidies to offset costs incurred through retraining and relocation for purposes of employment. These aims are in line with what the Council intended the Social Fund to be after reforming it and turning it into an active instrument of employment policy *(Common Market Reports, Pars. 4001-4017)*. Still, the Commission wants to make the Social Fund better adaptable to present employment requirements, have it concentrate on eradicating regional "pockets" of severe unemployment and generally increase its efficiency. Total unemployment in the Community stands at 5.7 million, and yet the EC's funds for retraining purposes amount to only $450 million (1976). For this reason, it is argued, the Social Fund's efforts and resources in the future must be deployed in a more concentrated form than in the past.

Council Asks for Plans on Energy Savings

In order to intensify the Community's efforts to save energy, the Council of Ministers has called on the Commission to submit soon a series of proposals describing specific energy conservation projects. The Council intends to take action on the proposals by the end of June.

The move came after a thorough discussion of a recently submitted paper in which the Commission took a dim view of the Community's energy situation. There was little disagreement on the Commission's assessment that world demand for crude oil during the next decade will increase by one-third and that there is no assurance that the OPEC countries will find it in their interest to meet or even exceed this demand. Although the Community has not fared badly since the oil crisis (oil imports in 1976 dropped by 7.5% over '73), the Commission is very concerned that development of nuclear energy has slowed abruptly in all member states for a number of reasons, including public apprehension over possible nuclear catastrophes.

The Commission fears that without additional nuclear power plants, the Community by 1985 will have to import 55% or more of its oil supplies. In its opinion, vigorous action is needed if the Community wants to keep oil imports down, yet secure increased energy supplies to safeguard continued economic growth.

The Commission has singled out four immediate priorities: better insulation of homes and offices, lower fuel consumption by motor vehicles, reduced energy consumption by electrical appliances, and more efficiency in the gener-

Energy
(cont'd)

ation of electric power and in selected energy-intensive industries. These energy-saving efforts would be supplemented by promoting the increased use of coal and by the development of nuclear energy (with emphasis on R&D pertaining to safety and atomic wastes) and new sources of energy (especially nuclear fusion).

In Brief...

The Council has adopted a directive concerning the approximation of member state laws on measuring systems for liquids other than water. The directive is in addition to those already adopted with respect to measuring instruments used to determine quantities of liquids such as alcohol and acids + + + Luxembourg will be the temporary site of the Court of Auditors until a final decision on the permanent location of Community institutions is made. Established under a 1975 treaty, the Court will scrutinize all EC revenue and expenditures and at the same time assist both the European Parliament and the Council in exercising their budget control powers.

France:
Capital Gains
Tax Postponed
[?]r One Year

The French government plans to postpone for one year the implementation of the capital gains tax on securities, explaining that this step was being taken in the interest of protecting investment activity and employment. The controversial tax would now come into force on Jan. 1, 1979, rather than next year. A bill to this effect is to be presented to Parliament in October. According to Prime Minister Raymond Barre, the extra time will be utilized to draft the necessary statutes and should ensure a smooth transition period for the finance markets.

The news of the postponement was very positively received on the Paris Bourse, where share prices rallied by as much as 12% after having been severely depressed in the wake of last month's municipal elections. There was much speculation on the administration's political motives aside from the economic ones: some observers surmised that the decision had been influenced by the government parties' defeat in the elections and by a desire to mend relations with the Gaullist coalition partners. The latter had been strenuously opposed to the original version of the capital gains tax bill, and this dispute had contributed to the resignation last year of Gaullist leader Jacques Chirac as prime minister and to his personal feud with President Giscard d'Estaing. The Gaullists had in fact succeeded in heavily amending the bill, which was then passed last July by both houses of Parliament. The amendments, most of them related to exemptions, will cause capital gains tax revenues to fall far short of the original target: whereas the treasury initially had hoped for more than FF 1 billion in annual net receipts, it now can expect only half that amount.

Capital Gains *(cont'd)*

The new capital gains tax provisions are aimed at individuals. At present only companies are subject to the tax, and shareholders must declare gains from the sale of stock only if they actively take part in the company's management or have done so in the past. *(Doing Business in Europe, Pars. 22,810 and 30,871)*

Unions Warn Paris of 'Heavy Conflicts'

The leaders of the two largest French labor federations have warned the government of "heavy conflicts" ahead unless agreement can be reached soon on a pay contract for the public sector and the state-controlled industries. The warning was contained in a letter addressed to Premier Barre and signed by Georges Séguy and Edmond Maire, the heads of the CGT and CFDT unions. The main issue between labor and the government continues to be the question of whether public-sector employees will again receive pay increases of 1-2% beyond the inflation rate or whether they will have to sacrifice this traditional "guarantee" to the government's austerity plan. Barre, for his part, remains adamant that the workers will have to be content with pay raises corresponding to the officially projected price expansion rate of 6.5% - a position wholeheartedly backed by the representatives of private industry.

While the unions are still avoiding an all-out confrontation, they do feel encouraged by the widespread public discontent with the country's current sociopolitical situation, which apparently also was a factor in the municipal elections last month when the Left scored sizeable gains. The results of an opinion poll published on April 8 by Le Figaro showed that nearly two-thirds of those questioned consider the present social climate as "bad" (compared with 59% in March) and that almost three-fourths have lost faith in the government's anti-inflation efforts (also 59%). This pessimistic mood was accompanied by a loss of popularity for Barre: only 41% (49) have a positive opinion of the Premier's performance, while 47% (40) do not.

Meanwhile, strike actions continued in various companies and sectors (electric utilities, steel, Dunkirk port, railways, Aérospatiale, Banque Nationale de Paris), and the union leadership called for more demonstrations in the last week of April as a buildup to Labor Day, on May 1. The mounting series of labor conflicts in April was spearheaded by the dockers' strike at Dunkirk port, which went into its second month, and by the protests against the plans of the Usinor steel company to lay off some 3,700 workers at its Lorraine plants of Thionville and Louvroil. The rationalization measures scheduled by France's leading steel producer are part of the government-sponsored program for the restructuring of the national steel industry which calls for the elimination of 20,000 jobs by 1980.

Italy: Package OK'd; Formal Loan Application

The Italian government on April 7 filed its credit application with the International Monetary Fund authorities, one day after National Assembly passage of the amended austerity program that was a precondition for the IMF's granting of a $530-million loan and which was expected to open up additional financial support facilities for Rome. Assembly approval came in the accustomed fashion, with the Communists and Socialists once more abstaining and thereby permitting a majority vote for the Andreotti administration. The Liberals voted with Andreotti's Christian Democrats, while the Republicans of ex-economics minister Ugo La Malfa opposed the deal. (The Senate had previously passed the package.)

The credit application was coupled with the formal signing of a letter of intent in which the government pledged to adhere to a number of IMF conditions. Among the terms agreed to are a reduction of wage cost increases and inflation and a promise not to impose further curbs on prices, credit, and foreign exchange that could restrict foreign trade. Italy's public-sector deficit is to be reduced from 13.4% of GNP in 1976 to 9.7% this year and 7.6% in '78. Inflation, currently running well above 20% in annual terms, is to be brought down to 13% within the next 12-month period. Most bitterly contested, however, was the compromise concerning the alterations in the automatic wage escalator system, the *scala mobile*: by changing the weight of certain price and cost elements that make up the escalator "basket," quarterly wage adjustments will not be as steep as in the past, thereby easing wage cost pressures on the economy.

Germany: Curbs Sought on New Retail Centers

After years of wavering on how to slow the number of *Verbrauchermärkte* (consumer markets) going up on the fringes of cities and towns, the German government has decided to propose rules that would require local governments to apply more stringent criteria in granting building permits for such facilities. Consumer markets are the German equivalent of shopping centers, usually consisting of a large discount store and supermarket and a few smaller concessionaires.

The prospect of tighter rules has led to more license applications by large retail companies in recent years, and never before have so many small retailers or their trade associations gone to court to stop local governments from issuing construction permits. In several cases neighboring communities have brought such actions.

Approximately 1,500 shopping centers are in existence in Germany. In 1976, they reported some DM 30 billion in sales and accounted for 15% of total retail food sales. Bonn fears that for city governments to continue their all-too-liberal licensing practices just to obtain additional revenue would be detrimental to thousands of small stores

Retail Centers *(cont'd)*

(a total of 9,500 went out of business last year). Also disadvantaged would be millions of consumers who do not have a car to reach the shopping centers, which are usually located on city fringes.

A broad clause in present rules makes it easy for local governments to grant a building permit whenever the applicant can prove (which he usually can do easily) that a shopping center would not only attract buyers from the inner city but would also serve the needs of consumers from surrounding communities. In the future a permit could be granted only if a specific location of a shopping center would be in the interest of both the public and individuals. Emphasis would lie on qualitative rather than quantitative criteria. Examples of the former would be a center's impact on intra- and inter-urban traffic and on the environment and the degree to which consumer needs are met by existing shops, department stores, supermarkets, and discount centers.

For years shopping centers had been welcomed because their low-price competition gave support to the fight against inflation, but now government leaders say that urban planning and land development must be given priority over other considerations.

Britain: First Talks on Pay Restraint; Currency Bonds

The meeting on April 13 between U.K. Chancellor of the Exchequer Denis Healey and the economic committee of the Trades Union Council was only the first in what could be a protracted series of talks on the possibility of the labor unions' accepting another year of voluntary pay restraint. Prior to the meeting, union leaders were adamant that a third year of pay restraint would be infinitely harder to make palatable to the rank and file, not least because the overall improvement in the economy promised by the Chancellor a year ago in exchange for union cooperation has failed to materialize.

The union spokesmen were severely critical of Healey's March 29 Budget which, as in 1976, made certain tax concessions conditional upon the conclusion of an acceptable agreement. They stressed in this initial bargaining phase that Healey's definition of "acceptable" was greatly at variance with their own. Economic growth and investment, they argued, are the key to Britain's recovery, whereas wage restraint - to quote Len Murray, general secretary of the TUC - is "not a positive policy; it is a way of avoiding some of the exigencies of the economic situation."

The unions insist that the government must take steps to keep price increases under control if there is to be any hope of a "Stage Three." The principal issue, they say, is not whether but when and how there will be a return to free collective bargaining. Healey, by contrast, reiterated

Pay Restraint *(cont'd)*

that he is determined that there will be a pay policy: otherwise Britain would face "a wage explosion or a dangerous free-for-all."

In other news, the British government's offer of attractively priced foreign currency bonds to official (i.e., not private) overseas sterling holders expired on April 14. These bonds are denominated in dollars, Swiss francs, deutsche marks, and yen. After the offer's expiration, the Treasury declined to give details of the response other than to describe it as "fairly good." It was thus not possible to project how much of the estimated £2.2 billion in overseas holdings were converted. It was known, however, that there had been a certain reluctance to convert following the recent, and continuing, strong demand for sterling.

Norway: Agreement on Incomes Policy Package

The Norwegian government and the country's employer and labor federations on April 3 ended long and difficult negotiations with an agreement on an incomes policy package which once again should set a pattern for the other wage talks this year. The consensus had been preceded by strike threats on behalf of 300,000 workers, but a compromise emerged after the government made additional financial concessions.

From the start of the talks, Finance Minister Per Kleppe had insisted on holding the rise in disposable real incomes to 2.5% this year. This target is now to be achieved by an average 2.9% increase in nominal wages, combined with cuts in both income tax and a proposed surcharge on social insurance contributions. Also, Oslo has agreed to extend food subsidies and to allow union dues as a tax-deductible expense.

The terms of the deal are based on official projections of an 8-8.5% inflation rate this year, even though the government has refused to offer a "price development guarantee" similar to that contained in last year's pay accord. Income taxes will be lowered by 1% for annual incomes of up to 100,000 kroner and by 0.5% for the next 60,000 kroner, which will lead to an estimated revenue loss of 1.1 billion kroner.

Oslo predicts total wage cost increases of 8-8.5% this year, since the collective boost of 2.9% is expected to be supplemented by sectoral increments of 5-6%. The employers eventually agreed to the package because their social insurance contributions will be reduced by 0.5% as of May 1 and they also will have the benefit of the 3% devaluation of the Norwegian kroner which should aid the competitiveness of Norwegian export goods abroad. The effects of the devaluation were estimated to average 1.7% of wage costs.

Sweden: Breakdown of Bargaining; Price Freeze

The employers' refusal to accept a compromise proposal made by a government mediation commission has caused the breakdown of collective bargaining talks for some 1.3 million Swedish employees. The LO and PTK labor unions had agreed to the proposal of a 3.2% pay increase for workers and a 2.3% boost for (white-collar) employees as a basis for further discussions, even though these percentages halved those previously demanded. It was officially projected that these terms would be supplemented by increases of 3% and 1%, respectively, to be negotiated on top of the collective contract, whereas the employers would be faced with increases of 3.7% and 3.1%, respectively, in social insurance contributions. The government proposal made no provision for measures demanded by the employers to stimulate production (flexible working hours, health insurance modifications), and this proved unacceptable to the industry representatives.

When the talks collapsed, a government mediator commented that both sides were "so far apart that no sensible negotiations are possible at this time." As a result, strike actions were not ruled out.

In other developments, the government meanwhile has published the rules implementing the previously announced, two-month price freeze. Contrary to earlier reports, the price stop generally not only covers domestic products but also imports. However, the Swedish price and cartel office is authorized to grant exemptions to importers who are incurring higher costs because of the 6% devaluation of the kronor.

Common Market Reports

EUROMARKET NEWS

Issue No. 432 April 26, 1977

IN THIS ISSUE

Community: Revised Draft Due on Patent Licensing

Responding to the heavy criticism provoked by its preliminary draft regulation on patent licensing *(Common Market Reports, Par. 9927)*, the European Commission has indicated it would make concessions, and a revised draft is expected to be submitted to the Advisory Committee on Licensing in a few weeks' time. The extent of the compromise appears to fall short of what had been hoped for by business executives in the Community, especially in Britain, France, and Germany.

The preliminary draft would put stiff antitrust limitations on patent licensing agreements. The regulation would provide for block exemption of patent licensing agreements and thus would relieve the Commission of a considerable administrative burden. Licensing agreements would fall into one of three categories:

(1) Agreements containing restrictions such as export prohibitions would be exempted only if certain conditions are met (the prohibition in this case could not last more than 10 years).

(2) Always prohibited would be agreements containing one or more of the 20 restrictive clauses described in

COMMON MARKET REPORTS, Issue No. 432, April 26, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Patents *(contd.)*

Article 3, such as the licensee's commitment to refrain from challenging the licensed patent or to manufacture only a limited quantity of the patented item.

(3) Agreements with unspecified restrictions not covered by the first two categories would have to be reported to the Commission, and they could be exempted thereafter. It is here that the Commission is prepared to compromise: it would not insist that the applicants provide documentation on all licensing agreements between the contracting parties or enterprises connected with them. Furthermore, the notification procedure would be simplified.

Another area where the Commission is prepared to yield concerns "field of use" clauses. It would tolerate restrictions to the extent that the licensor authorizes the use of a patent only for the part of the field it covers.

A further concession pertains to arbitration. Under the draft, the proposed block exemption would not apply to licensing agreements that allow the parties to settle disputes in courts or before arbitrators outside the Common Market. The Commission is prepared to allow arbitration to take place in countries outside the EEC.

The Advisory Committee may press for additional concessions since several member state governments have come under heavy pressure from their national industry associations. The latter will have an opportunity to express their objections directly to the Commission when they are asked for comments, possibly this summer or fall.

Little Chance for EEC Credit Check System

The agreement among 14 central banks of Western Europe, Japan, Canada, and the United States to institute a credit information exchange system on a worldwide basis has considerably dampened the Commission's chances of succeeding in the Council of Ministers with a similar plan of its own. Work on an EEC credit information system is well advanced, and the Commission had planned on presenting its proposal to the Council in the near future. Even without the accord of the central banks (including those of the nine EC member states, Sweden, and Switzerland), most European bankers believed that the Commission's concept would not succeed.

The 14-nation agreement requires banks to report to their respective central banks all credits over $800,000 extended to or requested by other nations, without specifying individual borrowers. The central banks once a year turn over the information to the Bank for International Settlements, in Basel, Switzerland.

The Commission's preliminary draft directive would require member state banks to inform their central bank or another pertinent agency at regular intervals about every borrower or potential borrower, domestic and foreign, that

Credits
(contd.)

has received or is to receive a loan of at least 500,000 units of account, or $550,000. For example, a French bank that has extended a FF 50-million credit to an Algerian state enterprise would have to inform the Bank of France. The Commission's preliminary draft also provides for an exchange of credit information among the member states' central banks or agencies. Information on credits to companies established in the Common Market would be exchanged automatically, but information on credits extended to domestic firms or businesses established in third countries would be given only upon request.

Since East Bloc nations and underdeveloped countries have borrowed heavily in the past (the former currently owe EEC creditors nearly $20 billion) and are expected to go even deeper in debt, the credit information system could easily help identify poor risks. Should the 14-nation accord serve this purpose satisfactorily, many European bankers say, there would be no need for Community action. British bankers, long used to a tradition of keeping any international borrower's identity a secret, are strongly opposed to the Commission's draft. Only four member states (Belgium, France, Germany, and Italy) have credit information exchanges of their own.

Brief...

The Council has failed to make a formal commitment to speed up the discussions of several proposals designed to liberalize the rules governing the right of establishment and the freedom to provide services by out-of-state insurance carriers. Britain wanted a formal pledge, but the Council instead merely invited the competent authorities to wind up their work prior to March 1978. If this objective cannot be reached, the Council wants a progress report by that date + + + The Commission has threatened the French government with legal action if Paris continues to be slow in paying subsidies to French firms that import cheap Italian wines. Payment of the subsidies is part of the agreement reached by the Council in order to terminate the "wine war" between those two countries. When the French authorities did not pay, French importers reduced their imports, which in turn brought protests from the Italian government.

Germany:
Bonn Opting
for Modest
GmbH Reform

The German government has decided to forego a broad reform of the Limited Liability Company Law *(GmbH-Gesetz)* and to press merely for some major amendments to the 85-year-old statute, with emphasis on more protection for creditors. A broad reform bill has been before Parliament since 1971, but it was never taken up by the Bundestag's legal committee. Among the reasons for the delay were other legislative priorities such as co-determination rights for labor in large companies and the individual and corporate tax reforms *(Doing Business in Europe, Par. 23,283)*. However, GmbH Reform *(contd.)*

there could be an advantage in this since the amendments could now also reflect the results of EEC efforts to harmonize national company rules, with Community and national experts having wound up their deliberations over the fourth EEC Council draft directive on the content of financial statements *(Common Market Reports, Pars. 1391 and 9642).*

Under the planned amendments to the GmbH Law, creditors would stand to gain from a higher stated capital - DM 50,000 instead of the presently required DM 20,000. A larger share of capital would have to be paid in from the start: operations could not begin unless the total amount of paid-in contributions in cash plus the value of contributions in kind attains at least 50% of the stated capital. Government lawyers say that the increase in the minimum stated capital is justified by the erosion of the D-mark's value through inflation. Additional provisions would ensure that only individuals and entities that can prove to their creditors a minimum of financial viability may avail themselves of the GmbH as a legal form of doing business. Founders or shareholders who have gone bankrupt within the previous five years would be required to pay their contributions in full prior to registration in the Commercial Register. The same would apply to founders or shareholders who have become subject to bankruptcy proceedings during formation of the new company.

The rules governing contributions in kind would be considerably tightened in order to preclude irregularities often accompanying the formation of a company. For example, the local court would always check whether the value of contributions in kind has been overstated. Also for the benefit of creditors, the new rules would prohibit management from acquiring treasury shares.

It is not yet known how much of the 1971 bill would be retained in terms of broadening shareholders' rights, but it seems certain that provision would be made to permit shareholders to demand information from management and inspect the company's books.

Belgium: Tindemans Seen To Head New Coalition

Leo Tindemans was expected to succeed himself as prime minister and to try and form a coalition with the Socialists after his Flemish Social Christian party (CVP) and the Walloon PSC sister party scored solid gains in Belgium's general elections on April 17. According to provisional results, the Social Christians won 80 of the 212 seats in the Chamber of Representatives, a gain of eight. The Socialists, in opposition for the past three years, won an additional three seats for a total of 62, so that a coalition of Belgium's two largest parties would enjoy a two-thirds majority in Parliament.

Coalition *(contd.)*

Should Tindemans fail in his efforts to assemble the "grand coalition," it was thought that he would continue to push through his previous government's program of economic and constitutional reforms with the pre-election coalition of the Social Christians and Liberals.

More Rules on Standardized Accounting?

Belgium's Central Economic Council has been asked to draw up the outlines of further legislation standardizing corporate accounting systems. A "minimum standardized accounting system" is scheduled to take effect on Jan. 1, 1980, as provided for by the Law of July 17, 1975 *(Doing Business in Europe, Par. 30,843)*. Economic Affairs Minister Fernand Herman asked the CCE to submit its suggestions on the "tone and presentation of a uniform accounting system" as soon as possible.

One problem the CCE has been specifically asked to tackle is that of publishing annual reports. Under existing legislation, these are published in the Moniteur Belge, the Official Gazette, but companies claim that this often leads to "prejudicial delays." The CCE is now to look into the possibility of creating a separate central organ for the publication of company accounts, perhaps as of next year.

Herman believes that the standardized accounting system can be adapted to meet the needs of each company, regardless of its activity. It would apply to all enterprises employing 50 or more and with an annual turnover of at least BF 50 million, but it would exclude banking and finance institutions and insurers.

Denmark: Pay Contract Passed into Law by Parliament

With a solid majority, the Danish parliament on April 15 passed into law the terms of a collective pay settlement for the private sector, thereby averting a threatened strike of 300,000 workers and the lockout of another 40,000. The settlement earlier had been accepted by the top boards of the country's employer and labor organizations, subject to the final approval of the employer federation's general council and the unions' rank and file. Somewhat surprisingly, it was the majority of the employer delegates rather than the union membership which turned down the settlement and thus forced the government to take the issue to Parliament.

In gaining passage for the two-year contract, the Social Democrat minority administration and four small, nonsocialist parties prevailed with that part of last year's "August compromise" which called for a nominal pay rise limit of 6% each in 1977 and '78 (4% of that in the form of automatic cost-of-living adjustments).

In rejecting the negotiated settlement prior to the latter's becoming law, the employer delegates advanced two

Pay Contract *(contd.)*

arguments. One of them was that the contract provides for higher-than-average raises for the lower paid (the legal minimum wage will go up by 14% to 29 kroner per hour) and that this will fuel demands for fair differentials by higher-paid employeès in the coming individual and sectoral wage talks. Also, many employers had tactical reasons for turning down the settlement: they felt that a "strong law" would be better than a simple collective contract in binding all factions involved to the 6% limit. Nevertheless, labor experts have predicted that wage costs in Denmark will rise by 10-12% this year and next.

France: Employers Make Proposals on Employment

Less than two weeks before the government was scheduled to present its own work procurement program within the framework of the Barre Plan, French employers - through their Entreprise et Progrès organization - formulated a number of detailed proposals on how to reduce unemployment on a short-term basis. The realization of these proposals, it was argued, would result in the creation of 400,000 jobs within half a year and would cost about FF 5.5 billion, i.e., less than half the FF 12 billion in unemployment compensation now being paid annually to some 600,000 persons. (In March, unemployment in France rose by another 5% to reach a post-war record of 1,002,500, as compared with 972,400 in February, according to Labor Ministry statistics. The number of vacancies remained about the same at 108,700.)

The employer recommendations centered on three basic measures:

(1) Employees between the ages of 61 and 64 should retire early and be replaced by jobless individuals below the age of 30 - a move that would free about 103,000 jobs. Those opting for early retirement would receive 85% of previous gross income until their normal retirement age of 65. For the employers, this would be a "one-time, not-to-be-repeated" procedure which would not set a legal precedent and would not constitute tacit recognition of union demands for a general lowering of the retirement age to 60 years.

(2) A woman who has worked at least two years in her job and who then gives birth to a child should be granted a two-year leave of absence coupled with a re-hiring guarantee. During the two years, her job would be taken over by another female worker below the age of 35. The mother would receive compensation equaling two-thirds of the legal minimum wage during her absence. Some 150,000 women could benefit from such an arrangement, the employers estimated.

(3) Individuals emigrating to other countries and taking up employment there would be granted a "start-up" subsidy in the amount of FF 5,000. This would also apply to alien workers in France who are returning to their home

Employment *(contd.)*

country. This target group consists of about 100,000-150,000 persons, it was estimated.

Italy: $500-Million Loan from EEC Okayed

The finance ministers of the nine EEC member states, at their April 18 meeting in Luxembourg, gave formal approval to a $500-million loan to Italy, the funds for which are to be raised on the international capital markets. The loan is to fill the gap left by Italy's repayment to the U.K. of that country's contribution to an earlier medium-term credit of $1.85 billion granted Rome in late 1974.

Approval of the latest EC loan to Italy came two days after the International Monetary Fund's Group of Ten, at a Paris meeting, backed the IMF's $530-million standby credit facility for Italy and established national quotas for the financing of $397.5 million toward that end.

EURO COMPANY SCENE

General Electric/ Claude

General Electric Co. has abandoned its plans to acquire a 90% stake in French light bulb manufacturer Claude SA but is denying earlier reports that it was pulling out of the deal because of the gains made by the political Left in last month's French municipal elections. GE stated that after studying Claude's operations as related to its own, it appeared "unlikely that we will go further in this matter." With a 55% equity, ITT France is the majority stockholder in Claude, which holds 20% of the French light bulb market.

ITT/ CGCT/ LMT/ Frameta

ITT France's subsidiary Cie. Générale de Constructions Téléphoniques (CGCT) and a former subsidiary, Le Matériel Téléphonique (LMT), have formed a joint association for the purpose of developing ITT's "Metaconta" space-switching telecommunications technology. The Metaconta LL-F system is one of two chosen by the French government for its telecommunications expansion and modernization program; six of the exchanges have been ordered and are to come into service during the first half of 1978. The new association, Frameta, has been termed an "economic interest grouping" and involves no capital exchange.

Nixdorf/ Entrex

Germany's Nixdorf Computer AG has made a takeover bid for Entrex, Inc., a manufacturer of peripheral equipment, based in Burlington, Mass. (The two companies have been cooperating since 1973 via licensing agreements.) The German firm, a producer of small and medium-sized computers, had total 1976 sales of $288 million, with $21 million of that derived from its existing U.S. operations. Entrex, with some 70 sales and service points in the U.S. and Canada, had a turnover last year of $26 million. A decision on the

Nixdorf *(contd.)*

offer is to be made next month at a specially-called Entrex shareholders' meeting.

Standard Brands/ Van Nelle

Standard Brands, Inc. of New York is to make a tender offer for all publicly held shares of Rotterdam-based food processor Van Nelle. The cash offer, of about $112 per Van Nelle share, would be worth around $15 million. It has been endorsed by Van Nelle's supervisory and management boards and was expected to take effect early in May. Van Nelle, in which Standard Brands already holds a 56% stake, had a 1976 net income of $3 million on total sales of $325 million.

Lyons/ Tetley/ Liggett

U.K. food producer and distributor J. Lyons & Co. Ltd. has announced the collapse of negotiations over the proposed £15-million sale of its U.S. subsidiary Tetley, Inc. to American tobacco manufacturer Liggett & Myers, Inc. Agreement in principle on the intended sale had been reached last December, but Liggett reportedly has now declined to proceed further "on the basis of the terms originally envisaged" - possibly due to the recent sharp price fluctuations in the coffee and tea markets. Last year, as part of a major assets disposal program, Lyons had shed most of its U.K. hotel holdings as well as its Wimpy, Golden Egg, and "Bakentake" franchises.

American Cyanamid/ Formica/ De La Rue

The Bank of England is reported to have given exchange control clearance for the purchase by American Cyanamid Co. of the 60% stake in Formica International now held by security printing and graphics group De La Rue. The acquisition, which would give American Cyanamid 100% ownership of Formica, is valued at £9.6 million - to be paid in installments until 1982.

Habitat

The U.K.'s furniture and furnishings group Habitat is to finance "largely by internally generated funds" the opening of some 20 stores at strategic locations throughout the United States. Openings are scheduled on a phased basis through 1980, the first sites being in New York City, Boston, and Philadelphia. Habitat, which has become synonymous with "trendy" but comparatively inexpensive designs, also announced plans for a fourth sales outlet in Paris and for further developments in Grenoble, Marseilles, and Lyons.

Common Market Reports

EUROMARKET NEWS

Issue No. 433 *Report No. 317, May 5, 1977*

IN THIS ISSUE

page

Community: Call for Controls over Multinationals

The European Parliament (EP) has called on both the Council of Ministers and the European Commission to establish legally binding agreements containing rules covering the activities of multinational companies. A recent EP resolution to this effect was attached to a "Draft Code of Principles on Multinational Enterprises and Governments," drawn up jointly by members of the EP and of the U.S. House of Representatives. Since the draft code has not been discussed in committee, the EP's majority (made up of Christian Democrats, Conservatives, and Liberals) wanted the document to be viewed as a working paper rather than a formal proposal.

The discussions in the EP nevertheless revealed a basic consensus about the need for an international code of rules that would go beyond those set forth in the OECD's nonbinding Guidelines for Multinational Enterprises *(Common Market Reports, Pars. 9826, 9887).* It was pointed out that many multinational companies have considerable political leverage because of their size and economic weight, that they enjoy market-dominating positions and sometimes engage in suspect practices, and that they enjoy virtual independence from national control. But EP members also

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

COMMON MARKET REPORTS, Issue No. 433, May 5, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Multinationals *(contd.)*

emphasized the important and valuable role the multis play in the world economy, and they stated that a code of conduct would merely control and not restrict their activities.

An interesting aspect of the EP's approach to the matter is that the Council of Ministers could enact binding legislation (with doubtful effect on multis established outside the EEC) but that it could also grant the Commission a mandate to negotiate a code of conduct directly with the multinationals. Since neither approach may be satisfactory, Commission lawyers anticipate a solution that would include binding rules for intra-Community application and voluntary arrangements in relationships with other countries and not so much with multinationals outside the Common Market.

The EP draft code on principles would authorize joint action against multinationals that move headquarters to tax-haven countries. Management would have to notify national authorities about planned investments; national investment rules would be harmonized. Management would also have to inform the national governments about planned acquisitions of enterprises anywhere in the world. National cartel authorities, the agencies most likely to receive the information on equity investments and mergers, would be required to exchange the data they receive. Finally, multinationals would be subject to detailed rules on financial accounting so that the balance sheet and annual report would provide a comprehensive picture of a particular company's worldwide activities.

Publication of Competition Report for '76

Commission activity in enforcing the competition rules of the EEC Treaty went on uninterrupted in 1976, despite the fact that the former commissioner, the late Albert Borschette, became incapacitated in May, and his successor, Raymond Vouel, assumed office only in October. There were no spectacular decisions affecting competition from either the Commission or the Court of Justice, but in its just-published report on competition policy for 1976 the Commission points out that it is increasingly successful in dealing with violations in an informal manner. Last year some 380 cases were settled that way, and a good deal of the credit goes to both the Commission, which has been taking more definitive action, and the Court of Justice, with its growing body of case law. The Commission says that it often suffices to draw management's attention to actual or possible infringements of Treaty Articles 85 and 86 in order to stop restraints on competition.

Nine formal decisions invoking Treaty Articles 85 and 86 were taken in 1976 (28 under the Coal and Steel Treaty), and most of them have become final. In its action against France's *Bureau national interprofessionnel de l'armagnac* (BNIA), which represents the interests of producers, cooperatives, distillers, and dealers, the Commission established that trade associations that are entrusted with certain official functions and which take measures to regulate the mar-

Competition *(contd.)*

ket by promoting uniform conduct of their members, thus restricting competition, cannot escape the Treaty's rules on competition. In this context, it also held France responsible *(Common Market Reports, Par. 9863)*. The Commission intervened in another case involving a trade association (here of an uncontested private nature) by ordering the French herbage seed association (UISF) to abandon its restrictive measures (an import levy) on imports from other member states *(Common Market Reports, Par. 9824)*. The *Junghans* decision was among the Commission's actions aimed at exempting various distribution systems from the cartel ban; the ruling is in line with other Commission competition decisions in the automobile, consumer electronics, and perfume sectors *(Common Market Reports, Par. 9830)*.

Two Commission decisions have not become final because the parties have appealed to the Court of Justice. The Court will have to decide in the first case (No. 96/76) on the legality of a contractual noncompetition clause imposed on chemist Gottfried Reuter by BASF when he sold his business to that company *(Common Market Reports, Par. 9862)*. In the other case (No. 85/76) the Court will have to state whether the Commission acted correctly in fining the Swiss-based drug maker Hoffmann-La Roche, which allegedly abused its market-dominating position by entering into exclusive or preferential supply arrangements with major customers and giving them loyalty rebates *(Common Market Reports, Par. 9853)*.

In Brief...

Although not entirely satisfied with many details of the sixth VAT draft directive it received from the Council of Ministers, the European Parliament has voted against invoking the conciliation procedure since this could delay implementation of the measure, especially with respect to the Community's system of financial resources + + + The nine agricultural ministers reached a compromise on April 24 in Luxembourg on farm prices for the 1977-78 period. The compromise provides for continued, though reduced, EEC aid to Britain's butter price system. Farm prices will go up on the average of 3.5% but with different rates for the individual member states: 15% in the U.K., 11.5% in Italy, 10.5% in Ireland, 6.5% in France, 3.5% in the Benelux and Denmark, and 1.5% in Germany.

Germany: New Doubts About Labor Representatives

Bonn's government coalition partners have retreated from their "final" compromise over the procedural details governing the election of labor representatives to supervisory boards of large companies due to heavy union opposition and last-minute doubts over the constitutionality of the measure. Under the 1976 Codetermination Law *(Doing Business in Europe, Par. 30,863)*, wage earners, salaried employees, and executives are supposed to elect the individuals to represent them on the supervisory board, but so far the federal government has not issued the election guidelines *(Wahlordnung)* for political reasons.

Labor Reps *(contd.)*

The problem still centers on who should have the final say in disputes over whether an employee should be on the voting list of salaried employees or that of executives. The most recent compromise provided that if the election board (made up of representatives of wage earners, salaried employees, and executives) could not agree about the list on which a person's name should appear, an arbitration board composed of each group plus a neutral chairman would decide. Union leaders, who always wanted to keep the executives list short, have maintained that Section 39 of the 1976 law does not authorize the federal government to include a formula with such far-reaching powers for the planned arbitration board. This argument was originally dismissed by government lawyers, but two in-depth studies have revealed that the unions may have a point. Rather than risk having the formula declared unconstitutional, the coalition parties apparently want to leave it out. The Free Democrats have now proposed that not the election board but each individual employee should decide for himself to which group he belongs. The Social Democrats have not yet made a decision on the matter.

France: 'Social Action Plan' to Boost Employment

A FF 3.5-billion program that would give short-term relief to the French labor market and to low-income families and pensioners has been proposed by Premier Raymond Barre. The "social action plan," outlined before the National Assemb on April 26, would be partially financed by the increase certain indirect taxes (for instance, on gasoline and heating fuels), by a special levy on banks and insurers, and higher vocational training contributions by businesses.

The plan gives special attention to easing unemployment among young people. It is proposed that employers who hire individuals below the age of 25 be exempted from paying the respective social insurance contributions for a one-year period. In the case of apprentices, this exemption would apply over the entire training period. The government itself plans to create an additional 20,000 jobs in various public administrations, including the Post Office, and would set aside an extra FF 1 billion for public investments. Foreign workers would receive incentives ranging from FF 5,000 to 10,000 for returning to their home countries and thereby opening up jobs. Some 600,000 school leavers would be offered "training and employment contracts," with compensation equal to 90% of the legal minimum wage. Finally, family allowances are to be raised by 10% for about 4.6 million households, and the minimum old-age pension is to be increased by about 20% to FF 11,000 per year.

Barre told Parliament that his administration is determined to do anything in its power to provide employment for all Frenchmen and that it is accepting a FF 12-billion deficit in this year's budget to meet this commitment. About half of the deficit is to be financed by a state bond issue to be denominated in European units of account.

FF 12-Billion Modernization Plan for Steel

Commentators and union spokesmen have reacted with disappointment to the National Assembly address by Raymond Barre in which the Premier announced a FF 12-billion modernization program for France's crisis-stricken steel industry but listed only a few definitive measures. While Barre spoke, several thousand steelworkers and miners demonstrated in Paris to protest the dismissal of some 4,000 workers in the Lorraine over the past two months.

Barre told the Assembly that the steel industry's current total capacity of 33 million tons annually can be maintained at existing production centers through the replacement by new equipment of about one-fourth of the industry's facilities, mainly in the Lorraine. (The reference to "existing" production centers was interpreted to mean that the government wants to call a stop to the shifting of capacities from the inland mining areas to the Atlantic (Dunkirk) and Mediterranean (Fos) coast.) Barre also said that he had asked the Usinor steel company to rescind for the time being its decision to shut down its plant at Thionville on short notice and lay off 3,000 workers. The country's automobile manufacturers, he said, have been urged to channel major investments to the Lorraine and to give preference to laid-off steel workers in their hiring policies. State-owned Renault reportedly has plans to build a plant in the Lorraine.

Otherwise, the government evidently intends to adhere to its previous proposals for revitalizing the domestic steel industry, which is suffering huge losses and has accumulated a deficit of FF 34 billion. Essential to these plans, despite the political implications, is a reduction of the total work force by 16,000 over the next few years, though Barre did promise that three out of four affected workers would be "compensated" in the form of either early retirement or employment in other jobs. Nevertheless, this would mean definite unemployment for 4,000 people.

Barre offered no details on the financing arrangements to be available to steel producers. He made it clear, however, that the latter will have to activate their own resources in order to obtain state assistance and said they could also draw on the facilities of the European Coal and Steel Community and the European Investment Bank. In return for public assistance, it was reiterated, the steel companies involved will have to deposit part of their shares as a "guarantee" and allow the state to monitor the expenditure of the borrowed funds.

Belgium: State Loans for Steel Firms; Pay Stop Plea

The Belgian government has authorized state credits totaling BF 9.3 billion for three of the country's leading steel producers: Cockerill, Tubes de la Meuse, and Hainaut-Sabre. (An application by a fourth company is still being considered.) Without these loans, the three firms would have been

Steel Firms *(contd.)*

certain to run into severe financial problems this year and could have even faced bankruptcy, according to some sources. For five-sixths of the credits, the state assumes an interest rebate of 5%, with the remainder being taken over by the holding companies that have large equities in the steel firms.

The three companies involved employ about 35,000 people, more than two-thirds of these in the Liège area. In return for the credits (BF 7 billion goes to Cockerill alone), they have pledged not to undertake mass dismissals or any additional rationalization measures for the time being. The holding companies have agreed not to change the present ownership structures of the steel producers, where state representatives will now assume certain control functions on the administrative boards. A main feature of the agreement between the government and the companies pertains to a study to be done by McKinsey & Co., the U.S. consultants, involving an analysis of the rationalization potential of the Belgian steel industry.

In other news, the president of one of Belgium's leading employers' organizations has called on the government to impose a total wage freeze. Jacques De Staercke, chief of the federation of metallurgical industries, Fabrimetal, said in an annual report that many smaller companies in this sector are facing bankruptcy because of high wage cos[ts] and social welfare contributions. According to Fabrimetal statistics, total wage costs in the U.S. metalworking industry are 97.5% of those in Belgium, while those in Britain come to only 39.3%. Competitiveness was further impaired last year by 721 strike days per 1,000 workers as compared with 5 and 0.4%, respectively, in Germany and Holland. Employment in the Belgian metals sector dropped by 3% overall last year. De Staercke acknowledged that 1976 had been a record export year for the industry (up 2.4% over '75), but he said this was largely because of the performance of the multinationals, particularly the American ones, with plants in Belgium. U.S. companies in Belgium in fact boosted employment by 1.4%, whereas domestic firms trimmed payrolls by 6% on the average.

Switzerland: Ban Lifted On Foreign Bank Notes

Effective May 1, the Swiss government has lifted the restrictions imposed a year ago on the import of foreign bank notes into Switzerland. This means that such bank notes may again be brought into the country in unlimited quantities and be exchanged for Swiss francs. The liberalization does not, however, extend to Swiss-franc deposits by nonresidents: above the amount of SF 100,000, such bank deposits continue to be subject to a quarterly "negative interest" rate of 10%. Unrestricted are investments by foreigners in Swiss securities. Bern had outlawed the import of foreign bank notes on April 21, 1976, primarily to stop the ava-

Bank Notes *(contd.)*

lanche of Italian "escape money" pouring across the border at the peak of the lira crisis. Private importation of non-Swiss bank notes, not only lire, was limited to the equivalent of SF 20,000 per person quarterly. Violations were punishable by fines of up to SF 100,000, imprisonment of up to three months, and confiscation of the allegedly imported bank notes. According to reports from Bern, the Finance Ministry has revealed that about 50 individuals had been caught last year as they tried to smuggle foreign bank notes into the country.

In the meantime, the Italian authorities have enacted stringent capital export controls, which have helped overcome last year's lira crisis and have resulted in the repatriation of illegally exported capital in substantial amounts. Fairly effective has been the prohibition to export "super lire," i.e., bank notes in denominations of 50,000 and 100,000 lire. At the request of the Italian authorities, these bank notes are not accepted by foreign banks, particularly those in Switzerland, and can now only be traded on the black market.

Britain: <u>More Tax Cuts to Placate Labor Unions?</u>

According to informal reports from Whitehall, U.K. Chancellor of the Exchequer Denis Healey is currently "modifying" his Budget proposals to the extent that he is now considering "paying out" a further £1 billion in income tax cuts without a categorical guarantee from the labor unions as to a third-round agreement on pay restraint. The tax reductions in the March 29 Budget and the subsequent Finance Bill that Healey had declared to be conditional would thus be implemented irrespective of the real chances for another pay deal with the unions in July. The extra £1 billion is being viewed as a government gesture to placate the unions and to remove the quid-pro-quo character of the Chancellor's proposals.

In the meantime, however, the unions have been at pains to establish that their demands are not merely limited to higher wages but that they also claim a major role in regard to participation in "management" decisions. Above all, they are relying on, and criticizing the delay in the implementation of, the Bullock Report on industrial democracy which they felt on the whole to be in the furtherance of their interests. Thus, they have reacted negatively to the criticisms voiced of the Bullock proposals by National Coal Board chairman Sir Derek Ezra. Ezra's view is that "initiative and responsibility for introducing effective participation rests with management." Further, he has stated that any thought that participation can simply be imposed by decree is "very wide of the mark." It is Ezra's contention (and, presumably, that of the senior levels of British management in general) that "most meaningful" programs have in fact been developed at plant level and that the most ef-

Tax Cuts
(contd.)

ficient and efficacious process must involve joint policy committees with union, management, and government representatives operating at plant level, sector level and, ultimately, national level. In short, "any effective participation system has got to start at the bottom and work up."

Spain: Labor Unions Legalized; Strike Right

The Spanish government has carried its labor reform program one step further by legalizing "free and independent" labor unions via a decree law which took effect on April 22. Parliamentary approval had been given at the end of March. So far, the only labor organization permitted was a state-controlled syndicate to which both employers and employees had to belong (this still holds true) and which has had no autonomous bargaining powers. The new law partially meets long-standing demands by the Opposition parties and the labor movements, with the latter in the past having been forced to operate from a quasi-underground base despite their powerful role in the national economy.

Official recognition and registration will be effected by the unions' depositing their statutes with the Syndicate Ministry. Labor Relations Minister Enrique de la Mata said it will be "another year" before the government can fully adapt national legislation to the International Labor Organization conventions concerning union freedoms and bargaining autonomy which were recently ratified by Spain.

In March, Madrid had granted workers the right to strike (for the first time since the end of the 1936-39 Spanish Civil War) and affirmed the employers' right to lockouts. Wildcat strikes continue to be illegal, although employers may not fire workers for having staged illegal strikes. Last fall, the government had temporarily suspended a labor law provision that had prevented employers from dismissing workers without prior approval by the authorities or the labor courts.

Common Market Reports

EUROMARKET NEWS

Issue No. 434 *May 10, 1977*

IN THIS ISSUE

Community: Joint Stand Sought on Textile Pact

The Council of Ministers is currently discussing the approach the Community should take at the GATT talks on the Multifibre Agreement (MFA) to be held this summer in Geneva. The objective is to give the European Commission a negotiating mandate. The substantive GATT discussions will center on whether the agreement, which expires at the end of this year, should be amended or simply renewed.

The MFA, concluded in 1973, seeks to offset the import of low-priced textiles and fiber material from Asia, South America, and Eastern Europe into GATT nations with significant textile industries of their own, including all EEC member states. This has been primarily achieved through bilateral agreements concluded under the MFA umbrella between the EEC and exporting countries that establish quotas for or allow temporary embargoes on textile imports. From 1972 through '75 some 400,000 workers in the Common Market's textile and clothing industries lost their jobs, but without the agreements the impact of cheap imports would have been even worse.

The Commission believes that the MFA has not succeeded in ensuring an orderly and equitable development of trade in textiles and avoiding disruptive effects on indi-

COMMON MARKET REPORTS, Issue No. 434, May 10, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Textiles
(contd.)

vidual markets and product lines. However, it is conceded that the loss of so many jobs was caused not only by low-priced imports but also by the general recession and the effects of long-overdue modernization, especially in the textile industry.

Though the member states agree that an improved MFA is needed, there is disagreement on how it should be achieved. France, the Netherlands, and the U.K. are favoring a new overall approach toward global import quotas on the EEC's part, without regard for the needs of the individual exporting countries in the 25-nation group. Denmark and Germany argue that the EEC should negotiate on a flexible, case-by-case basis which would take the needs of the exporting countries into account. Global quotas would help only the already-strong developing nations, they claim, while weaker countries would either be driven off the market or never gain access to it in the first place.

The Commission's compromise seeks a combination of both approaches. It would provide that the new MFA would contain criteria for the imposition of global quotas but that actual quotas could be established in agreements with individual exporting countries. It would allow for export cuts or temporary stoppages by major exporters such as Hong Kong, South Korea, and Taiwan and would give smaller export nations such as Pakistan and Morocco a better chance.

Melting Down the Butter Mountain

The EEC on April 26 took its first major step to cut butter and milk surpluses when the Council enacted most of the Commission proposals on the matter, among them a levy payable by farmers who deliver more milk than the market can absorb. This "co-responsibility levy" of 1.5% will be applied from Sept. 16 until the end of April 1978 but is expected to be continued thereafter if it works out both in terms of its inherent objective and its administrative feasibility. The Council also agreed to grant additional subsidies to animal breeders who use skimmed-milk powder in feed and to manufacturers who use such powder in compound feedstuffs for pigs and poultry.

Important to U.S. soybean exporters is the Council's rejection of the Commission's proposal for a 2.5% levy on imported vegetable fats. This proposal for a "margarine tax" had met with heavy opposition from national consumer organizations, economists, and several member-state governments.

The cost of storing about 300,000 tons of surplus butter and 1.3 million tons of skimmed-milk powder has been estimated at $2 billion in 1976. Butter exports to East Bloc countries have caused a public uproar in the past because the importing countries, rather than the Community taxpayers, benefited from the price support system. The Council's latest action does not affect the Commission's

Butter *(contd.)*

February embargo on butter exports to the East Bloc, although Commissioner Finn Olav Gundelach has come out in favor of lifting the embargo and imposing quantity restrictions only: no more than 15,000 tons per contract. To stimulate milk consumption, the Community has committed itself to finance for five years the member-state programs for supplying milk and certain milk products to school children and students at reduced prices.

In Brief...

The Council working group has completed its first reading of the sixth draft directive on company law coordination and has prepared an amended version of the Commission's original proposal. The measure would align national rules governing the content, checking, and distribution of prospectuses to be published when a company issues securities. An accompanying report describes the remaining disagreements, but Council attorneys say that these are not so great as to prevent adoption of the measure within the next 12 months + + + Commissioner Raymond Vouel has indicated that the EC executive will pay more attention to business relations between public enterprises and their national governments. The Commission has been trying to eliminate distortions of competition resulting from the member-state governments' various ways of economic intervention, usually by granting special or exclusive rights to these enterprises. However, the Commission is a long way from full application of the competition rules set forth in Treaty Article 90.

France: Gaullists Attack Barre Government

Although the French government on April 28 survived a confidence vote in Parliament and thus won clearance for the latest supplemental economic program, its political fate once more was subject to intense speculation, and observers did not rule out the possibility of early elections, perhaps in the fall. During the fierce debate over the Barre Plan II in the National Assembly, the country's labor unions staged what was termed the most serious strike action since May 1968. In Paris and other major cities, electric power blackouts of several hours virtually immobilized traffic and public transport. A day later, on April 29, stock prices on the Paris Bourse plunged to their lowest level in 15 years, for an 18% decline since the beginning of this year.

The Assembly debate over the supplemental economic plan was marked by a bitter attack on the government by the Gaullist coalition partners, who declared that they had lost all confidence in the Barre administration and its economic policies. The dissidents did stop short, however, of provoking the fall of the government and, in the final vote, helped the administration to a 271-186 majority.

Premier Raymond Barre had defended the FF 3.5-billion supplemental program (to aid employment and low-income fam-

Gaullists *(contd.)*

ilies and pensioners) against Gaullist arguments that it was completely inadequate. The "extremely fragile" economic situation, Barre said, made it impossible to introduce sweeping reflationary measures. This assessment appeared to be backed by the latest figures on inflation: in March the cost of living rose by 0.9%, which was 0.3% higher than the average monthly increase officially projected for '77. There were fears that the inflation rate in April would be even higher, given the 6.5% increase of some public tariffs as of April 1.

Following the "fratricidal" confrontations in the Assembly, President Giscard d'Estaing made an effort to cool down the situation by reaffirming his confidence in Barre and declaring his faith in the coalition's ability to hold together until the scheduled general elections in the spring of next year. In a television interview, Giscard again insisted that finding solutions to the country's economic problems has top priority for the government, and he gave no indication that early elections might be called. The President did concede, however, that the political Opposition would have a 4-6% edge over the coalition if elections were to be held now.

Italy: Decisive Step for 'Historic Compromise'?

According to many political observers, the decisive step toward the "historic compromise" in Italy was taken late last month when the top leadership of the ruling Christian Democrats (CD) agreed unanimously to give the political parties that now support the CD on a "no nonconfidence" basis in Parliament a voice in determining the government's program. All-party negotiations on such a "limited" legislative program started on May 5. The decision was seen to open the way for a direct participation in the government by the Communist Party (PCI) and was widely interpreted as an admission by the Andreotti administration of its inability to govern the country without the help of the PCI, Italy's second-largest party.

The CD insisted that the agreement pertains only to "programmatic" rather than political issues, but this has failed to reassure the numerous critics of the decision, both within and outside the party. In practical terms, the PCI, the Socialists, and some of the other parties will be enabled to directly support the minority government in Parliament as a result of being involved in shaping legislation. It was speculated that at least the Communists will be represented with "experts" and "technicians" on the government sidelines and in some administrative positions rather than directly in the cabinet.

The Communists themselves initially responded very cautiously to the CD announcement, referring to certain ambiguities in the position of the Christian Democrats. But

Compromise *(contd.)*

only the day before their leader, Enrico Berlinguer, had repeated his thesis that the "rescue and rebirth" of the country hinges on the PCI's participation in government.

Belgium: Tax Complaints by Executives; Coalition Talks

Business executives and senior civil servants in Belgium have called for the indexation of their tax burden so as to allow their income to keep pace with the rising cost of living. In a report published by the 15,000-member National Confederation of Executives and the Association of Senior Civil Servants, they claim they are now paying twice as much in taxes as their French counterparts and three times as much as those in the United States. The report, on a survey of salaries paid between 1963 and 1976, says that a senior executive had to work 65 days in '63 to earn that part of his salary which is deducted for taxes and social insurance contributions. By last year, this figure had risen to 120 days. In 1963, according to the survey, a company secretary with a wife and three children had 12.36% of his salary withheld, compared with almost 25% last year. It is claimed that while the purchasing power of workers rose by 155% during the 14-year period covered by the study, that of the executives increased by only 105%.

Meanwhile, the Belgian Socialist Party appears to be blocking attempts by former Prime Minister Leo Tindemans to form a new government coalition of the country's three major parties. Tindemans officially resigned after the April 17 general election (which saw his Social Christian Party increase its number of seats in the Chamber of Representatives by eight to 80) but was asked by the King to form a new government. This he had hoped to do with the Socialists, who now have 62 seats in the 212-seat Chamber, and the Liberals (33 seats). However, the Socialists have rejected a tripartite coalition, preferring one including themselves, the Social Christians, and some of the small federalist parties.

Socialist leaders say it is too difficult to draw up an economic and social program acceptable to both themselves and the Liberals. They are also insisting that any new government program to tackle unemployment and inflation must include a far greater commitment to state intervention. They want a public stake in petroleum refining and the establishment of a body similar to Britain's National Enterprise Board to make direct public investments in the private sector.

Germany: Safeguards for Package-Tour Travelers

The German government has proposed legislation that would reduce for tourists the economic risk of being cheated on package tours. Government officials say that action is needed to make German travel promoters responsible whenever

Package Tours *(contd.)*

a tourist is cheated by a hotel owner or organization abroad (though the rules would also bind domestic businesses). A tourist seldom has recourse to get his money back, being unable to speak the language of the country and almost certainly unaware of the legal remedies available.

Of the 34 million Germans who went on vacation trips in 1976, 11 million traveled abroad. Six million of them signed up for package deals with travel bureaus and tourist promoters, who in turn arranged with hotels abroad for accommodations and meals. Last year the tourist industry association adopted guidelines in order to eliminate the causes of tourists' complaints, but government officials say these are not doing the job. Package-tour travelers complain mainly about overbooked hotels, bad food, unsatisfactory sanitary facilities, noise, lack of promised special services, and all-too-small refunds if the trip was canceled. The government proposal would stop first of all the widespread practice of travel bureaus and promoters of acting merely as agents for foreign hotels, thus escaping any contractual liability. Agency clauses, usually in fine print, would be prohibited, so that the travel bureau or the promoter would be party to the contract. If the accommodation, food, or service fails to meet the quality promised in the contract, a tourist could invoke the right availab[le] to any buyer under the Civil Code: he could ask the hotel to remedy the situation or demand a reduction in the bill. However, he could also cancel the contract, demand a refund, and claim damages.

The proposal further would put curbs on the current practice of some travel bureaus to demand a steep fee when a tourist cancels prior to the vacation.

Britain: Stock Exchange Commission Rules May Fall

The U.K. Stock Exchange Council is currently taking steps to agree on the abandonment of existing commission rules and on the abolition of the distinction between stockbrokers and stockjobbers. Such a move would dramatically alter the shape of trading and could lead to a resurgence in London's position as a major international securities trader. The majority of the members appear to feel that this change is long overdue: the principal obstacle faced by many British firms active on the Exchange is that major U.S. firms are completely free to deal on their own account and post such charges as they consider the market will bear.

Switzerland: Scandal Prompts Calls for Stiff Bank Controls

In the wake of the finance scandal surrounding the Chiasso branch of Crédit Suisse, one of Switzerland's Big Three banks, government and monetary authorities in Bern are studying the possibility of tightening bank controls. Finance Minister Georges-André Chevallaz said the Banking Commission

Bank Controls *(contd.)*

considers an effective system of controls to be of great significance since the confidence in the country's economy is based to a large extent on the "security of our banks." Fritz Leutwiler, president of the Swiss National Bank, also endorsed the need for stricter controls but did not think it necessary to amend existing legislation or abolish bank secrecy. He did, however, announce a review of "certain aspects" of the latter with regard to preventing abuses and also proposed to increase the staff of the Banking Commission.

The reports about major irregularities at Crédit Suisse's Chiasso branch reached a climax on April 25 with the news that three top officers at the branch office had been arrested. Initial reports said that losses of about SF 250 million had been incurred by the unauthorized channeling of investors' funds to a Liechtenstein finance holding, Texon Finanzanstalt, but subsequently it was hinted that the losses could be three times as high. Speculation in this direction intensified following an April 26 surprise announcement by the National Bank and the country's two other big banks, Swiss Bank Corp. and Union Bank, offering a SF 3-billion standby credit to help Crédit Suisse overcome its financial problems. However, this offer was immediately declined by Crédit Suisse, which said it had ample reserves to cover whatever losses may have been sustained.

The events at Chiasso also could have serious repercussions in Italy, since the SF 2.2 billion in investment funds channeled to Texon and covered by SF 250,000 in unauthorized guarantees had come for the most part from Italian investors. The funds were invested in a group of about 50 Italian companies joined in three holding companies: Winefood (foods), Ampaglass (industrial holdings), and Albarella (tourism). Crédit Suisse has given assurances that no losses would be suffered by "bona fide" clients, i.e., those who thought that their money would be used for sound and wholly legitimate investments.

EURO COMPANY SCENE

J.C. Penney/ La Rinascente

According to press reports from Milan, J.C. Penney Co. is giving up its activities in Italy after seven years and estimated total losses of 15 billion lire in that market. The U.S. chain store group operated five department stores in and around Milan and in Bolzano. Penney is selling out to the second-largest domestic department store group, La Rinascente, and has agreed to give "assistance" for a three-year period following the sale, the reports said. Prior to Penney's withdrawal, France's Euromarché also had pulled out of Italy, so that the only foreign chain store groups remaining there are Germany's Metro and France's Carrefour.

Daimler-Benz/ White Motor

Germany's Daimler-Benz AG (Mercedes) and White Motor Corp. of Eastlake, Ohio, this month probably will complete discussions leading to the acquisition by Daimler of White's Euclid division, a producer of heavy-duty construction and mining vehicles. The price reportedly will be around $70 million. Daimler has denied reports that it plans to have White Motor assemble Mercedes trucks, although it has provided White with a number of diesel engines which are now being tested. Daimler has been present on the U.S. commercial vehicle market for some time, but expectations have not been fulfilled, mainly because of price problems caused by the revaluation of the D-mark. For this reason, the company lately has been concentrating on selling medium-sized trucks out of its Brazilian production on the U.S. market.

General Mills/ Henkels

Negotiations are to be concluded shortly for the sale of General Mills Chemicals, Inc., Minneapolis, a subsidiary of the General Mills concern, to the German chemicals and detergent producer Henkel KGaG. The acquisition, for about DM 175 million ($75 million), will boost Henkel's U.S. sales volume to nearly DM 500 million. General Mills Chemicals, with three U.S. and eight foreign plants and 1,800 employees, reportedly contributed only 4% to the overall sales of its parent company. Henkel said that the General Mills range of products fits well into its own U.S. marketing program.

Heinz

Heinz (U.K.), the British offshoot of the U.S. food group H.J. Heinz, has announced that its minority shareholders (some 125, representing approximately 8% of the equity) are to be bought out by the American parent. The consideration for the outstanding minority stake is calculated at 450p per share, valuing the purchase at some £7.66 million. There is no indication that the U.S. parent will make an offer for preferred shares; instead, Heinz spokesmen said, the move was simply to "tidy up an inconvenient shareholding in the British subsidiary," which will continue to operate as a separate entity in Heinz's worldwide operations.

Common Market Reports

EUROMARKET NEWS

Issue No. 435 *Report No. 318, May 20, 1977*

IN THIS ISSUE

Community: United Stand in North-South Dialogue

The Council of Ministers on May 3 achieved a common position that will enable the Community to speak with one voice in the final phase of the U.N.-sponsored Conference on International Economic Cooperation (North-South dialogue), to be held from May 29 to June 1 in Paris. Participating will be 16 industrialized countries (the United States, Canada, Japan, Australia, Norway, Sweden, Switzerland, and the nine EC member states) and 19 nations that are exporters of oil and raw materials.

At the Conference, the Community will present a concept that had been supported by the other seven industrialized nations at last week's economic summit in London. It will propose a common fund to stabilize prices for certain raw materials, though the fund would be restricted in the sense that its revenue could be used only in the context of individual international agreements to be concluded for certain raw materials such as oil, copper, tin, coffee, and sugar. The fund would be supported by an additional international system designed to stabilize earnings of the exporting countries when world market prices are fluctuating heavily. The system would be patterned after the Stabex system, established under the EC's Lomé Convention with 46

This issue is in three parts, consisting of 248 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 435, May 20, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Dialogue *(contd.)*

African, Caribbean, and Pacific countries *(Common Market Reports, Pars. 4281, 9715)*.

The Community will also press for the establishment of a special fund to benefit the poorest among the developing countries. The Council thought that the EC and the United States should each pay 37.5% of the fund's $1-billion revenue; the remaining 25% would be financed by contributions from Australia, Canada, Norway, Sweden, and Switzerland. Internally, the EC's share would be financed largely by Germany and the U.K. (29% each) and France (14%).

In Brief...

The Council working group discussing the proposal on banks has cleared away all minor obstacles to adoption of the measure, which would grant a bank established in one member state the right to create subsidiaries and provide services in another state on a nondiscriminatory basis. The Permanent Representatives have two major problems to settle. The first emerges essentially from Italian law, which allows authorities to block the establishment of any new bank if there is no economic need for it. Several other states have similar rules, though less rigid, but they are prepared to repeal them after a five-year transition period. The other obstacle: France insists on excluding from the directive its people's banks and loan associations, which hold about 30% of total savings deposits. This would prevent counterpart institutions from other member states from coming into France. Council attorneys do not see a compromise as yet + + + The Representatives are now discussing the Commission's 1973 merger control proposal, which the Council working group dropped some time ago. The member states disagree as much now as they did in the past on the scope of application (exemption of government-owned enterprises, banks, and holding companies) and important merger criteria (annual sales and market share) + + + The European Court has held the draft Convention on the European Laying-up Fund for Inland Water Vessels to be incompatible with Community law. In its opinion No. 1/76, the Court objected not to the economic aims of reducing excess capacity on the Rhine but to the legal details of the draft negotiated by the Commission with the Swiss government. The justices believed that the Community's role in managing the proposed fund had been altered at the expense of the member states directly concerned (Belgium, France, Germany, Luxembourg, Holland, and the U.K.) in a way that could not be reconciled with EEC law.

Germany: Tax Increase Vetoed, but Compromise Seen

The Opposition-controlled upper house has rejected the German government's tax bill, which would raise the standard value-added tax rate from 11 to 13% and the reduced rate for food items from 5.5 to 6.5% *(Doing Business in Europe, Par. 23,375)*. In this respect the Bundesrat's majority has

Taxes *(contd.)*

not changed its mind: last year it shelved a similar administration proposal on grounds that the proposed sales tax increase was not in tune with the Opposition's economic and fiscal concepts *(Doing Business in Europe, Pars. 30,814, 30,825)*.

Despite the Bundesrat's unequivocal rejection of the measure, many Bonn observers do not rule out a compromise. First of all, the upper house will have a chance to consider the proposal later this month after it is voted on by the Bundestag, whose approval is almost certain. Secondly, members of the Saar and Lower Saxony state governments (formed by Christian Democrats and Free Democrats) have modified their opposition: in contrast to the 1975 bill, the present proposal also provides for cuts in the net worth and business taxes, an old demand of the Opposition and business leaders. It would lower from 1 to 0.7% the tax rate that companies now pay on their net worth; individuals would pay 0.5% instead of 0.7%. Small and medium-sized businesses would also obtain substantial relief through new or considerably larger exemptions for all three components of the business tax *(Doing Business in Europe, Par. 23,385)*.

Government lawyers point out that the Saar and Lower Saxony states have a total of eight votes in the upper house, enough to force the measure into conference. Administration leaders are apparently prepared to make additional concessions to assure passage, and observers believe that the government would possibly compromise on distribution of VAT revenue among the federal and state governments and conceivably agree to make additional cuts in the 1977-78 budget.

France: Firms Punished for Exceeding Pay Limits

The French business community has angrily reacted to the announcement of government sanctions against three smaller companies in Brittany which allegedly violated the official ceilings placed on pay increases. Paris reports said that the three firms - identified as Reverto, Sacer, and Viafrance - would be barred from receiving public contracts within the next three months, having granted their employees pay raises of 2.5% instead of a maximum 1.9% for the January-April period. This edict was judged to be particularly harsh since the companies affected depend almost wholly on state orders.

It was reported that the government's action could endanger at least 1,000 jobs - a situation seen as incompatible with Paris's intensified campaign against unemployment. The three companies have reacted by announcing joint legal steps, and there are many observers who feel that the government is in a somewhat tenuous position. It was pointed out that the laws in protection of free pay agreements and prohibiting pay indexation (they date from 1950 and '59, Sanctions *(contd.)*

respectively) continue to be in force. Incomes control legislation implemented this year merely prohibits increases for annual pay in excess of FF 228,000; otherwise, pay rise limits are prescribed only in the form of "recommendations" rather than outright prohibitions.

In announcing the sanctions, the government apparently wants to discourage from the start any attempts to ignore its incomes policy guidelines. Early this month, the authorities reportedly also dispatched letters to numerous businesses, including major enterprises, warning them of the consequences should they fail to adhere to these guidelines as set down in the Barre Plan. The overall aim is to limit pay increases this year and next to 6.5% each, which would correspond to the rate envisioned for domestic price expansion.

The administration's uncompromising stance further is viewed as a signal to the labor unions to abandon their attempts at pressing for extra pay increases at company level. The unions, in turn, have made it clear that they will not retreat from their demands for purchasing-power adjustments and have scheduled a general strike in both the public and private sectors for May 24 to underscore these demands.

Italy: Free Enterprise System 'Barely Tolerated'

The precarious economic situation in Italy practically has no chance for improvement because the function of private enterprise is barely being tolerated, the president of the Confindustria industrial federation has told the delegates attending the organization's annual meeting in Milan. Carli said that no political group in the country had the courage to recognize this vital function by way of action: therefore, "the Italian system hovers perennially on the threshold of crisis..."

Carli, whose organization represents some 100,000 Italian companies, directed his attacks at both the labor unions and the government. The unions were accused of sabotaging the efficiency of businesses through "excessive demands" and of obstructing the accumulation of capital necessary for investments and new jobs. In so doing, they were effectively torpedoing all efforts for full employment. Union demands for controls over the location and capacity of new production facilities and even over pricing policies were inviting public intervention to a degree that kindles an appetite for the transformation of democracy into a regime. "This," Carli told the delegates, "means the negation of enterprise and the encirclement of entrepreneurs."

Turning to the government, the former central bank president accused the Christian Democrat minority administration in Rome of indecisiveness and weakness in formulating and implementing socio-economic reforms, most recently the university and health reforms. The *classe politica*,

Enterprise
(contd.)

Carli said, is responsible for a climate in which it is preferred to nationalize an ailing enterprise instead of either rescuing it or letting it go bankrupt. He also criticized the tax and credit privileges enjoyed by businesses in which the state holds a stake and ridiculed attempts to regulate supply, demand, and prices despite the negative experiences with such policies both at home and abroad. Further, Carli complained about the high cost of money in Italy and the discrimination of risk capital and concluded that all these factors combined to keep the country's economy in "reverse gear" since 1970.

Britain:
Concrete Value Seen in TUC, CBI Proposals

Two "confidential" documents - one prepared by the Trades Union Congress and the other by the Confederation of British Industry - apparently stand a good chance of not going under in the flood of statements, restatements, and counterstatements of ideological goals and priorities that perennially engulfs the triangle of government-employer-labor relations in the U.K. (Curiously, details of the papers were leaked on the same day, May 9.) Observers commented on the "concrete and radical" nature of both documents, although not everyone agreed on the practicability of the proposals.

The TUC document proposes the establishment of a new agency with authority over the National Enterprise Board and the Scottish and Welsh Development Agencies which would funnel both state and private funds into manufacturing industry. The new agency, the TUC submits, would be "tripartite" in character (i.e., representing government, employers, and unions) and would draw on resources of some £1 billion annually derived principally from North Sea oil profits, insurance companies, and pension funds. The agency's standing committee would have the task of transmitting to the country's financial institutions "priorities identified in the (Labour government's) industrial strategy." More succinctly, the agency would tackle unemployment and underproduction by directing funds into the nation's industrial base.

The CBI proposals, by contrast, focus on an issue of prime concern to that organization: the question of wages and wage bargaining. In essence, the CBI urges that all pay deals be clinched in a three-month period, ideally within the 12 weeks immediately following the annual Budget. It, too, proposes a new national body - also triumvirate - under the rotating chairmanship of government, the TUC, and the CBI. This body would attempt, prior to each Budget, to evaluate the prevailing economic situation and establish, above all, what the nation can afford to pay in the way of wages, the aim being to induce a restructured "free" bargaining system based on equitable, noninflationary distribution of the cash available.

Proposals *(contd.)*

The CBI is not advocating a return to free *collective* bargaining, arguing that such a system is inherently inflationary inasmuch as it enforces comparability in pay irrespective of the strength or weakness of individual companies. Instead, the CBI proposes (a) a reform of bargaining arrangements to eliminate competition by groups of employees within individual plants or companies, (b) the consolidation of these reforms by collective employer action to synchronize settlement dates for comparable employees in different companies, and (c) to "compress" pay negotiations so that most bargaining is carried out at roughly the same time and against the same economic background.

Belgium: Coalition Talks Moving Ahead; Discount Rate

An agreement on May 6 by two federalist parties to join the team being formed by Prime Minister-designate Leo Tindemans apparently has paved the way for a four-party coalition government in Belgium following the April 17 elections. The Socialists, who are keen on introducing new economic and industrial policies, previously had repeatedly rejected a tripartite coalition that would include the Liberals in addition to themselves and Tindemans's Social Christians. Their suggestion to bring in the federalists was then agreed to by Tindemans. Both the Flemish Volksunie and the French-speaking Front Démocratique des Francophones accepted the offer, and Tindemans began to negotiate for an agreement between all potential coalition partners on economic and social policies and the regionalization issue.

Should the talks prove successful, the new government could lean on a solid majority of 172 mandates in the 212-seat lower house. The Opposition would be represented only by the Liberals, the Communists, and the Rassemblement Walloon.

In other developments, the Belgian National Bank as of May 5 reduced its discount rate for the third time this year, from 7 to 6.5%. Previously, the rate had been dropped to 8% on Jan. 6 and to 7% on Feb. 17. The latest action was explained with higher foreign exchange reserves and a stronger franc, improved liquidity, and the desire to bring interest levels more in line with those prevailing in the neighboring countries.

Netherlands: Discount Rate Cut to 3.5%; Central Bank

The Dutch Central Bank on May 6 followed the lead of its Belgian counterpart by also cutting the discount rate for the third time this year - from 4.5 to 3.5%. The Lombard rate, too, was brought down by one full point, to 4%. The move was partially in reaction to the good showing of the guilder, which in early May had been stronger than any of the other currencies joined in the European "snake."

Discount Rate *(contd.)*

In its annual report, the Bank reported that the domestic economy might take a "turn for the better" this year. Much would depend on whether business and industry would show more inclination to invest. Investment volume dropped by 6.5% in 1976 and, at 10.9% of gross domestic product, reached the lowest level since 1945, the Bank said.

Denmark: OECD Issues Sober Review of Economy

In its latest annual report on Denmark, the OECD has expressed the hope that the restrictive price and incomes policy imposed by the government "can be maintained over an extended period of time so as to eradicate the inflation-proneness of the economy," which was viewed as probably the major cause of the country's payments and employment problems. In the report (Organization for Economic Cooperation and Development, OECD Economic Surveys, Denmark, April 1977), it was predicted that the Danish payments deficit this year was unlikely to fall appreciably below the 1976 level of 11.5 billion kroner, that the '76 inflation rate of 9% might actually rise, and that a "rapid deterioration" of employment could not be ruled out in the next few months. Developments in the latter half of the year would largely depend on the outcome of general wage negotiations: if a settlement along the official guidelines were concluded, the OECD noted, reduced cost pressures and the removal of uncertainties should boost business confidence and stimulate demand and output. (In the meantime, Parliament last month voted the proposed settlement into law after it had been rejected by the employers' association.)

The Paris-based organization said Denmark's gross domestic product was likely to rise by about 1.5% over 1976, i.e., at a somewhat slower rate than the 2.5% officially forecast by the government. Among the recommendations issued to the Copenhagen administration was to reduce substantially the current deficit, since "the present rate of foreign debt accumulation is clearly unsustainable in the medium run." According to the annual report of the central bank, Denmark's net foreign debt last year had risen from 27 billion to 38 billion kroner, which amounted to 14.3% of probable GDP.

EURO COMPANY SCENE

General Dynamics

Contracts for the "arms deal of the century," under which four European NATO partners will buy a total of 348 General Dynamics F-16 fighters, have finally been signed, it was announced in Brussels on May 6. Signature of the contracts brings to an end a series of negotiations which began after the signing of a provisional agreement in June 1975. Problems over compensatory co-production deals have now been ironed out, General Dynamics said in a statement. For Bel-

General Dynamics *(contd.)*

gium, compensation is expected to be as high as BF 40 billion. The other countries involved are Holland, Denmark, and Norway.

Airbus/ Eastern Airlines

In announcing its decision to lease four A-300 Airbus, Eastern Airlines becomes the first U.S. carrier to deploy the wide-bodied European jetliner. The 320-passenger Airbus, developed by a consortium of French and German manufacturers, is already operating in several other countries but thus far has failed to find acceptance in the United States. (Western Airlines earlier this year had considered purchasing some of the planes but then changed its mind.) Eastern plans to test the four aircraft for six months on its New York-Florida route this coming winter and will make a decision in early '78 on whether to buy additional A-300s (perhaps up to 50) to reequip its fleet.

Pratt & Whitney/ Rolls Royce

The United States' Pratt & Whitney aircraft company has announced the "amicable" termination of its three-year joint venture with Rolls Royce to develop a line of new jet engines. The American firm attributed the breakup of the $500-million cooperative deal (begun in 1975) to "design changes and problems with international cooperation" but stated it would continue work on the JT-10D engine project together with German and Italian manufacturers.

Gillette/ Braun

The Gillette Co., of Boston, Mass., has offered to purchase all of the preferred shares of Germany's Braun AG that it does not already own. Full acceptance of the offer would give Gillette control of the remaining 14.1% now in the hands of minority shareholders (in 1967 all common stock had been acquired). Open until Aug. 31, the offer of DM 405 per share is well above the current market price of DM 327. For the 1975-76 year, the German maker of electric razors, cigarette lighters, and small appliances paid dividends of 18% on preferred and 17% on common shares.

J.C. Penney/ La Rinascente

According to Milan press reports giving further details of J.C. Penney's sellout in Italy to La Rinascente, the U.S. firm also plans to acquire a 5% interest in the Italian department store group. The arrangement, which calls for a corresponding capital increase of La Rinascente from 36 to 37.8 billion lire, reportedly will give Penney the option to either buy out the other two major shareholders later or at least raise its participation to 10%, under certain conditions. Main shareholders in La Rinascente are the Agnelli Holding IFI (15%) and the state-owned Mediobanca (11.6%). Penney had decided to dispose of its five Italian branch stores after incurring estimated total losses of some 15 billion lire during its seven years of operation there.

Common Market Reports

EUROMARKET NEWS

Issue No. 436 *May 24, 1977*

IN THIS ISSUE

Community: EFTA Seeking to Intensify Cooperation

One week after the London economic summit, government heads and top representatives of the European Free Trade Association nations met in Vienna for a one-day summit conference of their own to review the EFTA's current status and the relations with the European Community and other trade partners. The previous top-level EFTA meeting had taken place in London in 1966 and at that time included today's EC members Britain and Denmark. The May 13 conference in Vienna ended with the publication of a communiqué in which the seven remaining EFTA members - Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland - declared, among other things, their intention to continue and intensify cooperation with the EC *(Common Market Reports, Par. 3863)*. This stepped-up cooperation could be practiced in numerous ways and areas: consultations, exchange of information, economic and monetary coordination mechanisms, transport policy, environmental protection, research, and some harmonization in certain legal areas.

Austria's Chancellor Bruno Kreisky, the host of the conference, said that the dismantling of customs tariffs for manufactured products (with the exception of some "sensitive" items) between the EC and EFTA as of July 1 should

COMMON MARKET REPORTS, Issue No. 436, May 24, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

EFTA *(contd.)*

not be viewed as a final step in the development of relations between the two parties but should activate closer economic cooperation in the European free-trade area. The EFTA's ideas on such a cooperation would be transmitted to Brussels, Kreisky said, although it was not immediately clear in what form. (Observers commented that the declaration was drafted very carefully so as to avoid any inference that the EFTA either wants to form an economic bloc with the EC or wants to appear as a "rival force.")

In the key area of trade relations with third countries, the EFTA is closely monitoring the Community's negotiations with Greece and Portugal and its contacts with Spain and Turkey, which eventually could lead to an enlargement of the EC. In this context, it is important for the EFTA partners not to be confronted with new, discriminatory customs tariffs, and there are considerations of concluding interim agreements with the potential candidates for EC membership. A case in point is Spain, the only West European country that belongs neither to the EC and its trade associates nor to the EFTA but which is a candidate for EC membership. Since 1970, Madrid has maintained partially preferential trade relations with the EC which have resulted in some discrimination against EFTA exporters on the Spanish market. At the Vienna conference, the EFTA partners agreed on a common position in seeking to negotiate a free-trade agreement with Spain which would not basically conflict with that country's EC accord.

In Brief...

Disagreements in the Labour cabinet are now thought likely to delay the U.K. bill for direct elections to the European Parliament (EP) until the end of June, thereby making it difficult for Britain's 81 new "European" constituencies to be drawn before the provisional deadline of May/June 1978. The delay, embarrassing to the U.K. in light of its current Council presidency, is largely due to arguments that rising inflation and continuing high unemployment are consequences of EC membership. This, in turn, makes any commitment to direct elections electorally unpopular + + + Criticisms in the EP of alleged shortcomings in the Commission's plan for a European Export Bank (EEB) have resulted in a promise by Brussels to submit a more detailed concept by year-end. Points raised by EP members concerned the degree of autonomy to be accorded the Bank, Commission veto powers, and the competitive threat posed by the EEB vis-à-vis commercial banks + + + An appeal by Holland's Koninklijke Scholten-Honig NV (KSH) against a Council decision to abolish a cornstarch subsidy as of Aug. 1 has been rejected by the European Court on grounds that the action was within the scope of Treaty Article 189. KSH also was expected to appeal last month's Council decision to levy as of July 1 a production tax of up to five units of account per 100 kilograms on isoglucose, a syrup produced mainly from starch.

Britain: Finance Bill Amendments on Taxes

It was only to be expected that the 1977 U.K. Finance Bill would be considerably amended in the course of its parliamentary passage, not least because certain of the proposals are conditional in nature, notably as regards a cut in the income tax base rate to 33% in exchange for a government/labor union accord on future pay structures. Indeed, analysts have now suggested that such a cut may be made irrespective of, or prior to, any agreement being reached and have speculated that the Chancellor of the Exchequer is considering a cut to 32%. To date, however, attention has focused on three issues: the treatment for tax purposes of company automobiles, indexing of capital gains tax and, perhaps most important, a new threshold for value-added tax.

Conservative members had proposed the introduction of a clause designed to ease the tax position of those using company automobiles by offering an option to pay tax either on the flat-rate cash equivalent of the benefit as laid down in the Finance Act 1976 or on a sum calculated by reference to the proportion of private use, whichever was lower. This clause was rejected. Also rejected was a key amendment proposal to introduce a capital gains tax indexation clause that would have provided a formula for deducting from a nominal gain that part which merely compensated the taxpayer for the fall in the value of money: since the cost of living has nearly doubled since 1972, it was argued that the capital gains tax is now effectively a wealth tax. The government is of the view that any indexation formula would be merely cosmetic, administratively too complex, and would not succeed in conquering inflation.

It was only the third issue on which the government made any form of concession: it agreed to raise the minimum level at which companies and individuals have to register for value-added tax purposes from the present £5,000 in annual turnover to £7,500. This change was consented to by the Liberals under the terms of the Labour/Liberal "working agreement," which means that it certainly will be approved when it comes before the House during the Finance Bill committee stage. The concession (Conservatives earlier had called for a £10,000 minimum) came only a day after the government had backed down in the Commons over the gasoline tax and, in the wake of pressure from the Liberals, had removed the extra 5p proposed in the March 29 Budget.

More Credit Protection for U.K. Consumers

Certain provisions of the U.K. Consumer Credit Act in regard to credit reference agencies have come into effect on May 16: as of that date, people may check and correct any information about themselves held by such agencies. The courts, moreover, are now empowered to protect borrowers against excessive charges and certain other contraventions of fair trading by "rewriting" loan agreements.

Credit Act *(contd.)*

Specifically, lenders and hire-purchase (consumer finance) companies are now obligated, on request, to make available to potential borrowers the name and address of any credit agency consulted while considering whether or not a loan should be approved. Thereafter, the agencies are required within 15 working days to provide consumers with copies of files relating to them and, where necessary and appropriate, to correct any prejudicial data.

Ireland: Firm Stand on Fishing, Trade Curbs

The Republic of Ireland - occasionally viewed as a "peripheral" member of the EC, possibly for reasons of size, location, and economic strength - has now made its position unmistakably felt in connection with both fishing rights and alleged trade curbs by France.

First, the Republic ignored a final request from the European Commission to modify or suspend its unilaterally imposed restrictions on fishing within waters 50 to 100 miles off its coast following the capture of 10 Dutch trawlers and the arrest of their captains. The Commission thereupon filed suit in the European Court, and an Irish tribunal also suspended the trial against the captains and requested a preliminary ruling from the Court on whether Dublin acted within Community law when, on March 1, it unilaterally banned all foreign fishing vessels of more than 110 feet or 1,100 horsepower. The affair is expected to have considerable bearing on the debate over the future course of the Community's "internal" fisheries policy. Both Ireland and the U.K. are pressing for recognition of exclusive national fishing zones extending up to 50 miles from their respective coasts.

On May 10, Ireland furthermore claimed a distinction by being the first EC member state to take another member state to court for alleged infringement of Community regulations when it accused the French government of contravening free trade rules by imposing and operating an import ban on lamb and mutton products when prices are low. The Irish government contends that this is a quantative restriction on trade and, as such, specifically prohibited under the Rome Treaty (Article 170). The French take the view that "occasional" restrictions are admissible for such products as lamb and mutton since these do not come within the spectrum of the Community's agricultural policy. Should the Irish government find favor with the European Court, the next logical step would be the establishment of a common policy on sheep meat products. This, in turn, would pose severe problems for the U.K.,which enjoys cheap lamb imports from outside the Community, notably from New Zealand. (France has been prohibiting any imports of fresh or deep-frozen lamb and mutton meat whenever import prices are below the minimum prices guaranteed to domestic producers.)

France: Costs Revealed of Communists' Economic Plan

The French Communists for the first time have come up with a detailed cost calculation of the "Government Program of the Left" they said they will implement together with the Socialists and the Left Radicals following next spring's general elections. The documentation, published on May 10 in the party newspaper L'Humanité, rests on promises of higher incomes and benefits for the working man at the expense of businesses and the state. Government officials and most economic experts dismissed the plan as utopian, and commentators said it came as an acute embarrassment to the Socialist partners in the Left Alliance. Prime Minister Raymond Barre himself, in his May 12 television debate with Socialist leader François Mitterand, rhetorically tore the program into shreds and forced Mitterand to publicly disclaim its validity. (Subsequently, the Left Alliance parties agreed to adjust the plan, which basically dates back to 1972, to the present-day situation.)

In the *programme commun*, employees are being promised real-term pay increases of 10% until 1980, which would correspond to a FF 197-billion boost in total purchasing power. The monthly minimum wage would be raised to FF 2,000 on the basis of a 40-hour week, coupled with FF 116 billion in additional social benefits. The total cost of FF 313 billion would be borne by businesses (FF 254 billion) and the state (FF 59 billion). In addition, the general population could expect benefits valued at FF 112 billion in the form of tax cuts (FF 28 billion), welfare-related investments (FF 34 billion), and improvements stemming from the proposed redistribution of incomes (FF 50 billion).

In overall terms, businesses would be called upon to foot no less than FF 344 billion of the total bill: FF 254 billion for higher wage and social costs, FF 16 billion contributed from "higher profits," FF 33 billion in extra investment commitments, and FF 41 billion in additional net worth and profit taxes. The documentation did not evade the question of where all this money should come from: full utilization of spare capacities and production rationalization (FF 146 billion), import "savings" (FF 50 billion), and reduced financing costs and measures against capital flight (FF 40 billion). State subsidies and bond issues, finally, would round out this part of the cost balance.

According to the Communist blueprint, the FF 149-billion public commitment would be raised via new taxes as well as higher revenues resulting from "economic growth." Some funds also would come from the elimination of certain subsidies and the elimination of tax evasion.

The economic experts of the Communists practically gave a full-employment guarantee by promising the creation of 2.1 million new jobs between 1978-82. For this time

Communists *(contd.)*

period, they projected an economic growth rate of 6% per annum. To keep revived domestic demand from fueling inflation, they would impose "initially" a general price freeze. Also initially, there would be strict currency controls to protect the franc and the payments balance.

Germany: Lower House Passes Pension, Health Bills

With the votes of the government coalition parties and against those of the Opposition, the lower house of the German parliament on May 12 passed into law a bill aimed at the financial rehabilitation of the country's old-age pension system. Also approved by the Bundestag was legislation prescribing cost reductions for the health insurance system, but this bill still requires the consent of the upper house. (The Bundesrat vote was scheduled for June 3 and was expected to result in the bill's being sent into committee for a compromise.)

Final passage of the pension legislation will enable the federal government to fulfill its pre-election pledge of raising the old-age pensions by 9.9% as of July 1. Beginning on that date, the pension insurance fund will reduce from 17 to 11% of pension expenditure its contribution toward health insurance coverage of the elderly. This will mean an extra burden of an estimated DM 30 billion on the health insurance funds until 1980, which is to be compensated by cost reductions, raised assessment ceilings, and higher contributions by the insured. Estimates on the contribution increases deemed necessary vary from 0.6 to 1.2%.

While spokesmen for the coalition government praised the "careful and solid" calculations on which the entire social insurance package was based, the opposition Christian Democrats charged that the newly devised structure was "built on sand" and would have detrimental consequences for everyone concerned - pensioners, taxpayers, and employers. For this reason, they said, they were unable to support the legislation, even though they favored some aspects of it, including the pension increases. Referring to government estimates of a DM 83-billion deficit in the pension system until 1980, the Opposition maintained that the law covers only the most critical needs and leaves unsolved the financial problems bound to arise in the years 1979 and '80. *(Doing Business in Europe, Pars. 30,868 and 30,918)*

Italy: 'Buy Italian' Message for Consumers

Speaking at an economic symposium at the University of Rome, Foreign Trade Minister Rinaldo Ossola has called for voluntary import reductions and a massive campaign under the slogan "Comprate Italia" (Buy Italian) modeled on similar efforts by Britain, France, and the United States. Ossola conceded that, under the terms of the existing international loan agreements, the government is prevented from

Buy Italian
(contd.)

erecting customs barriers or imposing volume curbs. Nevertheless, he insisted that Italy must slow the import of nonessential goods, which burden the trade balance with several billion lire daily. Among the foreign products singled out by Ossola are automobiles with a piston displacement of more than 1,500 cc, motorcycles, yachts, TV sets, clocks and watches, furs, cosmetics, wines and other alcoholic beverages, tropical fruit, flowers, sweets, musical instruments, crystal ware, etc.

Last year, Ossola said, the highest expenditure on imports, with the exception of oil, was for foreign automobiles (2,000 billion lire), despite the fact that the purchase of two such cars effectively means the loss of one job in Italy. These purchases often are based on "misinformation and snobbery," the minister declared. "In any given class, Italian automobiles stand up to competition." (Other sources said that Italy is the No. 1 European consumer of Scotch whiskey and the second-largest foreign market for Rolls-Royces and that it is a leading buyer in the world of such luxuries as furs, perfumes and cosmetics, champagne and cognac, salmon and lobster, etc.)

Belgium:
U.S. Companies
Complain of
Cost Pressures

A survey among the U.S. companies established in Belgium has shown deep concern over rising production costs and an increasing loss of competitiveness. The survey was based on questionnaires sent out by the American Chamber of Commerce in Belgium in June of last year. Received were 350 replies - 179 from manufacturing companies, 106 from service companies, and 65 from "others." The results were deliberately held back until after the country's general elections on April 17, according to Robert G. Wilmers, the Chamber's president. Wilmers also was quoted as saying that the results probably would have been "more negative" had the study been carried out today, considering that the government reimplemented the full indexation of wages.

Fifty-six percent of those who answered thought that within a three-year period the prices of Belgian-made products might no longer be competitive on the world market. Eighty-eight percent (92% of the manufacturers) felt that wages and fringe benefits were higher in Belgium than elsewhere in Europe, and 76% believed them to be higher than in the United States. Three-quarters of the companies were dissatisfied with the general economic climate and the rate of return on their investments, and 56% said that in view of the current situation they would not originally have invested in Belgium, though most claimed to be satisfied with the government's response to their problems.

According to the survey, investment by U.S. companies in Belgium is expected to show a drop of 30% over the next five years compared with the 1970-75 period, but 47% of the

U.S. Companies *(contd.)*

companies forecast an increase in their labor forces and only 13% predicted a decrease.

EURO COMPANY SCENE

Agache-Willot/ Gamble-Skogmo

French textile and retail group Agache-Willot has confirmed that it is engaged in talks with the United States' Gamble-Skogmo, with a view to the acquisition of all or part of the latter's equity. Minneapolis-based Gamble-Skogmo earlier reported that an "unidentified European company" had offered to purchase all of its common stock for $45 a share ($11 above the then-current trading price) - valuing the deal at some $200 million. The American chain store group, which operates some 600 stores in the U.S. Midwest and West and Canada and has annual sales of almost $1.6 billion, said completion of the deal was contingent on several factors such as financing and government and shareholder approval. Agache-Willot has estimated annual sales of around FF 5 billion and employs some 27,000 in its 80 companies.

Boots/ Rucker

Boots Co. Ltd., the U.K.'s leading drugstore group, is "walking onto" the U.S. market for the first time with the $25-million purchase of Rucker Pharmacal of Shreveport, La. Now engaged in a five-year, £250-million expansion program, Boots said it has been looking to the U.S. for several years but thus far failed to find a suitable investment opportunity there. The firm intends to use Rucker (a relatively small manufacturer of prescription drugs whose sales are largely concentrated in the southeastern U.S.) as a base from which to "launch a major attack on the American market." The deal, which has received support of Rucker's board, is still subject to approval by the shareholders.

BP/ Stolt-Nielsen

British Petroleum and the Stolt-Nielsen group of Greenwich, Conn., have signed a letter of intent under which BP has a £29-million option to buy a 50% stake in Stolt Tankers and Terminals (Holdings) SA, the chemicals shipping wing of the American group. The deal was described by BP as a "further move in a fast-developing diversification program": however, market commentators were intrigued by BP's incursion into the chemicals-transporting sector of the shipping industry. Under the terms of the agreement, BP would not acquire the stake immediately but would advance a $50-million loan and then have the option to convert into 50% of the equity within a 10-year period.

Common Market Reports

EUROMARKET NEWS

Issue No. 437 *Report No. 319, June 2, 1977*

IN THIS ISSUE

Community: Move to Boost Emergency Oil Stocks

The European Commission has proposed legislation largely designed to increase emergency oil stocks so that the Community could get along without any imports for at least 90 days. Although most member states require oil companies and importers to store oil and oil products for periods of up to 60 days (a few states have prepared or enacted a 90-day requirement) and although there are agreements governing storage on the territory of other member states, the Commission believes that supplementary measures are in order so as to encourage the best use of existing storage capacity.

It is proposed that companies wanting to make storage capacity available to firms in other member states should, as a rule, obtain permission from the particular national agency that oversees compliance with domestic stockpiling requirements. Permission would not be needed for quantities of crude oil and/or petroleum products that amount to less than 20% of a company's storage requirements. In order to give companies a Community-wide picture, a list of available storage capacities would be published in the Official Journal.

This issue is in two parts, consisting of 96 pages. This is Part I.

COMMON MARKET REPORTS, Issue No. 437, June 2, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Oil Stocks *(contd.)*

In another draft directive the Commission has proposed rules that would govern the financing of storage capacity. These costs can be substantial, especially for small and medium-sized businesses (one of the reasons why several governments have been reluctant to introduce or expand storage requirements). In order to keep these costs down, the Commission is proposing the establishment of national storage agencies in all member states; these would assume part of the storage obligations normally resting on businesses. The agencies would be nonprofit, incorporated entities which would have the power to levy charges on all businesses concerned and thus be in a position to recoup the costs incurred in storing crude oil and oil products.

In Brief...

The Permanent Representatives have returned the merger control proposal to the Council of Ministers working group, which now has to work out a compromise on the basis of a formula suggested by the U.K. Since the member states disagree on several important merger criteria such as sales and market share, the British have proposed 1 billion units of account as the annual sales criterion and a 25% market share + + + On May 17 the Council formally adopted the sixth VAT directive, which provides for harmonization of national rules governing the base for assessing value-added tax in the nine member states by Jan. 1, 1983. As of 1978, 1% of a member state's VAT revenue will accrue to the EC; at present, the states make regular financial contributions to the EC budget + + + In an interim ruling on May 21, the European Court ordered Britain to stop immediately pork subsidies paid to U.K. hog farmers and totaling £1 million a week. The U.K. had been taken to court after it refused to obey a Commission order to desist. The subsidies had been paid since January to protect British hog farmers against cheap imports of ham and bacon, primarily from Denmark.

Germany: Adoption of Labor Rep Election Rules

The German government has adopted the long-awaited election rules *(Wahlordnung)* containing the details for the election of labor representatives to supervisory boards of large companies, thus ending the year-long quarrel among the two coalition parties and the national union leadership. Under the 1976 Codetermination Law *(Doing Business in Europe, Par. 30,863)*, employees of companies with a labor force of 2,000 or more are entitled to half of the total seats on a supervisory board. Since wage earners, salaried employees, and executives elect their representatives on separate ballots, a major issue that had delayed adoption of the election rules was who should have the final word in disputes over whether an employee should be on the voting list of salaried employees or that of executives.

The final formula gives the election board broad powers

Labor Reps *(contd.)*

in making up the voting list, and the local labor court has the final say in any disputes. The election board will determine on which of the three voting lists an individual's name will appear. In case of a unanimous decision of the election board (made up of wage earners, salaried employees, and at least one executive), an employee has no recourse if he does not agree with the decision placing his name on a particular list. If the decision was not unanimous, the employee may demand that his name be entered on another list, and he may go to court if he is turned down. He even has an enforceable right if he is supported by at least one member of the election board, but here the board's majority or an individual member may appeal to the labor court, which in either case will have the final say.

Government attorneys are aware that most future court battles in this area will center on whether an employee should be on the voting list of salaried employees or that of executives *(leitende Angestellte)*, especially since the union leadership has vowed not to abandon its fight against giving executives a special status under the law. Union leaders opposed all along that part of the law which entitles executives to place at least one representative on the supervisory board of their company.

n Offers Reduce VAT Increase

Responding to strong objections from the Opposition, but also giving in to pressures from leading Social Democrats, the Schmidt administration has offered a major concession in its tax bill pending before Parliament. Instead of insisting on raising the normal value-added tax rate by 2% to 13%, the government would go along with a 1% boost in order to assure passage of the measure by the Opposition-controlled Bundesrat, the upper house. (For food items, the corresponding increase would be 0.5% instead of 1%, to 6%.) There would be no change in the proposed cuts in the net worth and business taxes *(Doing Business in Europe, Par. 30,935)*.

The administration's change of mind means that Bonn will have to postpone even further its objective of eliminating the budgetary deficits in the coming years because the new formula will yield only about half of the DM 10 billion expected annually on the basis of the original bill. Five economic research institutes recently had urged the government to relax its drive for balanced budgets and to forget the VAT boost entirely in order to stimulate investments.

France: Boom in Foreign Investments Criticized

Statistics now issued for the first three quarters of 1976 have been seized upon by union leaders and others in France to back up their claims that French industry is shifting too much of its investment abroad, thereby hurting domestic employment. The figures show a spectacular expansion of

Investments *(contd.)*

such investments, which outstripped foreign engagements in France for the first time. In the January-September period, French investments abroad (excluding the oil sector) totaled FF 2 billion, compared with FF 1.5 billion spent by foreign investors in France. (Oil industry investments, however, still account for the largest share of the total - FF 4.6 billion, or 70%). On the basis of the nine-month results, the 1976 total should approach FF 9 billion, it was reported, compared with only FF 4.1 billion the previous year.

Despite massive engagements in the Mideast and Near East oil sector, nearly half of French foreign investments continue to be concentrated in Europe (as of 1974, the latest year for which such a breakdown is available). The United States, on the other hand, is losing ground: French investments there declined to 8.7% of the total from 11% in 1972. Also falling off are French investments in the EEC area, especially in Germany and Italy, with a drop of 40% between 1973 and '74. By contrast, European investments relating to oil were stepped up significantly, centering almost exclusively on Norway and Scotland. Of the total non-oil investments, almost half were in the chemicals sector, with Europe accounting for 75% and the U.S. for 7.5%.

The French industrial federation, the CNPF, meanwhile has countered charges that these strong foreign activities betray a lack of confidence in France's growth potential and political future and undermine employment at home. The CNPF said the foreign investments have a decidedly positive effect on the country's trade balance in that the expansion of foreign affiliations and participations very often sets the stage for accelerated exports. This, in turn, consolidates business positions at home and improves profitability - two key criteria in maintaining and boosting employment.

Nevertheless, the CNPF had pledged to actively support the government's drive against unemployment. At a Paris meeting on May 12, the employers consented to raise the number of trainees by 25% (i.e., by about 10,000) and to offer each trainee full employment upon completion of his apprenticeship. In addition, the number of individuals to be given further vocational training is to be raised by 30%.

Denmark: World's Highest Labor Costs; 'Vacation Year'

The Danish industry federation has come up with a calculation according to which Denmark now has the highest labor costs in the world. Wage and interest costs per job at present accumulate to 133,000 kroner annually, which is said to be 38.5% more than in Germany, for instance. Wage and supplemental costs alone average 73,000 kroner per industrial job, to which 60,000 kroner in interest costs must be added, the federation said. (Denmark has exceedingly

Labor Costs *(contd.)*

high interest levels, currently around 15%. Although two neighboring Scandinavian countries, Sweden and Norway, have higher wage and supplemental costs, employers there do not have to bear such an interest burden.)

In other developments, Denmark's governing Social Democrats are publicly considering the idea of introducing a voluntary "vacation year" for employees as a way of opening up new jobs. The proposal is to be taken up at the party's annual meeting in the fall. Employees with at least five years' seniority in the same job would be allowed to take voluntary leave of either six or 12 months, at pay that corresponds to maximum unemployment compensation. It was estimated that such an arrangement would not only create up to 120,000 new jobs but also would reduce public expenditure for the unemployed. The latter currently number 160,000, which is equal to 7% of the working population.

Britain: Draft Treaty With U.S. on Civil Judgments

The draft convention between the United Kingdom of Great Britain and Northern Ireland and the United States providing for the reciprocal recognition and enforcement of judgments in civil matters (Cmnd. 67771, HMSO London) is the result of three years of negotiations between the U.K. Foreign Office and the U.S. State Department. Publication of the draft text in Britain was designed to stimulate public comment, and it was expressly stated that there is no commitment to signature or ratification of the convention in its present form. To the U.K. government's surprise, however, some of the reaction has been hostile and even alarmist.

The principal fear is that, in its attempt to give greater precision to the law and to simplify procedures, the convention will effectively allow U.S. court judgments to be "rubber-stamped" by U.K. courts (hence such headlines as "Britain To Be Subject to U.S. Law"). Disproportionate as such fears may be, observers say, the fact remains that the convention - which applies to judgments in civil matters but not to matters of family law - may be reciprocal in theory rather than in practice, bearing in mind that U.S. court awards are generally many times higher than comparable awards in Britain.

One reaction is unequivocal: the U.K. insurance industry has estimated that its premiums would have to be increased 10 or 15 times over to provide adequate coverage for British companies exporting to or operating in the United States. These massive premium boosts are necessary, insurance sector spokesmen say, in order to guard against a partial or total loss of business that could result from adverse product liability rulings against U.K. companies by U.S. courts.

Netherlands: Limit Placed on Credit Growth; Dim Outlook

The Dutch Central Bank has decreed a ceiling of 12.5% or 11 billion guilders on domestic credit volume growth for this year, which compares to a 20% rate last year. The action, on the basis of the fourth-quarter average 1976, takes account of the guilder's exceedingly strong position within the European currency snake, which early this month caused the Bank to intervene with massive purchases of foreign exchange. (Earlier, the Bank had reduced the discount rate twice within a few weeks by a total of 1.5 points to 3.5%.)

The Bank opted for direct curbs on credit growth rather than further restrictions on the free liquidity reserves of the commercial banks, since the latter move would have actually encouraged an unwanted inflow of foreign exchange and pressures for a guilder revaluation. On the other hand, the Bank did not want to tolerate a further "explosion" of the money supply in the interest of the government's anti-inflation policies (last year the liquidity quota already had risen from 35.5 to 41% of national income). It was hoped that the route chosen after thorough discussions with the private banking sector would offer the best chances of avoiding higher interest levels in the short term and thereby a negative impact on much-needed investment activity and on investment credits.

In the meantime, the Central Planning Bureau (CPB) has given a fairly gloomy assessment of the domestic industry situation this year, saying that foreign competition is making itself more and more felt both at home and abroad. With the exception of the dairy, paper and graphics industries, the CPB said, all sectors are threatened with the loss of domestic market shares. Production growth will be lower than in 1976 in all manufacturing branches except woodworking, metals, construction, and machine tools. Cost increases will be 0.5% lower than the annual average of the years 1968-73. The CPB forecast that exports would rise by 5.5% this year as compared with 12% in '76; capital equipment exports (primarily shipbuilding) would decline by 0.5%, though the construction sector can hope for an upturn of 9%.

Den Uyl Again Seen to Head Government

On the basis of the tentative results of Holland's parliamentary elections on May 25, socialist Labor Party leader Joop den Uyl was virtually certain to be reinstated as the head of the next Dutch government. His party, the PVDA, gained an additional 10 seats for a total of 53 and thus remained the largest faction in the 150-seat Second Chamber, though not by much. The Christian Democrats (CDA), who had been part of the five-party government coalition until the latter's collapse last March 22, also won two more seats and now have 49. The right-wing Liberals (VVD) added six mandates for a total of 28. With no fewer than 25 parties competing in the elections, the gains of the three largest came at the expense of virtually all others.

Elections *(contd.)*

(The voting apparently was not influenced by the action of Moluccan terrorists who took 160 people, mostly children, as hostages in a school and on a train two days before election day.) Den Uyl was expected to seek a renewal of the coalition with the Christian Democrats.

Greece: Taxes Imposed on Luxuries; Energy Savings

In efforts to cope with growing trade and payments deficits and to cool down "unnecessary" consumer spending, the Greek government with effect on May 19 imposed a series of economic measures essentially aimed at higher-income groups and at energy conservation. By presidential decree, a 25% tax has been added to the retail prices for imported "luxury" goods, including alcoholic beverages, leather goods, perfumes, photo and stereo equipment, and even cat and dog food. The tax also applies to restaurants of the "first category." Nightclubs will be subject to a steep entertainment levy.

For automobiles with engines larger than 1,800 cc, the road tax has been raised by 100%, the turnover tax by up to 200%, and the one-time special levy payable on new-car purchases by 50%. Motorcycles of a larger size (above 400 cc) also will be more heavily taxed. As of 1978, businesses no longer are permitted to deduct from their gross earnings depreciation allowances and other expenditures for passenger cars of the above-mentioned categories. (Between 1974 and '76, the import value of cars increased from 1.9 to 6.6 billion drachmas, and last year Greece spent the equivalent of $726 million on imported consumer goods classified as nonessential.)

The government, through Coordination Minister Panayotis Papaligouras, voiced concern over the fact that Greece's oil imports last year totaled $822 million (the overall trade deficit in 1977 is forecast at $5 billion). To effect some savings, indoor temperatures in public buildings and in banks during the winter season are not to exceed 20 degrees C. Public vehicle fleets must reduce gasoline consumption by 20%. Tax incentives are to be offered for conversions from oil to solar heating.

Despite the fact that the new and higher levies should bring in an additional 1 billion drachmas in revenue, the government has denied the fiscal nature of the measures. The extra revenue is to benefit low-income groups - for instance, in the form of a doubled tax-free allowance for the 1977 tax year.

EURO COMPANY SCENE

Opel

Germany's Adam Opel AG, subsidiary of General Motors, has announced plans to invest some DM 5 billion from 1977 to '82 for expansion of its four domestic auto manufacturing

Opel *(contd.)*

plants. The company cited favorable market conditions and satisfactory results in the 1976 business year as crucial factors in deciding on the record-high capital spending program and said the plan provides for "expenditures for product and job improvements, environmental protection measures, and the elimination of production bottlenecks." With the expanded capacities, Opel hopes to slightly increase its present 20% share of the German auto market and to double its output of diesel engines by the end of '78. Without giving definitive figures, the Opel management said that by the end of the investment program, employment at the company should "significantly" exceed the present level of 60,000.

Esso Italiana

The former head of Exxon's Italian offshoot, Vincenzo Cazzaniga, 70, has been arrested in Rome on charges of embezzlement, falsification of records, and active bribery. The authorities accuse him of having misappropriated some 40 billion lire for his personal use and for the bribing of political parties in the years 1963-72. The arrest of the ex-boss of Esso Italiana, who at one time was also the president of the Italian oil importers' association, has revived the "oil scandal" that made headlines in Italy three years ago and in which the multinational oil concerns were accused of having spent millions to influence politicians in Rome.

Just prior to the news of Cazzaniga's arrest, Esso Italiana had reported losses of 31 billion lire for the year 1976 - a slight increase over losses incurred in '75. The company blamed these results primarily on the pricing commission's failure to recognize higher costs related to the lira devaluation, the cash deposit system, and production- and distribution-linked cost increases.

State of Iowa

The Iowa Development Commission this month officially opened an office in Frankfurt, Germany, for the purpose of providing European industries and firms with information on investment opportunities and procedures in the State of Iowa. The office is headed by A. Ronald Kraft.

Gulf Oil

Gulf Oil Corp., Pittsburgh, Pa., has announced the first listing of its shares on stock exchanges outside of North America. Trading of Gulf Oil stock was to begin on May 31 on the Zurich, Basel, and Geneva, Switzerland, bourses.

Common Market Reports

EUROMARKET NEWS

Issue No. 438 *June 8, 1977*

IN THIS ISSUE

Community: Price Labeling, Unit Pricing of Foodstuffs

The European Commission has proposed legislation that would require all retail food items to carry the sales price as well as the unit price, the latter based on either weight or volume. In the first of three consumer protection measures planned for this year, the EC executive wants the Council of Ministers to enact the same rules for retail advertising, sale offers, and catalogs. (The other two measures would deal with common rules for correspondence courses and also consumer credit and misleading advertising.) *(Common Market Reports, Pars.9928, 9951)*.

The new rules would apply not only to prepackaged foodstuffs but also to items sold in bulk. In the latter case it would suffice to display the unit price on signs, posters, or charts nearby. This probably would also be permissible for certain categories of prepackaged foods, since the Commission is aware that an overly rigid unit pricing system in itself would tend to increase retail prices.

The Commission points out that price information is more and more being used to promote sales and that the in-

COMMON MARKET REPORTS, Issue No. 438, June 8, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Prices
(contd.)

fluence it has on the purchase decision sometimes may be detrimental to the consumer's interest. It is believed that unit pricing would do more than just inform the consumer: an informed buyer becomes more critical because he compares prices before buying and in the end usually accepts the best offer, thus intensifying competition. His critical choice will also help check misleading promotion techniques such as deceptive packaging.

The Commission's latest proposal brings to nine the total number of consumer-related measures pending before the Council. Among the most important of these is the draft directive that would bring about standardized labeling of foodstuffs throughout the Community; it would also ban deceptive practices in advertising of foodstuffs. Another draft would protect consumers in door-to-door selling. The most progressive piece of legislation is the products liability directive, sent to the Council in September '76 *(Common Market Reports, Pars. 9829, 9891, and 9911)*.

Agreement Sought on Water Proposal

The Permanent Representatives are striving to eliminate the member states' remaining objections to three proposals for environmental legislation so that the Council could adopt them later this month. Each of the three measures would have an impact on industry, but Council and Commission attorneys say that the draft directive on water for human consumption would be felt most. (The others deal with the disposal of titanium oxide used in paints and varnishes and the disposal of waste in the open sea.)

The water directive seeks to establish both mandatory and recommended quality standards for water destined for human consumption and hence also for water used in many industries, especially food processing. For example, the proposal specifies that such water could never exceed maximum levels of certain toxic and noxious elements; also it would have to contain minimum percentages of other elements (oxygen, for instance). Furthermore, the directive would lay down guidelines for levels that a given substance ideally should not exceed.

Economic problems are at the core of the remaining disagreements on the matter. They boil down to the question of whether a member state could bar importation of products (say, food items) processed with water that does not meet the mandatory quality standards simply because the particular region in which the manufacturer's plant is located has no better water supplies. All national governments now say No, and so they have worked out a compromise to the effect that no state could reject a product from another state just because it does not meet EEC water standards. A state could still invoke Treaty Article 36, which allows a member state to bar imports on grounds of public health or safety *(Common Market Reports, Pars. 351 and 352)*.

ter Proposal *ontd.)*

But this would be possible only in grave situations and under the watchful eyes of the Commission, and the state would have to present solid evidence of the product's potential hazards. One possible compromise would be to lower the mandatory standards, but the Commission and most of the member states oppose this.

In Brief...

The Council working group discussing the third draft directive on coordination of national company law provisions has solved all the difficulties still surrounding the proposal except for one major problem. The proposal would provide safeguards for shareholders and creditors of merging stock corporations, especially by providing adequate information. It would also give employees information and consultation rights, and it is over the scope of these rights that the national experts still differ *(Common Market Reports, Par. 1381)* + + + The Commission has submitted to the Council a bundle of proposals for energy conservation. In addition to financing or aiding conservation and research projects (utilizing geothermic energy and coal liquification to produce gasoline), the EC executive wants the Council to establish minimum insulation standards for new housing.

rance: arre Bond'; ndustry Aid; Strike Results

The latest French state bond issue was "sold out" within hours of its release on May 23, and the heavy demand even enabled the government to raise the total amount from FF 6 billion to 8 billion at the request of the financial institutions. The "Barre Bond," which has a life of 15 years, allows Paris to cover about two-thirds of the current budget deficits with long-term financing. Although the bond's 8.8% interest rate does not even come close to the 11.4-11.75% offered on comparable debentures, this is more than compensated by a number of fiscal incentives: exemption from the 10% withholding tax normally imposed on state bonds, a FF-1,000 exemption in interest income, and exemption from capital gains tax. In addition, the issue has been indexed to European units of account, which is viewed by investors as a certain insurance against the effects of a possible deterioration of the franc should the Left Alliance win the general elections next spring. (The political uncertainties evidently caused many people to transfer funds from savings to the bonds, which explains why 80% of the issue was placed with the general public.)

In other developments, the government has decided to set aside FF 800 million in financial assistance to two domestic industry sectors - computers/computer peripherals and machine tools. By far the largest share of the subsidies, FF 500-600 million, is to be devoted to helping leading companies in the EDP sector (identified as Thomson, CGE, CII-Honeywell, and Bull) develop their production of electronic components. About FF 50 million is to be used

Barre Bond *(contd.)*

to set up a finance company to promote the concentration process in the machine tools industry.

Meanwhile, the French trade union organizations have followed up on their May 24 general strike by renewing pressures for "real negotiations" on wages, though without much hope of finding an open ear with Premier Raymond Barre who previously had made it quite clear that his policies were not to be influenced by "the length of demonstration marches." What distinguished the latest national strike from others was not so much its crippling effect on the public and private sectors but its joint support by both the more militant leftist CGT and CFDT trade unions *and* the moderate Force Ouvrière (FO), even though the latter chose to organize its own demonstrations that day.

Italy: Productivity Rises, Strike Rate Declines

The industrial community in Italy has noted with some encouragement the latest official statistics for the first quarter of 1977 which showed a strong upturn in labor productivity and a significant decline in absenteeism and strike losses. In comparison with the January-March period of 1976, the number of work hours per industrial employee rose by 9.3% and actual output by 10.9%. Even more marked was the improvement reported for work hours lost due to strikes, with 27.8 million hours for the past first quarter comparing with 67.6 million for the same period last year. However, the falling propensity to strike was in part explained by the still-remarkable nominal rise in industrial wages and salaries - 32.5 and 25%, respectively, on an annual basis. (Enterprises with more than 500 employees reported a reduction in work force by 1.1%, which in itself raised productivity by 2.6% over a year.)

The updrift of wages, especially at the lower end of the scale, also continued into April. According to the Central Statistical Office, negotiated minimum wages in industry were 32.6% higher that month than a year ago. The corresponding percentages were 37.9 for agriculture, 33.5 for the gastronomic sector, and 29.7 for transport. At the same time, salaries paid in trade and commerce increased by 29.3%, in industry by 24.9%, in transport by 22%, and in banking and insurance by 20.7%. The decline in strike actions also extended into April, the Statistical Office reported, when work hours lost numbered 6.4 million as compared with 23.4 million in April 1976.

Germany: Bonn Wants Bankruptcy Register

New legislation being drafted by German government attorneys would provide for the establishment of a centrally located debtors' register carrying the names and addresses of all individuals and businesses that have gone bankrupt. Under present law the opening of bankruptcy proceedings (or

Bankruptcy (Contd.)

court rejection of such proceedings when there is a lack of assets) and the debtor's affidavit about his net worth are recorded by the local court at the debtor's domicile. But there is nothing in the law to prevent the debtor or a former board member from moving to another place and opening up another business there or becoming a member of the managing board of another company. Since a debtor is not required to disclose a past bankruptcy, creditors have no easy way of knowing about this part of an individual's business record.

Under the planned legislation, any creditor could inquire at the central register about the debtor's financial standing and record. Equally important to creditors, the register would also list the persons who were on the board of a company that went bankrupt. The entries in the register would remain there for 10 years, but a name could be removed earlier if the applicant can prove that he has paid off his debts and that his former creditors have agreed that his name be deleted. For a modest fee, qualified interested persons could ask the register for information on a potential business customer.

Government lawyers say that perhaps several hundred of last year's 10,000 bankruptcies in Germany might have been avoided had the register been in existence. A substantial number of newly formed businesses were not sound from the start or at least faced a doubtful future because individuals doing business in the form of sole proprietorships, acting as managers in partnerships, or representing companies as board members failed to live up to their financial responsibilities.

Netherlands: Key Issues Still Remain To Be Settled

The forthcoming negotiations in Holland toward the formation of a new coalition government and an agreement on a political program for the next four years may prove to be a frustrating, time-consuming process. The undisputed "personal" winner of the May election was Prime Minister Joop den Uyl, whose popularity helped the socialist Labor Party (PVDA) expand its share of the vote by 6.5 to 33.8% and thus become the largest political party in Dutch parliamentary history. Nevertheless, the PVDA will be unable to govern by itself, and so it is generally expected that the next administration in The Hague again will include the country's second-largest party, the Christian Democratic Appeal (CDA). The CDA was formed last fall by three "confessional" parties and, under the leadership of Deputy Premier and Justice Minister Andreas van Agt, was able to score a modest gain of 0.62%, for a total of 31.9% of the vote.

On the premise that both parties stake their claims in the new cabinet, there will have to be a number of compro-

Issues *(contd.)*

mises in the formulation of the joint program if the administration is to survive a whole four-year term. This will force both partners to agree on a minimum form of cooperation: after all, the former five-party coalition was wrecked two months prior to the May elections because the Christian Democrats had refused to go along with the PVDA's land reform concept and other legislative plans. Also hanging in the balance were and are such sensitive issues as an obligatory employee profit-sharing system *(Doing Business in Europe, Par. 30,818)* and more government influence on corporate investments - concepts to which Den Uyl and his party still remain strongly committed. However, most political observers consider it unlikely that the PVDA will now be encouraged to lean even more to the left - a development feared, for instance, by the opposition Liberals (VVD), the third-largest party, with 17.9% of the vote. Commentators say that the electorate's support of the top three parties at the expense of the small radical groups must definitely be interpreted as an endorsement of a "moderately progressive course" on the part of the new government.

Britain: One-Year Limit on Dividend, Profit Powers

An amendment to the Price Commission Bill forced through by an alliance of the Labour Party's left wing and the Conservative opposition has deleted the proposed reserve powers for the U.K. government to extend for up to two years after July 1978 controls over profit margins and dividend restraint. The partners in the unusual coalition insisted, for their own respective reasons, on the imposition of a definite time limit of one year, paralleling the one year of proposed Stage Three wage control. In short, they were not convinced by the Prices Secretary's implied assurance that it was "unlikely" that he would use such powers after July 1978: despite this "pledge," there was a lingering suspicion in the minds of many parliamentarians that the government was aiming at a semipermanent pay policy. The situation subsequent to the amendment, therefore, is that the control on profit margins and dividends would be extended for one year only and that it would not be extended beyond August 1978 without new primary legislation.

U.K. Draft on Accounting Rule Changes

The U.K. Accounting Standards Committee, the body that establishes rules and guidelines on accounting matters in Britain, has released new proposals which, subject to public comment, are scheduled to come into force as of Jan. 1, 1978. Should they be implemented, the proposals set out in "Exposure Draft 19" will radically alter the computation of the tax charge in company profit and loss accounts and the related deferred tax liabilities in company balance sheets.

Although some have argued that the new rules are

ounting
ontd.)

largely cosmetic, it still remains that they will cause reported after-tax profits of most public companies to rise by between one-quarter and one-third, and that net balance sheet assets will rise by up to 20%.

Central to the proposals is the institution of new accounting treatment of deferred tax liabilities (which arise because of certain tax reliefs such as accelerated depreciation, stock appreciation, etc.). At present, these are written into company balance sheets as a liability, with the reported profits being reduced accordingly. ED 19 proposes that companies will in the future establish liabilities in their accounts only for the tax they anticipate will actually be due "in the foreseeable future." *(Doing Business in Europe, Par. 30,916.)*

Belgium: Tindemans Presents His New Cabinet

Prime Minister Leo Tindemans on June 2 presented the new Belgian cabinet after agreement on a government program finally had been reached by four parties involved. The coalition includes Tindemans's own Social Christian Party, which had increased its mandates by eight to 80 in the April 17 general elections, as well as the Socialists (62 seats), the Flemish Volksunie (20), and the French-speaking party of Brussels (11). With a total of 173 mandates, the four-party administration can lean on a solid two-thirds majority in the 212-seat Chamber of Representatives.

The most difficult part of the coalition talks concerned the controversial regionalization of Brussels, the bilingual capital. The Flemish factions had insisted on limiting the Brussels region to the existing 19 communities within the agglomerate, whereas the "Francophones" had pushed for an expansion of the region so as to accord more representation to the French-speaking population. Eventually, a compromise was achieved that strengthens the administrative position of the latter in the outer areas of Brussels, while also giving guarantees to the Flemish in the central city.

The inclusion in the cabinet of the Socialists, who had been in the Opposition thus far, necessitated the abandonment of certain economic measures contained in the "Egmont Plan" of last February (although a series of value-added tax increases included in that budget meanwhile has taken effect). Despite a predicted deficit of about BF 55 billion this year, the new government has pledged not to introduce any new taxes in 1977 and instead will first concentrate on clamping down on tax evasion. The new program does include measures to improve conditions for pensioners and low-income groups. A "13th-month" pension will be introduced, to be raised in stages to BF 9,600 for single persons and to BF 12,000 for married couples. Minimum wages and benefits also are to be increased in stages to BF 140,000 and 180,000 a year, respectively.

Sweden: Pay Accord Averts Serious Labor Strife

The government expressed relief over the fact that "open warfare" had been avoided and said it was "extremely satisfied" with the collective pay agreement achieved by Sweden's employer and trade union federations on May 26 after seven months of bargaining. The last-minute accord averted what had threatened to become the country's worst labor conflict since 1909, with extensive lockouts and strikes scheduled by both sides. Covering some 1.3 million blue- and white-collar workers in the private sector, the agreement actually provides merely a breathing spell since it runs for only one year. Thus, the next bargaining round already is scheduled for the fall.

According to figures issued by the SAF employers' federation, the pay accord will mean an increase of between 10.5 and 11.5% in total wage costs this year (including a 1.5% increase in social contributions). This approximates the target previously set by the Conservative coalition government as well as the last mediation proposal of a state arbitration commission. In contrast to previous practice, the raises are not retroactive to the first of the year but take effect on May 15. They average 8.4% in nominal terms for blue-collar workers and 8.9% for white-collar employees.

The employers insisted that industry and the country really cannot afford the terms of the wage pact, and the and PTK trade union federations in turn pointed out that it will leave most workers with a reduction in disposable real income, given the expected price rises this year and higher local taxes (income tax rates actually had been slightly lowered again in order to facilitate the pay talks). Bargaining will now begin in the public sector, where fairly high demands already have been put forward by local government workers and hospital personnel, with the latter asking for raises of up to 40%.

The latest pay agreement should hardly help to pull the Swedish economy out of its doldrums. With an inflation rate of around 10%, real-term growth is expected to remain below 1% this year. Stockholm has been attempting to curb private consumption and to stimulate investments and exports: in April the kronor was devalued by 6%, and on July 1 the value-added tax rate will be increased by three percentage points.

Common Market Reports

EUROMARKET NEWS

Issue No. 439 *Report No. 320, June 14, 1977*

IN THIS ISSUE

Community: Britain Again Balking Over Budget Share

Britain and the other member states once more will be on a collision course when the Council of Ministers takes up the Commission's draft budget for 1978. The reason is identical to that which in April provoked unfriendly exchanges between Britain's Agricultural Minister John Silkin and his colleagues from the other eight states: money. A special Council meeting to discuss the matter is scheduled for July 18-20, and the finance ministers must decide whether the U.K. should contribute 13.7% to the EC budget or 19.32% as provided for in Article 129 of the Accession Treaty. The proposed 1978 budget runs to 12.5 billion units of account as compared with 10.2 billion for 1977.

Britain's actual contributions to the budget have totaled less than 13.7% over the past three years because of the pound's decline, so that its share for the 1977 budget dropped to 12%. The U.K. government said it would pay 13.7% in '78, and the Commission supports this offer. The other eight governments demand either a change in the unit of account (which is still based on 1969 exchange rates) or simply an adjustment in contributions. They believe that Britain's share would have to be 19.32%. The 5.62% difference would mean an additional U.K. payment of Ŀ200 million in

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

COMMON MARKET REPORTS, Issue No. 439, June 14, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Budget Share *(contd.)*

1978. Should London refuse to give in, the other states would have to share the additional burden or cut the budget accordingly. Germany would have to carry the lion's share.

Britain has a major legal argument in its favor: according to Article 131 of the Accession Treaty, the U.K.'s 1978 contribution may increase only modestly in relation to its 1977 share and in the context of the Community's new financial setup, which is scheduled to go into effect in '78. (Under the future system the EC will receive 1% of the member states' VAT revenue in addition to customs duties and agricultural levies.) Although Britain, supported by the Commission, has grounds to insist on adherence to the treaty, the other eight can claim that the reasons for the contribution clause are no longer valid because of economic developments that few had anticipated at the time of the negotiations.

In Brief...

The European Court of Justice is scheduled to hear the oral arguments in United Brands v. Commission (Case No. 27/76) on July 12. Back in December 1975 the Commission had demanded that United Brands Co. and its Dutch subsidiary lower prices for "Chiquita" bananas in Germany, Denmark, and the Benelux countries *(Common Market Reports, Par. 9800)*. On appeal, the Court on April 5, 1976, granted a temporary injunction against the Commission and suspended the price reduction order pending judgment on the merits of UBC's appeal. There has been no action for over a year because some 2,000 pages of documents had to be translated for the reporting judge + + + Germany has blocked a Commission proposal in the Council that was to halt "butter ship" cruises - excursions beyond a member state's territorial waters that skippers make to sell low-priced butter, cheese, and meat to passengers and then receive export subsidies. Although Dutch and Danish skippers also benefit from the present system, their governments backed a gradual phase-out by mid-1978. The German government, however, feared drawbacks for tourism in two German coastal states that already have above-average unemployment.

Germany: Upper House Vetoes Pension, Health Bills

The Opposition-controlled upper house of the German parliament has rejected the two pension and health insurance bills passed by the lower house and thus has put the Schmidt administration in an uncomfortable position. Under the Constitution, the lower house may overrule the upper-house veto of the pension bill, but it cannot do the same to the health bill, for which the upper house's consent is needed because the measure affects states' rights (the states control the various health insurance funds). Since the two measures are related to some extent and with the administration depending on the Opposition's cooperation, the bills are expected to undergo changes in conference.

Vetoes *(contd.)*

The pension bill would increase pensions for some 6 million persons, and the pension funds would pay less to the health insurance funds for the medical treatment of pensioners. Since the health funds must get the money somehow, the health bill seeks to raise the assessment ceilings on contributions from employees in the middle-income brackets. The health insurance measure seeks to slow the rise of health costs through several additional features. For example, the patient would have to pay a DM 3.50 fee for each subscription filled, and he would have to meet the entire cost of medicines prescribed against minor ailments (aspirin, cough syrup, etc.). He would also have to pay a greater share of dental costs. Total payments by the health insurance funds to doctors and hospitals could not exceed a certain percentage annually. Doctors who consistently prescribe expensive drugs when less expensive ones would suffice would have to pay the difference to the health fund. Hospitals would offer outpatient treatment. *(Doing Business in Europe, Par. 30,918)*.

The Opposition is against raising the assessment ceiling, but it has not said how the health funds should pay for rising expenses nor how they should close additional deficits resulting from reduced payments by the pension funds. Instead of the legislated approach to slow the increase in health costs, the Opposition wants a voluntary agreement among those most concerned - the health funds, the medical associations, and the hospitals. This solution would be similar to the voluntary guidelines negotiated in late 1976 between the health funds and the medical professions.

Bonn May Go for Daylight Savings Time

The Schmidt administration has reluctantly asked Parliament for authorization to impose daylight savings time in 1978 or perhaps later. The government has been under pressure to take this step, particularly so since the Benelux countries introduced DST in April and thereby caused considerable inconvenience to international business travelers. Bonn has been hesitant on this matter because it wants to avoid doing anything that might widen the split between the two Germanys. At this point there is some doubt on whether West Germany would move to DST next year if East Germany stays on standard time, even though Poland also introduced DST in April.

Should the German government receive parliamentary approval (there are no doubts that it will) and should it move to DST next year, a uniform European time arrangement will still be lacking. In February 1976, the European Commission had failed with its proposal to the Council of Ministers to introduce uniform DST this year: Britain insisted that DST end on Oct. 31, while the other eight member states wanted it to end on the second Sunday in October

DST *(contd.)*

(and to begin on the first Sunday in April). At present, Germany and Denmark are the only EC states without DST.

France: Retirement Age for Women Lowered to 60

Provided they meet certain conditions, women employees in France may retire at the age of 60 as of Jan. 1, 1979. Legislation to this effect was passed unanimously by the National Assembly on June 1, with the Opposition abstaining. During the transition year 1978, there will be an intermediate retirement age of 63 instead of the present 65. Initially, the new law will cover only an estimated 130,000 women at a cost of about FF 1 billion: to be eligible, women must have completed 37.5 years of employment with corresponding contributions to the social security system (for mothers, each year of childbirth counts double). Benefits amount to 50% of earnings during the 10 "best" earning years plus a supplemental pension equal to 20% of earnings in the year preceding retirement. This supplemental benefit, however, is granted only if the pensioner does not accept part-time work or any other kind of employment.

The bill had been sponsored by the Gaullist RPR, the party of former prime minister Jacques Chirac, which lately has made considerable efforts to shed its image of an "anti-progress" party. The legislation loosely fits into the government's most recent social action program, the Barre Plan II, which contains an invitation to business and the unions to discuss a lowering of the retirement age for both men and women. (The unions have been campaigning for a retirement age of 55 for women.) The RPR, incidentally, also has worked out family policy plans that go somewhat beyond those of the Barre administration and, further, it appears willing to revive the "worker participation" concept which goes back to the De Gaulle era. The aims of this strategy are twofold, observers say: to neutralize accusations of acting as a "brake shoe" for President Giscard d'Estaing's reform policies and, secondly, to invade a political domain that the leftist parties would just as soon reserve for themselves.

Belgium: Cabinet Crisis Solved; Survey Challenged

The new Belgian cabinet finally was sworn in on June 3 after a crisis intermezzo the day before when the presentation of Prime Minister Leo Tindemans's team was prevented by last-minute objections to the cabinet list by French-speaking political leaders. Tindemans at that point offered his resignation, which was refused. Subsequently, then, the swearing-in ceremony was rescheduled without any cabinet changes after Tindemans gave assurances that the four ministers representing the French-speaking Walloons in his own Social Christian party would be given adequate roles in cabinet-level committees. The four-party coalition government is formed by the Social Christians, the So-

Crisis (contd.)

cialists, the Flemish Volksunie, and the Brussels-based Front Démocratique des Francophones (FDF).

In other developments, the acting secretary of state for Flemish economic affairs, Mark Eyskens, has criticized as "outdated" the recently published survey by the American Chamber of Commerce in which U.S. companies complained about rising production costs in Belgium. The survey was based on questionnaires sent to 1,100 American companies a year ago. Eyskens said it failed to take into account differences between the economies of Flanders and Wallonia. He claimed that new U.S. investments valued at BF 600 million had been made in Flanders in the first four months of this year and that his department was studying plans for proposed U.S. investments in Belgium in excess of BF 10 billion. In reference to the new government's economic program, Eyskens told a press conference: "Foreign investors should note that no new taxes are being proposed."

The latest annual report on foreign investments issued by the Economic Affairs Ministry shows that withdrawals of foreign investors in Belgium in the years 1972-76 totaled BF 5.45 billion and thus amounted to only 9.3% of new foreign investments (BF 58.31 billion) made during the same five-year period. The withdrawals usually involved small and medium-sized investors, whereas larger enterprises tended to expand and consolidate their engagements. During the five-year period, the Ministry registered 307 newly established foreign units and the withdrawal of 92 units, or 30%. The report said despite the fact that foreign "disengagements" have not reached "alarming" proportions, the Belgian authorities nevertheless were closely monitoring the situation and intend to keep control over it.

Denmark: Data Sought on Bank Accounts; Council Report

In the interest of "fiscal fairness," the Danish Minister for Taxes and Levies Jens Kampmann has announced upcoming draft legislation that would give the tax authorities virtually complete access to information on private bank accounts and deposits: the law would require banks to report automatically and regularly on the status of all accounts, including interest paid and due. According to Kampmann, interest income from deposits and bonds in excess of 1 billion kroner annually is not now being reported to the fiscal authorities, which in turn is causing a revenue loss of about half that amount. Although this corresponds to only about 0.5% of total revenues, the shortfall is considered serious enough by the government to warrant intervention. It is planned to have the banks not only deliver the information as such, but also in a form suitable for electronic data processing: each account is to be linked either to the 10-digit number that identifies each Danish citizen or, in the case of businesses, to the employer's identification number.

Bank Accounts *(contd.)*

Predictably, the proposal has generated considerable apprehension. In the past few weeks, it was reported, many Danes have switched funds from bank accounts into "anonymous" assets such as jewelry, gold, and antiques in order to avoid the possibility of retroactive tax assessments. The law, should it come to pass, would also discourage foreigners from investing funds in Denmark, where domestic bonds earn effective interest of 15% or more. The most recent devaluations of the kroner - of 6% last October and of 3% two months ago - already have slowed the inflow of foreign funds, and it is feared that the new control regulations would turn it off completely.

In other developments, Prime Minister Anker Jörgensen called a special session of Parliament for the end of August in order to deal with economic crisis measures Copenhagen hopes to have prepared by then. The need for such additional efforts has been driven home in the latest report issued by the country's semiofficial Council of Economic Advisors, which has predicted further rises in unemployment, prices, wages, and the foreign debt. The "three wise men" have termed Copenhagen's incomes policy efforts so far as fairly ineffective: despite a temporary suspension of collective bargaining and a 6% limit annually on pay rises until early 1979, they warn, wages should increase by at least 10% this year and by 9% each in the following three years. At the same time, however, the Council concedes that union resistance should make it difficult for the government to come up with new incomes curbs although these would be vitally necessary.

Norway: Approval for Public Control Over Banks

With a majority of only one vote, the Odelsting chamber of the Norwegian parliament on June 1 passed the government-sponsored legislation for the "democratization" of the country's commercial banks. Final adoption by the Storting, the full parliament, is now considered certain. Supported in the vote by the party of the Socialist Left, the Social Democratic minority administration said that the law is necessary in order to "break the concentration of power" now prevailing in the banking sector because of the dual banker/industrialist role played by many individuals. The three Conservative opposition parties, on the other hand, again denounced the law as "creeping socialization" and pledged to rescind it immediately should they take over the government following the September elections.

In its latest version, the draft law provides that, as of 1978, a bank's board of representatives (comparable to a supervisory or administrative board) would consist of 15, 30, or 45 members, depending on the bank's size. Eight-fifteenths of the board membership would be appointed by the central or regional parliaments (i.e., by the public), Banks *(contd.)*

4/15ths by the shareholders, and 3/15ths by the employees. The board of representatives in turn would appoint the management board. The state would acquire those shares that are relinquished by existing shareholders who are unwilling to accept the abrogation of their present rights and powers. Compensation would be offered at a rate corresponding to the average share value over the previous three-year period. (This offer, observers said, most certainly would lead to legal actions inasmuch as it could mean considerable losses for some shareholders.) Special arrangements are still to be agreed on for savings banks operating in the form of foundations.

Switzerland: Banks Agree on Code of Good Conduct

Following two weeks of talks with the National Bank in the wake of the "Chiasso affair" of the Crédit Suisse bank, the members of the Swiss Bankers' Association have agreed not to compromise in any way on the institution of bank secrecy but instead have defined more precisely the rules governing their relationship with foreign clients and have provided stiff sanctions in case of violations (fines of up to SF 10 million). The code of conduct applies to both regular and "numbered" accounts, with the latter described by association president Alfred E. Sarasin as instruments of "discretion, not of mystification" *(Doing Business in Europe, Par. 30,803)*.

The voluntary agreement takes effect on July 1, initially for a period of five years. It details the obligations and duties assumed by the banks and, in technical terms, codifies the rules of conduct that Swiss banks generally have adhered to in the past. In a joint statement released on June 2, the association members pledged, among other things, to positively ascertain the identity of (foreign) clients, to terminate business with a client if there is a suspicion of wrongdoings, not to canvass for funds, not to aid and abet tax evasion and capital flight, and not to accept funds recognized as having resulted from "punishable" activities. Commentators noted that the text of the agreement avoids the terms "prohibited" or "forbidden" in laying down the rules to be followed but instead refers to certain actions as being deemed "improper" *(verpönt)*.

Although the agreement does not bring any fundamental changes in the banks' dealings with nonresidents, it nevertheless spells out operational procedures designed to protect the banks. Attorneys and agents are required to name the parties that are the true beneficiaries of holdings, trusts, or *anstalten*. Nonresidents who want to open a bank account or a securities deposit or maintain a safe-deposit box may be required to state in writing whether this is for their own account or someone else's. Finally, the potential client has to take note of those legal provisions which, in

Bank Code *(contd.)*

exceptional circumstances, may obligate the bank to give information to public authorities.

EURO COMPANY SCENE

ITT/ Claude

ITT France's subsidiary Cie. Générale de Constructions Téléphoniques (CGCT) is acquiring another 25% of the share capital of Claude SA from Cie. des Lampes (Thomson) and Cie. Française Philips. CGCT already holds some 56% of Claude, a manufacturer of light bulbs and other light fixtures. Minority shareholders reportedly own the remaining 19% of Claude's equity capital, and they have been made an offer of FF 150 per share, according to Paris reports. Claude accounts for 20-25% of the French light bulb market and employs 1,800 in four plants. In the years 1975 and '76, it reported losses of FF 25 million and 7 million, respectively. Claude was in the news in April when General Electric Co. abandoned plans to acquire a 90% stake in the company but denied reports that it was doing so because of the gains scored by the political Left in the French municipal elections in March.

Fiat/ Hesston

The Italian Fiat group currently is "in the initial stage" of talks that may lead to the company's participation in the United States' Hesston Corp., a manufacturer of tract[or] parts. A Fiat spokesman in Turin said that should the dea[l] go through, it would be transacted via the Fiat International Holding SA in Switzerland and financed through a bond issue. Hesston's management reportedly has asked a price of $20 million, but the percentage of the participation was not specified.

Xox-Nabisco

The decision by Nabisco, Inc., to shut down its German bakery products subsidiary Xox-Nabisco GmbH has been sharply protested by Germany's union of workers in the food and gastronomic sectors (NGG). In a telegram to Nabisco's New York headquarters, the NGG deplored as "shocking" the decision to close the company's two plants, a move which would affect some 900 employees, and attributed the unprofitable operations to "managerial errors." Xox-Nabisco had been formed after the merger of Trüller, a biscuit manufacturer acquired by Nabisco in 1964 "above price," and Xox, another producer taken over in '69. At that time, the company employed 3,000. In subsequent years, however, it ran into severe marketing and management problems and, according to unofficial estimates, incurred accumulated losses of over DM 60 million. (Nabisco said that its B. Sprengel & Co. confectionary offshoot in Hannover is not affected by the move.)

Common Market Reports

EUROMARKET NEWS

Issue No. 440 *June 21, 1977*

IN THIS ISSUE

Community: Tariff Changes Coming Up in EC Trade

An important date in the Community's internal and external trade is coming up next week: on July 1 the three newcomers to the EEC (Denmark, Ireland, and the U.K.) and the original Six will abolish tariffs on all industrial products traded within the Common Market. Trade barriers will remain for only a few agricultural products until next Jan. 1. Most industrial products originating in member countries of the European Free Trade Association (EFTA, *Common Market Reports, Par. 110*) will also enter the EEC duty-free after July 1. However, textiles, certain steels, and some other products such as footwear will be subject to reduced tariffs, which then will be phased out gradually over the next few years. Several agricultural commodities of EFTA origin such as cheese from Austria and wine from Portugal will benefit from modest tariff reductions. Complete abolishment of tariffs on these products is not provided at this point.

Industrial products from most countries of the Mediterranean area (Algeria, Morocco, Tunisia, Israel, Jordan, and Syria) will also enter the EEC duty-free as of July 1. A major exception will be oil products, which will be free

COMMON MARKET REPORTS, Issue No. 440, June 21, 1977. Published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $490 per year. Second-class postage paid at Chicago, Illinois. Printed in U. S. A.

Tariffs *(contd.)*

of customs duties only within the individual quotas negotiated between these countries and the EEC.

The tariff reductions necessitate a number of changes and adjustments in the Community's administrative rules governing customs, especially those controlling the inclusion of transportation cost in the customs value. Commission rules to go into effect on July 1 specify that landing at any port in the nine states means entry into the Community. Thus the cost of shipping goods across the Channel or the North Sea will be excluded from the base of assessment for other purposes such as import turnover tax. The Commission has decreed similar changes with respect to air transport.

Intra-Community trade will be governed as of July 1 by a Commission regulation (No. 223/77) that not only combines EEC transit rules scattered about in several other regulations but also brings some substantive changes. New is that a pledge assuring payment of import turnover tax by the importer in no case may be valid for more than two years, though pledges made in any year prior to July 1, 1977, remain valid until June 30, 1978.

Another innovation is that the regulations governing intra-Community transit will also be applied by Austria a Switzerland now that agreements with those countries have been concluded. This will simplify transit, since a large percentage of the intra-Community trade between Italy and the other member states is conducted by truck or rail through those two nations *(Common Market Reports, Par. 313.34)*.

Goods that originate from the three EC newcomers and from EFTA countries and which are stored in bonded warehouses as of July 1 may remain there even though they will be subject to import turnover tax only. An importer who has pledged security for payment of customs duty on goods stored in bonded warehouses may ask for reimbursement.

In Brief...

The European Court of Justice has ruled that a citizen in the Community has to pay social security contributions only once - in the state where he works and not in the state where he resides. A Dutch man worked several months in a border town in Germany and continued to live in Holland. The German employer deducted social security from his earnings. The Dutch authorities also demanded payment - unlawfully, according to the court. The man now has a claim for repayment against his government (Case No. 102/76) + + + The Commission has sent a draft directive to the Council of Ministers that would require the member states to follow common guidelines on export credit insurance and guarantees. The proposed measure is meant to be a follow-up to the Council's March 14 decision which lays down guidelines for

Brief (*contd.*)

minimum interest rates and maximum periods of duration of credits for export firms. These latest guidelines would insure that exporters could not get coverage for more than 90% of a contract's value. (An analysis of the new proposal, which represents a turnabout in the Commission's earlier approach for total harmonization, including that of insurance premiums, will follow in next week's issue of *Euromarket News*.)

Italy: Export Deposit; Discount Rate; Bourses Reopen

Having recently dropped the special levy on foreign exchange purchases as well as the cash deposit on imports, the Italian government has now scaled down another emergency measure initially conceived to contain speculation and defend the lira. As of June 9, the Foreign Trade Ministry reduced from 50 to 25% the cash deposit rate applicable to Italian exporters who grant payment terms of up to 120 days to their foreign clients. This obligatory foreign-exchange deposit, invariably financed by domestic banks, had been introduced at a rate of 30% in May 1976 and was raised to 50% in October.

The deposit has had the effect of rapidly boosting the short-term foreign liabilities of the banks: at the end of April, these had accumulated to the total equivalent of $5.11 billion, which was about $2 billion more than Italy's official currency reserves at that time. In the meantime, however, the central bank's convertible currency reserves also exceeded $5 billion, mainly as a result of the latest $500-million EEC loan and other credit facilities but also rising tourism revenue. Another factor in the decision to halve the cash deposit rate evidently was the lira's relative stability since the end of April.

Accompanying the move was the central bank's decision to lower its discount rate from 15 to 13% (though this is still the highest rate of all western industrial countries). This easing of credit policy was explained with reduced inflationary pressures and the most recent improvements in the trade and payments balances. It was hoped that the discount rate cut would also help achieve the 2-3% production growth envisioned for this year.

In other developments, the country's stock exchanges reopened again on June 13 after a strike by dealers and broker employees had closed them for eight days. The protest actions began on June 3 with the symbolic "occupation" of the Milan Bourse, where the share index had dropped to 33.17 points - a 21% decline since the beginning of the year and the lowest level since 1955. The strikers demanded government measures to breathe new life into the market and to block the banks from taking away business from the exchanges. The desolate condition of the stock market already has forced some brokers out of business, and it is

Deposit *(contd.)*

feared that more bankruptcies, with concomitant layoffs, will follow.

France: Price Controls; State Stake in Dassault

With the consumer price index having risen by 1.3% in April, the highest monthly increase in 33 months, the French government again has become very concerned about inflationary threats to its stability policies. Consequently, it has taken certain precautions in selected areas, mainly to prevent excessive price fluctuations. With price pressures being most pronounced in the foods sector (prices of fruits and vegetables alone rose by 2.2% in April), Paris revoked the wholesalers' freedom to set their own margins and imposed limits based on last year's margins. On the retail level, the margin system applying to a number of foodstuffs was extended to the fish markets. Also tightened was the surveillance of industrial prices: approximately 25 companies that allegedly ignored official appeals for moderation have been warned about a possible return to direct price controls, and "recommendations" have been directed at importers. (On the other hand, the government has followed through with another increase in gasoline prices as of June 15 in order to assure itself of an estimated FF 860 million in additional revenue this year.)

In other developments, the government has announced plans to acquire a one-third stake in Dassault-Breguet Aviation, France's only major private aircraft manufacturer (Mirage). The controlling participation will enable the administration to work out a uniform reorganization concept for the country's entire aerospace sector and will give it a decisive voice in the military aircraft industry where Dassault has held a quasi-monopoly position as a defense contractor. At the end of the Paris Air Show on June 11, Premier Raymond Barre announced the upcoming rationalization of the French aerospace industry and said that any "fair cooperation" with the United States can only come through a strengthening of the European "capabilities" in this sector.

Belgium: Confidence Vote; Foreign Investments

The new Belgian four-party coalition government won a solid vote of confidence on June 9 following a two-day debate in the lower house of Parliament over its political and economic program. The margin was 165-33, with three abstentions, the most decisive majority given any government since the early post-war years. In his policy speech inaugurating the session, Prime Minister Leo Tindemans outlined his administration's decentralization plans, which foresee more devolutionary powers for the country's three major regions - Flanders, Wallonia, and Brussels. These plans, Tindemans declared, constitute no less than a "redefinition of a nation." Also to be given prime priority by the

(contd.)

government is the fight against inflation and unemployment on the basis of existing stability policies.

In addition to previously reported figures on the disengagements of foreign investors in Belgium, the annual report on foreign investments recently published by the Economic Affairs Ministry contained statistics according to which such investments in Belgium dropped to less than half of the 1974 volume - BF 10.65 billion as against BF 24.86 billion. Investments by companies from other EEC member states rose from BF 5.83 billion in 1975 to BF 7.58 billion last year, but those of American enterprises fell from BF 2.73 billion to BF 1.78 billion during the same period. There also has been a sharp decline in the overall investment share of U.S. companies: in 1974, the American share in direct foreign investments in Belgium was 50.5% of the total, falling off to 25.1% in 1975 and to only 16.9% last year. By contrast, the share of EEC-based investors rose to 71.8% in 1976 from 42.1% in '74.

Germany: Upper House Acts on Major Bills

The German parliament's upper house this month has approved a number of proposals that are important for businesses and individuals.

Passed by the Bundesrat were two regulations establishing minimum insulation standards for new commercial buildings and private homes and setting forth standards on the size and location of heating units. Both regulations will go into effect on Nov. 1, 1977 *(Doing Business in Europe, Par. 30,938)*.

Among amendments to several statutes affecting real estate matters was one measure to afford more protection for future homeowners. Last December the Supreme Court held that a prospective homeowner who paid money to a contractor to build a house could not get it back if the contractor goes bankrupt, even if the register of deeds has recorded title to the property in the prospective owner's name. The judgment so shocked lawmakers, real estate brokers, and the general public that the government quickly proposed legislation, now approved, assuring the future owner priority over claims of the contractor's other creditors.

Finally, after some wavering and opposing views in the tax and economic policy committees, the upper house passed a resolution calling on the government to propose in the near future legislation curbing certain practices of write-off companies. A major feature of these companies is that an individual in a high-income bracket may become a partner in a limited partnership and claim high deductions on his tax return for losses that the partnership incurred, enabling him to reduce drastically the tax that he normally

Bills
(contd.)

would owe the government *(Doing Business in Europe, Par. 30,919)*. Since these partnerships also engage in activities that the government considers desirable for some areas (such as building condominiums in West Berlin), the Bundesrat does not want the proposal to affect those partnerships investing in West Berlin; investments in shipping also would not be affected.

Britain:
Finance Bill
Setbacks for
Government

The U.K. government on June 14 was defeated in committee with the passage there of seven amendments to the 1977 Finance Bill that had been proposed by a "coalition" of Conservative opposition members and a few Labour members. Such setbacks are not uncommon at committee level, and there is always the possibility that the amendments - which would effectively provide taxpayers with extra reliefs totaling some £450 million annually - will be reversed at the report stage of the bill. However, the defeats came at the end of a parliamentary day that was unparalleled in British political history and which moved the shadow leader of the Commons to declare that he could not recall any previous occasion "when a government has been so mauled....or when a prime minister has had to display so publicly the reality of the chasm in his own cabinet."

Even allowing for Opposition overstatement, the fact remained that the amendments, if perpetuated, would throw the Chancellor of the Exchequer's plans into disarray, coming as they did after an earlier concession on gasoline tax increases (within the framework of the Labour/Liberal "pact"). In the view of Chief Secretary to the Treasury Joel Barnett, who heads up the government standing committee team on the Finance Bill, it was "appallingly irresponsible" for the committee to have passed these amendments at a time when the government and the labor unions were still negotiating the future format of a wages policy. The defeats, Barnett said, jeopardized possible tax cuts mooted for later this year and threatened the outcome of the negotiations.

The apparent inability of the government's ministers to command a majority in the Commons also has thrown three further principal measures into question: the devolution bill, the proposals on industrial democracy, and the bill on direct elections to the European Parliament. Concerning the latter, the Prime Minister acknowledged that, because of "strong views" held by certain cabinet members, these members would be "free to vote against the measure." As to devolution, Michael Foot, the leader of the House, was obliged to announce the government's decision to abandon its bill to give assemblies to Scotland and Wales *(Doing Business in Europe, Par. 30,738)*. Although Foot stated that a new devolution bill would be introduced in the next acks *(contd.)*

session, the fragility of the government's position on this issue was apparent to many observers.

IBM Employees Vote to Rebuff Unionization

The U.K. subsidiary of International Business Machines Corp. has formally thanked its employees for their vote not to be unionized. Application for union recognition, under Section 11 of the Employment Protection Act, had been entered by four unions to which IBM employees belong: the Association of Scientific, Technical and Managerial Staffs (52 IBM members), the Amalgamated Union of Engineering Workers (11), the Technical and Scientific Staff Division of the AUEW (3), and the Electrical and Plumbing Trades Union (17). A poll was then carried out on behalf of the applicant unions by the government Advisory, Conciliation and Arbitration Service. Its findings: of IBM's 13,000 employees, only 102 were union members, only 566 voted to have the unions negotiate on their behalf, 642 said they would join a union if the unions were recognized by IBM, and 11,912 said they would not join.

IBM subsequently claimed that the massive rebuff to the unions was a vindication of its own in-house industrial relations policy. Union leaders, on the other hand, alleged that the company indulged in "thorough-going intimidation" and "brainwashing." What had to be done, said the general secretary of the white-collar ASTMS, Clive Jenkins, was "what was done in the United States - prevent employer intimidation during a ballot." It was, he alleged, "a very contaminated result."

Switzerland: Voters Reject Finance, Tax Reform Package

In a national referendum on June 12, the Swiss voters have rejected the finance and tax reform package that had been endorsed by the government, most political parties and industry associations, and the trade unions. The vote was 1.11 million to 760,000 against the proposal. The defeat of the legislation for the time being blocks the introduction of value-added tax with which Bern had hoped to raise an additional SF 2.5-3 billion in annual revenue - money urgently required to balance the federal finances. The VAT was to have replaced the current cumulative turnover tax as of Jan. 1, 1978, and the legislation would have authorized the Confederation to impose a standard rate of a maximum 10% and reduced rates of 6 and 3% *(Doing Business in Europe, Par. 30,917)*. The rejection of the tax package also will prevent a proposed reduction for low- and medium-income groups of the direct federal tax *(Wehrsteuer)* with which the government had hoped to make the reform package more palatable to the voters.

With a 60% majority, the electorate did, however, accept the proposal for a partial harmonization of the widely differing cantonal tax systems, especially income taxes.

Rejection *(contd.)*

The harmonization process will extend over several years and merely cover the type of taxes and levies imposed, not the tax rates and exemptions. An alignment of the latter would still be viewed by the cantonal governments as an infringement on their fiscal sovereignty.

The defeat of the "Finanzpaket" was interpreted not so much as a final "No" to VAT or any reasonable tax and finance reforms but rather as an expression of the public's lack of confidence in the ability of the central and cantonal governments to contain expenditure. Finance Minister Georges-André Chevallaz said Bern would now have to prepare transitional proposals as well as start discussions again on a sound long-term concept that the voters are ready to accept. He was not willing, Chevallaz insisted, to accept deficits "as a matter of fate" and to invite inflation by further borrowing.

Austria: Higher Bank Rates; Credit, Budget Curbs

Ending an extended period of "nonintervention," the Austrian National Bank has announced a package of monetary and credit restrictions principally designed to restore equilibrium to the country's external balances. As of Jan. 10, the bank and Lombard rates were raised by 1.5 points each to 5.5 and 6%, respectively, after not having been changed for exactly one year. The rate increases were coupled with measures placing ceilings on credit expansion, particularly in the consumer sector. In overall terms, credit growth is to be limited to 1.1% per month (or 13.2% per year, which contrasts with the current annual rate of 22%).

The central bank action was closely coordinated with the government, which at the same time drew up budgetary guidelines for 1978. Finance Minister Hannes Androsch announced "savings" of 10% each for government subsidies and investments (these would amount to 800 million and 1.3 billion schillings, respectively) as well as lower expenditures in other areas. In addition, Androsch indicated a reduction of certain tax benefits, including write-offs. Affected, among other items, will be pension reserves and so-called loss/write-off companies.