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EUROMARKET NEWS

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Community: Rulings Due Soon in 'Milk Powder Cases'

The European Court of Justice will soon render its judgments in four out of a total of eight pending cases involving last year's Council Regulation 563/76 on the compulsory purchase of milk powder. The outcome could produce lasting effects on the Community's policy-making powers if the justices accept the arguments of the Advocate General. The justices must decide on a constitutional issue: how far may the Commission and the Council of Ministers go in legislating economics, in this instance agricultural policy? According to Advocate General Francesco Capotorti, the Council went too far and violated the principle of proportionality by adopting the regulation. This principle is not expressly contained in the Treaty of Rome, but under case law of the European Court of Justice it has become part of EC law since it is embedded in the law of all member states.

Adopted on March 15, 1976, Regulation 563/76 required breeders, whenever they imported or purchased vegetable feeding stuffs such as soybeans and rapeseed, to also buy certain quantities of the more expensive skimmed-milk powder from the intervention agencies. The measure was designed to dispose of 400,000 tons of the Community's 1.3-million-ton surplus of milk powder, but it succeeded in

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Milk Powder *(contd.)*

getting rid of only 200,000 tons. The measure produced angry reactions from many animal breeders in the Common Market because it raised production costs and thus cut into profits.

Four German chicken farmers sued both the Commission and the Council for some $100,000 in damages (Case Nos. 83 and 94/76, 4 and 15/77). They charged discriminatory treatment because they ended up paying for a problem actually caused by the dairy farmers. They also argued that Reg. 563/76 was unreasonable and unfit to achieve the objective sought. Another argument was that the measure could not be reconciled with Treaty Article 39, which provides, among other things, for a rational development of agricultural production *(Common Market Reports, Par. 405)*. Plaintiffs do not believe that the Community's system of price intervention and subsidies serves rational development because it has produced large milk surpluses while raising production costs.

AG Capotorti did not agree with the plaintiffs' argument that they were discriminated against nor did he see a violation of Treaty Article 39. He believed, however, that the Commission and the Council should have resorted to other, less expensive and less burdensome methods for the farming sector as a whole. This the Community actually did after the measure had expired: the Council cut the price and production of skimmed-milk powder and adopted a program to stimulate milk consumption in schools. But Capotorti believed that there are still other ways, including destroying milk.

The other cases also pending were referred by German and Dutch courts which have asked the Court of Justice for preliminary rulings on whether Reg. 563/76 was valid (Case Nos. 114, 116, 119, and 120/76).

<u>Alignment of Export Credit Insurance Terms</u>

The Commission's recent draft directive on credit insurance and export credit guarantees is designed to narrow the differences in member-state practices that distort competition among Common Market enterprises exporting to third countries. Once these differences are minimized through partial harmonization, the Commission believes that EC-based businesses will be more inclined to cooperate in the search for markets outside the Common Market because they no longer would need to outbid each other in regard to financial terms, which are heavily influenced, if not controlled, by member state governments.

The draft would stop short of total harmonization. It would require the Council of Ministers to merely establish common principles for credit insurance and export credit guarantees on sales of goods and services to buyers in third countries - for the most part governments or state

surance
ntd.)

enterprises in the East Bloc and developing countries. Thus the measure would leave the member states some leeway, so that insurers (usually government institutions) and guarantors (sometimes government agencies but more frequently private banks) could draw up policies and set insurance premiums within the framework of the uniform principles.

One of the major rules would be that whenever an exporter agrees to sell goods or services to a third-country buyer on a credit basis and insures himself against the risk of nonpayment by taking out credit insurance, he could not obtain coverage for more than 95% of the contract's value; hence, he would always have to bear a small portion of the risk. The credit is usually provided by the exporter's bank, which obtains a guarantee against nonpayment of the credit from a credit insurance institution. In recent years a new method of financing credits has found acceptance: the exporter's bank grants a loan directly to the buyer. (The bank still seeks a guarantee from a credit insurer.) One common principle for both types of guarantees would be that in the case of nonpayment by the buyer because of the exporter's fault (belated delivery, for example), the credit insurance institution could proceed directly against the exporter to recover the amount the bank granted to the buyer.

No attempt would be made at this point to narrow, let alone harmonize, the premium rates. But the draft would require member states to provide the Commission with the details of insurance rates and practices, and Commission officials hope to use the information to study the ultimate goal of uniform premiums.

Germany:
Tax Bill
Passes
Lower House

With the German government barely having squeezed its tax bill through the lower house of Parliament, the fate of the measure hinges now on action in the Opposition-controlled Bundesrat. The bill provides for increased exemptions and higher children's allowances for individual taxpayers. More important for the economy, it also would raise the value-added tax rate from 11 to 12% (5.5 to 6% for food items) and would lower the net worth tax rates payable by individuals and companies from 0.7 to 0.5% and from 1 to 0.7%, respectively. Further, businesses would benefit from substantially increased exemptions applicable to municipal business taxes. *(Doing Business in Europe, Par. 30,935.)*

Although the Schmidt administration usually can count on a 10-vote margin in the lower house, five rebellious left-wing Social Democratic deputies nearly put the coalition government to a test of survival, with two of them voting against the measure and three abstaining. Their major objection to the bill: the reduction of the net worth

Tax Bill *(contd.)*

tax rates would benefit the rich (costing the treasury an estimated DM 1.5 billion annually), while the VAT rate increase would considerably burden low-income families because of higher food and utility bills and the proposed higher children's allowances would not sufficiently compensate large families.

Administration officials, on the other hand, defended the proposal by saying that it would improve the investment climate and thereby boost employment. They pointed out that the net worth tax burden on companies is heavier than that on individuals since a corporate taxpayer is entitled to a DM 10,000 exemption, while an individual taxpayer with a wife and two children may claim various exemptions totaling DM 280,000. Many critics see in the measure a belated correction of the 1974 tax reform law, which raised the net worth tax rates and repealed the rule that made the net worth tax a deductible item on individual and corporate tax returns.

Leaders of the two state governments formed by coalitions of Christian Democrats and Free Democrats have indicated that they would support the measure in the upper house if a satisfactory compromise can be found for a new VAT revenue-sharing arrangement sought by all 11 states. The states at present get 31% of the DM 65 billion in total VAT revenue. In the future they want a bigger slice of the VAT pie because 1) expenditures are rising as the result of programs outlined in federal legislation and 2) they would stand to lose a total of DM 1.5 billion annually through the proposed net worth tax reduction (all receipts from this tax flow into the state treasuries).

Apprentice Hiring Grants To Be Tax-Free

German employers can be sure that the grants they would receive under pending legislation for each newly hired apprentice will be tax-free. Expected to range from DM 500 to DM 7,500 for each apprentice job, these grants would not constitute income for the employers, who could claim a corresponding exemption on their tax returns. The measure is part of the government's program to create additional jobs for school leavers *(Doing Business in Europe, Par. 30,895)*.

Chancellor Helmut Schmidt settled the argument among cabinet members over the tax question to the advantage of businesses. In the Bundesrat, where the measure is now pending, the tax committee had voted against an exemption, but the economic policy committee was in favor of it. The latter had the backing of Economics Minister Hans Friderichs, who believes that employers should benefit from the full amount of the grant.

Finance Minister Hans Apel, on the other hand, supported the tax committee on this issue. Apel and his colleagues

(Apprentices cntd.)

in the state finance ministries argued that to consider the grant as nontaxable income would set a precedent that could have grave consequences. Apel believed that it could be the first step toward repeal of a key rule in Section 3c of the Income Tax Law according to which an expenditure directly connected with nontaxable income is not considered to be a deductible expense and thus is disregarded by the tax authorities if the taxpayer claims it. The underlying reason for this rule is that the taxpayer should not benefit twice - once by receiving the grant tax-free and then by investing the grant and claiming the cost as a deductible business expense.

Officials point out that the proposed clause should not be taken as a sign that the government is relaxing its stand on the continued validity of the principle embedded in Section 3c: individuals and businesses receive some DM 20 billion annually in the form of direct subsidies, and a change in the present tax rules would cost the treasury billions in revenue annually.

France: Retirement Age Temporarily Cut to 60 Years

The French government has reacted almost with elation to an agreement by the Patronat employers' federation and the country's unions to accept a temporary lowering of the retirement age from 65 to 60 years for all private-sector employees. To the government and many observers, the most surprising aspect of the pact was not that it had been achieved at all but that it was signed by all unions, including the leftist CGT and CFDT which normally are on a constant collision course with the administration. Prime Minister Raymond Barre said the agreement proves that, despite union claims to the contrary, the way to a "contractual" socio-political consensus in France still remains open. The unions also emphasized the "social progress" marked by the agreement, despite the fact that it runs only until March 31, 1979.

According to Labor Ministry statistics, some 450,000 employees between the ages of 60 and 65 will be eligible for early retirement. Most estimates say, however, that only one-fifth of those, about 80,000-100,000, will be likely to accept the offer to retire at 70% of gross pay. To be eligible, a person must have paid social security contributions for a certain number of years and must agree not to accept any other employment. The minimum pension has been set at FF 1,394 per month, plus FF 6 per day for each member of the household. The pay ceiling, for the purpose of the provisional arrangement, has been fixed at FF 14,400 per month. At age 65, the early-retirement benefits are replaced by the regular pension benefits.

The cost of the temporary scheme, estimated at FF 2.5

Retirement *(contd.)*

billion for 100,000 retirees, is to be financed by the UNEDIC unemployment assistance system, which is being funded by the employers (80%) and the employees (20%) and jointly administered by the Patronat and the unions. It is understood, however, that the government will participate in the financing, and a cabinet decision to this effect was expected shortly, so that the new arrangement can take effect next month.

To the government, the most important benefit of the early-retirement system is that it frees jobs for young people (even though the employers had rejected the unions' demand that every job thus becoming available would automatically go to a young individual). At the end of March, some 1.02 million people were officially registered as looking for employment.

Ireland: Fianna Fail Win; Relations With Britain

The victory of the opposition party Fianna Fail in Ireland's June 16 general election was not, in itself, surprising: persistently high rates of inflation and unemployment were more than likely to prove fatal to the incumbent Fine-Gael/Labour coalition under Liam Cosgrave. What was surprising, however, was the decisiveness of Fianna Fail's victory, with the solid 20-seat majority for Jack Lynch, the new prime minister, clearly indicating the depth of Republican support.

Lynch's unqualified triumph prompted immediate speculation about future Anglo-Irish relations. The major issues at stake are political, and it was seen inevitable that the new government will make its first moves in the area of the Republic's "terrorist emergency" laws, notably the Criminal Law Jurisdiction Act and joint Anglo-Irish legislation on detention of political fugitives. However, Lynch has also declared that discussions between the Irish and British governments, originally proposed in 1975, will focus on arrangements required for "a British commitment to a long-term disentanglement from Irish affairs," possibly involving "financial, legal and cross-border cooperative measures."

One possible development was strongly hinted at in the election campaign: the severance of the traditional link between the Irish and the British pound. Spokesmen for both the then-incumbent government and the Fianna Fail had stressed that it would be in the best interest of the Irish economy to break with sterling, particularly if the British economy continued to show no signs of improvement. It was argued that many of Ireland's inflationary problems have arisen as a direct result of sterling's eclipse as a major reserve currency. In addition, Cosgrave had indicated that, "under certain circumstances," it might be useful to

Fianna Fail (contd.)

have the Irish pound "associated advantageously" with some other currency or basket of currencies.

Britain: New Bermuda Air Agreement With U.S.

Up until the last minute there were such genuine doubts about the United Kingdom and the United States reaching accord on a new Bermuda Agreement pertaining to transatlantic flights that the respective national airlines had made costly contingency plans to provide for total suspension of services into both countries. In any event, and in line with the predictions of some cynics, an accommodation was arrived at just one hour after official expiration of the 30-year-old agreement on June 22.

Under the terms of the renegotiated pact, which was reached after a vituperative, 10-month battle between respective government officials and last-minute telephone appeals to President Jimmy Carter and U.K. Trade Secretary Edmund Dell, the British government appeared to have emerged "victorious." The U.K. is conceded an extra five routes into the States - to Atlanta, Dallas/Fort Worth, Houston, Seattle, and Anchorage - and, by implication, a larger share of the North Atlantic market. A Dept. of Trade spokesman averred that the changes would result in substantial fuel savings and ultimate benefits to passengers in holding down fare costs and offering a "multiple choice."

At the same time, Laker Airways, which has been considered something of a maverick with its low-cost "Skytrain" flights, is named as Britain's No. 2 airline alongside British Airways on the lucrative London-New York route. However, the overall "loss" to U.S. carriers undoubtedly will be mitigated, if not totally offset, by certain important concessions made by Britain on key Far East routes.

Switzerland: VAT Rejection Leaves Queries on Financing

Consultations between the Swiss government and the political parties in Parliament in the wake of the voters' June 12 defeat of the finance and tax reform package have led to the conclusion that Bern should not seek emergency legislation to solve the budgetary problems caused by the rejection of the value-added tax proposals. Instead, the government probably will work out a transitional program containing still further budget cuts as well as a medium-term concept which would provide either for the introduction of VAT at rates lower than had been proposed or for higher turnover tax rates.

All parties appeared to agree on the unacceptability of a SF 2.1-billion deficit to be incurred in the 1978 budget as a result of the electorate's refusal to accept VAT. For this reason they would favor savings of no less than

Financing *(contd.)*

SF 1-1.1 billion in federal subsidies and other expenditures next year, though there is wide disagreement on jus[t] where these cuts should be made. In any case, the government must now give up its intention (recently endorsed by both houses of Parliament) of returning to balanced budgets beginning in 1979: even under the most favorable circumstances, this target will now have to be pushed back by one or two years.

A financial crash program *(Sofortprogramm)* probably would involve another modification of the revised finance plan for the years 1978-80, perhaps at the expense of the projected, progressively higher federal contributions to the old-age pension and survivors' insurance system - 11% in 1979, 13% in 1980 and '81, and 15% thereafter. Other cuts might be considered in the federal subsidies to education (universities) and research. So far no agreement has been reached on the question of whether it would be possible to raise additional revenues as early as next year: no chances are being given to suggestions for stepping up social insurance contributions, imposing a surcharge on the federal income tax (especially for businesses), or slapping a 10% surcharge on turnover tax.

Concerning a medium-term financing plan to augment any immediate measures, it has been pointed out that another referendum on a revised VAT proposal cannot be held until 1979, which would mean that the government must submit such a proposal to Parliament by March 1978 at the latest. (With 1979 being an election year, the makeup of such a financing plan obviously would have all kinds of political implications.) Still another element in any future financing proposal is the Social Democrats' bid for a wealth tax on which a referendum is scheduled for this coming December and which Parliament has recommended to be turned down.

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Community: Council Vetoes Commission's Borrowing Plan

The Council of Ministers has officially rejected the European Commission's plan to improve the Community's financial resources through additional borrowing on the international capital market. The rebuff did not come unexpectedly because the EC executive had run into opposition in most member-state capitals two months ago when it revealed its plan to seek authorization to borrow an additional $1 billion. The argument was that the Commission had plenty to spend and all that was needed was better coordination and a more efficient use of existing resources available to the Social and Regional Funds and the European Investment Bank (EIB) and of the funds available to the Commission under the Coal and Steel and the Euratom treaties.

However, since the Council has no quarrel with the Commission's objectives to combat unemployment, channel more funds into backward regions, and aid the rationalization of industrial production, it has agreed to provide the EIB with additional funds and to widen its lending commitments. (A major advantage for the Council is that it controls the EIB since the member states' finance ministers make up the EIB's board of governors.)

By how much the Bank's capital ($3.5 billion at present) will be increased may not be decided until early '78.

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Borrowing Plan *(contd.)*

To meet increased borrowing by private companies and public authorities, the Council has authorized the EIB to raise loan limits from 40 to 50% of the cost of investment. The Bank has been given the go-ahead to concentrate its lending policies more on regional development and energy investments.

In 1976 the EIB's lending volume exceeded the $1-billion mark for the first time, and the biggest portion ($800 million) went to projects in the backward regions of Italy and Britain. In spite of economic uncertainties, the EIB from 1975 to 1976 more than doubled its commitments in the industrial sector. Last year it granted loans totaling $300 million to 113 companies to help finance investment costs of over $1 billion, thereby creating some 10,000 new jobs and saving 7,000 existing ones. Since the EIB does not have sufficient financial resources of its own, it too must borrow: in '76 these borrowings totaled $740 million, more than half of which was raised on the U.S. market. *(Common Market Reports, Pars. 4101-02, 4111-12.)*

United Stand for GATT Textile Talks

The Community returns to the GATT negotiations on the Multi-Fibre Agreement (MFA) after its members agreed on a joint stand. The talks had been interrupted earlier this year to give the EEC a chance to overcome internal disagreements on how the MFA, which expires at the end of the year, should be improved. Commission negotiators will now press for some changes in the existing arrangements rather than insist on a complete revamping, which had been demanded by France but which could have meant years of negotiations or possibly a complete breakdown.

The MFA is a multilateral umbrella providing for broad rules to be followed in bilateral agreements between textile exporting and importing nations. It seeks to control imports of low-priced textiles and fiber material from Asia, South America, and Eastern Europe to GATT nations with textile industries of their own, including all EEC member states. Some 400,000 workers in the Community's textile industry lost their jobs over the last five years as a result of low-priced imports, which now make up more than half of EEC consumption in some products. But without MFA and bilateral accords, the impact would have been worse.

When the talks resume this month, Commission negotiators will be seeking a general understanding that the EEC will impose global import ceilings for trousers, shirts, T-shirts, blouses, pullovers, cotton fabric, cotton thread, and synthetics. The limits would be negotiated with individual supplier nations. This would result in some flexibility because actual quotas could be imposed against major exporters such as Hong Kong, Taiwan, and South Korea to give newcomers to the EEC market an opportunity to increase exports. Since the present MFA does not cover hand-loomed

Textile Talks *(contd.)*

products, the Commission will also seek restrictions in this area because the absence of rules in the past has strained relations with India.

The MFA discussions at Geneva will be overshadowed by France's unilateral action imposing curbs on imports of certain textiles from third countries. These curbs, effective from June 22 to Dec. 31, were based on GATT Article 19, which allows for emergency action against imports. The Commission believes that the French move is not only contradictory to the just-agreed common stand on the MFA negotiations but also violates the Community's prerogative on formulating commercial policy as provided in Treaty Article 113.

Italy: New Deadline for Disposal of Cross Holdings?

A certain degree of confusion in Italy over the obligatory disposal of mutual participations between stock corporations still prevails after the government has moved to extend by another year the deadline for the sale of cross-holding shares. Actually, corporations involved have had no less than three years within which to shed any *partecipazione incrociante* above the legal maximum of 2% of a company's share capital. This ceiling had been set in 1974 as part of a stock market "mini-reform" which also included decrees changing the Italian dividend tax system and establishing a regulatory agency patterned on the U.S. Securities and Exchange Commission. Many Italian companies and individuals have availed themselves of interlocking stock holdings to extend their network of influence while at the same time shielding their activities behind elaborate corporate constructions. It is unknown to what extent companies have complied with the disposal requirement since most share transactions in Italy bypass the stock exchanges and are handled through banks.

The government's bill for a one-year extension was submitted by Treasury Minister Gaetano Stammati just a few days before expiration of the June 23, 1977, deadline - not in time to complete the parliamentary circuit by that deadline. There has been considerable speculation over the administration's motives, in view of the generous three-year compliance period and of strong political opposition to an extension. Not considered convincing is the argument that the obligatory sale of cross-holding stock will even further depress prices on Italy's ailing stock markets. (On June 14, the share index reached a 25-year low after having fallen by 13% in 1976 and by nearly 20% so far this year.) Financial observers believe, therefore, that Rome's failure to fully enact the 1974 bourse reform law has deprived the authorities of the technical means to control and supervise the complete and orderly disposal of cross-holding stock. Apparently for this reason, members of the appropriate parliamentary committee have suggested that such holdings be transferred to selected banks on a fiduciary basis, with

Cross Holdings *(contd.)*

these banks then disposing of the shares in a manner acceptable to the central bank.

Considered archtypical of the cross-holding arrangements employed by many corporations has been that between Italcementi, the cement concern, and Bastogni, the country's largest finance company. Italcementi owns more than 90% of Bastogni, whereas the latter has been holding 8.6% of Italcementi's share capital. Bastogni has now sold the shares in excess of the 2% maximum permitted, though without revealing the price: in the company's latest balance sheet, Italcementi shares were valued at 24,500 lire each, while their current market value has dropped to 10,000 lire.

Netherlands: Program Again Includes Key Reform Bills

Prime Minister Joop den Uyl, still in the process of trying to form a new Dutch government following the May 25 general elections, on June 22 presented his proposed social and economic program for the upcoming four-year term. As had been predicted, Den Uyl and his socialist Labor Party (PVDA) continue to press for the realization of four key reform bills which they already had submitted last year and which pertain to employee profit-sharing and expanded co-determination, the introduction of investment bonuses, and a land reform. With this package Den Uyl hopes to be assured of a "constructive" attitude on the part of the labor unions, which, he says, will have to hold down their wage demands in the next few years in order to help stabilize corporate earnings and public finances. The unions, Den Uyl maintains, will play a key role in the efforts to achieve a labor-management climate conducive to solving Holland's economic problems, particularly that of unemployment.

Nevertheless, Den Uyl has seen the need for a few "corrections" in the original reform plans. This applies in particular to the land reform bill on which some concessions will be offered to the Christian Democrats, the major partner in the next coalition. On the other hand, Den Uyl is proposing the taxation of capital gains from real estate sales and restrictions on the sale of rental housing. The profit-sharing system would be extended to businesses that are not subject to corporate income tax. Finally, the legislative program calls for the equal representation of employees on supervisory boards.

On the basis of these proposals, the PVDA's talks toward formation of a coalition government with the Christian Democratic Appeal (CDA) and the left-liberal "Democrats 66" have hardly made any progress. The weeks since the elections have been spent arguing over the apportioning of cabinet positions: the CDA claimed the same number of seats as the PVDA (even though it has four fewer parliamentary mandates) and the latter insisted on including the D '66 in the cabinet. Den Uyl was able to prevail, not least be-

Reforms *(contd.)*

cause of heavy pressure from the left wing of his party which interpreted the election results as a voter demand for a "socialist" government.

Aside from the question of cabinet representations, the parties' negotiations are further complicated by internal power struggles within the CDA as well as by such fundamental issues as the proposed liberalization of abortion. Under these circumstances, it was impossible to predict when Den Uyl would be able to present his new cabinet.

Belgium: Government, Unions Launch Policy Talks

Belgium's newly formed coalition government and the country's trade union leaders have begun a series of top-level talks centering on the administration's proposed economic and social policies, full details of which have yet to be announced. Prices, taxes, employment, and energy are issues of particular interest to the two main union organizations, the General Federation of Belgian Workers (FGTB) and the Confederation of Christian Unions (CSC).

The unions are seeking assurances that the government will move toward reducing the workweek, "democratizing" industry, and developing public transport. They also want to be sure that the measures that had led to a series of general strikes in February and March have been abandoned by the government. These included plans to reduce state subsidies to social security funds and to impose a 0.4% "solidarity tax" on wages and salaries. Both the FGTB and CSC have stressed that the "Friday strikes" (they were usually scheduled on that day) were halted only by the calling of the April general elections: strike notices remain in force, they said. In this connection, the unions have been particularly critical of Prime Minister Leo Tindemans who said in a recent television interview that it was impossible for his government to introduce any legislation with which the unions did not agree.

Meanwhile, the new employment minister, Guy Spitaels, has warned that it may not be possible to solve Belgium's unemployment problem before 1985. Until that time, Spitaels said, the labor market would continue to be affected by a structural imbalance between the country's two main regions, Flanders and Wallonia. Spitaels, a Socialist, said that even if the government were able to create 45,000 new jobs per year, this would not cut unemployment by more than 12,000 because of the more than 30,000 young people who annually leave schools and universities. Real unemployment has now reached the 300,000 mark, Spitaels said.

In other developments, the National Bank has lowered its discount rate once more, from 6.5 to 6%. The action, effective June 22, reflected the "stable" position of the Belgian franc on the exchange markets and, it was hoped, would help stimulate investments.

Germany: Approval for Health Cost Compromise Law

Both houses of the German parliament last month approved the compromise in the health bill that was worked out by the conference committee and reflects several of the Opposition's demands. The measure does not raise the assessment ceilings applied in contributions to the health insurance funds (the original bill provided for an increase from DM 2,550 to DM 2,890 per month - *Doing Business in Europe, Par. 30,932).* However, this relief may only be temporary: while the other version would have meant higher health insurance contributions from salaried employees in the higher income brackets and their employers, the approved compromise is expected to cause the health insurance funds to obtain additional revenue by simply raising the rates for all insured. Officials of several funds have already indicated that an increase of at least 1 to 1.5 percentage points will be inevitable. At present these rates average around 11.3% of assessed income and are shared by the employee and employer. An increase will be necessary to compensate the health insurance funds for the fact that they will receive only about DM 6 billion instead of the present DM 10 billion from the old-age pension funds for paying the medical costs of treating the elderly. The Opposition did not succeed with its plan to have the social security recipients assume some of the cost of medical treatment by paying a percentage of their pensions to the health insurance fund

The measure seeks to slow the rise in health costs, but in contrast to the original bill, which provided for guidelines to be followed by doctors, hospitals, and the health funds, the compromise seeks a voluntary approach: once a year officials of the health funds, representatives of the medical professions, and hospital organizations will meet to decide how much of an increase in hospital costs and doctors' income the health insurance funds would be willing to accept. A doctor who prescribes more for his patients than is necessary could be sued, although the compromise leaves it up to the health funds whether they want to bring suit (the original version would have obligated them to seek repayment from the doctors).

Another important amendment written into the measure by the conferees will require patients to pay DM 1 for each drug prescribed. In the original proposal, the insured would have had to pay DM 3.50 per prescription, no matter how many drugs were prescribed thereon.

Britain: Problems Seen for European Parliament Bill

The U.K. government on June 24 published the European Assembly Elections Bill, and it was generally agreed that the legislation would run into considerable problems in Parliament. In fact, there were indications that the measure will have to be reintroduced during the next session. To force the bill through in its present form, the government would need the support of pro-EEC Conservatives. Nonethe-

Elections Bill *(contd.)*

less, Prime Minister James Callaghan claimed that the Labour government was fulfilling its commitment to meet the 1978 target for direct elections to the European Parliament. (There will be no direct elections anywhere in the Community should the U.K. fail to meet that date.)

The bill's principal feature, and one that many backbenchers on both sides of the House feel poses a longer-term threat to Britain's traditional electoral system, is the recommendation that direct elections be in the form of a "regional list system," i.e., a relatively unsophisticated process of proportional representation.

All the main parties would be entitled to submit lists of candidates for each U.K. region, and voters would cast only one vote for their choice, the candidate's party affiliation having been declared. The surplus votes of successful candidates would be transferred to other candidates of the same party. Electors thus would not be given the choice of "cross-voting" between the parties in order to select pro- or anti-Europeanists.

Switzerland: Ban Extended on ...perty Sales ...Foreigners

The Swiss parliament's upper house *(Ständerat)* has supported an earlier National Council decision to extend by five years the existing ban on the sale of real estate to non-residents. The ban originally was scheduled to expire at the end of this year *(Doing Business in Europe, Par. 30,929)*. The government had sought the extension in the face of unabating demand for Swiss real property by foreigners. A spokesman commented that the ban does not preclude "reasonable deployment" of foreign capital in Switzerland. Despite the restrictions, he said, both tourism and the construction industry in the country's lesser-developed mountainous regions have been progressing satisfactorily.

Portugal: Rules Eased for Foreign Investors

In order to revive and enhance the country's attractiveness for foreign investors, the Portuguese government intends to offer better guarantees and is liberalizing regulations covering profit repatriation. According to a cabinet decision published last month, it is endeavored to protect foreign investors in the future to some extent against the effects of possible escudo devaluations: the government would make equalization payments if exchange rates change by more than 3% as the result of devaluation. The cabinet also wants to relax the rule whereby foreign businesses may transfer only up to 12% annually of profits realized within the country. Further, the government consents to having the World Bank act as a clearing agency in making compensatory payments to foreign investors whose businesses may yet be nationalized. All of these liberalized rules, Lisbon reports said, will be part of an encompassing economic pro-

Investors *(contd.)*

gram scheduled to be presented to Parliament by the Mario Soares administration within the next few weeks.

In May the National Assembly had passed legislation defining the limits between the private and public sectors. The law prohibits private initiatives and engagements in such key industries as steel, petrochemicals, mining, cement and other raw materials, postal and telephone services, utilities, public transport, and weapons manufacture. Controversial remains the status of the banking and insurance sector which generally falls also into the public realm: the government has not committed itself fully on whether investment companies and investment funds are covered by the law, too. Without such companies and activities, critics claim, the recovery of the country's economy will be called into question.

EURO COMPANY SCENE

Amdahl/ Nixdorf

Amdahl Corp., based in Sunnyvale, Calif., plans the construction of a computer assembly plant at Dublin, Ireland, by mid-1978. An agreement in principle was signed with the Irish Development Authority. In the meantime, Amdahl has formed a U.K. subsidiary which initially will concentrate on sales and later expand into servicing. According to British reports, Amdahl so far has won orders for, or has delivered, 100 of its "super computers" on a worldwide basis in a direct challenge to IBM. The Dublin plant is to serve as the European production center.

In related developments, the German computer producer Nixdorf AG has sold its 5.1% participation in Amdahl on the New York Stock Exchange for $7 million. Nixdorf said its low equity holding in Amdahl prevented it from exerting any kind of control on the company and indicated that it plans to concentrate on small and medium-sized systems.

Westinghouse

Westinghouse Nuclear Europe, the Belgian-based subsidiary of the U.S. group, has announced plans to lay off 8% of its technical and engineering staff. The manpower reduction is the result of the slowdown in Belgium's nuclear power program and similar delays in Italy and Spain. The company, which was set up in 1971, said 23 engineers and technicians would be laid off this year and further dismissals are scheduled for '78.

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EUROMARKET NEWS

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Community: Council Adopts Five Auto Directives

The Council of Ministers on June 29 adopted five directives dealing with automobiles, thus bringing the Community close to its ultimate goal of eliminating nontariff barriers to intra-EC trade of motor vehicles. The five measures will align national specifications on rear fog lights, backup lights, and parking lights, the driver's field of vision, and safety belts. The latter directive marks an important new step toward greater automotive safety because it not only lays down strict rules on manufacture but also provides for controls to ensure consistent production quality.

Adoption of the five safety measures brings to 38 the number of automotive directives setting forth Community specifications for numerous automotive parts such as steering gear, brake systems (dual brakes have been required since Oct. 1, 1974), and seat anchorages. Several measures were designed to reduce engine noise and exhausts. *(Common Market Reports, Par. 3371.05-.30)*

An important feature of harmonization in the automotive sector is the EEC procedure set forth in the 1970 Council directive No. 70/156 for the approval of prototypes. A model meeting the specifications set forth in a Council directive must be recognized by the member states

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Directives *(contd.)*

and thus may be sold freely throughout the Community *(Common Market Reports, Par. 3371.03)*. An amendment pending before the Council would change the current type-approval practice: instead of confining themselves to spot checks to verify conformity of production models, the national authorities would have to be satisfied that a car maker filing a type-approval application is adequately equipped to test the models. In addition to this amendment, the Council is considering seven other proposals dealing, among other things, with tires, windshield safety glass, and headrests.

Since the Community is now close to the ultimate goal of EEC motor vehicle type-approval, the Council has reaffirmed its determination to put the procedure into operation as soon as practicable. In a resolution also adopted at the June 29 meeting, it instructed the Permanent Representatives to continue deliberations on the pending proposals. The delays so far have been partly due to misgivings on the part of several Common Market-based automakers and their national governments that free intra-EEC trade would also benefit third-country car makers, especially the Japanese. Therefore the Council asked the Representatives to look into the implications of non-EEC automakers exploiting the EEC type-approval system.

Approval for Standardization of Safety Signs

The Council has adopted the directive designed to standardize all signs conveying prohibitions, orders, warnings, and emergency instructions that are posted in factories and offices for safety reasons. The member states have until the end of 1980 to comply.

The signs feature simple and striking designs and symbols and do not require a knowledge of the local language; in fact, none of them displays any text. Many familiar symbols used in internationally known traffic signs will be utilized. For instance, the red ring with a diagonal bar that denotes "no parking" will be used to convey a ban on other acts - smoking, for instance.

The color and shape of safety signs follow for the most part the standards recommended by the International Organization for Standardization (ISO). Where the ISO has failed to set standards, national governments have decreed the use of specific signs, or businesses have come up with their own versions. Often, when there could be doubts about the meaning of a sign, additional explanatory signs have been posted, sometimes in the language of foreign workers. It was against this background that the Commission proposed approximation of national rules in April 1976.

Important for companies with production facilities linked by roads is that they will have to regulate internal traffic with the official signs of the country.

In Brief...

A recently adopted Council directive requires that by 1981 the member states will have to offer courses in the host country's language as well as the mother tongue to children of EEC migrant workers. Although some 1.5 million migrant children attend preschool and primary and secondary schools in the Community, only one-third of them will benefit from the language and culture instruction; the other two-thirds come from nonmember states, mostly Yugoslavia, Spain, Greece, and Turkey, which are not covered by the measure + + + Six of the 16 signatory states to the European Patent Convention have completed ratification procedures. Four (Germany, the Netherlands, the U.K., and Switzerland) have deposited the instruments of ratification in Bonn, and France and Luxembourg were expected to have done likewise early this month. Since at least six states must have deposited the instruments of ratification in order to bring the convention into force, Community officials foresee Oct. 1 as the possible effective date. This would also be in keeping with the timetable for the opening of the European Patent Office in Munich and for the filing of European patent applications beginning on June 1, 1978.

Germany: Antitrust Amendments Due in Late Fall

The German government has indicated that the planned amendments to the Law Against Restraints on Competition (GWB) would emphasize stiffer controls on mergers and market-dominating enterprises. These amendments, probably to be sent to Parliament in late fall, would stop considerably short of the recommendations of the Monopolies Commission. Under Section 24 GWB, the parties to a planned merger need not notify the Federal Cartel Office thereof if the acquired enterprise's sales in the previous year did not exceed DM 50 million *(Doing Business in Europe, Par. 23,510B)*. The Commission had recommended repeal of the DM 50-million criterion, reasoning that a large number of companies with annual sales in the billions had taken advantage of that rule and had absorbed many small enterprises. Although the Schmidt administration shares the concern over the continued trend toward concentration of economic power *(Doing Business in Europe, Par. 30,890)*, it is against repeal of the clause primarily for administrative reasons. An unqualified repeal would require considerable additional staffing of the Cartel Office. Instead, the government will propose the introduction of a DM 2-million threshold so that whenever a company with annual sales of DM 1 billion or more acquires another with a turnover of between DM 2 million and 50 million, both parties would have to report the deal to the Cartel Office.

The administration at this point apparently is not willing to give in to two demands of the Monopolies Commission. One calls for legislation that would give individuals and businesses the right to bring suit if they believe

Antitrust *(contd.)*

they have been damaged in some way by restrictive practices, and the other would give the Cartel Office the statutory power to break up enterprises having a monopoly. But the government would go along with the Commission's proposal that there should be a statutory presumption of increased market domination when a company has annual sales exceeding DM 10 billion, with the result that the Office would have control over mergers between companies with sales of over DM 1 billion that result in combined annual sales of over DM 10 billion.

Consumer organizations, the labor unions, and leading Social Democrats have come out in favor of abolishing non-binding price recommendations, which cover some 6 million products. They say that more price competition would be the result, but the government disagrees: it believes that the price recommendation is a stabilizing element in that it tends to keep prices down. Thus Bonn will not propose abolishment but instead will keep an eye on the matter for possible action later.

France: Patronat Urges Protective Trade Measures

The French industrial federation CNPF, the Patronat, has issued an urgent appeal to both the national government and the European Community to enact protective trade measures and has called for an international conference on the restructuring of world trade and on a more equitable division of labor among nations. Any additional removal of tariffs and other import restrictions would tend to build up further the "aggressiveness" of trade policies, the CNPF said in a statement. While Europe opens up its borders, the organization maintained, "others" are relying on "abnormal" competitive practices "in selling far more to us than they are buying." The CNPF statement came only one week after the French government had imposed unilateral curbs on certain textile imports on the basis of GATT Article 19.

In support of its arguments that foreign competitors are garnering an increasingly larger share of the domestic market, the industrial federation submitted figures showing that, from 1974 until '76, this share rose from 32 to 40% for textiles, 23.7 to 36.7% for footwear, 31 to 36.5% for toys, 21.5 to 36.4% for watches, 35 to 43% for all of the mechanical industry, and 19.9 to 31% for printed products. Within two years, the CNPF pointed out, employment in the French textile sector had fallen by 43,000, in the shoe industry by 6,000, in the watch industry by 1,500, and in the printing sector by 8,000.

The Patronat appealed to the EEC authorities to employ "quickly and without weakness" all legal and practical means of safeguarding the "vital industrial interests of the member states." Apparently in recognition of the fact that such European joint action is exceedingly difficult to

Trade Measures *(contd.)*

achieve, the CNPF also demanded the formation of an interministerial commission in Paris to decide on speedy national measures in protection of French industry. The government's as well as the EEC's free-trade concepts should be "radically" altered, the Patronat said, because they have become completely outdated as the result of the industrial advances in third countries, the enlarged market presence of state-trade and low-wage countries, and excessive production capacities. The excellent results achieved by international free trade in the past 20 years, the CNPF claimed, had been due to the relative compatibility of the various trade partners and benefited from a period of strong expansion. This situation no longer exists today, it said.

Paris Freezes Some Prices; Minimum Wage

Following a 0.9% jump in the cost-of-living index in May (1.3% in April), the French government on June 28 announced a freeze on prices for coffee, cocoa, and some textiles. For unprocessed coffee and cocoa, prices were frozen at all trade levels, for roasted coffee only at the production and distribution levels. (The continuing rise of food prices has become a major headache for the government. In May, it again amounted to 1.7% and, on an annual basis, to 13.8%.) In the area of textiles, the price stop affects all products on which the government last month had imposed import curbs (men's shirts, blouses, T-shirts, and cotton yarn), apparently because Paris wanted to prevent price increases for the same domestically manufactured items.

In other news, the government as of July 1 raised the minimum hourly wage by 2.57% to FF 9.58, up from FF 9.34. This increase corresponds to a monthly minimum wage of FF 1,667 based on a 40-hour week.

Italy: Cross Holdings; Escape Capital; Alien Students

The Italian government's bid to extend by another year the deadline for the disposal of mutual cross-holding shares by stock corporations has been rejected in Parliament. This effectively reaffirmed the provisions of the 1974 stock market "mini-reform" as part of which companies involved were given until June 23 of this year to sell any cross shareholdings in excess of 2%. For reasons that are still not entirely clear, Treasury Minister Gaetano Stammati early last month submitted a bill calling for a one-year extension of the deadline until the end of June 1978. Many Italian companies waited until the very end of the three-year grace period before disposing of their cross-holding shares, among them the country's largest finance holding, Bastogi Financiaria (not Bastogni, as erroneously identified in last week's issue). Bastogi held an 8.6% share in Italcementi, the cement concern, which in turn owns 19.2% (not 90%) of Bastogi by way of Italmobiliare.

Cross Holdings *(contd.)*

In other developments, Pietro Battaglia, the head of the Bank of Italy's foreign exchange office, has revealed that some 15,000 Italians so far have registered foreign assets and properties in the estimated amount of 2,000 billion lire under the provisions of the 1976 Law against the Illegal Export of Capital. In an interview with Milan's weekly Il Mondo, Battaglia said that this total repatriated under the amnesty law (the last deadline of which runs out next November) compares with 20,000 to 30,000 billion lire illegally exported within the last 10-15 years.

Finally, upon the request by the Education Ministry, the Italian Foreign Ministry has instructed its representations abroad that Italian universities and other institutions of higher learning will no longer accept foreign students for a period of two years beginning on Aug. 1. The move reportedly was necessitated by overcrowded conditions at the schools and by the fact that more and more foreign students are seeking entry at Italian universities because of filled capacities or soaring costs in their home countries. Foreign students already studying in Italy are not affected by the two-year suspension; estimates on their number run from 20,000 (Education Ministry) to 50,000.

Belgium: OECD Recommends Investment Aids to Boost Jobs

Moderate growth, more pronounced price pressures than at present, stable exports, and one of the highest unemployment rates in the industrialized world - these are among the forecasts for the Belgian economy in 1977 as contained in the latest survey on Belgium issued by the Organization for Economic Cooperation and Development.

The OECD study says that private investment in Belgium slowed for the second successive year in 1976, bringing the total decrease to 17% over two years. There was also a drop in foreign investment, though this seemed to have been reversed during the early months of this year. The rise in unemployment cost the government an extra 19% in social expenditure during 1976. However, wage increases were smaller than in previous years: for industrial workers they came to 10.4% and for salaried employees to 8.7%, compared with an overall increase of more than 15% in 1975. One of the reasons was the slowdown in consumer price rises, which meant fewer upward adjustments for pay linked to the price index.

For 1977, the OECD predicts a 3% increase in consumer spending (1976 = 2.5%), an overall boost of 10% in wages and salaries and of 12% in other incomes, an 8.25% rise in retail prices, a 2.75% increase in gross national product, and a rise of 7.5% in public investment.

The Paris-based organization recommends that the Belgian government give more aid to investments that directly

OECD Study *(contd.)*

create new jobs and that it "reorient" the activities of the National Investment Corp. (SNCI). Piecemeal solutions for reducing unemployment, such as shortening the workweek and lowering the retirement age, should be introduced only as part of a "concerted international program," the OECD says.

Britain: Some Questions on "Record" Reserves Total

The announcement that Britain's official reserves rose by $1.671 billion (about £970 million) in June to a record $11.572 billion has triggered renewed debate as to sterling parity and the government's counter-inflation strategy. At first glance, the figures would appear to be impressive, particularly as the June total means that the U.K.'s reserves have trebled since December 1976. There are, however, a number of factors that observers say must be taken into account before it is concluded that the British economy is on the mend. First of all, the June figures were "improved" by a weaker U.S. dollar. Second, a large loan to the British National Oil Corp. contributed no less than $750 million to the total. Third, the inflow was boosted appreciably by overseas demand for British Petroleum shares: the BP issue attracted several hundred million dollars but, due to its undoubted longer-term potential, it was oversubscribed some three and a half times. Much of this money was expected to flow out of Britain in the course of July and August.

The above factors apart, sterling's improvement against the dollar is attributable to the latter's recent weakness rather than to the former's gaining strength: when judged against other key currencies, sterling's rate has in fact eased over recent weeks, and the index against a basket of foreign currencies in early July stood at 61.1 as compared with 61.6 some four weeks earlier. Further, the appreciable drop in Britain's domestic interest rates earlier this year has not, as was widely predicted, prompted a flow of funds from Britain. There could be, on the other hand, a massive exodus of funds should the government fail to reach a practicable wage settlement with the country's labor unions.

Sweden: Standard Rate of VAT Raised from 15 to 17%

As of last month, the standard rate of the Swedish value-added tax (MOMS) has been raised from 15 to 17%. However, since the MOMS rate itself is subject to VAT, the increase for the consumer actually is from 17.65 to 20.63%, one of the highest rates in the world. The MOMS boost is not only designed to improve revenues (the 1977-78 budget projects a deficit of 13.7 billion kronor) but also to dampen domestic demand for imports and thereby reduce the external deficits. It had been planned last spring as part of the measures that included the 6% devaluation of the krona with which

VAT Rise *(contd.)*

Stockholm raised the price of imports, hoping at the same time to help Swedish exporters regain lost territories on the world markets. (In retrospect, it has become apparent, though, that the devaluation did not lead to a reduction of export prices but merely to relative price stability.)

Liechtenstein: Bank Agreement Follows Swiss Example

In what was described as a move of "active solidarity," the Liechtenstein government and the banks domiciled in the Grand Duchy have followed Switzerland's example by signing a code-of-conduct agreement governing relations with clients and the acceptance of foreign funds. Signed on June 27, the agreement has the same wording as the Swiss version; in fact, the country's three domestic banks are also members of the Swiss Bankers' Association. The Liechtenstein agreement, too, took effect on July 1, runs initially for a period of five years, and provides for sanctions up to 10 million francs.

A government spokesman in Vaduz denied that the signing of the agreement was in reaction to the Chiasso affair of the Crédit Suisse bank as part of which fiduciary funds were improperly transferred to Texon-Finanzanstalt, a Liechtenstein-based finance holding. The spokesman pointed out that Liechtenstein in the past has implemented, on a voluntary and autonomous basis, all measures in protection of Switzerland's status as a finance center and of the Swiss currency. It was conceded, however, that Liechtenstein does have its problems with abuses by nonresidents of the Grand Duchy's corporate laws; the government is now in the process of "internally" solving these problems in cooperation with the local professional and business associations, the spokesman said.

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Community: Milk-Powder Purchase System Held Illegal

The European Court of Justice has taken the Council of Ministers to task for enacting Regulation 563/76, which tied the purchase or import of vegetable feedingstuffs to the acquisition of milk powder. The Court held that the measure, which is no longer in effect, was unlawful because it was discriminatory and unnecessary. It was the first time that the Court declared a measure in the farm sector invalid. Until now it has granted the Community institutions considerable leeway in passing legislation, and it has defended them against attacks to invalidate individual measures.

In force from March 15 through Oct. 31, 1976, Regulation 563/76 required producers and importers of vegetable feedingstuffs to buy from the intervention agencies 100 kilograms of milk powder for each ton of purchased or imported soybeans or rapeseed. Compliance with the measure and implementing Commission regulations considerably increased the costs borne by feedingstuff manufacturers, importers, and breeders. While an importer of soybeans paid on the average $18 per 100 kilograms, he had to pay nearly three times as much for the same amount of milk powder, which has a similar feeding value.

An importer of animal feedingstuffs not only needed a license but also had to post bond and present proof that he

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Milk Powder *(contd.)*

had purchased the required amount of milk powder. Two German importers requested clearance but refused to post bond; they appealed to a court, which in turn asked for a preliminary ruling from the Court of Justice on the regulation's validity (Cases Nos. 119 and 120/76).

In handing down its judgment in these two cases as well as two others that challenged the milk powder regulation (Nos. 114 and 116/76), the Court made it clear that there are limits to what the Community institutions may do under Treaty Article 39 *(Common Market Reports, Par. 405).* It expressed misgivings not only over the fact that the regulation provided for the compulsory purchase of milk powder but also over the high price. In the Court's view the obligation to buy at such a disproportionate price distributed the burden within the farm sector in a discriminatory manner. Furthermore, the milk powder surplus could be reduced in other ways, the Court said.

The rulings could have considerable financial consequences. For example, all of the parties who purchased milk powder under protest could possibly get their money back from the intervention agencies. Lawyers of several importers and breeders are now considering damage suits against the Community.

Textile Curbs Mark Shift in EEC's Position

The Commission has served notice on its partners in the Geneva GATT talks involving the renewal of the Multi-Fibre Agreement (MFA) that it will impose heavy restrictions on the import of cotton yarn, T-shirts, blouses, and shirts from the world's leading textile-exporting nations for the remainder of the year. Not all of the curbs will apply to the entire EEC. For example, only the import of cotton yarn will be restricted by all member states; France will put curbs on all four products; the U.K. will do so with respect to T-shirts and blouses only; and Germany, Denmark, and the Benelux countries will restrict the import of shirts. Prior to taking the step, the Commission will consult with those Asian and Mediterranean countries most likely to be affected: South Korea, Hong Kong, Pakistan, Yugoslavia, Morocco, and Tunisia.

The announcement means a considerable shift in the Commission's position within a few weeks, and many Brussels observers fear that the turnabout may not be just a one-time affair but might be repeated in other areas of trade. The decision also implies belated approval of France's unilateral action on June 22 restricting imports of the four textile products. Initially, the Commission had reacted with anger and at one point even considered taking legal action because the French government's independent move violated Community rules. Subsequently, the Commission reconsidered its stand under pressure from Paris and several

Textile Curbs *(contd.)*

other national capitals as well as from members of the European Parliament.

The announcement in Brussels was also viewed as a way of making the world's textile-exporting nations more accessible to a compromise on a new MFA. What the Commission essentially wants is that growth rates of all textile imports considered to be disruptive do not exceed the real growth of consumer demand.

Britain: Accountants Urge Changes in Company Law

The Consultative Committee of Accountancy Bodies has submitted detailed recommendations to U.K. Trade Secretary Edmund Dell calling for sweeping changes in British company law. The Committee, which represents the country's various accountancy institutes and associations, was encouraged to prepare its recommendations within the framework of a Dept. of Trade company law reform study to be issued in Green Paper form within the next three months. The first of the two scheduled Green Papers will focus on the aims and scope of company accounts (thereby rekindling arguments over inflation and current-cost accounting procedures), and the second will deal with insider trading. A third, as yet unconfirmed, consultative document would probe the question of loans to company directors.

In general, the accountants' document is critical of present legislation as regards directors' duties and responsibilities: the law is considered defective in that it does not specify these duties directly. It is proposed, therefore, that a new Companies Act would statutorily provide for a director to "observe the utmost good faith, exercise diligence and skill, and not use the property of the company or information acquired through a directorship for his own or his associates' profit." It has been pointed out that, while this aim may be praiseworthy, it is difficult to foresee precisely how such a principle can be given statutory form. Thus, it is assumed that the new Act would list detailed "obligations" of directors and specify more substantial penalties - including disqualification from office - for those who do not fulfill them.

On the issue of company loans to directors, the accountants are wary of suggesting that these be prohibited entirely: stricter provisions should be introduced, however, as to loan conditions and, above all, as to disclosure of such loans.

Concerning the provision of funds by a company for the purchase of its own shares, the accountants propose an unequivocal ban (which would involve repeal of the existing exemption under present legislation, the Companies Act 1948).

Insider trading again comes up for detailed criticism, Company Law *(contd.)*

the Committee's conclusion being that the use by a person of "confidential, price-sensitive information" to deal in shares for his own profit should be deemed a criminal offense and should draw stiff penalties.

The document further foresees a reclassification of companies into "public limited" or "proprietary," the former being defined in terms of size. This reclassification, it is argued, would relieve smaller firms of certain, existing obligations which are incommensurate with their size. Finally, the auditor's role would be expanded in the sense that he would be entitled to attend and make his views known at all board meetings held to approve a company's annual accounts.

France: Report on Tax Avoidance by Companies

French businesses are availing themselves generously of certain liberal tax rules and tax loopholes, so that an extremely high percentage manage year after year not to pay any corporate taxes at all. This conclusion is contained in a report just issued by the national Tax Council, a body set up in 1971 on the initiative of then-economics and finance minister Giscard d'Estaing.

In reviewing taxation and tax practices of industrial and commercial enterprises in France, the Council found that no less than 40% of all businesses avoid paying taxes on profits simply by declaring that they either have incurred losses in a respective business year or have merely broken even. This practice is particularly common with small firms, usually family businesses, with annual turnover of less than FF 500,000: in this group, three out of four claim the absence of taxable profits. A favorite technique is to calculate the salaries for the proprietor and any "directors" in such a way as to preclude any profits.

Larger enterprises, it is reported in the 386-page study, have at their disposal a far more sophisticated arsenal of tax-saving or tax-avoiding devices, most of them related to depreciation or the treatment of reserves. On an international level, tax avoidance or evasion is practiced by way of holdings or letter-box companies set up in tax havens abroad, by price manipulations between parent and subsidiary companies, by failure to repatriate capital, etc.

The extent of these activities is partially reflected in the overall fiscal results, the Tax Council report says. In the 15 years between 1960 and 1975, revenues from income taxes rose ninefold, while those from corporate taxes increased only 5.5 times. Within the 10-year period ending in '75, total tax and social security payments by French businesses went up only from 36.5 to 37.5% of GNP, whereas the percentage increases were much higher in other coun-

Tax Avoidance *(contd.)*

tries: from 30 to 46% in Denmark, 35 to 45% in Holland, 32.6 to 37.6% in Germany, 30 to 35.6% in Britain, and 25 to 29% in the United States. (The Council does, however, concede that, concerning the nonpayment of corporate taxes, other countries report similar ratios as France. In the United States and Germany, for instance, some 40% of businesses also allegedly claim to earn no profits.)

Finally, the report notes definite improvements in the government's efforts to track down tax evaders. Whereas fiscal agents in 1972-73 had traced about FF 2 billion in undeclared profits ("genuine tax frauds"), this total had been raised to FF 4.3 billion by '75.

Denmark: Borrowing Spree Continues with Big Euroloan

Denmark this month took out the largest Eurodollar loan in its history: the $500-million issue, raised by an international consortium led by Morgan Guaranty, reportedly has a life of seven years and carries a rate of 1 1/8 points over the London interbank rate for the first 3 1/2 years and of 1 1/4 points over the remaining term. The issue was floated mainly to take advantage of the current favorable conditions, not because Copenhagen is experiencing an acute foreign currency crisis. According to the latest report of the National Bank, the country's exchange reserves at present come to 12.7 billion kroner, which is three times more than 12 months ago. Still, the increase does not reflect a recovery of Denmark's external balances but merely the continued series of foreign borrowings which last year were in the equivalent of 10 billion kroner (half in dollars, more than one-third in D-marks).

Germany: Plan to Ease Congestion in Courts

A German government bill is seeking to ease the congestion in administrative and tax courts by speeding up and simplifying proceedings. To remain in force until the end of 1982, the amendments to various statutes would empower administrative tribunals to wind up cases by mailing decrees to the parties involved rather than rendering ordinary judgments, which must be read in open court. A hearing of oral arguments would no longer be necessary if a court so decides. Also, there would be curbs on lodging appeals.

Each panel of an administrative court consists of three learned judges and two lay judges, and the amendments propose that the lay judges would not have a say in whether there would be an oral hearing or whether a case is decided by decree or judgment. Industry and the powerful union of salaried employees have come out strongly against curbing the lay judges' role in this respect *(Doing Business in Europe, Pars. 23,573-76)*.

The lower tax courts would be authorized to set deadlines for filing all documents that are needed to pass

Courts
(contd.)

judgment, such as power of attorney or details about tax returns. To this extent the proposed measure would give tax court judges the same powers that civil court judges were accorded under amendments that went into effect on July 1, 1977 *(Doing Business in Europe, Par. 30,907)*. Several tax experts believe that some of the changes would not help speed up settlements of disputes between taxpayers and the government. Under present law a taxpayer who wants to delay payment of a final tax bill may make the request either at the tax office or the tax court. Under the proposed amendments he could approach the tax court only if the tax office turned him down.

Switzerland: Tax Increases, Budget Cuts in Finance Plan

Despite their rejection last month of the government's finance and tax reform package, the Swiss taxpayers will hardly be spared from having to pay more taxes eventually and to accept some cuts in federal subsidies. Less than four weeks after the June 12 referendum, the Bern administration has presented the outline of a new, transitional program toward the rehabilitation of federal finances that provides for budget savings of SF 800 million and tax increases totaling SF 1.7 billion.

According to the government's plan, Parliament is scheduled in September to take up the proposal to boost stamp duties by 50% as of April 1, 1978, and the tobacco tax by 20% as of Oct. 1, 1978. The higher stamp duties on transactions involving securities and bills of exchange *(Doing Business in Europe, Par. 29,381)* would be expected to yield SF 110 million next year and SF 200 million annually thereafter, so that - together with the SF 800 million in budget savings - the 1978 deficit would be trimmed from SF 2.2 to 1.3 billion. The higher tobacco tax, which serves to finance the old-age pension funds (AHV), would yield an additional SF 100 million as of 1979.

Also as an interim arrangement, Bern proposes to raise the retail rate of the cumulative turnover tax from 5.6 to 7% and the wholesale rate from 8.4 to 10.5%. As in previous years, the tax would again apply to the energy sector (electric power, gas, and liquid and solid fuels). The turnover tax bill is to be submitted to Parliament in December, following the referendum that month on the Social Democrats' wealth tax proposal. The rate increase would raise an additional SF 1.3-1.4 billion annually for the treasury. (Political considerations are preventing the government from proposing the introduction of the value-added tax at rates lower than initially planned - *Doing Business in Europe, Par. 30,917*. Such a step could possibly be part of a new finance reform, which also would involve a realignment of the tasks assumed by the federal and cantonal governments. However, draft legislation to this effect would not be taken up by Parliament before

Taxes *(contd.)*

1980, for enactment in 1982 when the existing finance code expires.)

The proposed budget cuts next year include, among other measures, a 15% reduction in the cantons' share of certain federal revenues and the abolition of price-support subsidies for butter and bread. However, details have not yet been worked out for at least 50% of the anticipated savings.

Spain: 20% Devaluation of Peseta; Tax Reform

A 20% devaluation of the peseta to help the foreign trade balance and a rigorous tax reform are the principal elements of an anti-crisis program for the "rescue of the Spanish economy" which has been outlined by the new government under premier Adolfo Suarez. The devaluation was announced by the National Bank on July 12, changing the exchange rate from about 70 to 87 pesetas to the U.S. dollar. Both Spanish and foreign banks described the devaluation percentage as "realistic." (The last previous devaluation in February 1976 had amounted to 12%.)

Saying that it plans to revamp the existing "inequitable" tax system, the government will introduce a net worth tax featuring relatively low tax-free allowances. Draft legislation on this and an inheritance tax as well as on an income tax reform is to be submitted to Parliament by Sept. 30. A bill covering indirect taxes is to follow by Nov. 30. In addition, the tax authorities are to be given partial access to information on bank accounts and broader investigative powers generally. To clamp down on evasion and avoidance, they will set deadlines within which tax debts must be settled and unreported income must be declared if taxpayers are to avoid severe penalties.

Without giving specific details, reports from Madrid predicted stiff increases in direct taxes, especially in the income tax progressions. (So far, the share of indirect taxes in total fiscal revenue has been extremely large compared with other European countries.) The additional revenue is primarily to be used to finance the unemployment insurance system and to create new jobs. Work procurement programs are to give relief to areas particularly affected by unemployment.

EURO COMPANY SCENE

Siemens/ Allis-Chalmers

Germany's electrical giant Siemens AG has announced plans to strengthen its position in the United States by increased cooperation with Allis-Chalmers Corp. of Milwaukee, Wis. The two companies have established in Milwaukee a joint subsidiary, Siemens-Allis, Inc. With an initial share capital of $50 million, Siemens-Allis is to take over the op-

Siemens/
Allis-Chalmers
(contd.)

erations of the 12 plants of Allis-Chalmers' Electrical Products Group (EPG), whose products (electric motors, generators, switching gear, measuring systems, etc.) have been manufactured since 1970 under a licensing agreement between Siemens and Allis-Chalmers. Employing some 4,300, EPG had 1976 profits of $21.5 million on a turnover of $204 million. The Siemens-Allis agreement provides for the German group to take a 20% interest in EPG at a cost of $15 million, with an option to raise this to 30% by the end of '78 (its total investment in the project is expected to reach DM 100 million). Having held only 0.3% of the American electrical products market so far, Siemens now anticipates a yearly growth rate of 10-20% from its wholly-owned U.S. subsidiary Siemens, Inc., as well as from the Allis venture.

Fisons/
Syntex

The British chemicals and pharmaceuticals group Fisons has agreed to pay to Syntex, the U.S. pharmaceuticals company, compensation of $5 million over a five-year period for breaking off an agreement on the marketing of the asthma drug Intal in the States. In reaction to unsatisfactory U.S. sales, Fisons as of Sept. 1 will buy all stocks of Intal (marketed in the U.S. under the Aarane label) and turn over distribution, under both proprietary names, to its own, Massachusetts-based subsidiary. In 1976, Fisons' total U.S. earnings from the drug were only £8.9 million compared with U.K. revenue of £14.7 million. Both companies announced that the payment will resolve all claims and counterclaims: last October Fisons had filed a demand (now preempted) for binding arbitration and damages against Syntex.

Consolidated
Foods/
Douwe Egberts

Consolidated Foods Corp. of San Jose, Calif., reportedly has made a $156-million bid for 65% of the outstanding shares of Douwe Egberts, Dutch producer of coffee, tea, and tobacco. Contingent on the tendering of over 50% of the outstanding shares, the offer is expected to be completed by Oct. 1 and, if approved, would give the American company 26% control of Douwe Egberts' voting shares. The Dutch family-owned firm reportedly had 1976 sales of around $600 million and net earnings of some $24 million.

Manufacturers
Hanover/
Mendes Gans

Manufacturers Hanover Trust of New York is to purchase, for an undisclosed price, a 16% interest in Bank Mendes Gans, a small Amsterdam merchant bank (in which Dow Chemical holds a 40% interest). With an option to increase its participation to 20% within a year, Manufacturers Hanover is to acquire one-half of the 16% holding from Dow Chemical and the other half from Dutch interests. Additional new shares are then to be privately placed in Holland to ensure that the joint equity of the two U.S. companies in the Dutch bank remains below 50%.

Common Market Reports

EUROMARKET NEWS

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Community: Oral Arguments in United Brands Case

An important competition case is heading toward its final phase of judicial proceedings now that the European Court of Justice has heard oral arguments in *United Brands Co. v. Commission* (Case No. 27/76). The eight-hour hearing on July 12 revealed profound differences between both sides, not just about legal issues but even about the facts. It was made clear that the Commission's Competition Directorate attributes more significance to this case than to *Continental Can (Common Market Reports, Par. 8171)* because it hopes to obtain from the Court powers to crack down on restrictive pricing policies. (In the Continental Can case, the Court said the Commission could rely on Article 86 as a merger control instrument.)

In December 1975 the Commission had imposed a fine of over $1 million on United Brands (UBC) for abusing its dominant position. The company allegedly had prohibited customers from reselling green bananas ("green-banana clause"), charged its Belgian, Dutch and German customers discriminatory prices, demanded excessive prices for similar transactions, and refused to supply a Danish customer for a certain period *(Common Market Reports, Par. 9800)*. The Commission indicated in its decision at that time that UBC could end its discriminatory pricing behavior by reducing by 15% prices charged to its Benelux and German customers; this was not an order, however.

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

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United Brands *(contd.)*

Counsel for United Brands is basing its defense more on the facts than on outright legal issues. The company denies that it has a dominant position on the banana market within the meaning of Treaty Article 86. (Within this context, the Court will have to decide on the concept of the relevant market.) Challenging the Commission's claim that there is a banana market as such, UBC says that bananas are part of the fresh fruit market because they are reasonably interchangeable with other fresh fruits. It argues further that it does not control the greater part of banana supplies available for export from tropical countries to the EEC, that it does not control the distribution chain, and that the banana import trade in the EEC has seen new entries in recent years, so that UBC competes with at least four other importers.

In arriving at the conclusion that United Brands has a dominant position, the Commission maintains that the company has a 45% market share and a high degree of vertical integration, based on its Central American plantations and the well-developed refrigerated transport system it has. Further, in the Commission's opinion, the company's position discourages competition, and its pricing policy, supported by heavy advertising, largely ignores the market forces of supply and demand. (UBC denies that its market share is 45%, saying that 20% would be more realistic.) The market share criterion so far applied by the Commission in establishing a market-dominating position has been much higher. In its *Commercial Solvents* decision, for example, the Commission had established an 85% share, and this was accepted by the Court *(Common Market Reports, Par. 8209)*.

Progress in EEC-Greece Negotiations

The discussions between Community and Greek officials over the terms of Greece's admission to the Common Market have gained momentum after France has abandoned its previous stand on the remaining crucial topic - treatment of agricultural products. Concerned about the problems that imports of Greek wine, vegetables, and citrus fruit would have for French farmers, Paris had been insisting that the EEC undertake an extensive reform of its policies on Mediterranean agricultural products before admitting Greece as its tenth member *(Common Market Reports, Par. 9752)*. This demand, partly supported by Italy, not only was contrary to public pledges of support earlier made by President Giscard d'Estaing but also angered all other member-state governments, which favor admitting Greece as soon as possible and also enlarging the EC to include Portugal and Spain.

Greece has offered to accept immediately all agricultural regulations, especially for citrus fruit, but it wants a period of transition before fully applying the common marketing systems for meat and milk. Community negotiators have welcomed this position, but they have served

Greece
(contd.)

notice on their Greek counterparts that there will be changes in the present rules governing the marketing of wine, vegetables, and fruit. Council officials anticipate that Greece, Portugal, and Spain would be required to exercise restraint in exporting these commodities and/or limit their sales to specific areas of the Common Market. Although Athens has demanded that it be heard before the Council of Ministers enacts these changes, there is not much chance of this because only members have a say in the Community's decision-making process.

Agreement has been reached on most of the other topics of the negotiations. In the area of competition rules and free interstate trade of industrial products, Greece would like to grant state aids to enterprises over a longer period of time than the Community is willing to accept. However, Community negotiators consider this to be a minor problem.

Britain: Uncertainty after Lapse of Social Pact

Following a high-level meeting on July 13 between the U.K. government and the Trades Union Council, 11th-hour hopes for a continuation of the "social contract" into a third phase were finally dashed. The unions insisted that the contract, which provided for the suspension of free collective bargaining in exchange for "acceptable" government policies, has failed in two primary objectives - curbing inflation and boosting employment. Thus, the Labour government, which had argued that a further year of wage restraint would restore economic stability, found itself obliged to articulate a pay policy for the coming year that hinges on repeated pleas for moderation, strict enforcement of the "12 months between settlements" rule, and a disparate tax and price restraint package.

This package was outlined by Chancellor of the Exchequer Denis Healey in a House of Commons statement on July 15. It includes a basic income-tax rate cut of 1% to 34p in the pound retroactive to last April, modest increases in personal allowances (to £845 and £1,295 for single persons and married couples, respectively), higher child benefits as of April 1978, a reduction in gasoline duty, milk subsidies, and a commitment to strict price monitoring, among other items. In addition, dividend controls prescribing a 10% increase in the limit on current dividends over the previous year's are to be maintained for 12 more months.

Given TUC adherence to the "12-month rule," it is considered conceivable that a wages free-for-all can be averted. Accordingly, the government proposes to penalize employers who accede to more frequent settlements by applying existing statutory profit margin ceilings and reducing them in instances where "offending" pay raises have been granted. The TUC has indicated that it intends to cooper-

Social Pact *(contd.)*

ate, but it remains to be seen whether such cooperation will be forthcoming at shopfloor level. The country's miners already have passed resolutions to press for wage increases of up to 63.5%.

The lapse of the social contract, which had long been termed the "cornerstone" of government policy, was played down by Healey as "the absence of a formal agreement with the TUC on the level of settlements." The Chancellor went on to emphasize the necessity of creating a climate "favorable to moderate settlements" via measures designed "to give confidence that living standards can be maintained." However, even many of Healey's Labour Party colleagues considered this phrasing inopportune: the objective was, they felt, to *improve* living standards. Further, it was argued, if the self-imposed controls of Phases I and II had failed to achieve this aim, grave doubts must be cast on its achievement in the absence of such controls.

Ireland: Disappointment Over EC Court's Fishing Ruling

The Irish government has reacted with considerable disappointment to the European Court order to lift its unilaterally imposed fishing restrictions as of July 18. Imposed last April, these curbs prohibited fishing by vessels of more than 110 feet in length and 1,100 brake horsepower within Ireland's coastal waters. In its July 13 order, th Court deemed these restrictions to be discriminatory and in contravention of Community rules.

The Dublin administration has complaints on two counts. First, it believes the measures to be justifiable (as opposed to justified) under last year's understanding of the EC foreign ministers empowering member states to impose "temporary and nondiscriminatory measures" to conserve threatened fish species pending concerted Community action. (The European Commission has contended that, given the size of Irish trawlers, the measures were scarcely nondiscriminatory nor were they genuinely conservational inasmuch as the Irish continued to fish the waters.) Secondly, the Court's decision was "timed," in Dublin's view, to enable the trawler fleets of other member states to gain access to Irish waters in the optimal period, from July through September.

Germany: Upper House Passes Amended Tax Bill

The upper house of the German Parliament has approved the controversial and heavily amended tax bill that earlier had barely squeezed through the lower house. The measure will increase the value-added tax rate from 11 to 12% (5.5 to 6% for most food items) as of 1978, and individuals will be paying 0.5% on their net worth instead of the present 0.7%; companies will pay 0.7 instead of 1%. Substantially increased exemptions in computing the two elements of the

Tax Bill *(contd.)*

business tax (profit and capital) will especially benefit small businesses *(Doing Business in Europe, Par. 30,935)*.

Passage of the measure by the Opposition-controlled Bundesrat became possible after three states with Christian Democratic governments supported the bill. Their consent came after the federal government made major concessions over the distribution of VAT revenue in the coming years. At present the states get 31% of the VAT revenue (DM 65 billion in 1976) and Bonn keeps 69%. The extent of Bonn's concessions may be derived from the fact that Finance Minister Hans Apel originally wanted 72% (or some DM 8 billion more) as of 1978 but then had to settle for 67.5% instead. Moreover, the federal government scrapped its demand for another DM 1 billion to compensate partly for the fact that under the 1974 Income Tax Reform Act it agreed to pay for the increased children's allowances.

Adoption of the measure still has not entirely cleared the air of controversy: local officials are saying that the cities are the big losers in that local governments stand to lose approximately DM 1.5 billion - DM 800 million alone from the increased exemptions that craftsmen and businesses may claim in computing the business tax. Bonn observers expect that the issue will be tackled in new discussions between federal and local government officials involving revenue-sharing of income and business taxes. These talks could take place after the summer recess.

Italy: Communists Officially Join in Party Pact

Culminating months of strenuous negotiations among the six parties constituting the "constitutional arch" (excluding the extreme left and the neofascists), the Italian Chamber of Deputies on July 15 adopted with a margin of 442-87 votes a "limited" government policy program covering a broad range of issues. The most significant aspect of the deal was the fact that the Communists were supporting a Rome government for the first time since 1947, the year when Alcide de Gasperi, founder of the Christian Democratic party, expelled the Communists from his coalition cabinet and brought Italy into the western alliance. Thus, after 30 years of opposition, the Communist leadership views the pact as a major milestone on the road toward the party's direct participation in government.

The all-party contract comes at the end of the first year of the incumbent Christian Democratic minority administration, a year during which Prime Minister Giulio Andreotti survived only by virtue of the Communists' abstaining in crucial parliamentary votes. The accord, which in effect makes the Communist PCI a backseat "partner" of the government, gives Andreotti at least some room for politcal and legislative planning. However, this limited

Party Pact *(contd.)*

maneuverability was won only in exchange for major compromises - one reason why many Christian Democrat deputies refused to support the deal.

Aside from dealing with such issues as an educational reform and a crackdown on disorder and violence, the pact gives the green light for the preparation of urgent economic measures against inflation and unemployment, for more investments in the impoverished southern regions, and for the raising of additional revenues. Italy's state holdings in the future are no longer to serve as a receptacle for financially disabled businesses, and the parties also agree on the need to prevent any further expansion of direct state participation in the production sector.

Just prior to passage of the party accord, the government had yielded to pressures for stronger regional autonomy by agreeing to dissolve 15 general directorates and 24 inspectorates in the central ministries. The transfer of certain administrative and executive powers to the regional governments will have the greatest effect on the Industry and Trade Ministry - to the extent that the latter's abolition cannot be ruled out. Also affected are the ministries of the interior, agriculture, public works, culture and education, transport, tourism, and health. For instance, jurisdiction over the entire health-insurance-fund system eventually is to be turned over to the regional governments.

Netherlands: Failure of Efforts to Form New Government

After almost two months of strenuous deliberations, acting Prime Minister Joop den Uyl on July 15 abandoned his attempts to form a new Dutch coalition government with the Christian Democratic Appeal (CDA) and the left-liberal Democrats 66 and returned his assignment to Queen Juliana. Subsequently, CDA leader and acting Justice Minister Van Agt also returned the Queen's assignment with the argument that Den Uyl and his socialist Labor Party (PVDA) had not exhausted all means of achieving a coalition with the CDA and, if necessary, with the D 66.

Once again, the major stumbling block to an agreement proved to be the controversial and far-reaching social reform plans of the PVDA which already had caused the breakup of Den Uyl's previous coalition cabinet and resulted in new elections last May 25. The most recent collapse of the party negotiations essentially was over important elements of a proposed excess profit sharing system, which in principle is backed by all parties *(Doing Business in Europe, Par. 30,818)*. Among other things, no consensus was reached on the extent of "excess profits" to be skimmed off and on the method of distributing them to employees. According to the PVDA concept, some 500 million guilders annually in such skimmed-off profits would flow into a central, union-

Failure
(contd.)

administered fund, of which 50% would be used to improve worker pensions generally, while the remainder would accrue to the employees of the companies making the profit contributions.

The profit-sharing system, called VAD, represents a cornerstone in Den Uyl's proposed government program inasmuch as it has been made a condition of the country's labor unions toward an agreement on a two-year pay freeze and various austerity measures in the public sector. In reporting on the failure of the coalition talks, Den Uyl said it would be impossible to get labor's cooperation on pay restraint, government spending cuts, and measures to boost business profitability and investment activity unless the unions were given something "significant in return." The Christian Democrats, on the other hand, argued that Den Uyl was asking "too much" and that the PVDA proposals in effect constituted a major step toward worker control in industry.

Belgium: Public-Sector Talks; Poll on Executive Pay

The Belgian government has agreed to commence talks as of Sept. 15 on a new collective agreement for some 780,000 government employees (almost a quarter of the country's work force). In addition to higher pay, the unions also are seeking earlier retirement and a shorter workweek for the public-sector employees. The only concession the government made last year was to link the holiday and end-of-year bonuses to the cost-of-living index. The last previous meeting of the two sides was held last January, and the breakdown of these talks was one of the causes of a series of strikes at the beginning of the year.

In other developments, Management Centre Europe, the Brussels-based management development and information organization, has reported that executive remuneration paid by multinational companies located in Brussels went up by almost 10% last year. The report is based on a survey among 95 companies, 89 of them multinationals. The average rise in overall management payroll was 9.6%, with top management remuneration increasing by 9.5% and that of middle management by 9.8%. The companies reported that fringe benefits and other perquisites cost them an average of 7.3% of the total compensation package. For the current year, the firms questioned have budgeted for an expected 11.1% overall increase in total remuneration of their executives, of whom 60 are Americans.

Portugal: Laws on Worker Committees; Strikes

Prior to recessing for the summer, the Portuguese parliament earlier this month held some unusually long sessions in order to deal with labor legislation that the Mario Soares government considered fairly urgent and which will

Committees
(contd.)

have a major effect on future labor-management relations in Portugal.

On June 12, the assembly passed a bill according legal status to the worker committees that were established in hundreds of enterprises following the 1974 revolution and which, in many cases, effectively took control of companies. The new law regulates election procedures and composition of the committees and defines their rights, but also the limits of their power. In the future, elections must be scheduled 15 days in advance and be held by secret ballot, not by acclamation. The number of committee members is restricted to a maximum of 11, depending on the size of a company. The committees must be given access to information about the company's activities, financial and fiscal data, personnel and social security matters, and plans for any structural changes. However, they must keep this information strictly confidential; disclosure to outsiders will make committee members subject to prosecution. The committees may not interfere with the day-to-day decision-making process and have no direct influence on hiring and firing at management level.

The compromise legislation passed Parliament with the votes of the governing Socialists, the Social Democrats and the Christian Democrats. It was opposed by the Communists, who had sought even broader powers for the committees. It was hoped that the law will return a measure of independence to corporate managements, which since 1974 often have had to operate under exceedingly difficult conditions.

A few days earlier, Parliament also approved a law that gives Portuguese workers the right to strike, which had been suspended during the 40 years of the Salazar and Caetano regimes. This law too is the result of a hard-fought compromise - this time between the Socialists and the Communists - and basically leaves the calling of strikes to the trade unions, which will have to give management and the Labor Ministry 48 hours' notice. In companies where most workers are not represented by unions, strike action has to be voted by the majority of workers at a meeting at which at least half of the work force has to be present.

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Community: Emphasis on Tax Alignment, Evasion Curbs

Belgium, which holds the Council of Ministers presidency during the second half of '77, wants the EEC to make progress in harmonization of national tax rules and in the fight against tax evasion. Several measures submitted by the Commission to the Council have been temporarily shelved because of profound disagreements among the national experts. Others have been slowed down in the European Parliament (EP). An important one concerns the Commission's draft directive on harmonization of company taxation and withholding taxes on dividends *(Common Market Reports, Par. 3218)*, which the Commission had sent to the Council in August 1975. Although the Economic and Social Committee (ESC) has given a positive opinion on it, the European Parliament so far has not taken it up. (The Council will not start deliberations on any proposal until it has the opinions of both EC institutions.)

There are two proposals before the Council that deal with harmonizing national rules on tax treatment of international mergers and on taxation of parent companies and subsidiaries *(Common Market Reports, Pars. 3214, 3215, 3216)*. Both were submitted in 1969, and there have been discussions about them off and on ever since. Some progress has been made, but agreement seems to be still far

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Taxes *(contd.)*

off because some national governments are reluctant to give up entrenched positions.

Council attorneys are optimistic that the Belgians will make headway on a tax evasion measure, even though the Commission submitted it only in April 1976 *(Common Market Reports, Par. 9832)*. The draft directive, considered a first step against international tax evasion, would provide for close cooperation among member-state tax authorities. For example, revenue officials from one state would be allowed to study tax returns and check the books and records of companies established in another state. Both the EP and the ESC have delivered their opinions on the draft, and Council attorneys believe that the national governments will see to it that the measure moves along because they have more to gain than to lose - more revenue, perhaps.

Council Bans Herring Fishing in North Sea

Concerned over rapidly vanishing herring stocks, the Council of Ministers has banned herring fishing within the Community's 200-mile zone in the North Sea until Sept. 30, subject to some exceptions and modifications. It also abolished the 7% duty on herring imports from third countries. The measures put Britain's unilateral July 1 action on the matter under the umbrella of Community law and bring momentum to the EEC's efforts to establish a genuinely common fishing policy. It was the absence of such a policy that prompted the Commission to support the U.K.'s move.

Taken at the Council's July 18-19 meeting, the vote on the actions was 8 to 1 (Denmark opposed the measures but will comply), a rare instance of majority voting in the Council. Originally the Treaty of Rome provided for majority voting as a major device to foster integration. However, in 1966 France forced on its five partners a *de facto* amendment to the Treaty that requires a unanimous vote on all matters that any member state considers vital. Since, practically speaking, each state considers all matters voted on to be vital, this so-called Luxembourg compromise has acted as a brake on progress in the EC.

The Council agreed to act on subsequent arrangements for herring fishing in the North Sea at the next meeting of the agricultural ministers, scheduled for Sept. 26-27. It instructed the Permanent Representatives to reexamine the scientific data that the Commission has already submitted and the new figures that it will present shortly.

In Brief...

The Commission may yet succeed with its plan to obtain authorization to borrow up to $1 billion on the international capital market to help enterprises in the Common Market: the Council has assigned two committees to study the plan and report back by October + + + According to a recent Court of Justice ruling *(Patrick v. Ministre des Affaires*

In Brief
(contd.)

Culturelles, Case No. 11/77), a British architect must be allowed to open an office in France even though the Council has not yet issued the necessary directives, which are still being discussed. It was under similar circumstances that the Court handed down decisions in cases brought by two lawyers (*Reyners*, Case No. 2/74, and *Thieffry*, Case No. 71/76) + + + Spain's formal application for admission to the European Community was presented in Brussels on July 28 by Foreign Minister Marcelino Oreja.

Germany:
Tax Cuts for
Individuals
in 1980?

Leading Social Democrats in Germany are drumming up support within the government and among lawmakers for some modifications in the income tax rate structure in 1980 that would benefit individuals in the low- and medium-income brackets. Earlier this year the Schmidt administration had ruled out revamping the tax rate structure for budgetary reasons, although it admitted that inequities do exist. Finance Minister Hans Apel, then a major opponent of any tampering with the system, has now changed his mind and was the first to submit the idea to public debate. A modification of the tax rates also might help calm rebellious left-wing Social Democrats who complained about the 1% VAT increase (to 12%) and nearly succeeded in defeating the government's recent tax bill.

Budgetary considerations apparently have taken a backseat to criticisms that individual taxpayers have reason to complain about the overall tax and social security burden. For instance, it is not unusual for an employee to retain only DM 0.40 for every D-mark earned through overtime. Many taxpayers feel the bite even more when their income rises over a certain amount that is suddenly subject to a much higher tax because the rate structure makes a jump at that point. It is one of the admitted shortcomings of the German tax system that it provides for both flat and progressive tax rates. While single individuals with annual incomes below DM 3,000 (married couples, DM 6,000) pay no taxes at all, those earning between DM 8,000 and DM 16,000 annually pay 22% on their income. The rate jumps to 30.8% for single taxpayers with yearly incomes over DM 16,000 and then rises progressively to the maximum of 56% for incomes of DM 130,000 (married couples, DM 260,000) and more.

Years ago the government's advisers on tax matters had recommended a rate structure that would go from zero to 56% or, alternatively, would not feature the abrupt increases. The final shape of the revamped structure may not be known for some time, but many Bonn observers see a growing awareness within the government and the two governing coalition parties that disgruntled taxpayers have reason for complaint. Back in 1950, income withholding tax contributed only 47% to the nation's total revenue; in 1977 it will be 64%. Although this massive increase is partially due to

Tax Cuts *(contd.)*

the fact that incomes have more than doubled in 27 years, it can also be traced to inequities in the tax rate structure. Although Opposition leaders and others support the idea of a change, they criticize the government for its timing: the modification would come in 1980, when the next national elections are due.

Italy: Rome Transfers More Powers to Regions

Less than a week after the formal acceptance of the six-party agreement, the Italian parliament on July 22 approved legislation (Law No. 382) that transfers considerable administrative and legislative powers from Rome to the regional governments. Passage of the law, in the form of 11 decrees, became possible after a compromise was reached between the Andreotti administration and the interparliamentary committee on regional affairs, which is headed by Guido Fanti, a Communist and formerly a mayor of Bologna and president of the Emilia-Romagna region. Many of Fanti's proposals had been strongly opposed by some members of the Andreotti cabinet, especially Industry Minister Donat-Cattin and Agricultural Minister Marcora, who predicted serious consequences for central economic planning and for the coordination of domestic policies with those of the European Community. Their views found support with those Christian Democrats who warned of a dangerous "sellout of the state."

The decentralization, the seeds of which were laid in Article 117 of the nation's postwar constitution, is bound to build up further the power base of the Communists, who currently control the governments of six of Italy's 20 regions and, in terms of population, about one-third of the country. The framework for decentralization was set up five years ago with the formal establishment of 15 regional governments in addition to five existing ones. Law No. 382 and its subsequent implementing regulations will now fill out this framework by specifying the degree and detail of the actual transfer of powers. Not only will this process lead to reduced jurisdictions and responsibilities on the part of certain ministries in Rome, but it is also expected to result in the abolishment of a few central agencies.

The significance of decentralization manifests itself not only in its administrative aspects, however: expanded regional powers also involve access to more revenues and thereby more control of the flow of credits, subsidies, etc. This will affect a wide range of sectors and activities such as procurement for public works projects "of regional interest," i.e., the construction of roads, ports, and canals. Additional areas affected by the expansion of regional autonomy include agriculture and forestry, public health and welfare, public transport, law enforcement, occupational training, and fairs and exhibitions, among others. This changeover will impose great demands on the

Regions
(contd.)

administrative abilities of regional governments, some of which are already wrestling with huge deficits, and it will also be a costly process: it was estimated that it will require 2,100 billion lire next year alone, mostly for the hiring of additional civil servants at regional level.

France:
New Rules on Direct Foreign Investments

A recently issued decree by the French Economics and Finance Ministry supplementing existing regulations on direct foreign investments in France will bring some modifications for participations that are effected via stock exchange transactions, according to unofficial reports from Paris. The decree for the first time spells out clearly that all foreign participations exceeding 20% of a listed French company's share capital must be reported to the Finance Minister for his approval, the reports said. The same procedure is said to be required in cases when the direct equity falls short of 20% but when the foreign partner in fact controls more than 20% of the French company through patent or licensing contracts, guarantees, etc. It also applies when the 20% mark is exceeded indirectly through the foreign investor's stake in a subsidiary of the domestic company. All these transactions are now subject to the same rules that are applied to the acquisition and the establishment or expansion of businesses, according to the reports *(Doing Business in Europe, Par. 30,753).*

With the same decree, the government has eased regulations concerning the granting of loans and guarantees by foreign parent companies to their French subsidiaries, it was reported: providing these transactions do not involve a change in the equity itself, they do not require the prior approval of the French authorities up to amounts of FF 3 million. Previously the upper limit had been FF 2 million.

Finally, the reports said, French citizens must now obtain prior official approval for planned purchases abroad of any agricultural properties. Thus, farmland no longer benefits from the rule that real estate acquisitions abroad of up to FF 3 million do not require such approval.

Britain:
'Indexation' of Personal Tax Allowances

Two left-wing Labour Party members of Parliament, Jeff Rooker and Audrey Wise, have claimed a place in British tax history by forcing through amendments at the standing committee stage of the U.K. Finance Bill 1977 which will provide for the first time that "indexation" be applied to personal tax allowances.

The arguments for and against indexation have been repeated time and again. There has always appeared to be a strong case for ensuring that the real value of personal tax allowances is not eroded by inflation, but opponents of

Indexation *(contd.)*

indexation - notably the U.K. Treasury - have contended that introduction of this concept on a year-by-year basis would "perpetuate" inflation and that the administrative burden would be impracticable. Nonetheless, the Rooker/Wise amendment now provides that personal allowances for single persons and married couples be computed on the basis of the percentage increase in the retail price index registered in the course of the preceding 12 months. A further amendment provides that the Chancellor of the Exchequer may, with the consent of the House of Commons, increase or decrease that percentage for any given year.

The mere fact that indexation will henceforth be provided for in statute has strong political ramifications. In the past it was relatively simple to calculate precisely by how much allowances would have to be increased in order to offset the effects of inflation as mirrored in retail price index changes and in other official statistics. Now, however, the Chancellor is obligated by law to implement these index-linked increases, and his unwillingness or inability to do so (which he would have to declare to the Commons and thus to the voting public) could immediately be seen as proof of governmental mismanagement or even ineptitude. The Rooker/Wise amendments thus are to be viewed as a landmark not only in fiscal policy but also in fiscal politics, observers noted.

Belgium: Steel Layoffs Cause Row with Luxembourg

Attention again was being focused on the continuing crisis in the European steel industries with the news last month of a major row between the governments of Belgium and Luxembourg over an announcement that a Luxembourg-owned steel company plans to lay off 800 of its Belgian workers. The company, Minière et Métallurgique Rodange-Athus, has a total of 4,400 employees, about 65% of them Belgians. In a statement on July 19, Luxembourg's Economics Minister Marcel Mart said that, in order to return the company to profitability, it would be necessary to close its steelworks in Athus, Belgium.

Mart's Belgian counterpart, Willy Claes, described the planned action as "punishing workers in one country for mistakes made by management in another." Jean Doyen, general secretary of the CCM steelworkers' union, said that Mart had behaved like a "big-company boss" rather than a minister of a Common Market country.

The closure comes as another blow to the beleaguered Belgian steel industry, and the government has announced that it will give short-term financial aid to the Belgian section of Rodange-Athus. However, Mart has indicated that it would take some BF 450 million to rescue the steelworks - a sum believed to be much greater than the Belgian government is considering.

Spain: Tax, Price, Wage Moves in Economic Plan

In a communique issued on July 23, Spain's Council of Ministers has submitted further details of the economic program that had been broadly outlined two weeks earlier on the occasion of the 20% peseta devaluation. Draft legislation for most of the proposals still needs to be readied for presentation to the newly elected Cortes, the parliament. The government said a bill for a reform of direct taxes will be submitted by Sept. 30 and another dealing with indirect taxes and land speculation by Nov. 30. The economic program also provides for incomes restraints by way of a collective agreement, price controls, an energy savings plan, and monetary stabilization measures.

The tax bill to be drawn up by the end of next month will call for a progressive tax on net wealth starting at 6 million pesetas for a married couple with two children. A temporary surcharge of 5% (10% for the professions) is planned on annual incomes in excess of 2 million pesetas; it would apply until the end of 1978. No details were as yet made available on the rates of an inheritance tax to be introduced in the same bill. Finally, increases are projected for luxury taxes imposed on second homes, tobacco and beverages, jewelry, etc. Revenues from the increased and new taxes would be primarily used to boost employment and give relief to those permanently unemployed. Employers would be granted certain tax benefits for new hirings.

Madrid also announced a number of measures aimed at fighting tax evasion and avoidance and improving tax collection. Under a temporary moratorium, tax "sinners" will be allowed to file additional statements to their 1976 tax declarations within the next three months without having to fear penalties or prosecution. However, the government has somewhat retreated from earlier plans to lift the bank secrecy entirely: the fiscal authorities would be permitted to examine bank account data only in special circumstances, upon application of the provincial tax office, and in the presence of a tax inspector, a bank representative and, perhaps, even the account holder.

Although an encompassing prices policy will not be formulated until after Sept. 30, the government has followed up on the peseta devaluation by raising prices of gasoline and other oil products, coffee, soybean oil, public transport, and electric power by a corresponding percentage while at the same time dropping the import levy on certain goods which had been imposed last fall.

Difficult negotiations with the country's labor unions are foreseen over the proposed collective pay contracts, which would permit only flat increases on a peseta basis for all wage and salary earners, thus improving the incomes of those in the lowest brackets while reducing pay cost pressures generally. (Pay increases last year report-

Economic Plan *(contd.)*

edly averaged 30%.) The flat increases initially would apply for one year.

Finally, the government has announced measures to intensify competition in the financial sector by gradually letting the market forces determine interest rates, by doing away with "privileged" finance conditions, and by generally strengthening the country's banking structure and the stock market. The Bank of Spain was to raise its discount rate by one point to 8%.

Portugal: Land Reform Law to Correct 'Excesses'

With the votes of the governing Socialists and of the Social Democrats, the Portuguese parliament on July 22 passed with a 166-86 margin a highly contested land reform law which seeks to review and correct some of the "excesses" inflicted on the country's farm sector during the 1975 revolution year. During this period, some one million hectares of farmland had been expropriated in Alentejo province alone. Some of these holdings, or parts thereof, are to be returned to private ownership on the grounds that they had been illegally seized by farm workers.

Called "Lex Barreto," after Agricultural Minister Antonio Barreto, its sponsor, the law will enable private landowners who had suffered expropriation to reclaim land of a size that they can farm themselves and which is needed to assure profitability. The spread of such farms is to be determined by a point system based on the type of farming, soil quality, the owner's family situation, etc.

Politically, the law is seen as an attempt by the government to loosen the Communists' grip on the southeastern Alentejo region, where many farm collectives have been built up on expropriated land with the encouragement and active assistance of the Communist-controlled labor unions. In the parliamentary debate, the Communists protested that the law means the end of the "true land reform" of 1975 and of many efficiently run "production units," which will now have to give up the best parts of their land, leading to the unemployment of thousands of farm workers. The Conservative factions in Parliament, on the other hand, are complaining that the new law does not go far enough in protecting private farming and guaranteeing the right to own property.

Common Market Reports

EUROMARKET NEWS

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Community: Conduct Code in Securities Sales

The European Commission has called on the member states to see to it that stock exchanges and stockbrokers follow certain standards in the sale of securities. These criteria are set forth in a draft code of conduct contained in a recommendation which, although not binding, would be expected to be followed in all securities transactions. The objective of the code is to remove disparities in national practices and thus enhance investor confidence in the securities markets.

Previously, the Community had launched a company law coordination program to improve protection for investors, creditors, and shareholders, especially with the draft directives on the content, checking, and distribution of prospectuses as well as the conditions for admission of securities to official stock exchanges *(Common Market Reports, Pars. 1405, 1406)*. However, none of these proposals covers the full range of operations on securities markets, so that there could still be the possibility of an investor's being cheated. It is hoped that the observance of six general principles and 18 supplementary provisions by stockbrokers, stock exchange employees, and company directors and managers would ensure that transactions on the securities markets are not influenced and conducted in an

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Securities *(contd.)*

improper manner. A major principle designed to boost investor confidence would be to provide accurate and current information on any securities listed on the stock exchanges. Rules on insiders could mean that company directors and managers may have to forego short-term gains. Brokers would be urged to avoid conflicts of interest.

The Commission's approach of asking for a nonbinding recommendation *(Common Market Reports, Pars. 4902.15 and 4902.31)* was prompted by several factors. First of all, a binding regulation or directive would have no chance of adoption by the Council of Ministers at this point because several member states already have enacted legislation covering virtually all aspects of securities transactions, including insider rules. Other states doubt whether legislation would be the right way of controlling a market that undergoes constant changes. Against this background, the recommendation is being viewed as a pragmatic and flexible step that does not preempt a legislative approach in the future. However, the Commission does want to stand firm on one important aspect: it wants the national governments to let the national stock exchange control agencies watch over adherence to the code rather than leave this monitoring alone to the self-regulating bodies of the brokers, bankers, etc.

Spain Faces Hurdles prior to Membership

With Spain last month having submitted its formal request to join the European Communities, it now faces a considerable number of hurdles before membership is assured. But for the Communities, too, an enlargement means some adjustments. First, there is the impact created by any new member: the decision-making process is slowed, new financial burdens arise (for example, grants and loans to the newcomer nation to ease access), and the European Commission's work balloons (every document must be translated into the new member's language). Secondly, the Community from the start has had plenty of farm problems, and these have become even more apparent now that Greece, Portugal, and Spain have made their bids for EC membership. There are, of course, other considerations - such as tariff reductions for industrial goods and the length of time Spain would have to amend national legislation - but Brussels observers are generally in agreement that trade in farm commodities (wine, citrus fruit, etc.) will present the most difficulties.

There is little doubt in any of the national capitals that Spain eventually will be admitted; the question is only when and on what terms. There are several procedural steps that must be taken first. After the Council of Ministers formally accepts Madrid's bid, which should be in the second half of September, it will ask the Commission to

Spain (contd.)

prepare an opinion on the application, as required by Treaty Article 237 *(Common Market Reports, Par. 5335)*. On the basis of past experience, this may take the Commission anywhere from nine to 12 months, and thus discussions on the conditions for admission could start in the fall of 1978. Community officials say that the negotiations could take from two to four years; adding to that another year for ratification by the national parliaments, they project that Spain might accede to the EC in 1981 at the earliest, although they do not rule out membership as late as '83.

Italy: Management Uprising in State Concerns

The surprise resignation last month of the president of the AGIP oil group, Egidio Egidi, has touched off what has been described as an "explosion" of pent-up frustrations and anger on the part of middle and upper management of Italy's crisis-stricken state industries. Egidi's decision was accompanied by resignations elsewhere and by executive meetings and "strikes" in protest over political meddling and patronage and the lack of management autonomy. The uprising involved not only AGIP and its parent, the ENI energy concern, but virtually all state holdings and state-controlled industry sectors.

In essence, the managers are complaining that the influence of powerful political forces within the government and the rivaling aims of certain groups are paralyzing the decision-making process of the state companies and are rendering them practically immobile when it comes to planning investments or reacting to the markets. It is further charged that the companies are being pushed deeper and deeper into a financial abyss as Rome forces them to absorb ailing or nearly bankrupt businesses. The most recent case cited in this respect is that of the EGAM conglomerate, parts of which are now to be divided up among the country's two largest state holdings, ENI and IRI. Another prominent example of political interference is seen in the continued pressures to build the Gioia Tauro steel complex down south in Calabria: politicians and labor unions are still insisting on the realization of this controversial project, even though the IRI management years ago had warned of erecting a "cathedral in the desert." (According to its own estimates, IRI's Italsider steel subsidiary already is accumulating losses of 1.5 billion lire a day.)

At ENI, board directors and the heads of many subsidiaries have called on the president, Prof. Pietro Sette, to exercise his executive powers, most of which have been preempted by a five-member board of which three members are politicians. Sette's deputy, Prof. Francesco Forte, meanwhile has resigned. At IRI, a similar situation involves Prof. Guiseppe Petrilli, who reportedly wants to trade his chief executive title for a European Parliament seat. Ma-

Uprising (contd.)

jor management, operational and financial problems are confronting the Alfa-Sud automobile works near Naples, ENI's Tescon textile holding, where the chief executive also has quit, and the Unidal foods group, which last year had been created from the Motta/Alemagna interests and is row to be liquidated. Finally, intense political infighting has been taking place over the appointment of a successor to Eugenio Cefi, boss of the Montedison chemicals giant, who is also resigning because of too much state "encroachment."

The most recent events, particularly at ENI and IRI, have now prompted the parliamentary budget committee to set a hearing. Among the witnesses to be heard were D. Antonio Bisaglia, the cabinet minister in charge of state participations, as well as the respective chief executives of the two companies, Sette and Petrilli.

Second Thoughts on Barring Alien Students

Evidently as a result of strong protests from abroad, the Italian government is reconsidering its decision to stop the admission of foreign students at the country's universities and other institutions of higher learning for a two-year period beginning on Aug. 1, 1977. Carlo Buzzi, deputy minister in the Education Ministry, said the ban would not be imposed pending a final decision by the government. Other reports said the effective date merely will be pushed back by another year.

A few weeks ago, the Foreign Ministry had instructed its representations abroad that Italian schools had to bar alien students because of overcrowded conditions and the fact that the number of such students seeking admission had been rising enormously lately.

Britain: Economic Boost for Northern Ireland

The U.K. government has announced a £950-million economic package designed to boost the attractiveness of strife-torn Northern Ireland. Part of the plan calls simply for £250 million of debts accumulated by the Northern Ireland Electricity Service to be written off and a further £100-million credit to be extended to the Service over the next five-year period in order to enable it to lower its industrial tariffs. (The latter act as a major disincentive to investment in that they are up to 50% higher than in the rest of the United Kingdom.) It is felt that, by keeping the Service afloat, the "cloud of concern about energy costs," to quote the Secretary of State for Northern Ireland, "should now disappear."

The other principal element in the economic program is more tangible and involves a commitment to make available a total of £600 million to companies that opt for Ulster as the site of new investment. Thus, grants for industrial buildings are to be boosted by 10%, thereby raising to 50% the total rate of grants in urban areas or those of high

Boost
(contd.)

unemployment. The generosity of this is evident when it is recalled that the optimal grant in "special development" (i.e., depressed) areas elsewhere in the U.K. currently is 22%. Further, grants of up to Ŀ250,000 are to be offered to firms that embark on research and development of new industrial processes and products. This incentive has a dual purpose - to attract technical expertise in the form of new industry and to stem emigration by Ulster-trained scientists and technologists. Rent-free occupancy of government-built plants also is to be extended from the present three years to five years, and (unspecified) financial aid is earmarked for international companies that demonstrate willingness to invest in what are deemed critical centers of unemployment. Finally, a new body - the Northern Ireland Economic Council - is to be set up to consult on economic strategy for the province.

The Secretary of State was optimistic that the new package would prove attractive. Although he challenged the view that potential investors may be wary of Ulster for security reasons, the comparative lavishness of the government's new incentives and financial commitment is viewed by many as further evidence of the desperate situation prevailing in Northern Ireland.

nmark: rliament to Act on Austerity Plan

"It will not get us to Heaven but should prevent us from going to Hell." With these words, Denmark's Prime Minister Anker Jörgensen has tried to brace his countrymen for a tough, three-year economic program that has been worked out by his Social Democrat minority government and which Parliament will be called upon to approve at a special session on Aug. 22-26. With a 7.1% unemployment rate, an inflation rate of nearly 10%, and a record 10-billion-kroner trade deficit for the first half of this year, the pressure is on the administration to convince the Folketing of the need for decisive action. The government wants to skim off some 5 billion kroner annually in purchasing power through new and higher indirect taxes, primarily on imported goods. Although final details are yet to be negotiated, it is assumed that automobiles and such items as gasoline, alcoholic beverages, tobacco, etc., will once again be affected. In addition, Copenhagen plans to slap a one-time surtax on annual incomes above 60,000 kroner, which would raise another 2 billion kroner.

Within the three-year period, the government wants to allocate a total of 8.1 billion kroner to create new public-sector jobs, promote exports, and subsidize energy-saving projects. The net gain from this part of the program, administration officials estimate, should be 20,000 new jobs. A close watch is to be kept on incomes development to make sure that any pay raises beyond the 6% gener-

Austerity Plan *(contd.)*

al limit prescribed annually for the years 1977-78 would be covered by corresponding productivity increases.

If Jörgensen succeeds in getting the bulk of his program through Parliament, the effect would be a neutralization of 2.5% of GNP in annual terms and of 5% of consumer purchasing power. However, a good part of this would be cancelled out by the impact of the stimulatory measures.

The Prime Minister has warned that the austerity plan would merely ease Denmark's economic problems but not solve them. In order to appreciably reduce unemployment as well as the payments deficit (which, at 11.5 billion kroner in '76, has reached 4.4% of GNP), the country depends on a strong recovery of the world economy and its principal trade partners. Jörgensen said that Denmark cannot perennially rely on international loans to finance its huge external deficits (45 billion kroner by the end of this year): eventually it would have to turn to the International Monetary Fund, which would be certain to impose severe conditions on domestic economic policies. The proposed introduction of the austerity program later this month is to prevent things from getting that far.

Germany: Bonn Seeking Council Advice on Economy

The Schmidt administration, which in the past has seldom been slow in giving other governments advice on economics, especially on how to fight inflation, now apparently is at a loss on how to get the sluggish German economy going again. Bonn has asked its Council of Economic Advisers to prepare a special expertise even before the Council submits its annual report, which should be published in November. The government wants the advisers to answer eight questions about what has gone wrong and why the economy's performance has fallen short of what the administration predicted and the business community had hoped for.

Specifically, the administration wants to know why investments by individuals and companies have not reached the expected level, and it is seeking advice on how to reduce unemployment. If the statements of two prominent members of the Council are any indication, the government is in for some criticism. The Council's chairman, Prof. Olav Sievert, believes that higher depreciation rates for investments in capital goods would stimulate private investments, and Council member Prof. Armin Gutowski sees high wage increases to be a major reason why investments have declined in recent years. Sievert's call for increased depreciation ties in with the results of a survey made by the Munich-based Institute for Economic Research (Ifo), an independent research organization. The institute reports that German industry does not fare as well in being able to write off the cost of new investments as the government has led the public to believe. In fact, only Dutch industry has more

Advice
(contd.)

problems in this respect, according to the Ifo survey, which included all EEC member states except Ireland and Luxembourg but also the United States and Japan. According to Ifo, British industry is best off in this respect.

Belgium: Draft Budget with Smaller Deficit

Just prior to the summer recess, the partners in Belgium's coalition government have managed to agree on the 1978 draft budget, which emphasizes the fight against unemployment and inflation, stimulation of investment activity, and relief for those most affected by the economic recession. Expenditures in the regular budget are projected at BF 956 billion, an increase of 11.2% over the current budget. This would leave a deficit of only BF 24 billion as compared with BF 60.3 billion this year. The calculations are predicated on an 11.2% nominal GNP growth rate (3% in real terms) and an unemployment total of 220,000 (currently 255,000). Expenditure and revenue would rise by about 11% each on the basis of this year's revised budget figures. In order to bring down unemployment, public investments are to be stepped up by 20% to approximately BF 200 billion, with the additional outlays to be concentrated on housing construction and selected infrastructural improvements.

The government hopes to beef up current revenue by BF 20.4 billion in '78 through a partial increase of value-added tax, faster collection of local taxes, and a clampdown on tax evasion. As of Jan. 1, the four VAT rates of 6, 14, 18, and 25% *(Doing Business in Europe, Par. 21,384)* are to be reduced to three: the 14 and 18% rates would be combined into a 16% rate, which would raise by 2% the VAT burden on the gastronomic sector, construction, textiles, gasoline, beverages, and telecommunications. Such items as electrical products, furnishings, and repair services would benefit from a 2% reduction. The VAT modification is expected to produce an additional BF 8.2 billion in revenue. Higher taxes on cigarettes and tobacco products are to benefit the deficit-ridden health insurance system. Another BF 1.1 billion is to come from a tax increase on large inheritances *(Doing Business in Europe, Par. 21,371)*. Finally, the budget plan provides for a change in the indexation of tax-free allowances and for higher family benefits.

Netherlands: Den Uyl Tries again to Form Coalition

As of July 27, acting Prime Minister Joop den Uyl resumed his efforts at trying to put together a new Dutch coalition government after being asked to do so by Queen Juliana. Den Uyl had abandoned this task earlier in the month because his socialist Labor Party (PVDA) had been unable to come to terms with the potential coalition partners - the Christian Democratic Appeal (CDA) and the left-liberal Democrats 66 - over the ingredients of a government program.

Coalition *(contd.)*

Resumption of the talks became possible after an "informateur," Prof. Willem Albeda, a Christian Democratic member of the upper house, had succeeded in gaining the parties' agreement on a compromise involving the proposed excess profit sharing system *(Doing Business in Europe, Par. 30,818)*. According to reports from The Hague, the agreement provides that all Dutch companies subject to corporate tax as of this year would contribute 20% of so-called excess profits to the employee profit-sharing system, provided their total earnings exceed 200,000 guilders. Over the next four years, this percentage is to be raised by one point annually, the reports said. Originally, the Christian Democrats had wanted to keep the contribution rate to 15%.

Portugal: State Bonds as Compensation; Emigrant Labor

Domestic and foreign business and property owners, shareholders, and farmers whose holdings were expropriated and nationalized in the course of the 1974-75 revolution in Portugal will be offered compensation in the form of state bonds nominally valued at a total of 100 billion escudos. Legislation to this effect was passed by the National Assembly on July 30, with a vote of 81-61 and 73 abstentions. The government-sponsored measure was opposed by the Christian Democrats and Communists, while the Social Democrats abstained.

The bonds will have a maturity of between six and 22 years, paying interest of between 2.5 and 12%, depending on the categories of claims. Each claimant's case will be considered individually and will be placed within one of 12 categories ranging from below 50,000 escudos to more than 7.5 million escudos. The government plans to deal separately with the highest category, which includes the vast corporations and holdings that controlled most of Portugal's industries prior to the overthrow of the dictatorship. Foreign farmers, mostly British and Spanish, are to be compensated on the same terms as domestic ones, even though it is not yet clear whether they will be allowed to repatriate the compensation funds. The bonds may be used as a collateral for investment credits covering up to 70% of a project - a provision that the Socialist minority government believes should stimulate the stagnating domestic economy and lead to the creation of additional jobs.

In other developments, the cabinet of Prime Minister Mario Soares has decided to promote the emigration of Portuguese workers in order to relieve unemployment pressures at home, where the jobless rate now stands at 16%. Workers who present evidence of having secured a job abroad may apply for reimbursement of travel expenses and transitional living expenses, it was reported.

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Community: Council Places Major Curbs on Some Imports

The Community has taken three major steps in the field of commercial policy which border strongly on protectionism, especially as concerns the introduction of reduced quotas for textile imports from certain third countries. The 15% antidumping duty on ball bearings and tapered roller bearings from Japan and the licensing of Japanese motorcycle (over 380 cc) imports into Italy also are of a retaliatory character.

The Council of Ministers regulation that restricts even further imports of T-shirts, blouses, and shirts from certain third countries replaces the European Commission's temporary decree that would have expired automatically on Aug. 23. Regulation No. 1827/77, which took effect on Aug. 6, was issued as a response to criticism from several national capitals about lack of action on sharply increased textile imports and serious unemployment in the textile industries of most member states. But it also was in reaction to the French decree of June 22 placing severe curbs on such imports from third countries. Community and national officials hope that France will now repeal its unilateral action.

The Council regulation on application of an antidumping duty on ball bearings and tapered roller bearings

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Import Curbs *(contd.)*

gives the Commission the permanent leverage it has been asking for (the 20% duty it had imposed last February was of a temporary nature). The 15% duty will not be applied immediately: it has been suspended to allow four Japanese exporters to carry out their promise to review export prices. Several exporters have indicated that they would raise prices by 10%. Should they fail to do so, there is no doubt that the Commission will impose the duty.

Despite protests from the Japanese government and reassurances from Japanese exporters that their low-price sales do not constitute dumping, Commission officials maintain that they have solid evidence that the Japanese sell in the Community at prices lower than those charged on the domestic markets - a practice that constitutes dumping within the meaning of GATT Article VI.

Limiting the import of Japanese motorcycles into Italy to 18,000 units yearly was done to retaliate for the Tokyo government's restrictions on imports of Italian-made ski boots. Italian manufacturers account for virtually all EEC exports of ski boots to Japan.

More Emphasis on Nuclear Energy Wanted

The Commission has submitted to the Council additional proposals that tie in with its earlier energy program and which would chart the Community's energy course beyond the year 2000. The Commission wants to reduce the EC's dependence on crude oil imports to 50% by 1985 and limit imports in the years thereafter to 10 million barrels a day at most. This objective is to be attained by increased use of nuclear energy, especially by reprocessing used fissionable materials and by the construction of fast breeders.

The Commission's proposals come at a time when resistance to the construction and operation of nuclear power plants is mounting in most member states, but officials of the EC executive make the point that the Community simply cannot afford not to expand generation of thermonuclear energy in uranium-fueled plants. Nor should the Community forego tapping the energy potential of fast breeders, which can extract at least 60 times more energy from natural or depleted uranium than thermal reactors. With the help of fast-breeder reactors, 5,000 tons of uranium could provide as much energy as the 3 billion tons in estimated crude oil reserves in the North Sea.

The Commission is, however, aware of the limits of nuclear energy. In 1976, nuclear energy contributed only 2% to the Community's energy consumption. This could rise to 10% in 1985 and to 20-25% in the year 2000, when nuclear power plants may satisfy a major part, if not all, of the demand for electricity.

The Commission's plans for reprocessing of used ura-

Energy *(contd.)*

nium and the fast-breeder development program were prompted by the fact that natural uranium deposits are limited and supplies are by no means assured. Commission experts believe that fast breeders do not represent a greater safety risk than that inherent in the operation of thermonuclear reactors used in conventional A-plants. They do admit, however, that the operation of fast breeders produces plutonium, a highly dangerous by-product that could also be used for military purposes.

The Commission has also proposed common action with respect to the reprocessing, storage, and disposal of used fissionable materials. It believes that this approach would substantially reduce the number of facilities that would be necessary if each member state were to follow a course of its own.

In Brief...

Members of the European Parliament (EP) will again bring up the topic of a code of conduct for multinationals after the summer recess. They intend to put some pressure on the Commission to come up with a proposal similar to that drawn up by delegations of the EP and the U.S. House of Representatives. The code would require multinationals to prepare detailed annual reports containing information on taxes paid, investments, and employment + + + The Commission has sent to the Council a draft directive on correspondence courses offered by private organizations. The aim is to prevent individuals who are availing themselves of such services from being defrauded.

Belgium: Combined VAT Rate Attacked by Business

The Belgian government's decision to introduce in its 1978 budget proposals a single 16% value-added tax rate on a wide range of goods and services has met with considerable criticism. The 16% rate would replace the existing 14 and 18% rates *(Doing Business in Europe, Par. 21,384)* and, for the government, would have the advantage of offsetting the revenue loss caused by the planned abolition of the 5% VAT on job-creating investments. The strongest protests have come from the hotel and restaurant owners' association (Horeca), which is complaining about what would be the second VAT rise in less than 12 months: the rate already had been raised from 8 to 14% in the previous administration's "Egmont Budget" of last February. Horeca spokesmen point out that the rates on comparable services are only 4% in Holland, 7% in France, and 8% in Britain. They maintain that the only way to meet these higher costs will be to cut down on staff, and they are predicting that as many as 5% of the industry's 45,000 employees would lose their jobs.

The budget plan also has been attacked by one of the leading opposition parties, the Walloon Liberals (PRLW), VAT Rate *(contd.)*

which says that, contrary to the promises of Prime Minister Leo Tindemans that no new taxes would be introduced, the government in fact will be raising an extra BF 38 billion through the rate change.

Italy: Survey Probes Situation of Major Companies

The state-controlled companies and industries in Italy are suffering from rapidly mounting losses and liabilities as well as slumping productivity, while expanding more rapidly than the major private enterprises, according to the tenth annual report of Mediobanca, the country's No. 1 industrial finance institution and itself state-owned. The Mediobanca survey for the first time contains separate data on 178 state enterprises out of a total of 795 companies covered. The overall number includes all stock corporations listed on the Milan bourse, all major state enterprises, and all private companies that are considered leaders in their respective industries.

A considerable part of the Mediobanca report dwells on the financial status of the public and private companies. As of 1968, well before the outbreak of Italy's economic crisis, the indebtedness of the 178 state companies was still 326 billion lire below that of the 617 private enterprises. By the end of 1976, however, the liabilities of the public companies had more than quadrupled to 4,600 billion lire, thus exceeding those of the private firms.

According to the report, Italy's state industry has been taking advantage of its better access to credit and last year paid an average interest rate of 14.2% compared with private industry's 17.3%. Nevertheless, in relation to their own capital resources, the public enterprises had to put up 42.7% in interest payments compared with 28.9% in private industry. A similar ratio applied to the interest burden in relation to turnover - 9.6 and 4.9%, respectively.

The Mediobanca report further revealed that, in the nine-year period surveyed, the big state companies invested 16,400 billion lire and created 181,000 jobs, whereas the figures for the major private companies were 14,000 billion and 82,000, respectively. All enterprises together eliminated 24,000 jobs last year and 21,000 the year before. This was interpreted to mean that Italy's major industries no longer invest in new jobs but seek to rationalize production in order to contain cost expansion.

This policy becomes understandable in view of the fact that hourly wages paid by the 795 enterprises surveyed rose by no less than 328% within the 1968-76 period. At the same time, according to the Mediobanca report, the time worked was reduced by more than 20%: at present, the annual average per industrial worker is 1,588 hours, which amounts

Survey *(contd.)*

to only 199 workdays on the basis of the 40-hour week. In this context, one positive aspect brought out in the report is that in 1976, for the first time in nine years, absenteeism had slightly declined.

Germany: Tighter Rules for Closed-End Funds

The German government will soon propose corporate legislation that would protect investors against being cheated when buying certificates of closed-end funds or shares of write-off companies. Thus, those eye-catching ads that promise write-offs of up to 250% of the investment from investors' income tax liability may be a matter of the past after enactment. Any individual or entity that publicly offers investment opportunities would be required to describe the offer truthfully and in detail in a prospectus. Each prospectus would have to be audited by a certified public accountant and would have to be registered with the Bundesaufsichtsamt für das Kreditwesen, the federal agency that exercises control over banks and other financial institutions.

An investor who buys certificates after having relied on a prospectus that turns out to be false or incomplete would have an action for damages against the person or entity responsible. The investor also would stand to gain from the requirement that the write-off company or the fund's management report regularly on the fund's or the company's financial development. Certified public accountants could be charged with verifying the truth of the reports.

The government was prompted to propose the measure because Germany has no special rules protecting investors who buy into closed-end funds or write-off companies.

Britain: Market Surge Inspires Hope, Caution

A sustained upward movement in U.K. share prices early this month has seen the FT Ordinary Share Index climb to its highest levels since June 1973. Also, the daily volume of business on the Stock Exchange has continued to expand in August to twice the totals recorded for July. Furthermore, money market rates continued to ease, and the major clearing banks followed an Aug. 5 minimum-lending rate cut to 7.5% with an 0.5% reduction in overdraft rates, so that blue-chip companies will now be paying some 9% on overdrafts.

At first glance, it appeared possible that the end of the four-year recession that followed the Middle East crisis has been reached. It was commented, however, that such an optimistic assessment must be tempered by the realization that the current "surge" is primarily, if not entirely, a result of a cautious return of international confidence in sterling, helped by the increasing volume of North Sea

Surge
(contd.)

oil revenues. It is not considered to reflect, for the time being at least, returning confidence in the U.K. economy as such: business confidence other than in the financial markets is still subdued, and a further rise of 1.25% in the wholesale price index for July, in conjunction with a 3% fall in retail sales for the first six months of the year, should serve as a warning against undue optimism.

Sweden:
A Second
VAT Increase
This Year?

According to reports from Stockholm, the Swedish government is seriously considering another increase this year of value-added tax, probably by 2 or 3%, effective Oct. 1. The standard VAT rate had been raised from 15 to 17% (for the consumer actually from 17.65 to 20.63%) only last June 1. Revenues from the proposed increases of VAT and of alcohol, tobacco and gasoline taxes (the latter had been moved up last May) would help finance the planned reductions in employer social security contributions and payroll tax, the reports said. These contributions are to be lowered by at least 5% in order to stimulate export activity and reduce the country's foreign debt.

Political observers predict a pitched battle over the VAT plan. The Liberal-Conservative coalition government under Prime Minister Thorbjörn Fälldin views VAT and other indirect taxes as the most effective instruments of fiscal and economic policy, whereas the opposition Social Democrats want to lean mainly on the employers when it comes to financing social reforms and public deficits. Predictably, the Social Democrats are being supported on this issue by the LO labor federation, which announced that it would demand pay "compensation" for its members should the VAT increase come through.

Study Details
Tax Impact
on Earnings

The continuing public debate in Sweden over the "value" of working harder and earning more in the face of ever-increasing taxation has again been stimulated by the publication of a study prepared by the SAF employers' federation. In the past, arguments on this issue were more or less based on individual examples, and there was a lack of reliable statistics which would convincingly demonstrate that it is not worthwhile to take on additional work, hunt for a better-paying job, or pay off debts faster. Such material has now been furnished by the SAF in its study, and it is being partially corroborated by a recent report of the Central Statistical Office according to which the difference between the standard of living of an individual earning 50,000 kronor annually and of another earning 100,000 kronor is no more than 22%.

The SAF survey concludes that part-time work as measured against full-time work results in a less than significant reduction of disposable income for Swedish households. A typical example cited involves a family with a

Earnings *(contd.)*

non-working mother and two children and with gross earnings of 30,000 kronor before taxes: this household has a disposable income of 40,050 kronor because of various generous, non-taxable state benefits such as housing, children's and kindergarten allowances. Assuming that the family can double its gross earnings to 60,000 kronor, the disposable income would rise by only 17% to 46,651 kronor. Tripled earnings would bring a net gain of only 29%, according to the SAF study.

Another typical example of the effects of Sweden's egalitarian tax and social welfare system is that of a family with three children. If the husband earns only 20,000 kronor a year, the family actually would have 48,350 kronor in disposable income. With earnings of 50,000 kronor, or 2.5 times more, the income would effectively drop to 48,424 kronor, and with 100,000 kronor, it would amount to 56,152 kronor.

The study also shows that it is very advantageous for both husband and wife to work, even if one of them has a low-paid job: here the difference in disposable income between families with one earner and two earners vastly favors the latter, provided the gross earnings are the same for both families.

Swedish commentators were quick to point out that there could be "catastrophal consequences" for the economy should the working population draw the full and obvious conclusions from these statistics: regular work activity would slump, moonlighting would boom, and there would be a partial return to the bartering of goods and services as practiced in earlier times. In fact, observers said, some indications of such a trend already are becoming evident.

EURO COMPANY SCENE

Fabrique Nationale/ Browning

Belgian firearms manufacturer Fabrique Nationale (FN) Herstal SA has made a bid for majority control of Browning of Morgan, Utah, of which it owns almost 5% and with which it has been cooperating for more than 80 years. Through its U.S. subsidiary F.N. International, the Belgian firm is offering $13 for each of 1,547,168 publicly owned Browning shares. An F.N. statement said that the offer would not be binding if less than 51% of the equity were made available, although F.N. would retain the option to buy. If at least 51% of the shares is made available, the Japanese Miroku Fire Arms Manufacturing Co., also a minority shareholder in Browning, would acquire up to 20% of the shares. Browning's management has recommended that shareholders accept the offer. Browning handguns and rifles are being manufactured only in Belgium, while the U.S. company concentrates on weapons sales and the production of sporting goods.

Mann/ Fed-Mart/ Vornado

German retail tycoon Hugo Mann and Fed-Mart Corp. of San Diego, Calif., of which Mann owns 68%, are currently negotiating for a majority interest in Vornado, Inc., of Garfield, N.J., which operates the Two Guys discount store chain. According to German reports, the transaction could lead to the merger of the two companies and result in a new entity that would have annual sales of about $1.5 billion and rank 30th among the major U.S. retailers.

EMI/ Pfizer

Britain's EMI Ltd. has initiated court action against Pfizer, Inc. and Pfizer Medical Systems, Inc. for alleged infringement of X-ray scanner patents. In its suit filed in a U.S. District Court in Wilmington, Del., EMI is seeking to prevent the use of its patents in the production and distribution of Pfizer's own scanner system and is claiming commensurate damages. EMI has, however, informed Pfizer that it is prepared to license its patents and has invited the latter to open negotiations.

FMC/ Foret

FMC Corp. of the United States has concluded negotiations with the Spanish shareholders of Foret SA, the Barcelona-based chemicals company, for the acquisition of an additional 41% of Foret shares for about $16 million. This raises FMC's stake to 91% after the U.S. company had acquired a 20% equity in 1966 and a further 30% in '71. Foret ranks as one of the major Spanish producers of inorganic industrial chemicals. For 1976 it reported net profits of $9 million on sales of $97 million. The company employs 1,200 in seven domestic plants.

Standard Chartered/ Commercial & Farmers

Standard Chartered Bank of London has reported that it has reached agreement in principle on its proposed takeover of Commercial & Farmers National Bank of San Francisco via its wholly-owned California subsidiary, The Chartered Bank of London. The cash price, at $29 a share, totals $7.2 million. Commercial & Farmers reportedly operates 21 branches in California and has been given approval for three more. The deal with Standard Chartered still requires the approval of the stockholders and the authorities.

Bowater

The U.K.'s Bowater Corp. has announced plans to invest some $89 million in the expansion of its existing U.S. newsprint production capacity. A further paper machine is to be added to the Bowater mill at Calhoun, Tenn., and is scheduled to come on stream in early 1980. Bowater's move reflects what is possibly a new trend: whereas U.S. publishers have traditionally filled about two-thirds of their newsprint requirements from Canada, production costs and lower wood and distribution costs have now made U.S. newsprint prices increasingly more competitive.

Common Market Reports

EUROMARKET NEWS

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Community: Delay in Milk Powder Damage Suits

In the cases involving a regulation for the mandatory purchase of milk powder, the European Court of Justice has now asked plaintiffs and defendants for comments on certain questions, thus dimming the expectations of five German poultry farmers for a quick conclusion to their actions against the Council of Ministers and the European Commission. The plaintiffs allegedly sustained damage as a result of the application of Council Regulation No. 563/76 (Joint Case Nos. 83/76, 94/76, 4/77, 15/77 and Case No. 40/77). The farmers' initial optimism had been based on a July 5 ruling in which the Court voided the regulation, which from March 15 through Oct. 31, 1976, had compelled producers and importers of vegetable feedingstuffs to buy from the intervention agencies 100 kilograms of milk powder for each ton of purchased or imported soybeans or rapeseed (Cases Nos. 114/76, 116/76, 119-120/76).

Among the points on which the Court has asked for comments is the question of the consequences of a tax law that is subsequently voided: would all taxpayers get refunds of taxes paid in compliance with the law or only those who paid under protest? The Court also has asked the poultry farmers to produce detailed records such as invoices plus documentation of plaintiffs' prices for eggs and chickens covering a period of several months prior to enactment

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Damage Suits *(contd.)*

of the regulation, the March 15-Oct. 31 period, and several months thereafter. Plaintiffs will have to prove that they did indeed suffer damage because of the increased costs. Following the well-established doctrine that, for recovery, there must be a damaging act, damage, and a causal link between the two, the Court wants to be sure that the farmers did not pass on the cost increases in the form of higher prices for eggs and chickens.

The farmers brought the suits under Treaty Article 215(2), whereby the Community is required to make good any damage caused by its institutions *(Common Market Reports, Pars. 5225, 5226)*. Since neither individuals nor businesses usually have recourse against a regulation or decision addressed to others, because there is no direct and individual concern, the problem here - as in previous, similar cases - is whether a party may even ask for damages caused by a normative act such as a regulation. Since *Holtz & Willemsen* (Case No. 153/73, *Common Market Reports, Pars. 5226.72, 8277)* this seems possible in theory but difficult in practice. The Court held then that the Community is not liable for damage to individuals caused by a legislative act involving a choice in economic policy, unless that act flagrantly violates a superior rule of law for the protection of the individual.

Counsel for the plaintiffs are optimistic about the outcome of the cases because in its July 5 ruling the Court had referred to the discriminatory treatment imposed by Reg. No. 563/76 - an allusion to Treaty Article 7, which bans discrimination and which was designed to protect the individual.

Recognition of Architects, Dentists

Two proposals involving the mutual recognition of diplomas and the right of establishment as well as the freedom to provide services for architects and dentists have advanced to the stage that Council attorneys count on adoption within a few months after the summer recess. All major disagreements on the measures among the member state experts have been settled.

One problem was the treatment of the two categories of architects in Italy: the civil engineer, who designs buildings and supervises construction, and the ordinary architect, who works exclusively on urban conservation (restoration of buildings and cultural monuments). The compromise reached would mean that every civil engineer who completed his studies in Italy would be recognized as an architect by the other eight member states. On the other hand, planning and execution of cultural and historic monument preservation in Italy would be reserved to Italian architects *(Common Market Reports, Par. 1349.08)*.

A compromise also has been reached on the treatment of

Recognition *(contd.)*

architects who have received their education at semiacademic institutions in Germany *(Fachhochschulen)* in contrast to those who studied at a university. A graduate of a three-year course in architecture at a Fachhochschule who also completes a two-year practical curriculum (which can be satisfied by taking certain courses in the two years following graduation) would be recognized as a full-fledged architect in all member states.

The dentists proposal, patterned after the 1975 doctors directives, would permit a dentist who meets a member state's professional standards to practice anywhere in the Community. All dentists trained in Italy are also physicians because Italian medical schools offer no separate training for dentists. The compromise, as it now stands, would give Italy seven years to change the curricula of its medical schools so as to provide special training for aspiring dentists *(Common Market Reports, Par. 1349.15)*.

Germany: Tax Reductions to Stimulate Economy?

The Schmidt administration is considering application of Keynesian medicine to encourage the German economy's recovery. The key to the desired cure is the 1967 Stabilization Law, which authorizes the government to decree over a maximum period of one year: (a) investment tax credits of up to 7.5% of the cost of new depreciable fixed assets, (b) cuts of up to 10% in individual and corporate income taxes during an economic recession and corresponding increases during boom periods, and (c) reduction or elimination of all forms of depreciation during a sustained period of recovery. According to latest reports, there is a good chance for a one-year cut in individual and corporate income taxes, although the percentage is still uncertain.

The possibility of using these measures as well as others, such as still more government spending, was reportedly discussed at a special meeting of Chancellor Helmut Schmidt and key cabinet members on Aug. 8 in Hamburg. The Chancellor had called the ministers back from vacation in an apparent attempt to devise a new strategy in economic policy after the government's labor office had shocked even pessimists with the news that unemployment in July had risen to 930,000 - 10,000 more than a year ago. Also, the number of those on short-time work had nearly doubled to about 200,000 within a 10-month period. Economics Minister Hans Friderichs had to admit that the government's forecast in its annual report of an average unemployment rate below 4% for the year will not be reached. In July, the rate stood at 4.3%.

Several months ago government leaders also had been forced to revise their estimate of economic growth - 4.5% instead of the predicted 5%. Now, several government economists believe that 4% at best can be expected. Still, Tax Cuts *(contd.)*

even a 4% growth rate compares favorably by international standards. Nor is there any reason to say that the German economy is doing badly: inflation is down to 3.8%, and another huge trade surplus is shaping up for 1977, which is expected to be near DM 30 billion. There is, however, general agreement that it is necessary to boost demand in order to cut unemployment.

Most union leaders believe that higher wages are the answer and that a tax cut will make no difference at the bargaining table. Others, including former economics minister Karl Schiller, think that substantial tax reductions are needed to induce individuals and companies to invest more, not necessarily to streamline production but specifically to create new jobs. (Between 1973 and '76, approximately 800,000 jobs in Germany were eliminated through rationalization.) The government this month conceded for the first time that wages are too high.

Netherlands: Parties Agree on Economic Program

The potential partners of a new Dutch coalition government on Aug. 9 finally achieved a hard-fought compromise on the makeup of a "socio-economic" program for the next four years. The agreement enabled the three political parties involved - the socialist Labor Party (PVDA), the Christian Democratic Appeal (CDA), and the left-liberal Democrats 66 - to resume their wrangling over cabinet positions. Nevertheless, it was predicted that acting Prime Minister Joop den Uyl would not be able to present his new team before mid-September, and still another collapse of the coalition talks was not entirely ruled out either.

Among the main ingredients of the proposed economic package is a virtual pay freeze for a period of two years, to be followed by "incidental" increases of no more than 0.75% in each of the years 1980 and '81. (Raises given as part of promotions would be permissible, for instance, but collective raises would not.) Although the negotiators remained ambiguous on this point, it was taken for granted that wages and salaries would continue to be indexed to the rate of inflation. Also, the prevailing system of incomes "redistribution" would be retained in that those with average earnings of 28,600 guilders annually would be assured of maintaining their purchasing power, while below-average earners could accept pay increases and those earning 45,000 guilders or more would have to pay higher taxes and social insurance contributions. Completely new is the attempt of the government-in-formation to impose controls on the incomes of the self-employed and the professions.

The party negotiators agreed to limit the growth of public expenditure to 4 billion guilders until 1981. Further, the new government would plan to save an additional "several billions" should it fail to win the unions' vol-

Program *(contd.)*

untary cooperation on the proposed pay freeze. As previously reported, the would-be partners earlier had come to terms on the details of the proposed excess profit sharing system *(Doing Business in Europe, Par. 30,818)*, while the most recent agreement also covers expanded employee co-determination, investment promotion legislation, and a land reform.

Den Uyl has made it clear that he sees no chance for a major reduction in unemployment (currently 5.2%) unless the government takes a direct influence on corporate investment decisions. The Central Planning Bureau is to investigate in which industry sectors it would be possible to create new jobs. A system of direct state bonuses for such investments is to be given legal form, augmented by other subsidies, particularly for investments in less developed regions.

Britain: Nationalization of Banks Still a Labour Topic

The National Executive Committee of the U.K. Labour Party has now given evidence to the (ex-premier Sir Harold) Wilson investigatory committee currently probing the function and effectiveness of Britain's financial institutions. Not unexpectedly, the NEC has reopened an issue that Prime Minister James Callaghan and most party moderates have been more than willing to allow to lie dormant, namely, the feasibility of nationalization or partial nationalization of U.K. banks and insurance companies. The NEC move may well give renewed emphasis to the split in Labour's ranks: if party pressures were to result in the government's endorsement of such a plan, the political consequences undoubtedly would be severe.

The NEC set out to answer, inter alia, "two questions," both phrased in such a manner as to provoke the desired answer: (1) "to explain the extent to which their position as intermediaries has put into the hands of the banks and other financial institutions a vast concentration of private power and (2) to call into serious question the way in which the banks and the financial institutions have met their responsibilities to their customers, and to suggest that, by excessively short-term and shortsighted lending and investment policies, they have undermined the development of the national economy."

Based almost entirely upon the fact that Barclays, Lloyds, Midland, and National Westminster handle 90% of the current and deposit accounts of the private London clearing banks and that the Royal & Commercial Union insurance companies received almost a quarter of total premiums paid in 1974, the NEC's conclusion is that the "key to success lies in developing a publicly owned stake in the very areas of the financial system where critical investment and lending decisions are being made."

Banks
(contd.)

Quite apart from the merits and demerits of the NEC position, this attack on banks and insurers comes at an awkward moment for both. The recent cutbacks in the minimum lending rate should inevitably highlight the competitive weakness of the major U.K. banks, which already are considered to have overstaffed, high-cost operations. To most observers, the dilemma is simply that the economy requires cheaper money, while the comparative inefficiency of the banks demands wider profit margins. The NEC's decision to reopen the issue is now expected to prompt the banks to examine their cost structures more closely. It is also possible that they will take steps to emulate the U.S. banks which at present are operating most successfully in securing business from British corporate borrowers.

Switzerland: Referendum on Budget Savings at End of Year

At the end of this year the Swiss voters will be called upon to vote on draft legislation that was previously passed by Parliament and which seeks to return the federal budget to equilibrium by reducing public expenditure commitments to the tune of SF 500-600 million annually. The referendum probably will be held at the same time as the one over the proposed introduction of a wealth tax, i.e., on Dec. 4.

The initiative for the referendum on the savings package *(Sparpaket)* has come from the Labor Party and other left-wing parties and organizations, which succeeded in collecting the 34,000 signatures necessary for holding a referendum. In the opinion of these factions, the cutbacks would be at the expense of the working population in that they would lead to the reduction of certain social welfare benefits. It is argued that the Bern government should eliminate its budget deficits by raising additional revenues - for instance, by moving more decisively against tax evasion and avoidance and by imposing a wealth tax.

The budget savings package was put together by Bern after Parliament in December 1976 had been confronted with a 1977 budget draft that included an unprecedented deficit of SF 1.768 billion. It was presented by the government last February in conjunction with a revised finance plan for the years 1978-80 and provides for the modification of no less than 36 finance decrees. In most cases, the cutbacks would not involve actual savings but merely a reduction of previously projected rates of expenditure increases. Thus, even with the savings measures, the federal budget was to grow from about SF 16 billion this year to SF 16.75 billion in 1978 and to SF 17.38 billion in '79, for increases in the two years of 4.6 and 3.9%, respectively. This medium-term budget plan was approved last May by the lower house of Parliament with a vote of 109 to 19 and by the upper house with a unanimous vote.

Referendum *(contd.)*

Meanwhile, however, the voters on June 12 rejected the government's finance and tax reform program, including the proposal for a value-added tax *(Doing Business in Europe, Par. 30,917)*. As a consequence, Bern last month presented the outline of a new, transitional program toward the rehabilitation of the federal finances. It provides for additional budget savings of SF 800 million annually and tax increases totaling SF 1.7 billion. Together with the savings package, it would help save SF 1.3 billion in 1978. However, the fate of both the transitional and any longer-term finance plans are now clouded in uncertainties because Bern must await the outcome of the year-end referendums.

Cantonal Law to Regulate Trustees' Role

As the first of the Swiss cantons to do so, Grisons (Graubünden) reportedly is drafting legislation that would make the activities of trustees subject to public licensing and which probably would serve as a model for similar rules in other cantons. Some of the cantons do have regulations covering certain areas of trustee activities, but the Grisons law - to be submitted this fall - would be more or less encompassing.

According to Zürich reports, trustees residing in Grisons would in the future have to prove their qualifications and apply for a license prior to engaging in such activities as bookkeeping, auditing, or tax consulting, serving as real estate agents, or accepting administrative mandates. In addition, the law is to regulate the role of trustees in bankruptcy proceedings.

Thus far, any Swiss citizen may designate himself a trustee *(Treuhänder)* and perform trustee functions - a situation that has sometimes resulted in abuses, especially by individuals who offer their services in newspaper ads abroad. Many foreigners apparently have been of the opinion that a Swiss trustee must be licensed, only to discover later that they have no legal recourse in cases of irregularities involving assets management or other business transactions.

Sweden: Employers, Unions Discuss Codetermination

Negotiations have started in Sweden between the SAF employers' federation on the one hand and the LO central labor organization and the PTK cartel of private employees on the other over the basic implementation of codetermination for some 1.3 million employees in more than 33,000 companies. The framework law on codetermination has been in effect since Jan. 1, but with the talks on a new collective pay agreement having extended into the summer, the parties were unable to take up the codetermination issue until now.

The unions are seeking a central framework agreement for the entire private sector, which would serve as a basis for all local agreements. They want the employers to ob-

Codetermination *(contd.)*

tain union approval before making major long-term decisions, introducing new technologies and production programs, and planning significant modifications and alterations of machinery and equipment, working methods, or production teams.

The SAF, in turn, wants to have guarantees that the framework agreement would not encroach on those of management's decision-making powers that are necessary to retain overall responsibility. For this reason, the employers favor decentralization and delegation of codetermination rights and duties and want a flexible system which can be adapted to the peculiarities and needs of individual industry sectors and enterprises. Employees who are directly involved in the codetermination process should be answerable to their companies as well as to their unions. Many employers fear that expanded codetermination will have negative effects on productivity and efficiency, and it is thus the major concern of the SAF to reduce this risk to an absolute minimum.

Portugal: OK for Laws on Farm Reform, Compensation

After stormy debates and against the vehement opposition of the Communists, the Portuguese parliament on Aug. 11 passed by a solid majority of 166-86 votes the law that lays new foundations for the agrarian reform. The legislation modifies essential elements of the reform law that had been decreed in 1975 by a pro-Communist interim government and which resulted in the expropriation of more than one million hectares and the establishment of farm cooperatives patterned on the Soviet model.

One important aspect of the new legislation is the change in the point system used in determining whether land is to be expropriated or not. Under the previous law, expropriation was automatic when the land's valuation - based on such criteria as size, crops, fertility, capital investment, etc. - exceeded 50,000 points. This limit has now been raised to 70,000 points, and the assessment does not include machinery and equipment. Also, the law provides that no landowner may be deprived of all of his holdings.

Passage of the land reform legislation concluded Parliament's first session in the four-year term. The day before, on Aug. 10, the Assembly also had given final approval to the law guaranteeing compensation to shareholders, business proprietors, and landowners who lost their properties during the 1974-75 revolution.

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Community: Excise Tax Alignment Speed-Up Urged

The European Commission has asked the Council of Ministers to give priority consideration to the proposals aimed at harmonizing national excise tax rules on alcohol and beer and to adopt them by May 1, 1978 *(Common Market Reports, Pars. 3201.09, 3201.13)*. After that the EC executive wants the Council to tackle the proposal to harmonize excise taxes on mineral oils (in effect, on gasoline and other crude-oil products--*Common Market Reports, Par. 3201.35)*. The measures have been before the Council since 1972 and 1973, respectively, without making any progress; the draft directive on mineral oil excise taxes was debated only once by a working party. Of the total of seven excise tax harmonization proposals pending before the Council, only that on tobacco is being discussed presently.

Although the proposals were conceived when hopes for turning the Community into an economic union were very high, Council attorneys admit that a major reason for the lack of progress was the Council's preoccupation with the Sixth VAT Directive. Even though the VAT measure is now out of the way, they are nevertheless pessimistic about quick adoption

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Excise Tax *(contd.)*

of these three draft directives. Although the proposals do not seek to align the widely differing tax rates, there are a number of problems that can be solved only if the member state governments give up entrenched positions that have been shored up by decades-old practices.

Revenue is, of course, a major consideration, but there are others as well. Sometimes revenue will take a backseat to a government's concern about the continuing success of a particular industry (such as the breweries) or even its protection against foreign competition through favorable tax treatment or even tax exemption. Yet, for the sake of eliminating distortion of competition, all beverage-producing industries in all member states would have to be put on an equal footing, either by subjecting them to excise taxation or by exempting them altogether.

There are numerous discrepancies in the member states' excise structures that tend to distort competition among producers in different states. One instance of this is when the various states treat similar products differently. A particular industry in one state may have an edge over competitors in other states if producers there may ask for a longer period of tax deferment than others may petition for elsewhere.

In the past the Commission has been rather successf[ul] in bringing member states before the Court of Justice to enjoin them from continuing the most severe distortive practices (for example, subjecting imported products to higher excise duties than domestic ones, thus violating Treaty Article 95--*Common Market Reports, Par. 3002).* Council attorneys believe that the Commission may have to continue to do this or perhaps even step up its drive as long as the Council's harmonization efforts do not produce tangible results.

<u>Objections to Securities Code Proposal Raised</u>

The Commission's proposal for a European code of conduct in securities sales has drawn criticism from individuals, several national brokers associations, and corporate executives even before the Council of Ministers has had a chance to discuss it. The proposal, couched in a nonbinding recommendation, was sent to the Council in early August.

The code's overall objective is to establish common standards of ethical behavior on the part of brokers, corporate executives, and stock exchange employees in order to promote the effective functioning of securities markets and at the same time to safeguard the public interest, and thus gain the investor's confidence.

There are six general principles that the Commission would like the member states to enact in legislation or otherwise assure their observance. One would be the requirement to provide the public with fair, accurate, clear, Securities Code *(contd.)*

and timely information. Another would obligate a company to treat equally the owners of a particular type of securities. Members of a company's board would have to refrain from doing anything that might interfere with sales of the company's securities. All persons dealing regularly on securities markets would have to act fairly even if it meant foregoing short-term gains. Finally, financial intermediaries should strive to avoid conflicts of interest, but if a conflict could not be avoided, they should not seek to gain any direct or indirect advantage.

A major point of criticism is that the Commission is trying to tell the member state governments that the insider problem needs to be tackled when in fact most states have already enacted legislation or are planning to do so in the future. Observers were somewhat startled by the principle that seeks to guarantee equal treatment among old and new shareholders. German securities experts are asking themselves just what the Commission really means: does it want to curb the not infrequent practice in Germany and some other states whereby a company acquiring an interest in another entity offers new shares to the entity's shareholders without offering them to the company's shareholders?

There has been no official reaction to the proposal from any member state capital. According to Bonn sources, however, there seems to be little inclination in Germany to use the code of conduct as a basis for legislation. They say that the securities market there is not marred by a lack of proper behavior (so far the Insider Commission has discovered only two instances of reproachable conduct in the past) but by inequities in the treatment of resident and nonresident shareholders brought on by the new corporate tax reform.

In Brief...

The European Patent Convention will go into effect on Oct. 7, now that the required minimum of six signatories have ratified the treaty and deposited the instruments of ratification in Bonn (Germany, the U.K., the Netherlands, Switzerland, France, and Luxembourg). The German government expects that more signatories of the total of 16 will formally accede to the convention early next year + + + Morocco has announced import curbs on EEC products in response to the Community's recent restrictions on imports of certain textile products.

Germany: Central Bank Primes the Pump For Money Flow

West Germany's central bank has done some pump priming on its own in order to get more money flowing: it reduced by 10% the minimum reserves that commercial banks are required to maintain with the Bundesbank. This alone brings an additional DM 4.5 billion into the economy's mainstream. At the same time the central bank increased the quotas of

Central Bank *(contd.)*

rediscounts allocated to commercial banks by a total of DM 2 billion.

Both actions were taken to give added momentum to the current decline in interest charges, and thus ease obtaining credit needed for investments. According to Bundesbank President Otto Emminger, the central bank has done everything it can do from the monetary side to foster modest economic growth; now the federal government will have to do its part. If Chancellor Helmut Schmidt is to announce any further economic measures, he probably will do it in his policy statement to Parliament on Sept. 15. Although businessmen are hoping for a tax cut, resistance within the governing Social Democratic party against temporary cuts in individual and corporate income taxes is mounting. Latest reports indicate that even Chancellor Schmidt rejects the idea of a tax cut.

France: Modest Deficit Spending Might Boost Economy

Prime Minister Raymond Barre has ruled out for the time being any bold new move to stimulate the sagging economy, especially one that would benefit private enterprises, but the government is apparently prepared to accept a FF 10 billion deficit in the 1978 FF 400-billion budget in order to provide some stimulus to the economy via the public sector through investments and additional civil service jobs. (The draft budget is expected to be released in mid-September.)

The government's plan to increase public spending by 12% is going to cost FF 17 billion. Approximately FF 7 billion will be countered by increases in excise taxes on wine, liquor, tobacco, and gasoline; the remaining FF 10 billion would be financed through the issuance of medium-term government bonds.

There have been rumors about raising taxes on businesses, but observers say that this would not be a wise step right now (though it may have some merit in reducing inflation, which now stands at 9%). With unemployment still hovering around the postwar record level of 1.5 million, the government is aware that additional moves are necessary to reduce joblessness. Paris reportedly is waiting to see what neighboring Germany might do, but even without any move on the Schmidt administration's part, French economists agree that the FF 11 billion that have been pumped into the economy since the beginning of the year have not produced the hoped-for results, and they believe that further action is needed.

Netherlands: Postal Bank Plan Brings Criticism

The Dutch business community has not let up in its criticism of the country's former left-center coalition government under Socialist Prime Minister Joop den Uyl for taking the nation on a left course. One plan that caused an up-

Postal Bank *(contd.)*

roar would require businesses with annual profits over 200,000 guilders to pay 20% of their "excess profits" into a union-controlled fund. Another proposal has given the business community, especially the banks, new ammunition for criticism: the government has proposed to turn the postal administration's savings and checking accounts into a genuine credit institution that would provide the entire range of services usually offered by banks.

With some 22.5 billion guilders, the planned Postal Bank, with 100,000 customers, would rank fourth among Holland's large commercial banks (ABN, 55.9 billion guilders, Rabo-Bank, 50.8 billion, and Amro-Bank, 50.4 billion). The government makes no secret that the planned bank's task would be not only to provide services the public needs but also to stimulate competition among the country's credit institutions that, in the government's view, has been slipping as the number of mergers between banks has been rising. A large state bank could protect customers from the kind of restrictive practices that sometimes occur in private commercial banking, the government believes.

Bankers challenge the argument that there is a need for the state to enter the banking sector; they say that there is plenty of competition among the banks and other credit institutions. They and other business leaders point out that up till now the state slipped into the role of an entrepreneur only if it was in the public interest to offer products or services that private industry did not or could not provide. The government has also assumed functions that the private sector could not handle for financial reasons; a case in point: the government's rescue of companies from bankruptcy. Critics say, however, that the government has gone overboard by proposing to establish the Postal Bank.

<u>Belgium: Government Bows to Unions on Health Bill</u>

Both employers and employees in Belgium are relieved that the government, under union pressure, decided to drop two ideas conceived by the new coalition government under Prime Minister Leo Tindemans that would have introduced a 0.4% "solidarity" tax on wages and salaries and would have made the insured pay part of the costs when hospitalized. The tax was to help pay for doctor's and hospital bills of the unemployed as long as their number was above 200,000. Making persons covered by social security pay for part of their stay in the hospital would have meant less government subsidies to the deficit-ridden national health service.

The chances for enacting the two concepts had waned after the unions expressed strong opposition to the plans. Tindemans acknowledged publicly that his government sees no point in introducing any legislation that the unions are against. Since revenue is up 10% over the first half of

Health Bill *(contd.)*

1976, the Treasury will have it somewhat easier in subsidizing the health service. However, despite the increased revenue, the government is still a long way from consolidating its public finances. Public debt stands at BF 1,200 billion, BF 120 billion more than a year ago. This high debt sets limits for the government in terms of what it can do on its own to provide additional jobs.

Sweden: Krona Devalued By 10%; Snake Abandoned

Sweden devalued the krona by 10% on Aug. 29 and at the same time announced it was leaving the European monetary bloc. Denmark and Norway followed suit by devaluing their currencies by 5% each. These moves came after a meeting of the finance ministers and heads of the central banks of Germany, the Benelux countries, and the three Scandinavian countries on Aug. 28 in Frankfurt. Last April Stockholm cut the krona's value by 6%, and at that time the Danish and Norwegian governments devalued their currencies by 3%.

The administration has also announced a broad program to stimulate the economy and combat inflation. Payroll taxes will be cut, effective next year. The government decreed a temporary price freeze (until Oct. 31) to secure the effects of the devaluation. This will prevent importers from passing increased prices of imported goods on to the consumer. The government hopes that higher prices wi[ll] slow consumption of imported goods (about 30% of Sweden's consumer goods are from abroad) and so help cut the country's balance of payments deficit.

Both the April move and this latest action were taken to make Swedish goods competitive again, especially against West German and Belgian products. Swedish exports have slowed as a result of increased production costs, which have been spurred primarily by high wages. The devaluation four months ago did not solve the problem because the unions demanded and got high wage settlements in the months thereafter to make up for cost-of-living increases, not the least of which was a 3% VAT hike. Industrial production is declining once more, and most firms are piling up stocks of unsold goods. It is hoped that the 10% devaluation will turn the tide.

Sweden's withdrawal from the monetary bloc, called the snake, is a blow to what is considered the nucleus of a genuine economic and monetary union which was to have been made up of the EEC member states and eventually others as well. Present snake members are Germany, the Benelux countries, Denmark, and Norway; its main characteristic is that the members maintain fixed parity rates among themselves (allowing a 2.25% fluctuation above and below the parity mark) and float their currencies jointly against the dollar. This mechanism caused the gradually rising "leader" currency, the German mark, to pull up the krona.

Portugal: Escudo Floated To Revive Ailing Economy

Continuing on its course to revitalize the economy that started with a 15% devaluation of the currency last February, Portugal's minority government under Socialist Prime Minister Mario Soares has released the escudo from its fixed parity pegs, thus allowing it to float against other national currencies. Lisbon also announced substantial cuts in government spending.

The primary motive for the measures is to reduce and eventually even to eliminate the country's perennial balance of payments deficit, which has marred Portugal's international credit rating (this year's deficit is expected to reach $1.2 billion, an increase of 12% over last year's figure). Yet a healthy balance of payments is considered not only a major condition for attracting investments from abroad: the major credit about to be extended by the International Monetary Fund and 13 western countries will almost certainly come with strings attached.

The government's decision to float the escudo is expected to result in a gradual devaluation of the currency, and thus Portuguese exporters will benefit. An outright devaluation would have sharply increased prices of imported goods, especially raw materials.

Lisbon also decreed a 4% increase (from 11.5 to 15.5%) in the interest paid on savings deposits. The government hopes that higher interest rates will motivate the people to save more, enabling banks to lend more favorably to the housing, farm, fishing, and export industries.

Important for both public and private employers is that businesses not capable of surviving without government aid will be allowed to lay off employees. Government subsidies to ailing public businesses has been a drain on the budget. Workers who are dismissed will receive unemployment compensation and other financial support.

Spain: Wealth, Luxury Tax Bill Goes To Parliament

The Spanish government has introduced the first of several measures to revamp the current tax system and aid in the economy's recovery. The proposal would provide for a special tax on an individual's wealth. (A surcharge on high incomes of individuals is planned as part of the reform of direct taxes that is expected to go to the Cortes before the end of September.) The measure would also substantially increase current rates on luxury items such as liquor, furs, boats, and private airplanes.

Observers attribute to the measure more psychological significance than genuine healing power to improve the economic situation, marred by high inflation (averaging around 27% in recent years) and substantial balance of payments deficits. The 1977 BoP deficit is expected to exceed that of last year ($4.3 billion) because although tourists con-

Tax Bill *(contd.)*

tinue flocking to Spain, export figures are expected to drop, partly because Spanish exports will bring less foreign exchange as a result of the 20% devaluation of the peseta. Taxes on the rich are supposed to calm Spain's political left and reduce unrest among labor, both of which have been complaining about inequities in the distribution of wealth: 20% of the population in the higher income brackets control 50% of the country's wealth, whereas the 20% at the bottom of the social strata possess only 5%.

Although the government has announced measures to stimulate investments (particularly by granting tax incentives in return for the creation of new jobs), there has been no word about whether it also plans to propose the repeal of the surtax on corporate profits. This 10% surcharge was introduced last year to curb inflation *(Doing Business in Europe, Par. 28,314)*.

Yugoslavia: Amendments to Attract Foreign Capital Likely

The Skupstina, Yugoslavia's national parliament, is going to make a new attempt to pass amendments to the law on foreign investments. One proposal to be considered would allow foreigners to invest in exploitation of Yugoslavia's natural resources. Another change would affect the rules governing the assets that domestic and foreign partners bring to joint ventures. There could also be changes in taxation to eliminate discriminatory treatment of foreign investors. Management of a joint venture could act more independently, such as deciding on its own where to obtain credit.

Yugoslavia was the first Communist state to allow investments by foreigners. Nonresident investors may acquire a maximum of 49% in joint ventures with domestic firms, but they nevertheless have an equal voice in management. Up till now some 150 joint ventures have been established there in the past ten years, with U.S. firms taking the lead, followed by French and German companies. Still, the total of foreign investments (now valued at 5.5 billion dinar, or about $240 million) falls considerably short of the government's expectations. It had hoped to lure enough investments into the country to make headway with the industrialization of the backward states of the federation. Slovenia, the most advanced of the six states, has absorbed 35% of the foreign investments, followed by Serbia (25%) and Croatia (23%). Underdeveloped Bosnia-Hercegovina, Montenegro, and Macedonia attracted only 6, 4, and 4%, respectively.

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Community: Farmers Start to Pay Milk Tax This Month

As of Sept. 16, farmers in the European Community have to pay a 1.5% tax for every liter of milk they sell to dairies. Called the "coresponsibility levy," the tax is part of several measures adopted by the Council of Ministers last May in an attempt to cut through what has been described as an "agricultural mess." On the basis of the Council acts, the European Commission has decreed the details in two regulations that will take effect on Sept. 16.

The Community is beset by a number of problems resulting from farm commodity surpluses, but overproduction of milk has been the worst. Storage of surplus butter (about 300,000 tons at present) costs Community taxpayers roughly $1 billion annually. Further, refrigerated warehouses throughout the EC are holding some 1.3 million tons of surplus milk powder. To reduce the butter surplus, the Community has twice permitted ~~the sale~~ of butter to the Soviet Union. These moves drew heavy criticism not only from consumer organizations but also from several member state capitals because the butter cost the Soviets only 30 cents a pound, whereas the Common Market's retail price is about $1.80. The Community's temporary (1976) system that compelled buyers or importers of vegetable feedingstuffs

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Milk Tax *(contd.)*

to purchase milk powder was declared illegal recently by the European Court of Justice.

Farm experts in various national capitals and at the Commission are having increasing doubts about whether the coresponsibility levy will work; they say it is not steep enough. The Commission's original proposal had called for a 2.5% levy to take effect on April 1, 1977, and provided for postponement of the suggested 3% price increases for agricultural commodities until Sept. 16. But the Council of Ministers raised prices by 3.5% as of May 1. Critics of the Community's agricultural policy maintain that even a 2.5% levy would not be sufficient to reduce the number of milk-producing cows by 20% to 4 million.

Following Up on Rhine Barge Fund Ruling

The Commission has drawn the first practical consequences from the Court of Justice's April ruling on a fund for laid-up Rhine barges by asking the Council for a new mandate to wind up negotiations with Switzerland for an agreement establishing a European laying-up fund for inland water vessels. In its decision, the Court had held that the Community's role in managing the proposed fund to compensate member state and Swiss owners of stilled barges on the Rhine and its tributaries had been downgraded to an extent that was not compatible with the Treaty of Rome.

The Court had no quarrel with the economic objective of the fund (provided for in an agreement initialed by Commission, member-state and Swiss government officials in July 1976) to reduce excess shipping capacity on the Community's main commercial waterway. The Court objected primarily to the structure of the fund's supervisory board and the decision-making process of that body. It was especially apprehensive about the proposal that the board members would receive their powers and authority from their home state.

The Commission now proposes that the board be appointed by the member states concerned (one by Switzerland) and that it be fully independent of any national allegiance. It suggests that the board act as a "collegial" body and decide by simple majority; there would be no weighted votes. The Commission would appoint the board's chairman; he would represent the Community and could appeal decisions of the board.

The Court of Justice had also expressed misgivings about the setup and functioning of the fund's tribunal. To be made up of justices from the European Court plus one Swiss judge whenever a Swiss party is involved, the tribunal would hand down decisions on actions brought against the fund and also issue preliminary rulings on requests by national courts. The Court of Justice declared that it alone has the power to give preliminary rulings on the

Barge Fund *(contd.)*

interpretation of the agreement. It did not rule out conflicts of jurisdiction, and it cautioned that with justices sitting both on the Court of Justice and the tribunal, it would be difficult to arrive at impartial rulings. The revised proposal does not reflect any of these objections, but the Commission believes that the necessary amendments can be made in the course of the new negotiations.

France: Discount Rate Cut in Latest Package

The French business community generally has reacted with favor to the government's announcement on Aug. 31 of a carefully weighted reflationary package which will inject another FF 5.5 billion into the domestic economy without constituting a significant departure from official stability policies. The package involves primarily a minor reduction of interest rates and financial assistance to the construction sector and to low-income households.

As part of the measures, the Bank of France dropped its discount rate by one full point to 9.5%, which in turn enabled the commercial banks to cut their minimum lending rates slightly from 9.6 to 9.3%. Financial observers had been anticipating such a move on the basis of the steady decline of short-term interest rates so far this year: the day-to-day rate has gone down from 10.68% last November to 8.25% on Aug. 30. Although they described the reduction in the base lending rates as "marginal" and inadequate, industry spokesmen nevertheless expressed the hope that it would help ease somewhat the severe financial strain under which many companies are operating. The change in the discount rate was the first since last September, when the rate was moved up from 8 to 10.5%.

In addition, the cabinet decided to set aside some FF 4 billion in extra financial aid and credits, mostly for the construction industry and public investment. Major industrial projects are to be assisted to the tune of FF 1 billion, housing construction will benefit from loan increases of FF 1.6 billion, and FF 1.4 billion is to be channeled into public building projects both at national and local levels. In the social welfare realm, the government will triple to FF 454 the allowance granted to poor families for each school-age child at the beginning of the new school year. This assistance, totaling another FF 1.5 billion, is expected to give consumer spending a small boost but is also viewed as a "popular" gesture in anticipation of next spring's general elections.

The administration of Prime Minister (and Economics and Finance Minister) Raymond Barre does not expect the latest actions to work economic miracles, but it does hope that they will improve industry's morale to the point where companies would begin to hire people again. In this respect, the government is under as much pressure as ever:

Discount Rate *(contd.)*

unemployment now stands at a record 1.18 million and is even bound to go up higher as thousands of school leavers are trying to join the labor market this fall.

Italy: Cabinet Acts to Stimulate Investments

In accordance with the provisions of the programmatic all-party agreement concluded in July, the Italian cabinet at its first weekend session following the summer recess approved a series of financial, fiscal and credit measures, most of them meant to offer incentives to private investors and to enhance the attractiveness of the stock market. Included in the package was a reduction of the discount and Lombard rates from 13 to 11.5%, with the aim of stimulating industrial production and of adjusting the rates to the general decline in interest levels and to the most recent economic trends.

The draft legislation benefiting investors had been a subject of discussion for a long time. The dividend withholding tax *(cedolare secca)* is to be cut from 50 to 30%, and there would be other fiscal incentives aimed at making it more interesting for investors to subscribe to new share issues. The decision to cut the withholding tax evidently was helped by the fact that revenues from this tax totaled only 110 billion lire in the last fiscal year, compared with overall tax revenues of 27,000 billion lire, whereas the 16% tax on interest income and other capital gains produced 2,200 billion lire. Further, the government moved to abolish the "double taxation" of dividends and to introduce a tax credit system patterned after those existing in other EEC countries. The prescribed minimum capital for newly established firms is to be raised from 50,000 to 20 million lire for limited-liability companies and from 1 million to 200 million lire for stock corporations.

Finally, the Andreotti cabinet approved draft legislation expanding the jurisdiction and activities of the national Commission on Companies and the Bourse (Consob). For the purpose of checking on the operations of stock corporations and the stock market, the commission is to be staffed with 120 inspectors. In the future, Consob's functions would be extended to any finance holdings with a share capital of at least 5 billion lire and to any fiduciary companies with a share capital of at least 100 million lire.

The obligation to register shareholdings with the authorities, which thus far applied only to stock corporations, also would be extended to the holders of equities of 2% or more in companies whose shares are traded on the bourse and of 10% or more in unlisted companies.

Concerning the 1.5% cut of the discount rate, Treasury Minister Gaetano Stammati explained that this was justified

Investments *(contd.)*

by a number of encouraging economic developments, notably the most recent improvements in the payments and trade balances, the growth of available reserves, and a slowed rate of inflation (12% in annual terms, at latest report). In the meantime, leading commercial banks have followed up by reducing their basic prime rate by one point to 17%.

Britain: Company Bills Scheduled for New Session

Advance notice has been received of the U.K. cabinet legislative committee prospectus for the next session of Parliament. Details will be announced in traditional fashion in the Queen's opening-of-Parliament speech.

As in the last session, the key controversial element will be bills calling for direct elections to the European Parliament and for devolution in Scotland and Wales. The latter had been expected to be passed in the course of the last session but met with bitter opposition *(Doing Business in Europe, Par. 30,738)*. By comparison with recent parliamentary sessions, however, the prospectus for November is, on the whole, relatively modest. The above-mentioned issues apart, the two most important pieces of proposed legislation are undoubtedly those affecting the City and public companies. Pursuant to the (second) European Community directive on company law - which is scheduled to be incorporated into domestic law by December 1978 - new legislation will be introduced to regulate the formation of public companies and subscription and alteration of their capital. Under this directive, public companies would be required to (1) adopt a designation different from that of private companies, (2) have "substantial" minimum capital, and (3) meet various requirements as to subscription procedures, dividend disbursement, and capital increases. Dept. of Trade sources have indicated that the minimum capital for public companies will be proposed at £50,000.

Also in the corporate sector, legislation is to be proposed to make insider dealing a criminal offense. An intrinsic part of this draft law will relate to company loans to, and the private interests of, company directors - an issue that has been hotly debated in recent months and which will most certainly lead to clashes in the debating chamber. Time permitting, legislation also is contemplated on reporting requirements for larger companies, the emphasis being on more comprehensive financial statements detailing source and application of funds, borrowing, leasing arrangements, pension fund commitments, foreign currency dealings, employment policies, and international trading attitudes.

Finally, new legislation will also be forthcoming concerning the medical profession, mental health, and merchant shipping. Of more immediate interest to the business community, however, is a proposal to amend the Prevention of

Company Bills *(contd.)*

Fraud (Investments) Act 1958 to bring in more stringent controls with respect to licenses for securities dealers and investment advisers as well as a draft bill in the consumer safety sector, the central aim of which will be to impose curbs and penalties on the supply of unsafe products.

Denmark: Consensus on Anti-Crisis Program

Meeting in a special session, the Danish parliament has given approval to a new economic anti-crisis program after the Social Democratic minority government was able to negotiate a compromise with the three nonsocialist parties in the Folketing. As reported earlier, the standard value-added tax rate will be raised from 15 to 18% as of Oct. 3. Depending on their size, new automobiles will be subject to a registration levy ranging from 200 to 11,000 kroner. (Denmark has no car production of its own, so this tax is squarely aimed at the imports.) On other counts, the Social Democrats had to scrap or modify their earlier proposals: there will be no surtax on incomes in the medium and higher brackets and on value increases of real property, and the tax increases on gasoline and charter tours will be lower than originally proposed. Furthermore, the nonsocialist parties were successful in gaining some relief for employers. The latter will now be required to pay only three weeks of per-diem compensation to sick employees instead of five weeks, with the government meeting the cost of the remaining two weeks.

Acceptance of the legislation marks the first time since the 1973 elections that Denmark's four "traditional" political parties - the Social Democrats, the Liberals, the Conservatives, and the Radical Liberals - were able to agree on an economic program. Some commentators see in the latest compromise a possible basis for a broadening of the government via a coalition, although not before the Social Democrats' annual convention later this month and the opening of the new parliamentary session in October.

The labor unions, for their part, would not be in favor of such an alliance, and they have criticized the anti-crisis program with the argument that the governing Social Democrats have made too many concessions at the expense of the working man - for instance, by allowing net incomes to drop by 8% after the new measures take effect. The industry federation, too, is unhappy with certain elements of the package, saying that the fiscal restrictions will coincide with a slump in economic activity and thus are poorly timed.

Nonetheless, Prime Minister Anker Jörgensen and Liberal leader and ex-premier Poul Hartling said that the agreement should demonstrate to Denmark's foreign partners that the country is able to solve its problems on its own.

Germany: Unilateral Move on Seabed Mining?

All three political parties represented in the German parliament have agreed to introduce soon legislation that would assure the country's access to raw materials supplies from seabed resources. The move was largely prompted by the failure last month of the U.N. Conference on the Law of the Sea in New York to come to a compromise on the crucial issue of seabed mining. Experts of the three parties see a need for legislation to secure the country's supplies once the land deposits of copper, cobalt, manganate, and nickel are exhausted. Without these metals, of which none is mined in Germany in any reasonable quantity, many industries would not be able to survive.

The lawmakers point out that members of the U.S. Congress are also drafting legislation on the matter. The Schmidt administration so far has remained silent on the subject because it was felt that the U.N. talks should not be burdened, if not jeopardized, by unilateral actions of individual countries. A unilateral step by Germany had been unthinkable until mid-July, when the western hemisphere's industrialized nations and the developing countries seemed to be well on the way toward reconciling their differences on resources. The western nations, especially the United States and Germany, had hoped for concessions from the developing countries that would have allowed early private exploration and exploitation of the seas' mineral resources. However, the latest wording of the draft convention would give an international agency, dominated by the developing countries, the monopoly in control of seabed resources.

The United States is at present the only country with sufficiently advanced technology and adequate financial resources to contemplate seabed mining, but several German industrial executives have argued that, if Bonn gives financial backing, domestic firms could also begin exploration and exploitation in five to seven years.

Finland: Exporters Vent Anger over Devaluation

Two days after Sweden devalued its krona by 10%, Finland followed suit with a 3% devaluation of the finnmark against other major currencies as of Sept. 1. At the same time, the bank rate was reduced from 9.25 to 8.25%. The narrow margin of devaluation triggered stormy protests by the country's exporters who complained that it will worsen their situation vis-à-vis the Swedish competition and will result in a further decline of exports. (Sweden is Finland's most important trade partner after the Soviet Union.) Most economic experts, on the other hand, had come out strongly against any parity change, arguing that a high devaluation rate would have grave consequences for the country's economy, which is also suffering from a high rate of inflation. Helsinki's decision for a "small solution"

Devaluation *(contd.)*

thus seemed to represent a compromise between the two opposing positions.

EURO COMPANY SCENE

Turner & Newall/ Ph. Hunt

The U.K.'s Turner & Newall has made a £34.7-million offer for 52% of the equity of the United States' Philip A. Hunt Chemical Corp. in what is the British company's largest acquisition ever and its first move into the specialist chemical sector. The agreed bid marks T&N's reentry into the American market which it had left in September 1976 with the disposal of its stake in CertainTeed.

Reed/ Kimberly-Clark

As part of an announced "regrouping of resources" and "concentration of mainstream activities," Britain's Reed International has divested itself of its one-third stake in Kimberly-Clark U.K. Purchaser, for £7 million, is the United States' Kimberly-Clark Corp.

Pittsburgh Corning

Pittsburgh Corning is to invest a further BF 440 million in expanding its existing facilities at Tessenderlo, Belgium. The project is in two stages, the first part to be completed by the end of 1978. It will enable the company to meet growing European demand for thermal insulation material.

Bunker Ramo/ Borg Textile

Bunker Ramo Corp. of Oak Brook, Ill., has announced the closure of its Belgian subsidiary, Borg Textile of Sint Niklaas, with the loss of about 265 jobs. Established in 1965, Borg has recently halved the number of its employees in an attempt to fight competition by low-priced textiles from Taiwan and Italy. It was the last textile firm of Belgium's traditional clothing industry in the region of Waas.

Genesco Chas. Jourdan/ British Shoe

According to reports from Paris, the United States' Genesco is planning to withdraw completely from its shoe manufacturing activities in France and is currently looking for a buyer for its 91.6% equity in Charles Jourdan, a producer of high-quality shoes. The British Shoe Corp. was reported to be interested in the acquisition. The reports said that Charles Jourdan would have estimated sales of FF 107 million this year, but that French shoe production in general is falling off because of imports from low-price countries in Europe and Southeast Asia.

Common Market Reports

EUROMARKET NEWS

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[Com]munity: Controls Sought on All Textile Imports

There is a very good chance that the European Community will impose unilateral restrictions on textile imports as of Jan. 1. This was reported in Brussels after the Commission's first meeting following the summer recess. According to Tranh van Thinh, the Community's chief textiles negotiator, the Commission is seeking from the Council of Ministers a mandate for bilateral talks with Japan and 29 developing countries. The chief aim of these negotiations, Van Thinh explained at a press conference, would be to win agreements to limit over the next four years the annual rise in the volume of textile exports to the EEC to 6% overall as compared to more than 20% last year. Within the 6% limit, varying percentage increases could be fixed for individual product categories. Specifically, it is proposed that the Community apply as of Jan. 1, 1978, a system effectively monitoring and checking all textile imports. New rules would have to be devised to prevent abuses and frauds related to the origin of products.

It was reported that the Commission wants the Council's go-ahead for conducting the bilateral negotiations within the next two months prior to the resumption of the Geneva talks over a renewal of the Multi-fibre Agreement (MFA). These talks had been broken off in late July after

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Textiles *(contd.)*

some of the developing countries objected to a proposal sponsored by the United States, the EEC, and Japan which would have sanctioned such negotiations. With its latest proposal, the Commission in effect is insisting on this approach. In the event of a successful conclusion of the bilateral talks, it is argued in Brussels, the Community could be counted on to approve a four-year extension of the MFA. Should the talks fail, then Brussels would be prepared to impose a unilateral system of import curbs. (Commission experts reportedly have already been instructed to work out such a system.)

With its latest move, the Commission has indicated that import restrictions can no longer be avoided in view of the precarious state of the EEC's textile industries and the loss so far of about 400,000 jobs in that sector. The lack of a joint concept, Van Thinh said, has caused the Community's textile trade deficit to triple within the years 1974-76. Last year, four-fifths of this deficit stemmed from trade with five "developing" countries alone, namely, Brazil, Hong Kong, India, South Korea, and Taiwan. The most obvious examples of one-sided textile trade with the Common Market were reported for Hong Kong, which in 1976 exported 151,700 tons of textile products to the EEC and imported only 8,100 tons, and for India, for which the figures were 131,400 tons and 500 tons, respectively. On an overall basis, the Community last year imported more than 1.49 million tons of textiles and exported 923,000 tons, leaving a deficit of 569,000 tons.

Any longer-term curbs on textile imports would follow the temporary measures Brussels was forced to take thus far this year - an interim decree as well as the subsequent Regulation No. 1827/77, both of which imposed restrictions on the import of T-shirts, blouses, and shirts from certain third countries.

<u>In Brief...</u>

Reacting to pressures by the 22 sugar-exporting countries of Latin America and the Caribbean, the Commission has indicated that the EEC may "discipline" its sugar sales abroad, providing other export nations do likewise. This compromise position could be a step toward the successful conclusion of this month's Geneva talks over an <u>International Sugar Agreement</u> (ISA). The Commission has made it clear, however, that it would prefer such an agreement to be based on stockpiling and pricing arrangements rather than on export quotas. The 22-member group charges that its producers cannot compete against the Common Market's subsidized sugar production on the world markets + + + Growers of quality wine who participated in a Community arrangement under which they agreed to withhold wine from the markets this year will now be allowed to dispose of some of their stock for alcohol distillation or, alter-

In Brief
(contd.)

natively, to extend their storage contracts after expiration. The Commission reportedly agreed to having the EEC meet the cost of this extended wine storage, so that most growers are likely to accept the latter offer. Despite the fact that some 8.5 million hectoliters of quality wine have been consigned to storage for a nine-month period, prices have not recovered. This may change in the near future, since this year's wine crop is expected to be below average.

Germany: Government Details Tax Relief Plans

The partners of the German government coalition, the Social Democrats and the Free Democrats, finally have reached a consensus on the kind and extent of fiscal relief measures to be included in the 1978 budget plan. Enactment of the proposals would pump about DM 10-11 billion into the economy - a shot in the arm deemed desirable by the administration under present circumstances and in line with Bonn's promises to its European partners. However, passage of the tax measures is by no means assured since it requires the consent of the Opposition-controlled upper house. Since the Opposition definitely has its own ideas about what tax relief actions are necessary, political observers hesitate to speculate about the final contents of the program.

To benefit both individuals and businesses, the government-sponsored package consists essentially of three measures, which together would correspond to a revenue loss of DM 7.3 billion:

(1) The basic tax-free allowance as built into the income tax schedule is to be raised by DM 510 to DM 3,510 for single persons and by DM 1,020 to DM 7,020 for married couples. This would take effect on Jan. 1, 1978, and would cost the treasury DM 3.57 billion.

(2) The special tax-free allowance granted at Christmas time *(Weihnachtsfreibetrag)* is to be increased from DM 100 to DM 400 for most wage earners, effective this year. At a total cost of DM 2.1 billion in revenue, this measure has been a priority item for the labor unions and would help to stimulate demand for consumer goods at the end of this year.

(3) The permissible rate of depreciation for movable assets under the declining-balance method *(Doing Business in Europe, Par. 23,320)* is to be raised from 2 to 2.5 times the straight-line rate, with retroactive effect on July 1, 1977. With this move, Bonn wants to bring the German depreciation terms closer to those prevailing in other European countries and hopes to stimulate corporate investment. To those factions within his own party which opposed this "gift" to businesses, Chancellor Helmut Schmidt had to explain that the improved depreciation conditions would not

Tax Relief *(contd.)*

actually raise corporate profits but merely amount to a partial deferment of profit taxes.

In addition, the coalition government plans to step up public expenditure in 1978 by some DM 3 billion, most of it for development aid, road construction, and defense. The program is to be rounded off by increasing from 7.5% to 15% the investment bonuses granted for research and development projects, by offering more incentives for the establishment of new businesses, and by subsidizing energy-saving investments.

The Opposition, on the other hand, has come up with proposals of its own, which basically foresee an across-the-board cut of 10% for income and corporate taxes as of Oct. 1 and for a 12-month period, an increase of the tax-free Christmas allowance to at least DM 200, and a boost of the local governments' share of income tax revenue from 13 to 14% as of 1979.

France: Cabinet Passes 1978 Deficit Budget Draft

One week after its announcement of a FF 5.5-billion reflationary program, the French cabinet approved the government's 1978 draft budget which projects a deficit for the first time in almost a decade. With planned expenditures of FF 398 billion, the shortfall will amount to FF 8.9 billion, or some 2%. Spending will rise by 12.4%, but most this inflation-caused increase is to be covered via higher indirect taxes. Prime Minister Raymond Barre said the budget, which still has to be passed by Parliament, would be "fiscally neutral" since the spending increase more or less matches the forecast rise in GNP. The projected deficit, Barre said, represents the government's contribution toward sustained economic activity and is not to be interpreted as a pre-election move.

Although taxpayers in the low and medium brackets are to benefit from a 7.5% boost of tax thresholds, this will hardly make up for the effects of inflation, which should amount to 9% this year. (The government optimistically based its budget plans on an anticipated inflation rate of no more than 6.5% and an economic growth rate of 4.5%.) Tax concessions and improved benefits are to be offered to pensioners and low-income groups, and there would be incentives for investment by small and medium-sized enterprises. To the business community, the most significant proposal involves the revaluation of corporate balance sheets - specifically that of amortizable and nonamortizable assets - aimed at building up companies' financial resources. The government disappointed stock market hopes for an increase of the tax-free allowance on dividend distributions; this allowance now amounts to 50% and thus compensates for only half of the double taxation of shareholders. Only the in-

Budget Draft *(contd.)*

surance companies would benefit from a provision doubling this allowance from 25 to 50%.

The proposed increases of indirect taxes once again would affect motorists most: gasoline prices are to be raised by 2% next February and again by 7% in June, and road taxes would go up by 20 to 33%. Together, these measures are expected to raise an extra FF 6.5 billion in revenue next year. The special levy on "visible wealth" which was introduced last year is to be extended by another year; it affects the owners of second homes, private aircraft, yachts, etc. Finally, banks and insurers would be subject to a one-time, 1.5% surcharge on inflation-boosted fixed charges and amortizations.

Belgium: Tripartite Talks; Rescue of Steel Firm

The Belgian government and the country's employer and trade union federations have resumed their tripartite economic talks, with all partners attaching certain expectations to the outcome. Some disagreements are bound to arise over the administration's 1978 budget proposals, specifically the planned renewal of the "solidarity tax" on profits. Originally introduced in 1976 for one year but extended to cover the whole of '77, the 4.8% tax would be expected to bring in approximately BF 1 billion in revenue next year. This revenue would flow into public works projects and thereby support employment. The employers want to have the tax scrapped or at least make more companies eligible for exemption. (Businesses which can prove that they have made job-creating investments do not need to pay the tax.)

Before the talks resumed, the country's largest union organization, the General Federation of Belgian Labor (FGTB), had announced that it would demand a new approach to the unemployment problem. Although wage restraint has been effective in helping to slow down inflation, the Federation said, it has done nothing to improve the situation on the labor market. The time has come for a "fundamental change" in government policies on employment, according to the FGTB, which intends to press for the introduction of the 36-hour workweek by the end of 1980 at the latest.

Meanwhile, the governments of Belgium and Luxembourg have negotiated an agreement on the future of Minière et Mètallurgique Rodange-Athus, the crisis-stricken steel company which is registered in Luxembourg, has its major shareholders in Belgium, and operates plants in both countries. A collapse of the relatively small company would have endangered the jobs of most of its 4,500 employees (65% of them Belgians) and added considerably to the serious unemployment problem in southern Belgium. As reported earlier, the announcement from Luxembourg in July of Rodange-Athus's plans to lay off some 800 Belgian workers had resulted in strained relations between Brussels and the

Talks *(contd.)*

Grand Duchy, which now appear to be mended as a result of the latest agreement.

The tentative "rescue plan" for the company, as negotiated by both governments, provides for an arrangement to maintain the incomes of laid-off workers while trying to find new employment for them. Other provisions concern a moratorium on the repayment of debts until the end of this year, the appointment of special commissioners to represent each government on the board, and longer-range plans for Rodange-Athus to be absorbed eventually by Belgium's Cockerill steel group (already a major shareholder) and by Luxembourg's Arbed.

Luxembourg: Seeking to Lure More Foreign Banks

Although Luxembourg already is regarded as the No. 2 Euromarket center after London, the Grand Duchy's government wants to make it even more attractive for foreign private investors. Finance Minister Jacques Poos this month unveiled a five-point program of generous incentives laid out to help lure additional foreign banks to Luxembourg to join the 80-odd institutions already operating there.

The most important item in this plan concerns the liberalization of the gold trade. As of Jan. 1, 1978, transactions involving bullion and coins no longer would be subject to the 10% value-added tax. So far, only the London and Zurich gold markets are operating "tax-free," and the Luxembourg action would probably draw a considerable amount of business away from them. Zurich, in particular, has reason to be watchful of the competition, because private individuals too would be able to open tax-free gold accounts or depots in Luxembourg. It can be taken for granted that German investors will be among the first to avail themselves legally of this new opportunity through the Luxembourg-based subsidiaries of German banks, of which there are now 21.

In addition, the government plans to permit the foreign banks to charge off against their profits taxes paid at source on interest received for Euroloans. Since the Grand Duchy has signed only eight double-taxation treaties (with the United States and seven European countries), this would spare the Eurobanks from double taxation on major loans, especially to developing nations. In the past, many of these loan transactions were handled through London or through Caribbean (Nassau) tax havens to avoid tax problems in Luxembourg. Further, it is intended to credit against Luxembourg taxes the interest on loans issued by foreign banks to their Luxembourg affiliates for purposes of building up the latter's capital resources. Finally, the 5% coupon tax on the interest income of Luxembourg bond issues is to be dropped.

Banks
(contd.)

To make up for the revenue losses that would result from the considerable fiscal benefits, Poos proposes to raise the capital gains tax on Luxembourg-registered holding companies from 0.16 to 0.20%. This increase would not affect the actively operating Eurobanks but merely those holdings that are technically based in the Grand Duchy. At the same time it would discourage the establishment of new "mailbox" holdings and thus enhance Luxembourg's standing as a wholly "reputable" European financial center.

The cabinet was to take up the proposals this month for presentation to Parliament, where a broad majority should ensure passage. The foreign banks predictably are in full support of the plans, of which they have been formally informed. Financial observers have estimated that enactment of the legislation would boost Luxembourg's share of total Euromarket volume from 17% currently to 25% within a few years.

Britain:
Firms Tardy
h Pensions
isions?

Widespread speculation has been prompted in Britain by the Occupational Pensions Board's release of figures showing that only about 450 companies have made application to date to "contract out" of the earnings-related tier of the new two-tier state pension program, which is scheduled to take effect as of April 6, 1978.

First of all, the Board had expected that as many as 20,000 firms out of a total of some 65,000 would apply to contract out. As of Aug. 31, however, only about 70 certificates have been issued, which suggests that either companies are extremely tardy in applying or have found the proposed state program to be preferable. If the former is the case and applications are simply late, then the Board will be swamped with applications in the next few months. This would not only pose a massive paper work problem but would also mean that those firms which act late may be forced, at considerable cost, to maintain both their own and the state programs for an unduly long period before finally receiving permission to contract out. If, on the other hand, companies actually prefer the state program, then it would appear that the government's lack of confidence in the desirability of its own program (as evidenced by the OPB's prognosis) was totally unfounded.

It must be emphasized, of course, that the "in or out" decision is a major one which may not be taken lightly. In essence, the two-tier program calls for a "second-layer" old-age pension which is related to the cost of living and is computed on the basis of earnings. It allows up to seven times the basic pension (£17.50 per week for single persons and £28 per week for married couples as of November 1977), the whole to be adjusted annually for inflation. Although there is a statutory obligation to follow the

Pensions
(contd.)

first tier, companies may contract out of the second, earnings-related tier, provided they can prove that their in-house program (as exists or as proposed) provides benefits that are at least equal to those offered by the state program. The principal benefit of contracting out is, of course, that social security contributions for both employer and employee are lower. The principal drawback, by contrast, is the administrative and cost burden of mounting a company program.

Leading pension and life insurance consultants are divided on the issue. Irrespective of their position, however, there is no doubt that they will stand to benefit considerably as consultants to those companies which contract out and to those which decide to operate within the state program but which make "topping-up" provision for their executives on retirement.

Norway: Labor Party to Remain in Power

In a national election marred by confusing returns and a decisive miscount, Norway's Social Democratic Labor Party held on to a one-seat majority, enabling it to continue its minority government into the next four-year term. As the returns came in from the two-day election on Sept. 11-12, it had appeared as though Prime Minister Odvar Nordli's Labor Party was headed for victory by a narrow, but sufficient margin. Then, the picture reversed dramatically when, in the last precinct to be counted, the mandate was unexpectedly won by the candidate of the Christian People's party. This would have given the nonsocialist parties 78 seats in the 155-seat Storting. Eventually, however, after a recount, it was discovered that votes in Nordland province had been mistakenly given to the Conservatives, so that a decisive mandate again shifted to the Left.

The eventual election outcome (final results still were to be confirmed) came as a bitter blow to the leaders of the nonsocialist parties who already had started talks on the formation of a coalition government. The new Storting will meet on Oct. 1 for the first time.

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Community: First Visit of Comecon Official

The official Brussels visit last week by Romania's vice-premier Mihail Marinescu marked the first time that the European Community's contacts with Eastern Europe's Council of Mutual Economic Assistance (Comecon) have reached the personal level. As the incumbent president of Comecon's executive committee, Marinescu met with the current president of the Council of Ministers and Belgian foreign minister, Henri Simonet. Marinescu's actual discussion partner, however, was Commission vice-president Wilhelm Haferkamp, who has been in charge of the Community's external affairs since the beginning of this year.

This personnel constellation takes on a certain significance because of the political implications: after having reluctantly acknowledged the existence of the EEC, Comecon would have preferred to at least ignore the Commission's status as a supranational institution and as an authorized negotiation partner. The European Council of Ministers and the Commission have not always agreed on the Commission's freedom of action, but the Council this time made it absolutely clear that the Commission has a mandate to be in charge of all stages of contacts and negotiations. Apparently, this situation has now been quietly accepted by

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Comecon *(contd.)*

the Comecon secretariat, and this in itself is being viewed in Brussels as a political success for the EEC.

The Haferkamp-Marinescu talks were of a strictly exploratory nature, and Commission officials preferred not to designate them as negotiations per se. In fact, Brussels sees no urgent need for any encompassing agreements with Comecon. For one thing, the EEC is not prepared to accord Comecon a status similar to its own - namely, that of a political and economic entity - because of the Soviet Union's dominating influence over that organization. Furthermore, the Community does not want to join in any pact that could have negative effects on the western trade of the smaller East Bloc countries and thereby on their limited maneuverability in the area of foreign policy. Instead, it would prefer to enter into separate trade agreements with the individual Comecon member states.

Under these circumstances, the EEC is of the opinion that any cooperation with Comecon should be kept to a minimum and be confined to such areas as the exchange of statistics, environmental protection, transport, etc. Comecon, on the other hand, has set its sights on a trade agreement containing a most-favored-nation clause for the whole of its area. At this point, it is too early to predict what the current contacts will lead to.

In the meantime, however, the Community will have to deal with two more tangible and pressing issues in its relations with East Bloc countries. One concerns an interim fishing arrangement with the Soviet Union, and the other involves the mutual desire for better trade relations with Yugoslavia, which is not a Comecon member. Haferkamp officially visited Belgrade on Sept. 12-13, and the Commission will now seek a negotiating mandate to initiate talks for a new trade agreement with Yugoslavia to succeed the existing one which expires in September 1978.

Germany: Improved Depreciation for Buildings

The German cabinet formally approved the 1978 draft budget and the supplemental Law on Tax Relief and Investment Promotion on Sept. 14, the lower house of Parliament held the first reading of the legislation a day later, and the upper house's turn was to come on Sept. 30. The government was forced to seek quick action on the bills because final parliamentary approval was required by Oct. 14 if the tax changes were to be worked into the new tax tables by the end of the year.

The tax relief bill not only makes provision for more favorable depreciation allowances for movable assets, as was previously reported, but also seeks to reintroduce declining-balance depreciation for buildings, which had been discontinued in 1973 at the peak of the construction boom (except for social housing). Under the new rules, the de-

Depreciation *(contd.)*

preciation allowance system for buildings would be different from that for movable assets. The builder (not the purchaser) would be allowed to write off 3.5% of the investment costs in the year of completion and in each of the following 11 years, 2% in each of the following 20 years, and, finally, 1% in each of the following 18 years. (By contrast, the straight-line method as currently practiced provides for a 2% depreciation rate annually over a 50-year period.) The higher depreciation rates would be applicable to all buildings completed on or after Aug. 31, 1977.

By allowing better depreciation terms during the first 12 years, Bonn hopes to improve investors' liquidity and thereby stimulate investment activity, especially in the housing sector. The loss in tax revenue has been calculated at DM 230 million in the first year, of which slightly more than half would involve commercial and plant buildings and the remainder housing.

The increase from DM 100 to 400 of the tax-free Christmas allowance *(Weihnachtsfreibetrag)* to be granted to most employees would result in tax relief of DM 60 to DM 168 per person, depending on tax bracket. The proposed boost of the basic tax-free allowance by DM 510 for single persons and by twice that for married couples would translate to an additional DM 112 and DM 224 of tax relief, respectively. However, raising the latter allowance is a very controversial item in the fiscal package, and it is particularly here where the government may have to accept a compromise. The Opposition has advanced three main arguments against this approach: the uniform tax relief would not ease the tax progression; the financial commitment undertaken would obstruct the needed overhaul of tax schedules; and, finally, a reform of old-age pension taxation also would be made difficult. Instead, the Opposition would be in favor of an across-the-board cut of 10% for income and corporate taxes over a 12-month period.

Cabinet Backs 10% Expansion of Budget

As a way of giving the sagging economy a modest lift, the German cabinet at its Sept. 14 session agreed to a 10.1% expansion of the budget next year. In all, expenditure is to rise to DM 188.6 billion. The net borrowing requirement, which is estimated to reach DM 20.7 billion this year and originally was supposed to be cut to DM 19.7 billion next year, now will be permitted to jump to DM 27.5 billion in '78. The ministries that will account for the lion's share of expenditure are again labor (DM 43.2 billion, plus 12.6%), defense (DM 34.3 billion, plus 4.3%), transport (DM 24.6 billion, plus 14.1%), and family (DM 16.1 billion, plus 10%). The government's medium-term finance plan, which also was approved by the Schmidt cabinet, foresees budget increases of 6% in each of the years 1979-81.

Budget *(contd.)*

In addition to the fiscal measures detailed in the story above and as reported last week, the latest budget and economic package includes measures to promote energy-saving investments and the establishment of new businesses. Within the framework of a federal/state program, DM 4.35 billion is to be allocated from 1978 until '81 to reduce consumption of heating energy. Bonuses of up to 20% of investment costs would be granted for insulation improvements, heating pump systems, and solar collectors. For each housing unit, these aids could range up to DM 12,000, but there would have to be a minimum investment of DM 4,000. The program still requires the consent of the individual states, which are supposed to share the cost with the federal government. In response to a recommendation made earlier by the Council of Economic Advisers, the cabinet also agreed to encourage the start of new businesses by voting to raise the allocation of interest-subsidized ERP (European Recovery Program) funds. ERP loans currently are available at 6% interest, and this rate is to be lowered to 5.5% next year.

France: First Deal in Public Sector Wage Talks

The first encouraging development has been reported for the crucial public-sector pay talks in France with the acceptance of real-term pay increases of 1.1% for the employees of the Paris regional transport system (RATP), which includes the Metro. The agreement was signed on Sept. 13 by the four unions representing 43% of the RATP's 36,000 employees. However, the 1.1% increment applies only if this year's inflation rate does not exceed 8.5% and if output (GDP) expands by at least 3.5%. Should inflation top the 8.5% rate, then the increases would be reduced accordingly. Should it amount to 10% or more, they would be canceled entirely.

Under these circumstances, there are many questions on the effective results of the deal. With the agreement, the government of Premier Raymond Barre theoretically departed from its long-standing stability edict according to which workers are merely entitled to be compensated for the impact of inflation (not too long ago officially projected at 6.5%). On the other hand, it remains doubtful whether the agreement will actually bring any improvement for the RATP employees, since the current inflation rate stands at 10.1%. Thus, the four unions concerned - including the moderate Force Ouvrière - evidently were mainly out to guard the principle of free collective bargaining, knowing that substantial pay improvements could not be gained. The government, in turn, was able to "save face" merely by including the restrictive clauses in the contract.

The RATP agreement was not backed by the country's two major labor federations, the CFDT and the Communist CGT, Wage Talks *(contd.)*

which had refused their support last year too. Their traditional policy of confrontation and noncooperation should again be carried into other sectors, and so there can be no prediction about the impact of the RATP deal on the ongoing pay negotiations covering the employees of the state utilities (EDF-GDF), the state railways (SNCF), and the state coal mines (Charbonnages des France). Even less encouraging is the outlook for the wage talks with the public service employees, which were to be resumed at the end of this month.

In October, collective bargaining also will be inaugurated for the private sector, and here too the outcome is wholly uncertain, even though the president of the CNPF employers' federation has indicated that industry will be prepared to discuss an increase of workers' purchasing power.

Belgium: Major Plan to Reduce Unemployment

An eight-point, BF 23.7-billion plan to deal with Belgium's serious unemployment problem has been announced by Labor Minister Guy Spitaels. Its aim is to cut the total number of unemployed from more than 310,000 to 220,000 in 1978. Belgium's jobless rate among those covered by unemployment insurance is now more than 9%, which puts this country into the upper third of the EEC's unemployment scale. The total of more than 310,000 includes 246,660 wholly unemployed persons and 64,195 persons on short time, at latest count.

The crux of the government's plan foresees the creation of two work forces of 25,000 people each. One would be permanently hired by the public services, while the other would be temporarily engaged in various public works and communal projects such as the construction of sports facilities, cleanup of parks and woods, maintenance activities, etc. (In order to forestall demands by the latter group for permanent public employment, the government would encourage fast job rotation and personnel turnover.) Beyond this, central government administrations and those of the provinces and municipalities would be encouraged to hire additional people. Further, the plan provides for an increase in the number of apprentices and trainees from currently 12,000 a year to 25,000. Any company employing more than 50 people would be obligated to take on at least one apprentice in exchange for being paid a BF 30,000 bonus for each apprentice thus hired. (At present, only companies with at least 100 employees are obligated to hire apprentices.)

The government seeks to extend the regulations covering payment of so-called pre-pensions to workers under 65 who want to retire early and foresees special payments to male workers over the age of 60 and women workers over 55 who have been out of work for at least a year. Finally, Unemployment *(contd.)*

the Spitaels Plan contains recommendations for "humanizing" conditions for manual workers and for commissioning two special reports on overtime work and on reducing immigration.

It is estimated that the recruitment of an additional 50,000 people for the public services and public works programs would cost more than BF 14 billion annually, and the total cost to the government of implementing the Spitaels Plan would be some BF 23.7 billion. Trade union leaders are not expected to raise objections to the Spitaels proposals, despite the fact that the government has ignored their demands for a shorter workweek. The first government-union talks on the program were held immediately after it was announced, and further discussions were scheduled for later in September.

Netherlands: Bleak Mood Marks Start of New Session

In her Sept. 20 speech marking the opening of Holland's new parliamentary session, Queen Juliana admonished the political parties to permit no further delays in the formation of a legitimate government. The statement reflected growing public embarrassment over the fact that, four months after the May 25 elections, the potential coalition partners are still haggling over a joint program and the final makeup of the cabinet. At one point the main differences appeared to be resolved with an agreement on the economic course to be undertaken, only to erupt again over such issues as foreign and defense policies, nuclear energy, housing, and strike legislation. Some political observers believe that it may take yet another month before the coalition talks will be successfully concluded.

In the Queen's speech, which in effect constituted a policy statement of the caretaker government under Prime Minister Joop den Uyl, a bleak picture was painted of the country's economic situation. The administration said that the new government would have to make "serious decisions" in trying to cope with shrinking growth, rising unemployment, lagging exports, and further inflation dangers. The string of supportive measures inaugurated this year would have to be continued: wage cost subsidization, price controls, investment aids, and stepped-up export promotion.

In the 1978 draft budget submitted to the new Parliament, it is proposed to keep tax increases to about half of what would be structurally required. Nevertheless, The Hague wants to raise from 4 to 18% the value-added tax on natural gas, oil, and coal; this would help to narrow the budgetary deficit and at the same time slow down energy consumption. In addition, cigarette and tobacco taxes are to be boosted considerably. To safeguard the purchasing power of people in the low and medium income brackets, the government intends to reduce the social insurance burden in

New Session *(contd.)*

the probable equivalent of 2.5 billion guilders plus give some unspecified fiscal relief. The trade unions are called upon to forego any real-term pay improvements for their members in 1978 if any progress at all is to be made in reducing unemployment. The prediction is for an average of 240,000 jobless persons next year compared with 210,000 (4.3%) today.

The Den Uyl administration also directed an appeal to those countries that enjoy a healthy balance of payments and indicated that they bear a "special responsibility" in revitalizing world trade. (It was no secret that, in view of the close economic relationship between Holland and Germany, the Dutch want the Germans to enact stimulatory measures beyond those so far announced by Bonn.)

Britain: Waiting for Brussels in Sarabex Affair

Developments are anxiously awaited in the U.K.'s controversial Sarabex affair following the European Commission's Sept. 5 action setting a three-week deadline for the British Bankers Association and the London Foreign Exchange and Currency Deposit Brokers' Association to counter allegations that the two bodies have been operating restrictive agreements in contravention of Community anticartel law.

The complaint was lodged with the Commission by Sarabex, London's only remaining foreign exchange dealer which is not a FECDBA member. Sarabex alleges that it is being deprived of large amounts of business because of an "agreement" to the effect that members of the BBA confine dealings in all major currencies to FECDBA member brokers. This agreement is set out in the "O'Brien letter" written on July 30, 1975, by Lord O'Brien, former governor of the Bank of England. The letter instructed BBA members that authorized banks should deal only with FECDBA members.

Sarabex, which is owned by an Arab investment consortium, has pointed out that the FECDBA cartel "rules" are not published, that membership is solely at the association's discretion, and that no reasons for nonadmittance to the association are made public. On the other hand, applications for membership are required to be sponsored by six London banks which can attest to the association that the applicant broker provides services of a high standard. This, Sarabex claims, constitutes a vicious circle in that no such proof can be forthcoming if the broker is effectively barred from conducting business with the member banks involved.

While it is impossible to speculate on the outcome of the Commission's investigations, observers predict that Commission action against the BBA and the FECDBA would be strongly resented (whether justifiably or not) as serious interference in U.K. banking affairs and City self-regulation.

Stock Exchange Eases Rule on Public Equity

In an attempt to stimulate share dealings in smaller companies and inject some life into a somewhat slack new issues market, the London Stock Exchange has relaxed its rule on the proportion of a company's equity that must be in public hands at the time of listing. To date, SE policy stipulated a minimum 35% of the equity to be held by the public on the grounds that a smaller percentage would result in an unsatisfactory market. The SE Council has now announced that henceforth applications on a 25% basis will be considered. It is emphasized, however, that the Council will always take into account the amount of capital of companies involved and the nature of pre-listing holdings.

Reaction has been favorable, particularly since the move affords the smaller companies a lower base (and hence cost) for flotation and, moreover, allows them the possibility of testing the market at less risk and with less financial commitment.

Ireland: Market Rise Reflects Return of Confidence

While international investors have been encouraged by bull conditions on the London Stock Exchange, the lively performance of the Dublin Stock Exchange over the past few weeks has not gone unnoticed. In fact, as measured in terms of overall book value, Dublin is actually outstripping London: the total market value has virtually doubled to around £[illegible] million since January of this year, the Irish Times-Cara[illegible] overall index is climbing above 160 (from a 1975 bottom of 62), and the combined Irish industrial and financial shares index ("Dudgeon") has risen by more than 50% this year as compared to a 40%-plus rise in the Financial Times London index.

Market buoyancy in Dublin reflects an upsurge in confidence in national recovery due partly to the Fianna Fail's return to power and, more importantly, to revised economic forecasts. The latter have notably come from the Economic and Social Research Institute in Dublin, which predicts accelerated GNP growth of 6% for 1977, and from the Irish Central Bank, which recently forecast a drop in the inflation rate to below 15% for 1977 as a whole and a possible cut to 10% or less next year.

The key to these revised estimates undoubtedly is the successful negotiation of national wage agreements: wages are to be pegged to maximum increases of 12% until April 1978, and the government is currently attempting to secure labor union agreement on an across-the-board limit of 5% for 1978-79.

Common Market Reports

EUROMARKET NEWS

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Community: South Africa Code Criticized by EEC Firms

Adoption by the Council of Ministers of a code of conduct for Common Market firms with subsidiaries and branches in South Africa has produced largely negative comments from executives of affected companies. The code, intended to put pressure on the Vorster regime to abandon its apartheid policies, wants parent companies to see to it that black employees of their South African subsidiaries are treated equally in terms of wages, job opportunities, fringe benefits, and vocational training. All black workers should have the right to be represented by a union of their choice, and employers should try to lessen the effects of the segregation system that forces blacks to live in designated towns and villages. EEC firms are expected to prepare reports each year to show how their efforts measure up to the code's guidelines.

Although the code has only moral and no legal force, Common Market-based companies nevertheless anticipate certain problems. In Germany, for instance, executives point out that their government has considerable leverage to force compliance by refusing to underwrite the risks inherent in export contracts concluded by German firms with South African enterprises. Also, Bonn might refuse to give

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South Africa *(contd.)*

guarantees within its export financing program. Although the executives concur with the objectives of the code, they emphasize that South Africa is one of Germany's most important overseas markets and that German firms run into heavy competition there from British, Dutch, French, and Belgian producers. There is concern that other governments might not pursue the matter as carefully as Bonn apparently plans to.

Another aspect concerns existing South African law and the question of whether management should simply transgress the statutory racial barriers. So far South African authorities have looked the other way when individual firms occasionally have tried to integrate. Observers are wondering what would happen in the event of a massive attempt to tear down the barriers. Some believe that compliance with the code by all EEC companies with interests in South Africa could considerably soften the Vorster government's stand on racial discrimination.

Spain's Bid Gains Formal Acceptance

The Council's formal acceptance of Spain's bid to join the European Communities and the go-ahead it gave the European Commission to prepare an in-depth report on the matter as required by Treaty Article 237 amount to a defeat for France and, to a lesser degree, Italy *(Common Market Reports, Par. 9965)*. The prospect of membership for Greece, Portugal, and Spain is bound to damage the economic situation of French and Italian wine and citrus fruit growers. The French government originally insisted on thorough discussion of the economic, financial, and institutional issues connected with the three new membership applications, and it wanted some formal commitment from the Council before Spain's request was accepted. Under pressure from London and Bonn, Paris relented. The Commission will dwell on the issues in the coming months, and it has announced it will submit proposals soon to mitigate the effects on French and Italian farmers.

Since new memberships would bloat even further the Brussels bureaucracy, the Commission has suggested reducing the number of commissioners to 12: each member state would designate one commissioner. This would not only cut costs but also would avoid the wrangling among the states over the executive body's makeup. The present nine-state Community has a 13-member Commission.

In Brief...

The Council has agreed to an arrangement between Euratom and the Vienna-based International Atomic Energy Agency (IAEA) under which officials of both organizations will have the power to inspect nuclear reprocessing plants in the Community. Inspectors from Euratom and IAEA (also from the Soviet Union) would verify that spent fissionable material from nuclear power plants was not being diverted for

In Brief *(contd.)*

military use. Community officials expect that Canada will now lift its ban on uranium exports to the EEC + + + Elections for the European Parliament next May or June are in jeopardy because Britain has been dragging its feet in passing legislation on the matter; all other eight states have done so. But the Council has not given up hope for timely compliance by the U.K., and member state leaders will be applying pressure on the British government in the coming months to ensure election in all states within the projected one-month interval.

France: Rift Between Leftists as Talks Collapse

Fundamental differences over the scope of proposed nationalizations and ideological disputes have led to the collapse of a second round of policy talks among the French Communists, the Socialists, and the Radical Left. The failure on Sept. 23 of the negotiations over a joint government program opened a deep rift between the Communists and the other two parties and raised the question of whether the five-year-old Left Alliance *(Union de la gauche)* would hold together and succeed in its goal of winning the national elections next spring. The news of the breakup brought on speculation over the Communists' motives in possibly risking their participation in the next French government. Business reaction was expressed best by the fact that stock market prices rallied by an average of 4% that day.

The key issue dividing the three Opposition parties was that of nationalization. Most recently, the Communists, led by Georges Marchais, had pushed for extending nationalization to more than 1,500 French enterprises, a demand that proved unacceptable for both the Socialists and the Leftist Radicals. Socialist leader François Mitterrand earlier had committed himself and his party to a restrictive interpretation of the nationalization proposals contained in the Alliance's 1972 *Programme commun*. Robert Fabre, head of the Leftist Radicals, made his party's further participation in the Alliance dependent on basic guarantees protecting private ownership of production facilities and safeguarding private enterprise in general. (It was Fabre who had caused the adjournment of last September's first "summit" by insisting on similar terms.) As the negotiations dragged on, the Communists reduced the number of enterprises they want nationalized to about 700, while the Socialists appeared ready to accept compromises elsewhere. In the end, however, it was decided that the differences could not be resolved.

The latest developments have come only six months after the Left emerged as the winner of the communal elections and as a favorite for taking over the government after the general elections early next year. Now, however, Talks Collapse *(contd.)*

observers feel, the chances are rising for a deal whereby President Giscard d'Estaing might seek to draw the Socialists into a coalition with his centrist Republicans, leaving both the Communists and the Gaullists in the Opposition. Marchais, on the other hand, has issued a warning that any "rejoicing" comes too early and that the Left would soon close ranks again and go on to win in '78.

Denmark: Social Demos Adopt Radical Party Platform

At their national party convention in Copenhagen last month Denmark's governing Social Democrats adopted a new political platform which involves a far more radical shift to the left than Anker Jörgensen's minority administration should be able to realize under present conditions. The long-term policy program, the party's third in the 101 years of its existence, elevates the concept of "common ownership of the means of production" to a final goal. On the road toward this target, the Social Democrats will seek to suspend the employers' right to manage the labor resources, will advocate partial redistribution of corporate share capital and profits to a central employees' fund, and will push for public control of key economic positions such as those held by the multinationals.

The platform identifies specific sectors of the economy that eventually are to come under public influence and control: banks and insurance companies, the entire health system, and North Sea oil exploitation. The party wants the state to gradually acquire all real property, either by fiscal means or through purchase, and subsequently lease the properties "to the consumers." The party's left wing also prevailed with its ideas on fiscal policy: instead of an across-the-board income tax reduction and the introduction of a payroll tax, the program calls for the retention of the tax progression system and advocates tax relief for the lowest income groups only.

In the general political realm, the Social Democrat policy program states that the constitutional monarchy is to be retained but that the Queen would no longer have the formal privilege of partaking in the formation of government. Again under the pressure of the party's far-left factions, the delegates voted to modify that part of the policy program dealing with Denmark's membership in the EEC. According to the latest wording, approved by a 147-104 margin against the vote of the moderate party leadership, this membership status "must be continually evaluated in terms of whether membership serves to advance the cause of democratic socialism, both nationally and internationally." Denmark's NATO membership is endorsed by the party only insofar as the military alliance "remains a forum for the safeguarding of East-West detente."

As political observers have pointed out, previous ex-

Platform
(contd.)

perience in Denmark has demonstrated that the radicalism of party programs and the pragmatism of government policy are two different "kettles of fish." Nevertheless, Prime Minister Jörgensen should find it harder in the future to plot a course that will still assure him of the needed support of the parliamentary center groups, while also satisfying the demands of the Social Democrats' left wing. Adoption of the program, commentators say, has now definitely closed the door on a coalition with some of the nonsocialist parties, which until recently was seen as a distinct possibility.

Belgium: Income Tax Progression Up to 71%?

During the discussions over the draft budget for the next year, the Belgian government reportedly has decided to raise the tax progression for earners of higher incomes. The plans call for increasing the maximum rate from 63% currently to 71.5%, Brussels reports said. This would boost the average tax burden on annual incomes between BF 500,000 and 750,000 by 1%, on those between BF 750,000 and 1.5 million by 1.5%, and on those above that level by up to 5%. At the same time, however, the tax-free family allowances would be raised.

The reports further said that earners of lower incomes are to benefit from a proposal to adjust the tax progression schedules to inflation by way of indexation. Up to the level of BF 280,000 annually, indexation would be applied in full. Above that and up to BF 500,000, it would be gradually reduced to zero. In addition, the cabinet reportedly reconfirmed the government's intention to combine the 14% and 18% value-added tax rates into a single 16% rate *(Doing Business in Europe, Par. 21,384)*. Finally, the tax package would contain another price increase for cigarettes.

Netherlands: Three Parties Finally Agree on Program

The parliamentary factions of the three parties in a future Dutch coalition on Sept. 22 finally voted to support a joint policy program for the next four years. In order not to obstruct any further the efforts of forming a new government more than four months after the May 25 elections, the three parties involved - the Labor Party (PvDA), the Christian Democrats (CDA), and the left-liberal Democrats 66 - agreed to leave concrete decisions on such disputed issues as nuclear energy, defense and education policies to the future cabinet.

This week the coalition talks were to enter into their final phase with the negotiations over the apportionment of cabinet seats. The two major parties, the PvDA and the CDA, so far have staked incompatible claims concerning this issue. The PvDA has demanded one cabinet post more than

Agreement *(contd.)*

the CDA on the strength of its election victory last May when it won 53 mandates - 10 more than four years before. The CDA, on the other hand, which raised the number of its lower-house seats from 48 to 49, has been insisting on an equal number of cabinet posts, because the PvDA already would nominate the prime minister, Joop den Uyl. The CDA's formula would, if accepted, accord a special tie-breaker role to the D 66, which would name only one cabinet minister.

Germany: Schmidt's Party Complicates Energy Issue

The leadership of Germany's Social Democratic Party (SPD) has recommended to the delegates of the upcoming national party convention the adoption of a resolution banning the construction of any nuclear power plant until the issue of safe disposal of spent fissionable materials has been solved. In doing so, it has come into conflict with the position taken by Chancellor Helmut Schmidt, also a Social Democrat, whose government wants to push ahead with such construction. The SPD recommendation is similar to those made by a Free Democratic party caucus and the national union federation (DGB). Supporting the expansion of Germany's nuclear energy potential, both the Chancellor and Minister for Science and Technology Hans Matthöfer thought that licenses for planned nuclear power plants could be issued early next year even if the problem of finding a safe site for reprocessing and ultimate disposal of nuclear waste had not yet been solved. (Two locations in Lower Saxony have been selected, but progress has been prevented mainly by local environmental groups.)

If the party delegates accept the recommendation, the government may fail with its plan to expand the use of nuclear energy for power generation from the present 2% to 20% by the 1990s in order to reduce dependence on crude-oil supplies and to be prepared for the day when oil supplies are depleted.

Aside from the effect of the issue on future energy supplies, the party leadership's action also deals a blow to the government's efforts to cut unemployment. Environmental and other interest groups have succeeded in court to block the construction of six nuclear power plants and are campaigning against several plants still on the drawing boards. (Twelve of the total 38 planned are in operation.) Construction of seven conventional power plants has also stopped because of environmentalists' court actions. Members of the Schmidt cabinet say that these delays are blocking projects with a total value of DM 25 billion and thus are jeopardizing some 120,000 jobs. It has been estimated that this may well account for a 1% reduction in economic growth this year, at a time when Bonn is interested in providing the economy with some stimulants.

Britain: Healey Intends to Introduce Tax Cuts

Chancellor of the Exchequer Denis Healey confirmed in the course of a televised interview on Sept. 26 that he is planning to introduce tax cuts and/or other measures destined to stimulate the U.K. economy. Healey's statement came immediately after the managing director of the International Monetary Fund, Johannes Witteveen, had formally complimented the Chancellor on Britain's economic progress over the last year and had, according to Healey, indicated his approval for a reflationary package of measures.

Although wide publicity has been given in Britain to impending tax cuts, no prediction can as yet be made on what form they will assume. There is general agreement, however, that the package will be modest, particularly since the Chancellor talked in Washington of measures that would be within the constraints of the original letter of intent lodged with the IMF in exchange for massive financial support. Healey should find little room for maneuver between the £8.7 billion agreed to be the top limit for Britain's public-sector borrowing requirement and the £8.5 billion of PSBR that the Chancellor himself has projected for the current financial year.

Healey's stated preference is to cut personal income tax rates. This would pose considerably fewer administrative problems than increasing allowances, since any "tampering" with allowances in mid-financial year involves complete recoding of taxpayers' returns. On the other hand, the government's supporters have clearly expressed their preference for higher allowances. Faced with this dilemma, Healey may well be forced into making changes in indirect taxation, especially since a reduction in value-added tax, for example, would constitute a politically popular attack on price levels.

Ireland: No Ban by Brussels of Tax Incentives

Reports that the European Commission was contemplating swift action to ban the Republic of Ireland's tax incentive program - the best-known feature of which is the exemption of tax on profits from exports - have been quickly denied in a formal statement from Brussels which acknowledged that the economic consequences of any such move would inevitably spell disaster for the Irish economy. At the same time, however, it has become clear that Ireland's special tax regime does run contrary to the spirit of the Community's fiscal harmonization goals and that the Irish tax "holiday," despite Commission reassurances, may well be phased out sooner than the Dublin government would wish.

The statement also pointed out - and this was probably the source of the rumor - that the Commission had scheduled for publication "within a few weeks" a detailed study of fiscal incentives offered by the individual member states of the Community.

Switzerland: More Signatures Required for Referenda

The majority of the Swiss voters has decided that 50,000 instead of 30,000 signatures will be required in the future to force a referendum on any legislation previously approved by Parliament. Petitions for a constitutional initiative will have to be supported by 100,000 instead of 50,000 people. The new requirements will take effect after three months, i.e., as of Dec. 25. Any petitions for referenda or constitutional initiatives submitted prior to that date would still be valid with the lower number of signatures.

The voters' verdict was welcomed by the government which has argued that the proliferation of referenda and initiatives in recent years has been causing an undue strain on Switzerland's system of direct democracy and on everyone involved in the legislative process. The existing signature requirement goes back to the year 1874, when 50,000 voters represented 7.8% of the electorate. Today, the voting population is six times larger.

In the Sept. 25 balloting, the Swiss voters also turned down proposals to legalize abortion within three months after conception, to apply strict curbs on automotive emissions, and to impose federal controls on housing rents and in protection of tenants.

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Community: Soviet Vessels Withdraw from EEC Waters

The announcement by the Soviet Union of the withdrawal of its fishing trawlers from EEC territorial waters as of Oct. 1 was greeted with relief by Community officials. The Kremlin's action followed the Community's refusal to renew the licenses of Soviet vessels, which expired on Sept. 30 and allowed the trawlers to fish within the Community's 200-mile zone. Originally, the Council of Ministers had planned to extend the licenses by another two-month period in order to gain time for negotiations on a bilateral agreement. The situation changed suddenly, however, when on Sept. 25 Soviet officials boarded a British trawler and ordered it, along with two French vessels, to leave the Barents Sea. (The Council did extend the licenses of Polish and East German vessels until the end of November.)

Council and European Commission officials are still puzzled by the Kremlin's action. Some see it as mere saber rattling and possibly a prelude to further negotiations, while others believe it may have been simply in reaction to the fact that the Soviet Union has been suffering more from the 200-mile declaration than the EEC. Under the circumstances, the USSR may feel that negotiations would be fruitless. In 1976 Soviet trawlers netted some 600,000 tons, most of it in British waters, but imposition of the

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Soviet Vessels *(contd.)*

200-mile limit and unilateral quotas by the EEC cut this by two-thirds. On the other hand, the Soviet Union's decree of a 200-mile zone in the North Atlantic has hurt British vessels in particular. Their average annual catch of 450,000 tons has been reduced to 150,000 tons. (This sharp decline, however, was also due to Norway's new 200-mile zone.)

The Council is scheduled to take up the matter at its Oct. 24 meeting. It could continue to ban Soviet vessels from EEC waters, renew Soviet fishing rights, or suspend them until a satisfactory mutual agreement is reached. The second alternative would limit the Soviets to 20,000 tons in both November and December and would allow only 13 to 15 vessels to operate at any one time. The Council has instructed the Belgian government (currently holding the Council presidency) and the Commission to sound out the Soviets on their ideas for a settlement, and it is expected to act on the information at the Oct. 24 meeting.

Brussels Asks for Additional Employment Aid

The Commission has asked the Council to make several changes in the operation of the European Social Fund in order to provide additional aid to the Community's most backward regions and to subsidize retraining of jobless women. The proposed changes are along the lines of the Commission's earlier concept (outlined in a communication last March) of concentrating the Fund's resources on alleviating the situation in regions marked by persistent pockets of unemployment. The Council agreed to the concept last June, and the Commission's proposal would qualify these regions (Greenland, the French overseas departments, Ireland, Northern Ireland, and Italy's Mezzogiorno) for increased financial incentives to promote employment and vocational training opportunities.

Under the proposed amendments, the Social Fund would be authorized to pay 55% of the cost of vocational retraining courses offered by national authorities. (The present maximum is 50%.) The Commission is also proposing that the Fund's grants toward the cost of retraining carried out by private institutions be increased accordingly so that they would always match those given by public authorities.

Unemployed women, who represent more than half of the total of 5.7 million jobless in the EEC, stand to benefit from the proposal because it would soften the restrictions currently connected with Social Fund aid. Under existing rules, grants may be made available to projects that provide employment for women over 35 wishing to pursue a professional or vocational activity for the first time or whose qualifications are no longer in demand. The proposed changes would empower the Fund to help finance training and retraining of women over 25. Grants would be made available not only to programs that help women prepare themselves

Employment Aid *(contd.)*

for working life (for example, courses to update basic knowledge and inform about working conditions) but also to programs that help women ease their way into jobs for which they are qualified.

Because of the Council's earlier commitments, Community officials anticipate adoption of the proposals. This positive outlook is not marred by the fact that the Council, the Commission, and the European Parliament are now wrangling over cuts made by the Council in the draft budget proposed by the Commission. While in 1977 EC Social Fund expenditures totaled 616 million units of account (UA), the figure proposed for 1978 would be 500 million UA.

In Brief...

The European Parliament's legal committee has wound up its talks on the Commission's products liability proposal, but discussions and adoption by the full house may not come until the EP gets a breathing spell after its present involvement in the 1978 budget proposal, which may not be until early next year + + + Belgium, now holding the presidency of the Council, has told the other eight member state governments that it wants to press forward with the proposals on life insurance, coinsurance, and the right of establishment for dentists and architects + + + It is virtually certain that Culham, near London, and not Garching, Germany, will be the site of the Community's JET facilities (Joint European Torus). A formal decision by the Council on the matter is expected in late October or November after the present discussions on some of the remaining issues involving the administration of the ambitious energy research program are wound up.

Germany: Final Form of Tax Relief Bill Still Unknown

As had been widely predicted, the Opposition-controlled upper house of the German parliament has rejected the proposed increases for individual tax exemptions, so that the ultimate shape of the government's fiscal relief bill remains uncertain. The Bundesrat did vote in support of higher rates for writing off the cost of new movable assets under the declining-balance method (a maximum of 25% instead of the current 20%). This would bring temporary relief to businesses on the order of some DM 1.3 billion by shifting the tax burden to later years. The upper house also approved the proposed increase in the exemption applied to Christmas bonuses (from the present DM 100 to DM 400). This change would benefit the nation's 23 million households to the tune of an additional DM 2.1 billion.

Both measures are part of the government's program to cut persistent unemployment, which is still hovering around 900,000. The government and the Opposition disagree over the proposed increases of the individual exemption, which would be raised by DM 510 to DM 3,510 for single persons

Tax Relief *(contd.)*

and by DM 1,020 to DM 7,020 for married taxpayers. The Opposition had favored a temporary 10% cut in individual and corporate income taxes which, it argued, could have provided the needed stimulation for the slow-moving economy because it would leave individuals and businesses with an additional DM 15 billion to spend and invest. The government's proposal would put only an additional DM 3.5 billion into taxpayers' pockets.

Several alternatives now under discussion include a combination of the two concepts - increases in individual exemptions and an across-the-board 10% cut in income tax. Another possible solution would be a modest change in the tax rate structure which would eliminate the sudden jump in taxes due that hundreds of thousands of taxpayers experience when their income exceeds certain amounts. For example, a single individual earning between DM 8,000 and DM 16,000 annually pays 22% tax on his income, but the moment he makes more than DM 16,000 a year the rate jumps to 30.8% and rises progressively to the maximum of 56% for incomes of DM 130,000 (married couples, DM 260,000). A slight change in the rate system would cost the treasury DM 7.5 billion - DM 4 billion more than under the government's present proposal. Nevertheless, this would be far less expensive than a total overhaul of the system, a proposal that Bonn ruled out earlier this year for budgetary reasons.

<u>Italy:</u>
<u>No Departure from Stability Commitment</u>

At its session on Sept. 30, the Italian cabinet approved the draft budget for 1978, the general report on economic development, and a preview of the program for the coming fiscal year. All three documents were submitted to Parliament for discussion and passage, and the government took the opportunity to reaffirm its determination to maintain the current stability policies which, in the course of the past year, have achieved an equilibrium for the payments balance, an encouraging slowdown of inflation, and a stabilized lira.

In the coming year, the Christian Democrat minority administration under Prime Minister Giulio Andreotti is aiming for an average inflation rate of 12% (as compared with this year's estimated 18%), a real-term growth rate of 2-3% (1977 = 2.2%), and a balance of payments surplus of perhaps 2,000 billion lire. Budget expansion is projected at 13%, and the overall deficit would rise by 10% to 12,574 billion lire, inclusive of the shortfalls to be incurred by the state railways and the postal service. The total public-sector finance requirement - which also covers the communities, the health system, and the ENEL electric utility concern - has been calculated at 16,900 billion lire. This would be somewhat in excess of the ceiling to which Rome

Stability *(contd.)*

had committed itself last April in its letter of intent to the International Monetary Fund. However, it was reported that the government has been in informal contact with the IMF on this matter and that the Fund is prepared to agree to some concessions.

To be sure that the stated deficit ceilings will be in no way exceeded, the government has drafted a special finance law providing for some expenditure cuts, especially in the school sector and the pension system. For example, all retired persons who have additional income from employment would either forfeit their pensions or be limited to a monthly pension of no more than 100,000 lire. Also planned is a crackdown on the widespread abuse of invalidity pensions. Together, these measures could result in the saving of up to 1,800 billion lire, according to Labor Minister Tina Anselmi.

The partial stabilization of the economy achieved so far by Rome has not been without sacrifices: industrial production has been stagnating for several months, and unemployment rose to 1.4 million or 7.7% by mid-summer and could well reach 9% by the end of the year. Nevertheless, the government has vowed not to repeat the mistakes of 1975, when a massive boost in public spending stimulated demand to a point where galloping inflation and a monetary crisis brought Italy to the brink of economic disaster.

Netherlands: Questions on Government's Job Policies

Holland's advisory Scientific Council on Government Policy has released a study seriously challenging the realism of the government's stated intention to reduce unemployment from 220,000 to 150,000 within the next four years. This target has just been made an essential part of the official economic policy program for the coming term, and thus the Council's report has come at a very awkward time for The Hague. In fact, Dutch newspapers are said to have reported that there had been some pressure on the researchers to soften their position on this issue but that this had been declined.

According to the Council's analysis, Holland's labor force will grow by 530,000 people within the next decade, not counting those who will be let go as a result of structural changes in industry and farming. To employ all these people would require some 70,000 new jobs each year, a number that cannot be achieved through economic growth alone. The experts point out that a growth rate of no less than 6% had been necessary in the past decade to offset a labor force expansion of 440,000, but that such a percentage appeared highly unlikely for the coming years, even if the service industries will grow at the predicted fast rate.

Against this background, the Council questions the government's efforts to combat unemployment through an in-

Job Policies *(contd.)*

vestment promotion policy primarily aimed at creating as many new industrial jobs as possible. Instead, it recommends that state assistance be concentrated on exceptionally productive and profitable industries, which would not only improve their international competitiveness but also strengthen the country's socioeconomic base. The profits thus earned should be skimmed off and deployed in the creation of new jobs in the fast-growing services sector.

Among the measures specifically recommended by the researchers are (1) the promotion of industries, enterprises and projects with a high value-added potential (regardless of whether these are capital- or labor-intensive), (2) a reform of the system of social insurance contributions, which in its present form penalizes labor-intensive production, and (3) the creation of additional employment in both the service industries and a "quartiary" sector. The latter would provide services that cannot be "marketed" but for which there exists a growing need and demand: additional educational facilities, care programs for aged and sick people, etc. Other recommendations advocate higher pay for unappealing and "dirty" work as an alternative to forcing unemployed individuals into accepting such work. This would, however, require an overhaul of existing pay structures in order to avoid inflating incomes generally. To combat absenteeism, the Council recommends adding five mo days to annual leave: for each day of absence due to sickness, one of the extra days would be forfeited.

The study's findings are not only troubling the government but have also stirred up reactions by the labor unions and employers. The former are unhappy about the implied negation of their "more profits, more jobs" theory, and the latter are wondering why they should build up their profitability, only to have the profits taken away. The Council did not say how it would be possible to skim off profits without discouraging new investment.

Britain: Labour Backs Government on Strategy

On the very first day of the annual, week-long conference of Britain's Labour Party at Brighton, the delegates gave decisive approval to the government's fiscal and economic strategy, both past and present. For all practical purposes, party politicians and managers said, this meant that the key issues had been aired, deliberated, and decided on that day, Oct. 3.

The party's broad endorsement was made possible by the en bloc voting of the labor union delegates who were apparently impressed by the firm stand taken by Chancellor of the Exchequer Denis Healey against a return to "full-blooded socialism." Healey argued that now was not the time to squander the rewards of sacrifices - in the form of pay restraints in particular - made by rank and file members over

Strategy *(contd.)*

the last couple of years. The battle against inflation had already been won, he asserted, and the benefits would soon be tangible.

The benefits Healey alluded to are proposed to be tax concessions (as yet unspecified) both this fall and next spring. Although the Treasury is pressing for cuts in indirect taxation, the political bias is for reductions in direct taxation: the latter, Healey said, would do more for the cost of living than would "irresponsibly high increases of wages." Despite their sympathetic position at the Labour conference proper, however, union leaders have certain reservations. Above all, they are expected to press for direct measures to reduce unemployment, and these would inevitably take the form of increased public expenditure.

If the Chancellor is to make any significant gesture along these lines, he would be obliged to ask the International Monetary Fund to increase the limits imposed for 1978-79 in the U.K.'s original letter of intent. Judging by the favorable reaction of the IMF during the recent Washington meeting - when IMF managing director Dr. Johannes Witteveen submitted that the U.K. could make a more useful contribution to world economic growth when it had moved into payments surplus - it is assumed that the Fund would, in principle, not be opposed to renegotiating the ceilings. Observers have pointed out the distinct danger, however, that premature relaxation of firm monetary guidelines could trigger "reinflation" and, at the same time, act as a disincentive to new investment.

Austria: Vienna Proposes Tax Increases, Budget Savings

Confronted with massive speculation against the schilling last month and concerned over mounting budget, trade and payments deficits, the Austrian government has announced a string of economic measures designed to trim the imports bill and improve public finances. Outlined on Oct. 3 by Chancellor Bruno Kreisky and Finance Minister Hannes Androsch, the package is composed mainly of indirect tax increases and social insurance adjustments which, it is hoped, will result in budgetary relief of about 14 billion schillings next year.

The main feature of the program concerns the introduction of a third value-added tax rate for automobiles and "luxury" products. To come into effect on Jan 1, 1978, the 30% rate would be levied on new cars and motorcycles and on jewelry, antiques, Persian rugs, furs, perfumes, stereo equipment, video recorders, car radios, and aircraft - products that have been subject to the standard 18% VAT rate so far. According to Androsch, these goods (especially automobiles) account for 10% of all Austrian imports but for only 5% of domestic consumption. The drastic price increases would serve to slow down imports and thus reduce

Tax Boosts
(contd.)

the deficit in the foreign trade balance, which amounted to 54 billion schillings in 1976 and is estimated to reach 70 billion schillings this year. At the same time, the luxury tax would bring in about 2 billion schillings in '78.

The government is also submitting draft legislation that would result in a tougher fiscal treatment of "social capital" (i.e., reserves set aside for corporate pension and severance pay programs) and of the use of cars for business purposes. As of Jan. 1, contributions to the old-age pension system would be raised by 2%, of which 1% would be offset by a reduction from 6% to 5% of gross payroll of employer contributions to the social equalization fund. Employees would have to bear one-half percent of the pension insurance increase, whereas self-employed individuals would have to pay an extra 1%.

The Kreisky administration further decided to introduce a controversial road tax on trucks. As of July 1, 1978, a transit levy based on weight/kilometers would be imposed on foreign transports traveling through Austria on the way to other countries. Domestic haulers also would have to pay a tax on trucks above five tons.

Finally, the government has decreed a hiring stop for the public services and the reduction of overtime. Also included in the program are measures promoting Austrian exports and tourism as well as the establishment of a fund to finance industrial reorganization.

Common Market Reports

EUROMARKET NEWS

Issue No. 457 *Report No. 329, October 19, 1977*

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Community: New Blueprint for Common Meat Market

The European Commission has submitted to the Council of Ministers a blueprint of changes for the Community beef and veal market *(Common Market Reports, Pars. 651, 655)*. At the core of these changes, which have yet to be put into formal proposals, would be variable premiums for producers and aid to private storage facilities. The premiums would replace the fixed amounts currently given when animals are slaughtered and would vary by the week or month.

Revealing the EC executive's plan on Oct. 6, Commissioner Finn-Olav Gundelach said the proposed measures are designed to better cope with market imbalances. He ruled out any tampering with the price intervention system, however, saying that the system is necessary to attain the major objective of Treaty Article 39 - to ensure producers a fair income *(Common Market Reports, Par. 405)* - no matter how difficult this might be. Gundelach emphasized that the premium system is also necessary to encourage producers to specialize in either milk or meat production rather than combine the two.

The variable premium would be paid whenever the EEC market price fell below 90% of the guide price, and payment would be suspended whenever the market price exceeded 90% of the guide price. Farm experts concur with Gundelach

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Blueprint *(contd.)*

that variable premiums, in contrast to fixed premiums, might be better suited to counter the imbalances of low consumption and high production cycles, which have periodically beset the Community's farm market.

Criticizing the Community's farm policies, Gundelach said that all too often the proper measures have been applied at the wrong time. A report by the Commission corroborates the financial consequences of the system: while the costs of the common beef market for the years 1970-73 were on the order of $160 million, those for the 1974-77 period (marked by high prices and overproduction) are estimated at $2.5 billion. Consumers have reacted to high beef prices by switching to pork and poultry, and the surplus beef has had to be stored in refrigeration houses at high cost. Gundelach believes that the changes in the beef and veal market must be preceded by a prudent price policy. The price proposals for the market year 1978-79 that the Commission plans to submit to the Council by the end of this month would reflect this approach.

No Uniform Time Zone Seen for '78

Tourists and businessmen traveling in Western Europe next year will most likely have to cope once again with the inconveniences of two time zones: Germany has informed its EC partners that its parliament failed to pass legislation in time to permit introduction of daylight saving time (DST) in 1978. Government officials in Bonn considered September to be the deadline for passage in order to allow for the necessary changes. (Summer railroad and airline schedules are now in preparation.)

Actually, the Bundestag's interior committee last June unanimously approved a measure authorizing the government to move the country to DST by decree. Adoption by the full house was expected in September, but tax measures, budget discussions, and the Schleyer kidnapping preempted the lawmakers' time. On the other hand, it is believed in Bonn that the government (concerned that East Germany would stay on standard time if West Germany adopted DST) was reluctant to ask Parliament for statutory power in the first place, even though Bonn had committed itself on the matter in the Council of Ministers.

In February 1976 the European Commission had demanded from the Council a legislative commitment for uniform summer time throughout the EC, emphasizing that the existing time differences presented problems for transport, telecommunications, commerce, and travel. (The U.K., France, and Ireland had already introduced DST.) The Council decided that daylight saving time should begin on the first Sunday in April and end on the first Sunday in October, but Britain insisted on switching back at the end of October.

Next year's time arrangement in Western Europe will be

Time Zone *(contd.)*

similar to this year's. The Benelux countries and France are expected to be on DST from April 2 until Oct. 1; Italy, from May 27 until Oct. 1; and the U.K. and Ireland, from March 19 until Oct. 29. Switzerland, Austria, and Liechtenstein, which would have adopted DST if Germany had done so, will remain on standard time, as will Denmark.

Italy: Broad Majority for Nuclear Energy Plan

With the backing of most parties supporting the Andreotti government, including the Communists, the Italian parliament on Oct. 5 passed with a solid majority legislation that clears the way for immediate construction of four nuclear power plants of 1,000 megawatts each as well as for a second construction stage of another four plants. The program also includes an "option" for a third, four-unit stage, though only upon reconfirmation by Parliament.

Not settled by the action were the questions of how the program is to be financed and the exact locations of the plants. In contrast to such countries as France and Germany, where the construction of A-plants has run into the stormy opposition of environmentalists and citizen groups, Italy so far has experienced few problems in this respect, largely because it is considered to be far behind in the development of reactor technology. (Only three small reactors are operative, and a fourth is under construction.) The unusually broad parliamentary support accorded the nuclear program can be explained by the recognized need to diversify Italy's energy sources, which are too heavily weighted in favor of oil imports. In fact, the total dependence on these costly imports has been the prime cause of the country's enormous payments deficits, at least in the past.

The parliamentary action culminated long months of controversy and debate during which Industry Minister Carlo Donat-Cattin had threatened his resignation if the "mini energy program" were not adopted. The new compromise plan takes the place of an earlier, far more ambitious one which had been submitted in 1975 and called for the construction of no less than 20 nuclear power plants. It is supposed to create some 150,000 new jobs and thus provide some relief for the crushing unemployment problem. Nevertheless, the implementation of the A-program would cover only a small part (an estimated 7%) of Italy's energy requirements until the mid-'80s, and for this reason the government also wants to push the development of alternative sources such as hydroelectric, geothermal and solar energy.

No Curbs on Cumulative Incomes

The attempts by the Christian Democrat minority government in Rome to place restrictions on cumulative income from both pensions and employment have been killed by the CD leadership itself. The labor unions also had been opposed

Incomes *(contd.)*

to the idea. Party leaders apparently feared the possible loss of millions of votes, particularly in the south and by older people. In a communiqué, the CD advocated a review of the entire pension system and recommended "alternative solutions" in the government's endeavors to keep the 1978 budget within certain limits. Thus, the ministries involved have now been instructed to come up with budget savings elsewhere.

Commentators noted that, in being forced to give up its proposal for a partial pension reform, the Andreotti administration suffered an embarrassing, but undeserved defeat. It had been estimated that the treasury would have saved up to 1,800 billion lire next year had the measure gone through. This would have kept the 1978 budget approximately within the modified spending ceilings earlier imposed by the International Monetary Fund.

Britain: Controls on Capital Outflow to Be Eased?

For some time, the U.K. Treasury has been reviewing the possibility of easing controls on outward movement of British capital. Treasury sources have now announced that a decision can be expected "within a few months." At the same time, however, it is considered likely that any changes will be limited. There probably are certain advantages to easing controls: the City's overseas earnings would increase, and the government would be in a better position to deal with the influx of foreign capital, which has been exerting undesirable (for the present, at least) upward pressure on sterling's parity. The main disadvantage, felt by many to outweigh the advantages, is that such a move would open up the possibility of "hot" short-term funds flowing into Britain concurrent with long-term capital flowing out.

With the pros and cons so delicately balanced, no sweeping action is expected until the debate on sterling parity itself has been resolved, i.e., if and when the pound is allowed to move upward from its present undervalued rate of approximately $1.75.

Official Probe of U.S.-Owned Computer Firms

The U.K. Dept. of Industry and a special computer sector working party of the National Economic Development Office are currently examining the position and performance of U.S.-owned multinational computer companies in Britain. NEDO has long taken the view that a viable national strategy must incorporate some means of ensuring that the activities of the multinationals are in the optimal balance-of-payments interests of the U.K.: recent statistics clearly show, however, that the companies' contribution is best described as "broadly neutral" (NEDO). In fact, according to NEDO industrial director Bernard Asher, their contribution to exports is simply "not in proportion to their size."

Computer Firms *(contd.)*

The study will focus on means by which there can be more positive cooperation between U.S.-owned companies and domestic companies. This would be largely to the advantage of the latter, bearing in mind that at present six of the top seven mainframe manufacturers in Britain are U.S.-owned and that they employ no less than 60% of the total work force in the U.K. computer sector.

Germany: Bonn to Force Food Makers to List Calories

The German government has moved against what it terms dubious practices by food producers, processors, and retailers who promote and sell food items claiming to cause weight reduction. A draft regulation now being considered by the Bundesrat would bar slogans used in labeling and in promotion campaigns, such as "slenderizes," "leads to weight loss," and "produces a slim figure."

Passage of the measure, expected this month, would mean that food packaging on which such claims are made would have to show the number of calories or joules the product contains. Only if a particular item's calorie content is at least 40% below that of a comparable product could the package label refer to "reduced calories" or "less calories." If the food producer labels his product as being a low-calorie item, the package would have to show the calories or joules of the contents as well as those of a comparable item.

In addition to stating the number of calories, food producers and processors would also have to indicate the product's composition in terms of proteins, fats, and carbohydrates. The print would have to be prominent and easy to read. Restaurants and snack bars would be required to supply the relevant information on the menu or on posters.

Critics believe that the government's action is long overdue. According to a recent report by the Federal Health Office, some 40% of the country's 62 million population is overweight, and the government believes that those individuals who are trying to lose weight are entitled to fair and accurate information from the food industry.

Liechtenstein: Tighter Rules Proposed for Company Law

The Liechtenstein government is planning a reform of domestic corporate law that would make it harder to use local companies as a base for illegal and irregular financial transactions, while preserving the principality's attractiveness as a haven for international capital. The change in legislation would pertain mainly to the permissible activities of holding and other companies and to tighter accounting requirements. In view of the parliamentary elections early next year, the draft legislation is not expected to be submitted until the spring of 1978 and may not be adopted until '79; however, political support is assured.

Company Law *(contd.)*

The head of government, Dr. Walter Kieber, outlined the administration's proposals and considerations earlier this month in response to a parliamentary inquiry. He conceded that, "in the light of experiences in the past," abuses and violations had indeed taken place and that existing legal instruments had proven inadequate. This statement evidently was in reference to many minor incidents that have tarnished Liechtenstein's reputation in previous years but also to the two major Swiss banking scandals this year in which Liechtenstein trusts were involved. The latter were Texon-Finanzanstalt of Vaduz, which figured prominently in the Chiasso affair of the Crédit Suisse bank as the recipient of some SF 2.2 billion in fiduciary funds, and Finanz- und Vertrauensanstalt of Schaan, which played a similar role in the case of Lugano's Weisscredit bank and subsequently went bankrupt.

The new legislation would not abolish the Liechtenstein trusts and *anstalten* and would not prevent the establishment of new companies using these legal forms and availing themselves of the tax privileges attached to them. However, after enactment of the reform, newly established trusts and anstalten would be restricted to assets management and could not engage in commercial activities per se. (Existing companies would be given a grace period, as yet unspecified, during which they would have to conform to the new requirements.)

Nonresidents wishing to engage in active financial and commercial operations in the future would have to do so through the Liechtenstein version of a stock corporation (AG), which requires a minimum base capital of LF 50,000 and is subject to corporate income tax of up to 24%.

Changed accounting requirements would force trusts and anstalten to keep records and prepare balance sheets, which would be audited, on a random basis, by a government-appointed control agency. During a transition period, such records could be maintained abroad (for instance, in Switzerland). Later, after the necessary personnel arrangements had been made, this would have to be done in Liechtenstein. Improprieties would result in the immediate liquidation of the companies involved.

Spain: Madrid Attacks Unemployment, Inflation

Following consultations with all parliamentary parties, including the Opposition, the Spanish cabinet has announced a package of economic measures aimed against unemployment and inflation and supplementing the anticrisis plan of last July. Madrid is determined to reduce the rise in cost of living from the current 30% to 22% next year and wants to hold wage increases to the same percentage. In addition, the latest program provides for a most frugal budget policy, employment aids, and pinpoint assistance to agricul-

Unemployment *(contd.)*

ture, fishing, housing, and exporters. The plan was to be discussed with employers and the labor unions before being presented to Parliament for passage.

The budget and fiscal strategy of the minority government under Prime Minister Adolfo Suarez will combine steeper tax progression and selective spending cutbacks in order to leave Madrid with more funds to fight unemployment: 100 billion pesetas are to be set aside for this purpose, of which 60% is to be spent on extending and modernizing the unemployment insurance system and the remainder on local and regional employment aids. The employers' share of social insurance contributions is to be dropped from 78.5% to about 50%, which would meet long-standing demands by the business community. Also, the periodic increases in the minimum wage would no longer be automatically accompanied by matching contribution increases.

Businesses failing to adhere to the government's pay guidelines (i.e., the 22% ceiling for 1978) would risk forfeiture of certain tax and credit privileges. On the other hand, higher benefits are to be offered to employers who hire additional people, particularly school leavers. Exemptions from the 22% rule could be granted in the case of low-wage earners.

The government's communiqué listed a series of additional measures, the details of which still need to be worked out: the continuation of the tax reform efforts, more parliamentary control over public spending, continued credit restrictions as a way of curbing money volume, the codification of employee rights and duties, and the further liberalization and democratization of the economy and society.

EURO COMPANY SCENE

Siemens/ Advanced Micro

Germany's <u>Siemens AG</u> and <u>Advanced Micro Devices, Inc.</u>, Sunnyvale, Calif., have signed a letter of intent under which both partners will establish a joint venture for development, manufacture, and worldwide distribution of microcomputer systems. Siemens will hold a 60% equity in the new company and Advanced Micro, the remainder. In addition, the agreement provides for cooperation in the area of integrated circuits. The deal is to be completed by Siemens' acquisition of 500,000 newly issued Advanced Micro shares, which would represent 17% of the share capital. The price of $22.5 million would correspond to $45 per share.

Koni

Legal arguments have arisen between management and labor at <u>Koni</u>, the Dutch ITT subsidiary producing shock absorbers, over the company's plans to set up another plant in the United States which would serve the North American markets.

Koni *(contd.)*

Koni reconfirmed this proposal early this month after the company's works council had protested that it had not been formally consulted on the matter, as is required by law. Management has insisted that consultation is not required, since the new project would be located abroad. There is now the possibility of the works council's bringing legal action, with the support of the national unions. A Koni plant in the U.S., the unions fear, would hurt the Dutch company's considerable export business there, prevent expansion at home, and even take away market shares in Europe.

Du Pont

Du Pont de Nemours, the U.S. chemical company, was expected to announce this month its decision on the fate of two European plants producing Orlon acrylic fibers. In September the European headquarters in Geneva had revealed that either its Dordrecht/Holland plant (with a capacity of 30,000 tons) or the Maydown/Northern Ireland facility (50,000 tons) might have to be partially shut down because of accumulating losses in the fiber business. Another possible option would be to run both plants at reduced capacity. In Holland, Du Pont was reported to employ "fewer than 500" people in the acrylic fiber production. No exact figure was given for Maydown, where a total of 1,650 are employed in the manufacture of chemicals, elastomeric fibers, and Orlon.

Chemical Bank/ Multibank

New York's Chemical Bank last month announced plans for the complete takeover of London Multinational Bank Ltd. (Multibank) of which it already holds 30%. No price was revealed for the acquisition of the remaining equity from the other shareholders - Crédit Suisse, Baring Bros., and Chicago's Northern Trust Co. Reporting assets of £420 million and after-tax profits of £1.3 million at the end of the last fiscal year, Multibank has been engaged in medium-term consortial lending, short-term money market and foreign exchange operations, and as a Eurobond underwriter. The acquisition will give Chemical Bank full access to Eurobond underwriting, distribution, and trading and also provide it with a main base for syndication of medium-term Euro currency bank loans.

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Community: New Moves to Cut Jobless Rate of Youths

The European Commission is urging the Community to do more to cut unemployment among young people under 25 years of age who comprise nearly 40% of the total 5.3 million jobless throughout the nine member states. The EC executive wants more Community funds to be channeled as aids to existing national training programs for the unemployed. The Commission is also suggesting, however, direct Community grants to businesses in the member states that hire unemployed young people. (The Community is already financing a great number of multimillion dollar R&D projects that are carried out by Common Market businesses and that have contributed to securing existing jobs and creating new ones.) Furthermore, the Commission is mulling over the possibility of the Community's participation in certain national programs to create jobs for those under 25. Still, the Commission believes that the programs in the public sector (health, education, rural and urban development, and social services) that offer employment to the young represent a good potential for Community action.

The Commission points out that the European Social Fund has allocated some $500 million since mid-1975 to the member states' vocational training programs to cut the job-

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New Moves *(contd.)*

less rate among the young. However, the Commission says, these funds have never been sufficient: applications for Community aid coming in from the national agencies exceed considerably the funds that are available. The Commission believes that unemployment among the young will remain at high levels for several years to come. This pessimistic forecast, largely shared by national labor experts, is based on the fact that those children born in the baby boom of the 1960s have now reached working age.

These ideas on the youth unemployment situation were outlined in a communication that the Commission sent to the Council of Ministers. The use of a memorandum, rather than an outright formal proposal, has become the Commission's favorite approach (for political as well as legal reasons) for tackling touchy subjects in recent years. The upcoming discussions in the Council will give the Commission an idea of what the chances for adoption of any measures are in the first place and what sort of measures could find the Council's approval. This approach is advantageous for the Commission: if it does not have to withdraw a proposal that the Council has shelved, it can avoid reviving the old dispute over whether the Commission is entitled to withdraw a measure once the Council has taken it up, even though it may never be passed.

Streamlining Labor Rules for Transport

After four months of discussions among the Permanent Representatives, the Council of Ministers will once again attempt to reach a compromise for social legislation on road transport which it failed to do last June. Also on the Oct. 27 agenda will be a proposal providing for the introduction of monitoring devices in buses and trucks. The Council will have to decide, too, whether the Community should ratify the European Agreement Concerning the Work of Crews of Vehicles Engaged in International Road Transport (AETR), which took effect on Jan. 6, 1976.

Council Regulation No. 543/69 stipulates that drivers spend no more than eight hours a day behind the wheel *(Common Market Reports, Par. 1812.33)*. Britain and Ireland have opposed its application since the beginning of the accession negotiations (the British adhere to a 10-hour day), and they have succeeded in receiving reprieves from the Commission; thus, they have not had to apply some of the existing Community rules. The one-year extension that was granted, however, fell considerably short of Britain's original demand for a two-year reprieve. (The current one expires at the end of this year.)

Since chances for another extension are dim because France and other member states are stiffening their resistance, the U.K. has been insisting on at least some modification in the existing rules. Under a Commission compromise formula, truck and bus drivers would be allowed to be

Transport *(contd.)*

behind the wheel nine hours at the most twice a week. As of 1979, total driving time would be reduced to 46 hours a week. Since a driver's actual working hours are usually longer than the time spent at the wheel, the term "shift" would be introduced throughout the EEC to describe the whole period from the start to the end of the working day. As a general rule, this shift could not exceed 12 hours per day and 60 hours per week.

For the sake of increased road safety, the Commission's compromise formula would retain the original concept of installing tachographs in buses and trucks in order to verify compliance with the rules *(Common Market Reports, Par. 1812.24)*. Britain's unions had rejected the device, mandatory since 1970, as "spies in the cabs," and the U.K. trucking association had termed installation too costly. The compromise offers another concession, however, in that transport businesses operating trucks with tachographs would not always require two-man crews, which they normally must have when covering distances of more than 450 kilometers a day.

In Brief...

A Japanese company with subsidiaries in the Common Market has brought action in the Court of Justice against the Council of Ministers. NTN TOYO Bearing Co., Ltd. has appealed to the Court to declare invalid Article 3 of Council Regulation 1778/77 of July 26, which provided for an antidumping duty on ball bearings and tapered roller bearings from Japan (Case No. 113/77) + + + The precarious legal armistice reached in last year's French-Italian wine war, precipitated by French winegrowers' violent actions against imports of cheap wines from Italy, appears to be in jeopardy. A French court has requested from the European Court of Justice two preliminary rulings on the validity of Article 31(2) of Council Regulation No. 816/70. It contends that this provision authorizes measures that are contrary to Treaty rules on free movement of goods (Case Nos. 80/77 and 81/77). The French court is trying to find out whether French authorities were justified in levying fines on two Frenchmen who had imported more Italian wine than they were allowed to under the Commission-sponsored settlement of the dispute. The fines could be levied only if the transitional period had not expired in September 1975.

France: Tax on Large Energy Buyers Proposed

The French government has proposed a special tax to be levied on all big energy consumers: every business or other establishment that consumes more than 500 tons of heating oil per year would have to pay a 2% tax based on the number of calories contained in 100 liters of oil. Government officials estimate that some 20,000 firms and other consumers would be affected by the measure, which is expected to go into effect on Jan. 1, 1978, and would yield approximately

Energy Tax *(contd.)*

FF 300 million in revenue annually. The government has also authorized an immediate 9% increase in the price of industrial gas, and has predicted for early next year a 6.5% hike in the prices of gas and electricity charged to households.

The proposed special tax, the price increase for industrial gas, and the planned hikes for utilities are designed to compel businesses and households to conserve energy. The government hopes to attain its goal of keeping increases in crude oil imports within reasonable bounds. These imports, always a heavy burden on the balance of payments, were comparatively low in 1973 (FF 18 billion), but jumped to FF 45 billion in 1974 after oil prices quadrupled. The estimate for 1977 is placed near FF 55 billion, only FF 4 billion more than in 1976.

Although the planned and enacted measures may be seen as the first follow-up by France to the recent 19-nation meeting held under the auspices of the International Energy Agency in Paris, the steps are also designed to cut the operating losses of government-owned utilities and coal mines.

Germany: U.S.-German Double Taxation Talks Falter

The discussions between German and U.S. government officials about how to alleviate the negative consequences for nonresidents of Germany's corporate tax reform have led nowhere, and Bonn observers believe that, for all practical purposes, the talks have foundered. Similar discussions between German and Swiss officials also ended fruitlessly.

A major feature of the reform (in effect since 1977) - in fact, the heart of the measure - is that corporate and individual resident shareholders receiving dividends from German companies are credited with the corporate tax paid by the company on the dividends distributed to shareholders *(Doing Business in Europe, Par. 30,882)*. But, a foreign-based parent company is not entitled to a credit for corporate tax paid by its subsidiary; the same goes for a nonresident individual who receives dividends from a German entity. According to Bonn sources, Germany was not prepared to compromise either by agreeing to corresponding amendments in the tax treaties or by amending the new legislation.

Nonresident individuals and management of nonresident parent companies are now pinning their hopes on the United States. President Jimmy Carter has announced that he is going to submit tax legislation to Congress that would abolish double taxation of dividends. Presently, the distributing company pays corporation tax on the dividends paid to the shareholder, who in turn pays again when filing his income tax return. If the measure became law, German parent companies with subsidiaries in the United States

Double Taxation *(contd.)*

would be at the same disadvantage as American parent companies with subsidiaries in Germany: there would be no way of getting a credit for the corporate tax paid by their U.S.-based subsidiaries on dividends the parent company received. Nonresident taxpayers hope that Bonn will be more receptive to future talks over possible ways of eliminating double taxation of dividends. The readiness to compromise may be spurred on by the expected pressure that large companies are able to exert, especially now that more and more German firms are investing in the United States.

East Bloc Transporters Threatened

The Federal Republic has become the first EC member state to do something about East bloc firms' determined drive to capture a large part of the East-West transport sector. During his recent trip to the Soviet Union, Transportation Minister Kurt Gscheidle told his Soviet colleague that unless the state-owned trucking firms and shipping lines show some voluntary restraint, Germany might have to take restrictive steps. Bonn's move comes after intermittent discussions among the Permanent Representatives in Brussels during the last 18 months failed to produce tangible conclusions about what type of common action should be taken.

Lack of Community action is due not only to the fact that the Community's transport policy is still rudimentary, but also because past discussions concentrated largely on allegations that East bloc transport firms have used dumping practices. Trucking and shipping associations from several member states had charged dumping, but the EC executive has had difficulty proving it. Still, Commission officials say there is evidence that several East bloc shipping lines have been undercutting internationally agreed-on cargo rates by up to 60%.

The German government's latest threat has received backing from several member state governments. What Bonn has encountered is representative of the problems other states, especially Holland and Belgium, have experienced. West German trucking firms handle only 3% of the growing German-Soviet trade, 4% of the trade with Bulgaria, and 14% of that with Hungary. Only in trade with Czechoslovakia and Poland are the West Germans doing better, accounting for about 40% of the freight. Soviet vessels are also prospering in seaborne trade between the Community and the USSR in that they now carry some 70% of the total. Vessels from the East bloc countries may load and unload freely in the Community ports, but ships from the EEC may not do likewise in ports of these state-trading countries.

Italy: EC Delays Reorganization Law Application

Application of Italy's recently enacted law on the reorganization of companies may be delayed for months or perhaps even a year now that the European Commission has asked the Italian government for some important details that are not

Reorganization *(contd.)*

spelled out in the measure. The law provides for substantial subsidies to businesses to replace outmoded equipment. It also eases corporate reorganization. A new reorganization fund of some $50 billion, borrowed from the capital market and to be spent over the next five years, would make grants available to businesses for new investments and would offer interest subsidies to offset the cost of capital borrowing. The purpose is to revitalize ailing companies and to make businesses that are not doing badly on the domestic market strong enough to compete on markets abroad. This is what brought the EC executive into the picture.

Any type of aid that an EEC member state gives to a particular business or to an entire branch of industry must conform to the Treaty of Rome's rules on state aids *(Common Market Reports, Pars. 2921, 2931, 2961)*. Since the Italian law lacks details about the subsidies, the European Commission wants to know what criteria are going to be applied in making grants available to businesses and which industries are going to benefit and in which regions. Brussels is also asking for details on the type of investments that would qualify for grants.

The EC executive takes exception also to several provisions that in effect bar or hamper women's access to certain jobs, thus violating Community rules against sex discrimination. These rules will not become effective until August 1979, but the Commission argues that any national law should not contain the potential for future conflicts.

More Taxes on High Incomes Likely

Italians in the high income brackets are facing the possibility of paying more income tax. According to a government proposal that is expected to go to Parliament later this year, the present 32% rate on annual incomes between 15 and 17 million lire would go up to 33%; there would be a 35% rate on incomes between 17 and 19 million lire (presently 33%), and a 37% rate on incomes between 19 and 22 million lire (now 34%). Those taxpayers who now have a 35% rate on incomes between 22 and 25 million lire would be paying 39%, and those in the highest income bracket would be paying 72% instead of the present 70%.

Although the Italian economy has shown some improvement in recent months, it is still not healthy. In order to finance additional expenditures allocated under the 1978 draft budget, however, the government believes that it has no other choice but to resort to this unpopular move, which is supposed to yield some 400 billion lire annually in additional revenue.

In related matters, the lower house's tax committee has approved a government bill that would introduce rules of self-assessment for taxpayers. If the full house passes the measure in the coming weeks, taxpayers with monthly incomes of at least 250,000 lire would have to make their

More Taxes *(contd.)*

first advance payment on their 1977 income tax liability in November. This payment would have to equal 75% of tax liability.

Britain: Callaghan Bonn Visit Settles Two Top Issues

U.K. Prime Minister James Callaghan's Oct. 18 meeting in Bonn with Chancellor Helmut Schmidt brought about a breakthrough on two crucial issues with purely British-German and EEC connotations. Both sides agreed that Bonn would make one more payment under the offset-cost settlement to compensate the U.K. for part of the increased costs (incurred by the decline of sterling) in stationing its army on the Rhine. Important from the Community angle, Bonn and London also agreed that both sides would accept a majority decision by the Council of Ministers on the location of the Community's Joint European Torus (JET) nuclear fusion research project. This clears the way for the Council of Ministers' formal decision on the site, and it means that Culham near Oxford, rather than Garching near Munich, will house the multimillion dollar energy research project.

No agreement was reached, and none was expected, on the third topic - Britain's contributions to the 1978 EC budget - because on the day before Callaghan's visit to Bonn the nine finance ministers, meeting in Luxembourg, put off until late November the settling of the dispute over Britain's future contributions. In essence, the dispute centers on Community plans to adopt for budgetary purposes a new unit of account. Accordingly, as of Jan. 1, 1978, the budgetary unit will be computed on the basis of prevailing rates on the foreign exchange market. At present, sterling parity is taken as $2.40, a figure that is both artificial and totally unrealistic. (The current rate is $1.77.) Clearly, the new system will necessitate a pronounced increase in the sterling value of Britain's future contributions. The European Commission has accepted Brittain's contention that it is secured against such a quantum jump (U.K. treasury sources project an additional £240 million in 1978) by the terms of Britain's accession treaty. Germany, together with Denmark and France, strongly disagrees, not least because they will probably be called upon to shoulder the burden of a budgetary shortfall if the U.K. can successfully defend its present stance.

Belgium: Unions Demand Cut Workweek at Full Pay

A new series of talks between Belgium's employers' and trade union organizations with the aim of reducing the workweek to 36 hours has begun in Brussels. The two main union federations, the Socialist General Federation of Workers (FGTB) and the Social Christian Union Confederation (CSC), have told the Federation of Belgian Employers (FEB) that they see a reduction of the workweek as one of the principal ways of fighting the country's unemployment

Workweek Talks *(contd.)*

problem. (More than 260,000, or 6.5% of the labor force, are currently out of work.) They believe that a workweek cut of just one hour would create an extra 24,000 jobs, and they intend to press for implementation of the 36-hour week by the end of 1980.

The main drawback from the employers' point of view is the union's insistence on full pay at the 40-hour week level. This has been the stumbling block during similar talks in the past, and although union leaders are optimistic this time, the FEB expects this new series of talks to stretch well into next year. Employers are pointing to recent EEC statistics showing that, on the average, Belgian employees work fewer hours than any of their colleagues in the Community. According to the figures, the average workweek for a Belgian in 1975 was 37 hours six minutes, compared with 41 hours 48 minutes in the U.K. and 42 hours 54 minutes in France.

Spain: Wage Restraint Is Seen Crucial to Recovery

Now that the Spanish government and opposition parties have joined in a common plea for wage restraint and greater productivity, the course of the economy depends largely on the unions' acceptance of the agreement hammered out in recent weeks. The crucial aspect of the accord, part of the government's program to revitalize an economy plagued by high inflation, unemployment, and low productivity, provides for a 22% wage increase ceiling for 1978. Without the unions' compliance with the proposed ceiling, there is little hope that the government could succeed in holding inflation down to 20% next year. (It stands presently at 30%.)

Madrid observers believe that the chances of the unions' coming around to accept the proposed wage hike ceiling will depend largely on the government's willingness to do more for the unemployed. Although the government has agreed to set aside $1 billion for increased unemployment benefits to the approximately 600,000 persons officially registered as unemployed, the leaders of several of the newly established unions contend that this is not enough: they believe that a more realistic figure is nearly one million jobless.

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EUROMARKET NEWS

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Community: Culham Chosen as JET Energy Research Site

The Council of Ministers' Oct. 25 decision on Culham, England, as the location of the Community's main research center for controlled nuclear fusion and plasma physics is remarkable in two respects. It means not only an end to years of wrangling over the site of JET (Joint European Torus) but also represents a rare event in Community decision-making in that a member state, in this case Germany, accepted the Council's majority vote even though it believed that Garching, near Munich, would have been the best location for the project.

JET's main function will be to open up new energy sources for the future when fossil deposits are depleted and even fissionable materials may be hard to come by. Until now the only known nuclear fusion process has resulted in the development of the hydrogen bomb. To harness fusion power for nonmilitary purposes, some way must be found to control the extreme temperatures that develop during the fusion process. The ultimate goal is a power plant with practically no pollution that uses easily obtainable elements: deuterium (a variant of hydrogen and easily obtainable from water) and lithium (widely distributed in rocks found all over the world). Scientists have estimated that

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JET Site *(contd.)*

a power plant for a city of one million would need about 125 grams of deuterium and 400 grams of lithium per day. (The present need is about 5,000 tons of oil or 9,000 tons of coal daily.) The project requires a long-term effort that no individual state could undertake with a reasonable chance of success. However, with 16 years of research behind it, the Community's fusion program is admittedly one of the most advanced in the world.

For years Bonn had been blocking agreement on the JET site for budgetary and other reasons. Many experts told the Schmidt administration that their preference was Garching, location of the Max Planck Institute for Fusion Research, since it is allegedly more suited for the project. However, after Germany was successful in locating the European Patent Office in Munich, the other states pressured the Schmidt administration to give in, and thus Britain will now get its first Community institution. Bonn, which will underwrite over one-fifth of the $200-million, five-year research program, may yet have something to gain from the compromise because there is an understanding among the major states that a second research center would be built in Garching.

Council Agrees on Interim VAT System

The Council has reached basic agreement over the details the five-year transitional arrangement that is to govern the computation of that part of the member states' VAT revenue which will go to the Communities. Starting in 1978, the EC will receive 1% of each state's value-added tax revenue in lieu of the annual contributions that have been required to be paid into the Community budget so far. Adoption of the sixth VAT directive by the Council of Ministers in May laid the foundation for the new system, which provides for harmonization of one of the most important aspects of taxation: the assessment base *(Common Market Reports, Pars. 3165, 9947)*.

Passage of the implementing financial regulation has been held up for several reasons, including disagreement among the member states over what measuring stick should be applied in figuring out how much an individual state would owe the Community. Should a member state's share be based on the total of value-added tax paid by taxpayers (and reflected in their VAT returns), or would national statistics on collected VAT revenue suffice? Acceptance of the Commission-sponsored detailed tax return method, which was patterned after the French system, would have required Germany to print new VAT return forms and to hire more tax officials to review the returns; small and medium-size German businesses would have been particularly affected by the additional work of having to fill out more elaborate forms.

The agreement allows for the use of both methods over the 1978-82 period. A final decision on which method would

VAT System *(contd.)*

be used thereafter will be made in 1982 at the latest, based on the experiences gathered. The decision would have to be unanimous.

In Brief...

Advocate-General Henri Mayras will deliver his opinion in United Brands v. Commission before the European Court of Justice on Nov. 8. The unusually long time lag between the hearing of the case's oral arguments (July 12) and presentation of the opinion was due to Mayras's prolonged illness and not the issues involved + + + Three Japanese manufacturers (Nippon Seiko, Koyo Seiko, and Nachi Fujikishi) and their European subsidiaries have followed the example of NTN TOYO Bearing Co., Ltd., in suing the Council to obtain a judgment from the Court of Justice to the effect that Council Regulation No. 1778/77 is illegal in that it provides for the imposition of an antidumping duty on ball bearings and tapered roller bearings from Japan.

Germany: Tax Compromise Likely to Be Approved

Work on the tax bill has continued in the German parliament despite the round-the-clock sessions in the executive branch in connection with the Schleyer kidnap-murder and the airplane hijacking. The conference committee not only wound up its deliberations on time but also recommended substantial tax relief in addition to that proposed by the government in its original bill *(Doing Business in Europe, Par. 30,971)*. Passage of the compromise version seems assured, so that individual taxpayers should have an additional total of DM 10 billion to spend annually as of 1978 as a result of increased and new exemptions.

The prospect of tax relief for businesses looks rather meager because the proposed higher rates for writing off costs of movable assets under the declining-balance method (25% instead of the current 20%) would bring only temporary relief by shifting the tax burden to later years. Still, businesses as of next year will have some DM 1.3 billion more annually at their disposal. The construction industry and building trades would stand to gain from the reintroduction of the declining-balance method of depreciation for new buildings which was abolished in 1973 to slow the building boom. Finally, any grants that employers receive from the government for hiring and retaining apprentices will not constitute income on their part.

Since the measure would increase from DM 100 to DM 400 the exemption applied to Christmas bonuses and since this provision would be made retroactive, an individual taxpayer would have between DM 66 and DM 122 more to spend for Christmas 1977. The proposed increase in the individual exemption for a single taxpayer (from DM 3,000 to DM 3,510) and for a married couple (from DM 6,000 to DM 7,020) would mean about DM 112 more each year for the former and twice that amount for the latter.

Tax Compromise *(contd.)*

The government's original bill had proposed all of these features. However, the Opposition-controlled upper house forced yet another exemption into the measure, and the conferees are also recommending it. This exemption, a *Tariffreibetrag*, amounting to DM 510 for a single taxpayer and DM 1,020 for a married couple, is considered to be a temporary substitute for an overhaul of the tax rate structure that the Opposition has been demanding in order to eliminate admitted inequities; the government has put it off for fiscal reasons. As a result, a single taxpayer would owe between DM 112 and DM 285 less in annual income tax and a married couple between DM 224 and DM 570 less.

Britain: Tax Changes in 'Election Budget'

In what has been widely dubbed an "election budget," U.K. Chancellor of the Exchequer Denis Healey on Oct. 26 submitted a package of tax changes which are anticipated to have a "modest reflationary effect" on the British economy. The highlights are as follows:

- Income tax allowances increased by £100 to £945 for single persons and by £160 to £1,455 for married couples.
- Modest tax rebates for Christmas 1977 of £20 for single persons, £35 for couples, and a special £10 bonus for old-age pensioners.
- Single and widowed parents' additional personal allowan increased by £60 to £510.
- Age allowances up by £130 to £1,250 for single persons and by £210 to £1,975 for couples.
- A moratorium on cuts in tax relief on mortgages following recent interest rate cuts.
- Anticipated creation of some 30,000 jobs by a £400 million increase in expenditure on government and local authority projects.
- Increased spending (by £20 million) on overseas aid.
- Vacations abroad: currency allowance increased from £300 to £500 per trip.
- Business abroad: currency allowance up from £75 to £100 per day, with a maximum of £3,000 per trip.
- Capital transfer tax applicability to commence at £25,000 instead of £15,000; further, graduated thresholds all increased by £10,000.
- Small-business relief on capital transfer tax increased from 30% to 50%.

The most significant political aspect of the budget is undoubtedly the concessions made to smaller businesses, traditionally regarded as the "citadel of Toryism."

Healey also announced that there would be further cuts in his April 1978 budget, the principal feature of which would be direct cuts in the standard rate of personal income tax. Provisional calculations suggest that this will be possible, provided that pay increases are contained within the 10-12% range. Healey is well aware, however, Budget *(contd.)*

that uncontrolled spending coupled with excessive pay demands could start a classic inflation spiral. In this regard, he may have been disappointed with the Inland Revenue Staff Federation's saying that its members could not carry out the extra work entailed by the Oct. 26 measures without "some sort of reward."

Netherlands: Labor Party Favors More Nationalization

At the three-day convention this month of Holland's governing socialist Labor Party (PvDA), the majority of delegates ignored the position of the party leadership in supporting proposals for a republican form of government and extensive nationalization. Approved was a resolution calling for the nationalization of private enterprises in the base industries, pharmaceuticals, defense, banking and insurance as well as of private pension funds. The delegates came out for "zero-fare" public transportation, and an extremely slim majority also backed a proposal to abandon all further efforts to exploit nuclear energy so long as it was not possible to adequately protect the population and the environment against nuclear hazards. (For all practical purposes, the party's decision, if accepted by the government, would mean the shutdown of the country's two small reactor centers.)

Other approved resolutions advocated a nationalization policy not only for the Netherlands but also for the European partners, international controls over energy supplies, and a "democratic, political decision-making process" in regard to the multinationals. All these points were written into the PvDA's new political platform, which formally modifies the one devised in 1959.

Given the fact that Labor's government leaders, including Prime Minister Joop den Uyl, are counted among the party moderates and that the existing (and probable) future coalition government includes the Christian Democrats (CDA), political observers see little chance for the more radical proposals to be turned into immediate legislation. Nevertheless, the PvDA's left wing has been able to assert itself more and more in recent months, and this could force Den Uyl to steer a course that will not blatantly jeopardize his own party's support.

The strong position of the left-wingers has been very much in evidence during the latest round of talks toward the formation of a new government. These discussions were still in deadlock in late October, more than five months after the national elections. The PvDA, with 53 lower-house seats against the CDA's 49, demanded eight cabinet posts for itself and proposed seven for the CDA. The latter insisted on a 7-7-2 formula, with the two portfolios to go to the third partner in the coalition, the left-liberal Democrats '66 (D 66). At stake are 16 cabinet seats, and

Labor Party *(contd.)*

any small change in the makeup of this list could have a major effect on future policy decisions in the economic and social realm and even on Holland's role within the EEC and NATO alliances. This, in part, explains why the coalition talks have dragged out for so long and have been conducted with such acrimony.

Belgium: More Efforts to Aid Jobless Young People

The Belgian government intends to reexamine its recently announced plans to combat unemployment following the publication of the latest official statistics which show unemployment at record levels. Brussels in particular is expected to strengthen its proposals to aid young people by encouraging businesses to hire more apprentices and by promoting training programs within certain industries.

Unemployment in Belgium stood at 269,400 on Oct. 15 - an increase of about 8,900 in two weeks and almost 5,000 more than the previous highest figure recorded last January. Most of the increase of nearly 9,000 in the first two weeks of the month is attributed to school and college leavers. (Young people do not qualify for unemployment benefits until three months after ceasing full-time school attendance.) The Belgian unemployment rates now stand at 11.5% for women and 4.1% for men, and the National Employment Office was expecting another big increase by Nov. 1.

Meanwhile, a report by the European Commission held out little hope for improvement in Belgium's unemployment situation next year. Although the country's payments balance is expected to show a surplus in '78, the report said, measures so far taken by the government are not deemed sufficient to cope with escalating unemployment.

In other developments, the government has passed draft legislation providing for the direct election of its 24 European Parliament members next year. The plans are for the election of 13 Flemish-speaking and 11 French-speaking members from two national lists. In Brussels, the "bilingual" capital, both lists would be open for balloting.

Austria: Restrictive Draft Budget Cuts Deficits

The "restrictive" draft budget for 1978, presented by Austrian finance minister Hannes Androsch to Parliament on Oct. 18, is predicated on government expectations of a 7% economic growth rate (2% in real terms) next year. Accordingly, the rise in spending is to be held just below 7%, to a total of 258.6 billion schillings, while revenue would expand by 11% to 218 billion schillings. The additional revenue income would be generated mainly by a package of indirect tax increases and social insurance adjustments which was announced early this month, on Oct. 3. Of neutral effect would be the proposed changeover of the family allowance system from tax deductions to cash payments, Draft Budget *(contd.)*

which would raise the expenditure and revenue totals by 9.1 billion schillings, respectively.

On the basis of these projections, Vienna will be left with a gross deficit of 40.6 billion schillings in '78 as compared with a probable 46-billion shortfall this year. (Without the austerity measures, however - including an increase from 18% to 30% of the value-added tax rate on new automobiles and many other products - the deficit would have been close to 55 billion schillings.) The net deficit, which corresponds to the public borrowing requirement, would be, at 24.5 billion schillings, appreciably lower than this year's estimated 34 billion. Nevertheless, this does not detract from the fact that the amortization of the total public debt, including interest and charges, will rise by about 20% to 31 billion schillings, thus remaining the fastest-growing budget item.

The ordinary budget is supplemented by a *Konjunkturausgleichsbudget* of 5.3 billion schillings which the government can deploy for economic stimulation or stabilization measures.

Clampdown on mpany Car x Privileges

The Austrian government's proposal to raise as of 1978 the VAT rate from 18% to 30% for automobiles, photo equipment, TVs and radios, furs, jewelry, and other luxury items has induced thousands of Austrians to go on a spending spree. Many car dealers have sold out all models on hand and reportedly are trying to buy additional cars in neighboring Germany. (Other retailers - for instance, camera stores - also report substantially increased sales.)

Aside from the proposed drastic VAT boost, businesses and members of the liberal professions would have another reason for deciding to purchase a new car by the end of this year. Thus far, they have been entitled not only to deduct the purchase price and the costs of operating a car from their income tax liability but also to write off from their turnover-tax liability the 18% VAT that the dealer is required to add to the price he charges the buyer. This privilege of deducting the so-called prior VAT would be eliminated. There also would be curbs on deduction of operational costs of cars used for business or professional purposes.

EURO COMPANY SCENE

Bayer/ Miles

In a joint announcement last month, the German chemical giant Bayer AG and Miles Laboratories, Inc., Elkhart, Ind., confirmed Bayer's intended takeover of the U.S. pharmaceutical producer for $253.8 million. In the course of the negotiations, Bayer upped its offer from $40 to $47 for each of 5.7 million outstanding shares. Miles ("Alka-

Bayer/ Miles *(contd.)* Seltzer") last year reported sales of $450 million and net earnings of $16.2 million, or $3.02 per share. The German company already has substantial interests in the U.S., of which the most important are Mobay Chemical Corp. and Cutter Laboratories, Inc. Bayer is planning U.S. investments of some $500 million within the next five years and hopes to raise its total U.S. turnover from $1.1 billion in 1976 to $2 billion by 1980.

Nestlé/ Alcon Switzerland's Nestlé AG food concern plans a tender offer for all outstanding common shares of Alcon Laboratories, Inc., Fort Worth, Texas, in a diversification move that would mark Nestlé's entry into the pharmaceutical sector. The agreed bid is for $32 per share, or a total of $276.5 million if all shares are acquired. Alcon produces a line of ethical-pharmaceutical specialties and reported sales of $81.6 million and profits of about $9 million for the last fiscal year (April 30). Forty-three percent of turnover is generated abroad.

Du Pont In considering whether to shut down or reduce acrylic fiber production at its facilities in Maydown, Northern Ireland, or Dordrecht, Holland, Du Pont de Nemours has now made the decision to phase out the Dutch plant over a period of two years. A Du Pont announcement said the gradual phase-out would permit the company to avoid forced layoffs at the plant, which has an annual capacity of more than 29,000 tons. A feasibility study has shown that it would be better to continue full production at the Maydown plant which is larger (50,000 tons) and more modern than the one at Dordrecht.

Quaker Oats/ Chiari e Forti In what observers described as the first new U.S. investment in Italy in some time, Quaker Oats Co. of Chicago is acquiring a 27% minority interest in Chiari e Forti, the Parma-based foods group. It is planned to have an extraordinary shareholders' meeting approve a capital increase from 2 billion to 2.75 billion lire in the form of 1.5 million newly issued shares. Chiari has had major financial problems in the early '70s but has been on the road to recovery lately, although the 1976-77 fiscal year (June 30) still closed out with a small deficit on sales of 71 billion lire. Since 1973, Quaker and Chiari have been cooperating in the joint production of feedstuffs.

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Community: Law Conflicts Proposal in Final Stage

Discussions by a Council of Ministers working group on a draft regulation aimed at settling conflicts of law confronting individuals employed outside their home state have entered the final phase, and Council officials expect adoption toward the end of this year. The proposal would answer the question of which national labor law applies to an individual who is transferred from his home state to his employer's subsidiary in another member state. No distinction would be made between nationals of member states and residents from non-EEC countries.

An alignment of national practices is needed for the sake of promoting labor mobility because four member states (the U.K., Denmark, Germany, and Holland) recognize employment contracts drawn up elsewhere so long as they do not curtail employees' rights granted under domestic rules. Belgium, France, Italy, and Luxembourg, on the other hand, apply domestic law to all residents. Alignment would be achieved by applying the basic rule that employment would be governed by the law of the state in which an individual normally works. The term "normally" implies that short stays in another

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Law Conflicts *(contd.)*

state would not involve the application of domestic labor law.

There would be several exceptions to the basic rule, however. An employee of a company with establishments in several member states who is transferred from his home state to another EEC state for more than one year could enter into an agreement with management under which the labor rules of the home state would cover his employment abroad. Executives and generally all individuals who have a special position or do work of a special nature would not necessarily be subject to the labor rules of the state where they work: they too would be enabled to sign contracts subjecting employment terms to the law of any member state or of a non-EEC country. Contracts by executives and management that deviate from the basic principle set forth in the draft regulation would have to be in writing and could not curtail the rights an employee has under domestic law in terms of wages, maximum working hours, time off, vacation, and legal holidays. The same goes for provisions banning noncompetition clauses. Where the law of the home state is more favorable to the employee than the rules of the state of residence and employment, the former would apply.

Road Transport Accord Reached by Council

The Council has adopted several amendments to existing Community legislation relating to road transport. At the same time it has in effect granted the United Kingdom and Ireland yet another three-year grace period to bring national transport rules into line with EEC standards. Most of the amendments concern the working conditions of truck and bus drivers; a major change will limit to eight the maximum number of hours that those drivers may spend behind the wheel. This will primarily affect British drivers, who usually are on the road 10 hours a day. (British government officials anticipate difficulties because of the unions' resistance to any reduction; the Commission could help by granting a reprieve.) Another amendment provides for a five-hour increase in a driver's weekly rest period, bringing it to a total of 29 hours. However, an employer could reduce the rest periods to 24 hours if his drivers were compensated by accordingly fewer work hours per week *(Common Market Reports, Par. 1812.33)*.

At its Oct. 27 meeting in Luxembourg, the Council showed flexibility by passing amendments to the tachograph regulation, which had been strongly criticized by several national governments. A heavy truck will no longer require a second driver on trips of over 450 kilometers if the cab is equipped with a tachograph. Trucks carrying goods within a radius of 50 km and generally all vehicles with a total loaded weight not exceeding six tons will be exempt from the tachograph requirements until June 30, 1979.

The installation of tachographs - devices to monitor

Road Transport *(contd.)*

driving time, speed, and the distance traveled - played a big role in the past discussions among the Permanent Representatives, and it came up again during the Oct. 27 meeting of the Council. Since the Council remained adamant on the matter, Britain will not be able to benefit from a three-year reprieve from the installation requirement. In fact, the Commission has taken the first step to bring the U.K. before the European Court of Justice because of its refusal to implement the Community rule requiring tachographs in new trucks and buses. In a letter addressed to the British government, the Commission has given London one month to explain its failure to comply. Tachographs have been used in all trucks and buses operating in the original six member states since 1971 *(Common Market Reports, Par. 1812.24)*, and Britain was to have introduced them starting in 1976. (U.K. trucks traveling on the Continent already have them.)

Metro Loses Action against Commission

The European Court of Justice has turned down Metro-SB-Grossmärkte in its action against the Commission seeking an annulment of the latter's 1976 decision exempting SABA Corp.'s sales conditions from the cartel ban of Treaty Article 85(1). These conditions pertain, among others, to access to SABA's sales network. Only specialty outlets meeting several conditions, among them specific sales targets, are admitted. Metro claimed to meet SABA's qualitative requirements for inclusion in the sales network, but it was nevertheless not appointed retailer for SABA TVs, radios, and other entertainment equipment. The Court held that the Commission did not exceed its discretion when, for the sake of a sufficiently coherent sales network, it favored specialty outlets over self-service wholesale dealers (Case No. 26/76). Both Metro and SABA are German firms.

Britain: Mixed Feelings over Pound's Free Floating

The continued influx of short-term foreign currency into the United Kingdom culminated in the decision by Chancellor of the Exchequer Denis Healey on Oct. 31 to "free" sterling from its artificially low parity and allow it to float upward. In the course of the first day's trading, the pound climbed no less than six cents against the U.S. dollar. The switch in intervention policy because of unprecedented market pressure provoked mixed feelings in the City, however, and share prices edged downward in anticipation of lower company profits.

Among those who did not welcome the decision, although it recognized the need for it, was the Confederation of British Industry, whose director general, John Methven, predicted a loss of export competitiveness. Methven's pessimism was shared by leading industrialists in various sectors. Most of them emphasized that the resurgence of sterling would prove disadvantageous in foreign markets, would not lead to a concomitant drop in domestic inflation, and

Floating Pound *(contd.)*

would place an even greater strain than hitherto on pay claim negotiations and settlements. A further aspect implicit in a stronger pound is that British industry will have to redouble its efforts to achieve productivity performance on a par with international competitors.

U.K. Agreement on Inflation Accounting

Publication of new inflation accounting guidelines for U.K. companies will soon be possible following final agreement by the country's accounting bodies, the Stock Exchange, and, after some deliberation, the Confederation of British Industry. The so-called Hyde Guidelines (so designated after study group chairman William Hyde of Oxford University) will, it is hoped, be followed by Britain's major companies in the 1977 accounts.

Replacing the earlier and highly controversial Morpeth CCA proposals, the Hyde Guidelines in essence call for company accounts to reflect the effects of inflation on published profits. They do not as yet apply to company balance sheets. In practical terms, companies thus will have to make three adjustments to traditional profit statements: (a) deductions for additional depreciation, (b) cost of sales, and (c) a "gearing adjustment" which effectively adds back that portion of (a) and (b) which has been financed by suppliers of long-term debt. Expressed more simply, the gearing adjustment is designed to draw a distinction between that portion of a company's employed capital which is contributed by shareholders and the portion that has been supplied by outsiders.

Although the Guidelines will not be mandatory in whole or even in part, the fact that they have received such unequivocal support from various professional bodies and associations imparts a certain ethical obligation to comply.

Italy: Currency Rules Eased for Travelers

The Italian government has raised from 35,000 to 100,000 lire the amount up to which Italian and foreign tourists and travelers may legally take Italian currency across the border. Bank notes, however, may not exceed a denomination of 50,000 lire. At the same time, Italians traveling abroad may now export up to 750,000 lire annually in foreign exchange. The previous limit was 500,000 lire.

Severe currency restrictions had been first imposed in the spring of 1974 at the peak of the payments crisis. The latest easing of these curbs has been made possible by the gradual improvement of the balance of payments, which closed in September with a 331-billion-lire surplus and thus raised the total surplus to 757 billion for the nine-month period. It was the fourth consecutive month of a surplus and the first time since 1971 that Italy's payments balance was in the black for the January-September period.

In related news, the Bank of Italy last month issued

Currency Rules *(contd.)*

new 10,000-lire and 50,000-lire bank notes which are smaller in format than the previous ones and contain a metal thread to make forgeries more difficult. The old bank notes will remain in circulation for the time being.

France: Payoff of Alien Workers Termed 'Racist'

The French government's continuing campaign to pay a cash reward to those foreign workers who agree to return to their home countries is being protested strongly by the trade unions, the left-wing Opposition parties, and the affected Mediterranean countries. Some critics even labeled the action "racist" and "inhumane." The Barre administration had first unveiled the payoff plan last April as part of a FF 4-billion program aimed at reducing unemployment. With unemployment still at a postwar record of 1.2 million, the government recently expanded the campaign, undeterred by growing resistance.

Basically, Paris offers FF 10,000 in cash as well as a one-way, tourist-class air ticket to any foreign worker willing to leave the country. (EEC citizens are not affected.) Originally, the offer was aimed only at unemployed foreigners, but most recently Deputy Labor Minister Lionel Stoleru outlined an amended version of the plan which extends it even to those aliens who are employed and have lived and worked in France for more than five years. The government also announced a three-year embargo on the admission of foreign workers' families. Finally, with immediate effect, no work permits will be issued to non-EEC workers.

The country's two largest union federations, the socialist CFDT and the communist CGT, have attacked the campaign as completely misguided in seeking a solution to France's unemployment problem. The Communist Party accused Stoleru of trying to "blackmail" foreigners and of subjecting them to racism, oppression, and retribution. The governments of Spain, Portugal, Algeria, and Morocco reportedly have reacted with concern to the latest measures, fearing repercussions on their own labor markets. Officials in Madrid, for instance, anticipate the return of some 8,700 Spanish workers.

The Barre administration deflects the criticism with the argument that no one is being forced to return home and that the cash bonus actually makes it financially possible for many workers to settle in their own countries. Since only a few thousand aliens have accepted the offer so far, Paris intends to enlist the help of the labor offices to spread the word. In support of the campaign, Stoleru pointed to the statistics, which show that the influx of foreigners continues to rise, going up from 51,800 in 1975 to 57,400 last year. In the first six months of '77, the number was about 27,000. Of some 4 million aliens in

Payoff *(contd.)*

France, 1.9 million are employed, and the remainder is made up of family members. The French unemployment total of 1.2 million includes 100,000 people from Africa, Spain, Portugal, and other non-EEC countries.

Belgium: Gloomy Outlook for Economy; Textile Aids

A gloomy picture of the Belgian economy's future has been painted in the latest report issued by the government's Central Planning Council. Confirming recent predictions of another upcoming recession, the report says that domestic demand remains depressed, with consumers either unwilling or unable to increase spending and industry virtually on an "investment strike." The report also suggests that there is no reason for Belgian industry to look abroad for markets it lacks at home: almost every other advanced foreign economy is stagnating, the Council points out, and there is no prospect for an improvement in demand for Belgian exports. Consequently, overall industrial output is depressed (in July it was 4.3% below last year's level) and, partly as a result of this, unemployment has risen to a record 269,400.

The crisis is most severe for the country's steel and textile industries, which are for the moment being kept going with public funds, and the Council wonders how long this situation can last without an economic upturn in sight. (Late last month the government, industry, and the labor unions agreed on a rescue plan for the textile sector. Manufacturers will be eligible for a BF 20,000, interest-free advance per worker toward social insurance contributions due. In addition, Brussels will set aside BF 3 billion in credits, the interest of which will be paid by the state. These two measures together will amount to BF 600 million in interest subsidies, to which BF 100 million are added for the promotion of exports, research, and the development of advanced production techniques. The textile sector accounts for about 10% of Belgian exports and employs some 110,000 people.)

The only bright spots mentioned in the Council's report are the continuing decline in inflation (now running at about 6.5% a year) and the payments surplus, even though the Council attributes the latter more to an inflow of capital from abroad than to higher exports.

Austria: Partial Retraction of Tariff Cuts

As of Nov. 1 and in keeping with its previously announced shift in foreign trade policy, Austria has partially retracted reductions in GATT tariffs that it had granted in previous years on a series of industrial and farm products. In announcing the action, the Finance Ministry referred to demands made by domestic industry and farmers and to the need to return to a healthy trade balance. It was emphasized that GATT tariffs will in no case be exceeded and

Tariffs *(contd.)*

that products originating in the EEC and EFTA are not affected. In fact, imports from the East Bloc also have been spared to a large extent, leaving the main thrust of the action aimed at the low-price countries of East and Southeast Asia.

The list of products affected includes apparel, hosiery, plastic items, cosmetics and perfumes, radios and TV sets, and fruit and vegetables, with tariff increases varying widely. The biggest boosts apply to radios and TV sets, for which import duties soar from 10% and 16% to 38% (radios) and from 14% to 35% (TV sets). With VAT on these products rising to 30% next year, tax and duty levies on certain imported radios will then total more than 79% and on TV sets more than 75%.

Greece: Election Call Delays Economic Decisions

Some six million Greek voters are called upon to head to the polls on Nov. 20 to elect a new parliament and, if forecasts are confirmed, to reinstall the government of Prime Minister Constantine Karamanlis for another full term. The 70-year-old leader decided in September to have the elections scheduled one year earlier than constitutionally required. The official argument was that it would not be in the national interest to have the election campaign interfere with next year's difficult negotiations over Greece's accession to the European Community. The problems with Cyprus and Turkey were listed among the reasons, too. Most political observers agreed, however, that Karamanlis also found it opportune to take advantage of the disorganized state of the Opposition.

In the November 1974 elections, which had been preceded by seven years of the colonels' regime, Karamanlis and his New Democracy party won the absolute majority by attracting 54.5% of the vote. This time the predictions are again for a majority victory, though possibly by a lesser margin. (Greece's representational election system would make it possible for the New Democracy to gain more than half of the parliamentary mandates even if the party were to fall slightly short of the absolute majority of votes.)

The call for early elections elicited a less than enthusiastic response from the Greek business community, which fears the delay of urgently awaited parliamentary and administrative decisions related to the economy. According to Athens reports, government officials already have hinted that discussions with industry over the scope of measures to benefit private investments will have to be put off and that existing regulations due to expire at the end of this year would simply be extended. The exporters in particular are pressing for more aid and incentives to keep them competitive on the world markets. Another undecided issue

Elections
(contd.)

concerns a state guarantee covering bank credits for investment projects in border regions, with some 40 billion drachmas at stake.

Spain:
Parties Sign
Economic
Recovery Plan

In a solemn ceremony underscoring the significance of the event for the country's future, representatives of the Spanish government and all major parties on Oct. 25 signed the much-publicized "social contract" with which Madrid wants to set the stage for Spain's economic recovery and a longer-term restructuring process. Absent from the ceremony were representatives of the labor unions, drawing attention to the fact that much of the success of the "Pact of Moncloa" (so named after the prime minister's official residence) will depend on the cooperation of some six million workers whose collective contracts are due to expire as of July 1978.

The 40-page document consists of nine sections dealing with the financial revitalization of the economy, a broad tax reform, public spending controls, education, urban development and housing, social insurance reform, farming and fishing, banking, and energy. Among the government's major short-term objectives is the reduction of the current 30% inflation rate to 20% next year as well as a 22% ceiling on pay increases. In cases where businesses were forced by strike action to top this limit, they would be permitted t reduce their work force by up to 5%. (Normally, permanent employees cannot be dismissed at will.) Should inflation exceed 11.5% within the first half year, the pay rise margin could be modified accordingly. On the other hand, no modifications would be permitted in the event of annual inflation's rising beyond 20% because of currency devaluations, natural catastrophes, and higher energy costs.